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**THE PATENT TRIAL AND APPEAL BOARD:
EXAMINING PROPOSALS TO ADDRESS
PREDICTABILITY, CERTAINTY, AND FAIRNESS**

HEARING
BEFORE THE
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PROPERTY
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WEDNESDAY, JUNE 22, 2022

UNITED STATES SENATE,
SUBCOMMITTEE ON INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:42 p.m., in Room 226, Dirksen Senate Office Building, Hon. Patrick J. Leahy, Chair of the Subcommittee, presiding.

Present: Senators Leahy [presiding], Coons, Tillis, and Blackburn.

Also present: Senator Cruz.

**OPENING STATEMENT OF HON. PATRICK J. LEAHY,
A U.S. SENATOR FROM THE STATE OF VERMONT**

Chair LEAHY. Okay, we have votes going on, and so Senators will be coming in and out. I've talked with Senator Tillis about this, and we're going to try to keep the hearing going, even if some will have to leave.

We've worked hard on this issue of patents. They do drive our economy. We know that. It allows innovators to do what they do best, while knowing they can get the benefits of their hard work. Good-quality patents give small businesses and inventors certainty they can defend their inventions from others who didn't put in the work, and without the rights guaranteed by patents, the engine of our economy, American innovation, simply would not be as strong.

Given the power that a patent conveys, a patent issued by the U.S. Patent and Trademark Office needs to actually represent innovation. There are serious consequences for our entire economy when the system permits enforcement of a patent that never should've been issued. Vermonters and small businesses all across the country have suffered these consequences.

Several years ago, an out-of-state company asserted poor-quality patents against dozens of Vermont small businesses and non-profits, demanding payments each and every time a business scanned a document and then emailed it. It was a scam, an egregious abuse of our patent system. That's why I'm proud of the work we did in 2011 to pass the Leahy-Smith America Invents Act, the bipartisan piece of legislation, bicameral, the first real update of our patent laws in 50 years, but it allowed the public to take their concerns about a questionable patent back to the Patent Office for a more in-depth review.

Through proceedings created by the Leahy-Smith Act, the scams to email patents were brought back to the Patent Office. They were invalidated. They allowed Vermont companies and nonprofits to continue their work. The Patent Trial and Appeal Board, the PTAB, created under the act, resolved those disputes in a way that's faster; more importantly, less expensive, more accurate than a district judge, because the disputes were overseen by trained patent judges under a strict deadline.

In the past decade of PTAB's existence, the public has brought thousands of patents to the Patent Office's attention. The Patent Office has expertly addressed validity, reinforcing the strength of high-quality patents but then canceling ones that never should've been issued. As with any big new undertaking, that success has brought new questions on all the enacted laws, particularly those dealing with technologies and science, especially in an era when that is evolving so fast. They need to be revisited. They have to be updated from time to time.

That's why I'm thrilled that Senator Tillis, as the Senior Republican on this Committee, along with Senator Cornyn and I, just last week introduced the PTAB Reform Act of 2022. We had feedback from participants in the patent system, including the public broadly and businesses across the country, covering a vast array of sectors and technologies. We looked at concerns from all comers. The bill is a product of hard work and compromise and addresses the biggest concerns of stakeholders from across the spectrum. It can update the PTAB.

It's important for a number of reasons. One question, of course: If a petition to the Patent Office to review a patent is meritorious on its face, should the Patent Office decline review anyway? Many believe all meritorious patents should result in a review. Many others believe it's heresy to patent owners to have the same members of the public able to request review of the same patent repeatedly over time, when the patent owner has already defended the patent. We addressed these issues, as we often do in the Senate, through compromise.

While meritorious petitions to review a patent should generally be granted, serial petitions, over time, from the same or related parties will not be allowed. Another big question: Who has the authority to make a final validity decision? Civil servant PTAB judges or the politically appointed Director of the Patent Office?

While the Supreme Court last year resolved that the Director is the final decision-maker, it left open the question of how the Director makes that decision, but we ensure that it must be open to the public. The public has a right to know. We should not have a patent system where any given PTO Director could influence and decree decisions behind the scenes, without transparency.

We also addressed the concern raised by small business patent owners. They had to pay to apply for a patent, and they may have to pay again to defend at the PTAB. It's expensive. We want to help small businesses shoulder the expense. Thus, if a small entity has not already decided to take the expense of litigation, the Patent Office will cover the expense of a PTAB proceeding for that small business. Now, we have an extraordinary group of witnesses here.

I'm excited to hear about their experience, what's worked, what needs to change, how PTAB reform will fit into the overall picture.

GlobalFoundries is one of Vermont's biggest employers. It evolved from IBM, which it had been there. David Cain is a Vermont attorney. He's been involved in several PTAB proceedings. He's highly respected in the State of Vermont. He can tell us about his experiences in the semiconductor chip manufacturing industry.

I know that Senator Tillis and Senator Cornyn share my belief that the patent system should work for all Americans, all sectors. I want to leave behind an even stronger patent system than what we were able to get through in the earlier patent bill, which I had the pleasure of working on. Senator Tillis, you've spent so much time on this. I'll yield to you.

**STATEMENT OF HON. THOM TILLIS,
U.S. SENATOR FROM THE STATE OF NORTH CAROLINA**

Senator TILLIS. Thank you, Mr. Chairman. Thank you for holding the hearing today on the PTAB. I also want to thank you for your leadership and your continued partnership. It's allowed us to forge a path forward on this and many other important intellectual property related matters. You're a good friend, and next Congress I'm going to miss you as a partner.

Before I pass things over to our witnesses, I would like to provide some important context and history to what we'll be discussing today. It should come as no surprise that the Chairman and I believe in the need for strong, reliable, predictable IP rights—something that we've championed for many years. When I speak to IP rights, I speak to all forms of IP: patents, trademarks, copyrights, and trade secrets. It's because of this shared belief—why we're convening this important hearing today.

As anyone who follows my work in the Subcommittee knows, I'm a firm believer in strong patent rights, and they're paramount to incentivizing American innovation, which fuels the growth of our country's prosperity and economy. This growth, in turn, allows the U.S. to maintain its global dominance across numerous industries and its reputation as the world's leading innovator.

However, in order for patent rights to be truly strong, they have to be based on high-quality patents, which have undergone thorough review and meet all the requirements of patentability. That's why I've made improving patent quality and patent examination process one of my key priorities. As we all know, no matter how much we improve the front-end examination process, low-quality patents, especially in business and software fields, often do get issued. That's why the PTAB, the subject of today's hearing, exists. It exists as an alternative to district court litigation and as a mechanism to weed out low-quality patents.

The PTAB, when properly constructed and administered, can play a vital role in our innovation economy. Unfortunately, for far too long the PTAB hasn't been fair—hasn't been a fair and impartial forum that served its critical purpose. Instead, in years past, it's been a literal death squad for patent rights and has been weaponized by various companies to potentially bankrupt future competitors.

Thankfully, during the last administration a number of policies were put into place by my good friend Director Iancu to crack down on this abuse, policies which I strongly support. Andrei's reforms ensured that the PTAB was a truly fair and impartial forum for all parties and not simply a place where patents go to die. That's why I've long supported trying to codify some of these reforms, because as good a job—as good a job as Andrei did, a future PTO Director can undo all of those positive changes with the snap of a finger. That kind of volatility in how the PTAB functions, the lack of certainty, doesn't create the type of innovation ecosystem that we need to ensure long-term research, development, and investment.

My desire to provide long-term stability, certainly, at the PTAB and to permanently end some of the abuses that we've seen in the past is why I partnered with Senator Leahy to introduce compromise legislation, which has required both of us to sacrifice some of our priorities. The PTAB Patent Reform Act of 2022 ensures that inter parties disputes remains an alternative to litigation, while affording predictability, certainty, and fairness to the process for both the petitioners and the respective patent owners.

The bill statutorily imposes the *Phillips* claim interpretation methods, stops abuse by serial petitioners, ends gamesmanship by Big Tech companies, adds greater transparency to decisions rendered by the PTAB, and prevents wild swings in terms of patent validity determination by providing consistently—consistency throughout the inevitable change of the USPTO leadership. I'm also particularly proud of the fact that this bill will provide financial support for individual inventors, small entities, and micro-entities to hold patents subject to a petition. This bill is a direct result of countless iterations and close collaboration with a diverse array of internal and external stakeholders.

Let me be clear. This bill isn't perfect, and it isn't final. I'm pretty sure that when it's final, it won't be perfect, but it should be able to address most of the concerns that we have across valid opinions at either end of the spectrum. This is the beginning of a process. I hope everyone will take this opportunity to work with us to provide long-term certainty and stability at the PTAB.

All ideas can and should be on the table. If you don't like compromise—the compromise we've come up with, tell us, but don't just tell us you hate it. Give us ideas on how to write a better bill that will, in your opinion, be a better compromise.

Again, Mr. Chairman, I thank you for holding this hearing. I look forward to the testimony from the witnesses, but if I may, as a point of privilege, I'd like to take a brief moment to formally welcome and introduce the newest Member of my team, Peter-Anthony Pappas, who I have nicknamed "Juice." I won't get into the details. Peter's back here behind me.

Peter joins us on detail from the USPTO, where he's a supervisory patent examiner. Peter also previously served as a special advisor to my good friend Dr. Iancu, when he was PTO Director. He brings a wealth of knowledge to this process, and he'll be an integral part of the discussions we'll have after this hearing. Welcome to the team, Peter.

Chair LEAHY. Thank you, Senator Tillis. I know how hard you've worked on this. Senator Coons has worked on this, Senator Cornyn.

We look forward now to hearing from David Cain, please. I've already mentioned that he serves as patent counsel and legal director at GlobalFoundries, the largest semiconductor foundry, manufacturer with headquarters in the United States. He's based at the Essex Junction, Vermont facility. JD from Pepperdine, engineering degree from Clarkson University, and highly respected in our State. Go ahead, Mr. Cain.

**STATEMENT OF DAVID CAIN, DIRECTOR OF
INTELLECTUAL PROPERTY, GLOBALFOUNDRIES,
BURLINGTON, VERMONT**

Mr. CAIN. Thank you. Good afternoon, Chairman Leahy, Ranking Member Tillis, and distinguished Members of the Subcommittee on Intellectual Property. Thank you for this opportunity to speak with you today about the important issue of PTAB reform.

As Senator Leahy said, GlobalFoundries is one of the world's leading semiconductor manufacturers, with production in the United States, Singapore, and Germany. Our feature-rich chips enable nearly every sector of the global economy. Of the five at-scale semiconductor foundries in the world, GF is the only one headquartered in the United States and is a proud, longstanding partner and supplier to the U.S. Department of Defense.

The semiconductor industry today involves producing billions of transistors on a single chip and requires the most technically complex manufacturing in the world. GF's success in this industry is born out of its innovation. GF's U.S. sites have produced three of the world's top 100 most prolific inventors of all time. Because of the RF technology innovation developed at GF's Vermont facility, the smartphone in your pockets almost certainly contains a GF-made chip. Due to the importance of innovation to GF and the critical nature of the chips we manufacture, America's patent system is exceptionally important to us.

As an owner of more than 7,000 U.S. patents and as a U.S.-based manufacturer, GF seeks a fair and balanced IPR system for both patent owners and for petitioners. We count on the patent system to protect our investment in innovation and to prevent our business from being harassed by poor-quality patents. Every year, GF faces infringement claims for patents that had no business being issued in the first place, which needlessly hurts our ability to supply semiconductors to the world. The cost of each semiconductor patent litigation defense can easily reach \$5 million and beyond. The resources directed toward such litigation could otherwise be invested in capital expansion, R&D, both creating further jobs.

By passing the Leahy-Smith America Invents Act over a decade ago, Congress made huge progress in curtailing the abusive patent practices hurting American industry. Allowing for efficient patent review by the technically trained and patent-savvy judges of the PTAB provides an efficient and effective tool to defend against poor-quality patents. Bad patents can be dealt with for a fraction of the cost of litigation, while good patents can quickly be validated. Therefore, GF strongly supports efforts to improve the IPR system.

The recent *Fintiv*-factor discretionary denial practice has limited the availability of IPR review and inserted unfairness into the sys-

tem. For example, defendants can be—can be prevented from challenging a poor-quality patent at the PTAB merely because the district court sets an unrealistically early trial date that will rarely, if ever, be met. Faced with potential denial, defendants must rush to prepare a petition and may not have sufficient time to search for prior art and may be estopped from relying on other prior art later.

These early petitions filed within a few months of a district court complaint can create extra work for the PTAB itself. Such petitions generally occur before the patent owner has identified which patent claims it will be asserting, as well as how broadly it will be construing those claims. Consequently, the PTAB will need to spend time reviewing claims that may never be asserted and may construe them for purposes of validity more narrowly than the patent owner will in their infringement case.

The proposed PTAB Reform Act resolves these issues by solidifying the 1-year window for bringing IPR petitions, while also ensuring that petitioners are not allowed to bring serial challenges. These common-sense proposals provide fairness to both patent owners and petitioners. GF appreciates Congress's commitment to fostering American innovation and strengthening the greatest patent system in the world. Thank you very much for allowing me to testify and share GF's perspective today.

[The prepared statement of Mr. Cain appears as a submission for the record.]

Chair LEAHY. Thank you very much. Mr. Wilson. I would actually note that Mr. Wilson is Director of Patents in the legal division at SAS Institute, Inc., the data analytic software company. He began his legal career as a patent and intellectual property litigator with the firm of Jones Day, has a juris doctor's from Syracuse University College of Law, bachelor's degree from Pennsylvania State University. Mr. Wilson, please go ahead, sir.

**STATEMENT OF TIM WILSON, HEAD OF PATENTS
AND INTELLECTUAL PROPERTY LITIGATION,
SAS INSTITUTE, INC., CARY, NORTH CAROLINA**

Mr. WILSON. Thank you, Mr. Chairman. My name is Tim Wilson. I am patent counsel at SAS Institute. I also am an adjunct Professor at the Southern University College of Law, a great historically Black college and university law school, as well as I'm president of the Patent Quality Education and Training Foundation, where we try to help improve diversity in patent law through working with the Thurgood Marshall College Fund to help support HBCU graduates to getting into patent law.

I'd like to thank Chairman Leahy, Ranking Member Tillis, and the Members of this Subcommittee for holding this hearing to explore potential reforms to the AIA. I'd specifically like to thank Chairman Leahy and Senator Cornyn for their leadership during the original negotiations with respect to the AIA. Because of their leadership, there was a great spirit of compromise. Even though it was often a difficult negotiation, it led to the most significant reform of the patent system since 1952.

The American Invents Act has largely done its job by leading to a large decrease in the number of patent litigations. In 2011, we

had almost 8,000 patent litigations, and that has been brought back to between 3 to 4,000 annual patent litigations, and I think that's a great thing. In a pre-AIA case that SAS faced, a company called Juxtacomm—they were a failed company that was left with a single patent who got funding from external sources to sue dozens and dozens and dozens of companies that actually made things, costing all of those companies millions of dollars and costing SAS between \$5 and \$8 million dollars just to get that patent thrown out by a judge on summary judgment—a huge waste of resources.

As a holder of over 600 U.S. patents, SAS has always been interested in improved patent quality. We have a wide variety of inventors at SAS who work on the cutting edge of software technology. The two significant elements of the AIA discussions earlier were patent litigation reform and the creation of the PTAB. At some point during the negotiations, it became obvious that no meaningful con—no meaningful reform or compromise could be made related to patent litigation. It was a little disheartening to lose that element, but we continued to work together under the Chairman's leadership, and the result, many stakeholders working together, was the PTAB.

Recently, the PTAB decided the *Fintiv* case, which allowed the PTAB not to institute a petition that would otherwise meet the threshold for institution. That would be based on a complex set of balancing additional factors. This decision undermines the simple test that Congress set forth in the AIA and leads to potentially substantial uncertainty to the parties because good petitions may be denied. It also negatively impacts the public because invalid patent claims are arbitrarily allowed to survive review. As a patent owner, SAS appreciates that there may be abuses of the system by so-called serial petitions. We don't believe that this is a pervasive problem, but we're happy to participate in finding a solution to that problem, as well.

It seems that we are once again looking to Chairman Leahy, Ranking Member Tillis, and Senator Cornyn for leadership on another PTAB reform act. I think it's great to use the PTAB Reform Act as a framework to find a good compromise. Thank you, and I look forward to your questions.

[The prepared statement of Mr. Wilson appears as a submission for the record.]

Chair LEAHY. Thank you very much. I should note that Senator Tillis left to vote, and I don't know what—

Chair LEAHY. Okay. We'll be going back and forth. We'll keep the—when somebody comes back, and then I can go and vote.

Robert Giles is Senior Vice President and Chief IP Counsel at Qualcomm, Incorporated, where he's responsible for designing and developing their Google IP portfolio. Received his JD from the George Washington University, bachelor's from the University of Illinois, Urbana. Mr. Giles, it's good to have you here. Please go ahead.

**STATEMENT OF ROBERT GILES, SENIOR
VICE PRESIDENT AND CHIEF INTELLECTUAL
PROPERTY COUNSEL, QUALCOMM INCORPORATED,
INNOVATION ALLIANCE, SAN DIEGO, CALIFORNIA**

Mr. GILES. Thank you very much. Chairman Leahy, Ranking Member Tillis, and Members of the Subcommittee, my name is Bob Giles, and I'm Senior Vice President and Chief Intellectual Property Counsel at Qualcomm. I appreciate this opportunity to testify on behalf of Innovation Alliance, a coalition of research and development based technology companies that believe a robust patent system is critical to U.S. technological leadership and our economic and national security.

For decades, the constitutionally protected U.S. patent system has secured our global leadership position in incentivizing the research and development needed to invent groundbreaking technologies; however, in recent decades, our position has been threatened by judicial and legislative actions that weaken patent rights. To maintain the United States' strategic interest, the PTAB must be reformed to achieve its statutory purpose as an efficient alternative to district court litigation. The STRONGER Patents Act would promote balance and fairness at the PTAB and would advance American innovation leadership. The PTAB Reform Act would do the opposite by weakening the U.S. innovation ecosystem.

Robust patent protections are foundational to the U.S. economy and national security for two reasons. First, they serve to appropriately incentivize companies to invest in costly and risky long-term R&D needed for leadership in emerging technologies such as AI, IoT, 5G, and 6G. Second, patent rights facilitate commercialization, collaboration, and follow-on innovation by granting exclusionary rights in an invention for a limited time in exchange for public disclosure.

Patent protections assure that rights to practice an invention can be readily bought, sold, or licensed, allowing patent owners to reinvest those revenues in further R&D. Despite the critical role that patents play in the U.S. economy, patents have been under attack in recent years by actions that impose substantial obstacles on inventors. Chief among these is how the PTAB has evolved.

By permitting any party to challenge and invalidate a duly granted patent by a mere preponderance of the evidence, the PTAB has led to gamesmanship and the invalidation of patents at an alarmingly high rate. USPTO data show that the PTAB institutes IPR in nearly two-thirds of petitions filed. The data show—the data further show that once IPRs are instituted, they result in cancellations of at least 1 claim in 80 percent of the time and cancellation of every claim 60 percent of the time. These are high invalidation rates led—these high invalidation rates have led one former judge on the Federal circuit to call the PTAB a patent death squad, responsible for killing patent rights.

Infringers have used the PTAB to harass and intimidate small companies. One example is Centripetal, an inventor of cybersecurity technology. Centripetal initially attempted to partner with Cisco and disclosed its patented technologies. In the end, the relationship broke down, but Cisco implemented Centripetal's technology anyway. Centripetal had to resort to sue Cisco to defend its

patents in court. The court found that Cisco willfully infringed, ordering Cisco to pay \$1.9 billion in damages.

At the PTAB, Cisco sought to strengthen its negotiation position against Centripetal by challenging 9 patents, using 14 IPR petitions. The PTAB invalidated all of the claims of six of the patents and some of the claims of another patent—a much higher invalidity rate, as would be expected in district court.

The Innovation Alliance urges Congress to pass the STRONGER Patents Act to strengthen U.S. competitiveness and global leadership. STRONGER would, one, empower U.S. inventors to protect their patent rights against infringers by implementing a common-sense framework for granting injunctions and overhaul the PTAB to ensure its proceedings are conducted in a fair and consistent manner, in line with Federal courts. Importantly, for example, STRONGER would prevent petitioners from filing a subsequent IPR petition on the same patent claim if the petitioner failed to show a reasonable likelihood of success in its first IPR.

In contrast, the Innovation Alliance urges Senators to oppose the PTAB Reform Act because it would further tilt the playing field toward infringers. Specifically, the PTAB Reform Act eliminates the *Fintiv* doctrine, which allows the PTAB to apply discretion to deny institution of a petition in order to prevent abuse, promote efficiency, and conserve resources of the USPTO and individual parties. Further, it permits challengers to file an unlimited number of petitions against a single patent. It would also create a legally questionable back door, giving standing to parties who would not otherwise have it. These changes harm inventors and move the patent system in the wrong direction.

Thank you again for inviting me to testify today. The Innovation Alliance stands ready to work with you to ensure that U.S. patent law promotes economic and national security.

[The prepared statement of Mr. Giles appears as a submission for the record.]

Chair LEAHY. Why, thank you, Mr. Giles. Professor Anderson is a professor of law at American University. His academic articles have been cited by the Supreme Court, the U.S. Court of Appeals for the Federal Circuit, and The New York Times. Professor Anderson clerked on the Court of Appeals at the Federal Circuit, practiced patent litigation at Latham & Watkins. I've spent a lot of time, not as an appellant but as a friend of many of the members of the Federal Circuit Court of Appeals, as the Professor probably knows. He received a JD from Harvard Law School, bachelor's degree in physics from the University of Utah. Professor, please go ahead, sir.

**STATEMENT OF JONAS ANDERSON, PROFESSOR
OF LAW, WASHINGTON COLLEGE OF LAW,
AMERICAN UNIVERSITY, WASHINGTON, DC**

Professor ANDERSON. Good afternoon, Senators. Thank you, Chairman Leahy, Ranking Member Tillis, and the other Members of the Subcommittee for the invitation to testify. It's an honor to testify on the predictability and fairness of proceedings at the Patent Trial and Appeal Board.

I'm a professor at American University, Washington College of Law, and my areas of expertise are in patent law, Federal courts, and intellectual property. A specific focus of my scholarship has been directed toward Federal courts, Federal district courts who seek to attract patent cases to their courtrooms. This court competition for patent cases I believe is a threat to the judiciary's legitimacy, not just in patent law but across other areas of Federal law, as well. It is with this concern in mind that I will focus my testimony today.

I will begin my testimony by briefly describing how the PTAB's *Fintiv* ruling has been used by Federal district court judges who seek out patent cases and how that active solicitation of patent cases threatens to erode public confidence in the judiciary. In 2021, roughly 25 percent of all patent cases were heard by a single Federal district court judge. As Chairman Leahy and Senator Tillis reference in their November 2021 letter to Chief Justice Roberts, this extreme concentration of patent cases is troubling for the judiciary. I agree with Chairman Leahy and Senator Tillis's views on the current problematic state of patent litigation. This extreme concentration of patent cases and judges actively encouraging plaintiffs to file in their courtrooms undermines the public perception of fairness in judicial proceedings.

This hearing is about the PTAB. I believe the PTAB has been a great benefit for the U.S. patent system by providing a cost-effective means of challenging the validity of patents. This leads to a strengthening of the competitive landscape and is a positive for the American public. I also believe that the *Fintiv* decision of the PTAB has led to increased uncertainty. As Senator Tillis said in his November 2021 letter to the Director of the PTO, it has led to harmful incentives for forum shopping and inappropriate judicial behavior. Furthermore, just this morning, the PTO issued guidance on the application of *Fintiv* that limit *Fintiv's* applicability. Today's PTO guidelines are welcome, on the whole, but I would suggest that the PTO ought to rescind the *Fintiv* rule entirely.

The PTAB's *Fintiv* rule is based on the laudable notion that the PTAB ought not institute review of a patent if a district court or the ITC is going to issue a ruling on the patent's validity at an earlier time. The current six-factor test provides virtually no certainty of outcome and, worse, is influenced by plaintiffs who can strategically, in an effort, file their cases in an effort to avoid PTAB review. Plaintiffs who want the PTAB—to avoid PTAB review can choose to file their case in a district court that has a reputation for not issuing stays and setting very early trial dates. These dates are not good indicators of when a district court will issue a decision.

A recent study found that 94 percent of those trial dates relied on by the PTAB in *Fintiv* turn out to be inaccurate. The *Fintiv* ruling forces the PTAB to analyze the trial dates of district courts and to grapple with comparing the duplicative effort between the district court and the PTAB. Furthermore, it forces parties to waste attorney hours arguing about the six cumulative factors. A much better and easier solution would be to eliminate *Fintiv* entirely and limit the PTAB's institution decision to those factors that are enumerated by Congress, including the 1-year ban.

Eliminating *Fintiv* would also have the benefit of eliminating the possibility that district courts that—set aggressive trial dates in an effort to preclude PTAB review. The PTAB would be freed from the labor-intensive analysis involved in *Fintiv*, and district courts would not be able to use trial dates in an effort to avoid PTAB review and thereby attract patent plaintiffs. Thank you for your time, and I look forward to your questions.

[The prepared statement of Professor Anderson appears as a submission for the record.]

Chair LEAHY. Thank you very much. I'll begin with Mr. Cain. I think everybody knows there's currently a chip shortage that's affecting all Americans, as even car manufacturers of popular vehicles have them sitting in a—their lot just because they are missing a few chips. Chip manufacturers like GlobalFoundries was, I believe, the exceptional facility in our home State—components, phones, cars, computers.

Patents are an important part of your business. I understand GlobalFoundries has over 7,000 U.S. patents. When we passed the Leahy-Smith America Invents Act 11 years ago, we wanted to make sure the Patent Office could take a second look at patents that are of particular relevance to the public and review them and so on. In your experience, Mr. Cain, has the PTAB been a fair adjudicator of patent validity? Make sure you—

Mr. CAIN. Thank you, Senator. Certainly. We've very much been happy with the PTAB, both as a patent owner and as a petitioner. As you said, there's an extreme amount of innovation going on at our facilities. Every chip we put out must have hundreds, if not thousands, of pieces of innovation inside of it, and we do count on the system to protect that innovation. We've seen very fair and very reasoned decisions coming out of the PTAB as to the validity of those patents.

Chair LEAHY. Do you consider the PTAB judges preferable to an ordinary court and jury?

Mr. CAIN. PTAB judges are specially positioned with their technical background and the fact that they live and breathe patent law every day. It is their bread and butter, novelty and non-obviousness. They have a better look at such issues than almost anyone in the world.

Chair LEAHY. I had a dear friend of mine, Judge Linn, who now has senior status within the Federal circuit, and I remember talking to him about some of these patent cases and realized this is a specialized area. Let me ask Professor Anderson: I've always thought that the PTAB can be a forum predictable and fair, but a previous Patent Office Director began using the discretion that's in the Patent Act to deny review of patents based on the status of ongoing litigation in district courts, without regard to the merits. That kind of discretionary denial injected uncertainty, I believe, into the patent system.

I understand that just today Director Vidal—and we mentioned this—released new guidance cutting back on the impact of that policy. I believe the statute should be as predictable as possible. Professor, my understanding is projected trial dates are inaccurate 94 percent of the time. A discretionary denial policy built around this,

I feel, would cause uncertainty and unpredictability in the patent system. Do you agree?

Professor ANDERSON. Yes, Chairman, I definitely agree. Even worse than that, I think there's some gamesmanship involved in where you file your case in order to avoid the PTAB. I mentioned there is one district court that has 25 percent of patent cases, and one of the appeal to plaintiffs, I gather, is that filing in that courtroom makes it less likely that PTAB will review your patent, under the *Fintiv* case. That's why I think this act goes a long ways—and the PTO's actions this morning go a long ways—toward limiting that discretion.

Chair LEAHY. In fact, going on that, Senator Tillis and I wrote to the judicial conference about the ability of patent owner plaintiffs not only to pick the venue but to pick the precise judges. I think what you're referring to is a district court judge's promise to patent owner plaintiffs the trial date will be soon enough that they can deny them—discretionary denial at the PTAB. Twenty-five percent of the district court patent litigation in this whole country is being handled by that single judge. Does that skew the patent litigation in this country?

Professor ANDERSON. Yes. I think having 25 percent of the patent cases or any type of case before one judge is not the system that the Constitution or Congress designed. I have been given that—think having that many cases, that much power in one judge's hands is not something we want to encourage, for sure.

Chair LEAHY. Thank you. I'm going to go and vote. I want to turn it over to Senator Tillis, who knows this Committee inside and out. Thank you.

Senator TILLIS [presiding]. Thank you all, again, for being here. I worked in research and—oh, and it's especially good to see somebody representing SAS here. Jim Goodnight is truly an American success story, and SAS is actually a product that I had some involvement in the implementation of, back in my days at Pricewaterhouse. Speaking of my days at Pricewaterhouse, anytime I have a thorny subject that I'm trying to sort out with my business clients, I try to get people into the room, all of whom I respect and all of whom I want to produce a good outcome for the company and now for this bill. I ask them a simple question: "Give me a red, yellow, green."

Just going down the line, we'll start with Mr. Cain. Tell me what you think is good, that is, green; yellow, needs work; red, a problem. Then we'll go down the line. That gives y'all time to prepare.

Mr. CAIN. Are you asking what's good in the proposed bill?

Senator TILLIS. Yes. Red, yellow, green. What's good? You don't even have to talk about the good. Give me the yellow and the red.

Mr. CAIN. The worst case is yellow. This is a move in the right direction, across the board. Much more green.

Senator TILLIS. Good. Mr. Wilson.

Mr. WILSON. Yes, I would say that, you know, the bill has not everything we want. You know, if it was our choice, we would remove the discretion from the Director and from the PTAB not to institute good petitions, but I think there's a fair compromise here amongst all of the interests and, like you said, putting everyone in the room is probably the best thing to do. We support this process.

We think, you know, all of the compromises that have occurred so far have been positive, and, you know, I think yellow is probably where we are across the board.

Senator TILLIS. Mr. Giles.

Mr. GILES. Thank you very much. First, I'd like to express our appreciation for being involved in this discussion. It's a very worthwhile topic, and we are very dedicated to making sure that the patent system is as strong as it possibly can be. It is—as you mentioned in your opening remarks, it is foundational to the American economy and to innovation throughout this country.

There are—I do believe there has been some compromise in this bill. The adoption of the *Phillips* standard for claim construction, to unify that across the district courts and the PTAB, I think is a step in the right direction. Overall, we look to the provisions that are set out in the STRONGER Patents Act that would be a little bit more fair and balanced with the patentee in mind. I would say, you know, if you're going to force me to say red, yellow, green, I would say it's yellow, because I do believe the process is moving, but we still stay in line with the STRONGER Patent side.

Senator TILLIS. Mr. Anderson.

Professor ANDERSON. Thank you. I would say this is mostly a green bill. I am in favor of much of what's in here. I would like—Mr. Wilson said—would like to see certain other things in the bill that aren't there, but this is a compromise, and I recognize that, and this is a good bill, overall.

Senator TILLIS. I just want to restate what I said in the opening statement. Before I joined Pricewaterhouse, I worked in research and development at Wang Laboratories up in Boston, so we were constantly iterating through ideas and refining the product. We used a simple—similar methodology for engaging stakeholders. Anyone out there who's saying, "Boy, I wish they'd mention that red item," I'm telling you, "Come to the table and let us examine a way that we can make this a win-win, but we have to make progress."

I think with that, I'm particularly interested, after the hearing, if you could give some more meat around the bones, on the yellows, to get them to green or blue-green. Help us do that.

Give us feedstock for future discussions that we'll have. I'm committed to engaging as many people as possible. Hopefully we can satisfy some. We won't be able to satisfy all, but that's the nature of the work that we do up here. Senator Coons.

Senator COONS. Thank you, Senator Tillis. I'd like to thank you and Chairman Leahy for the chance to work with you. I appreciate your opening comment that this bill isn't perfect or final but the beginning of a process, and I look forward to working with you on that.

I think reforms that position IPRs as an efficient alternative to district court litigation, which was really the original core intent of the AIA, are needed, but looking over this bill, I'm concerned that eliminating the PTO's ability to consider co-pending litigation in deciding whether to institute is a step in the wrong direction, because I think hard-wiring parallel proceedings into the AIA increases costs by encouraging duplicative proceedings. In my view, that doesn't benefit the public or the patent system. Any statutory

provision to address serial petitions also has to adequately protect versus repeated attacks on potentially valid patents.

As you know, I'm committed to the STRONGER Patents Act, which I've worked on for a number of years, and it would limit the ability to obtain multiple and repeated AIA review proceedings. I appreciate the efforts of my colleagues and friends, Senators Leahy and Cornyn and Tillis, to bring together stakeholders and explore these thorny issues and try and come to a workable compromise, and I look forward to continuing to work with you to strengthen patent quality, the patent system, and to come up with a workable solution. Mr. Giles, if I could, just at the outset, what are the benefits to the public and the patent system of evaluating concerns about redundant and duplicative proceedings in deciding whether or not to institute an AIA trial?

Mr. GILES. Thanks very much. The *Fintiv* doctrine allows the PTAB to review whether or not its resources are beneficial to the process of resolving the dispute, and if you were to remove that—that discretion from the PTAB, you're much more likely to have parallel proceedings going on at the same time: one in district court and one in the PTAB. The way that the system is set out right now, especially if you remove the *Fintiv* discretion on behalf of the PTAB, that will astronomically increase costs for small businesses to be able to assert their patent rights.

It's not easy to assert a patent in district court, it's not easy to defend a patent at the PTAB, and it's incredibly costly to do both. To layer on a burden of having to do that in two jurisdictions at the same time is very detrimental, to—especially to small companies that are trying to assert their patent rights.

Senator COONS. Thank you. Mr. Cain, why don't we pursue that line? In terms of the interests of small inventors, in particular, what's the benefit to them if accused infringers can pursue patentability issues in both an IPR and district court proceeding at the same time?

Mr. CAIN. Thank you. Specifically for small inventors? One of the really thoughtful sections of this proposed bill calls for the IPR defense for such small entities to be handled, to be paid for by the PTO itself, which I think is an exceptional benefit.

Senator COONS. How viable do you think that is, and what kind of cost do you think that might add up to?

Mr. CAIN. I don't know the statistics, but in my experience, it's very—very infrequent that a small or individual inventor is not only asserting their patent but is brought into the IPR system.

Senator COONS. If I could, Mr. Wilson, there was a recent article in Bloomberg that said *Fintiv* denials are falling. It concluded that review was denied this year in less than 10 percent of cases in which the board evaluated the *Fintiv* factors, and it cites petitioner stipulations not to raise the same patentability issues in litigation if the PTAB institutes. Would requiring the so-called *Sotera* stipulations make IPRs a genuine, a valid alternative to litigation?

Mr. WILSON. I think that one has to remember where we are when a PTAB petition has been filed—that we're not just, out of the blue, filing a petition; that it's a company, generally, who has been sued in district court first. And, so, when you say it's a small company, a small inventor, you know—I think, you know, you ig-

nore, perhaps, the financing that those entities have, either through a, you know, opportunity through a law firm or financing through what has been happening more and more—are kind of hedge fund money. When you say it's a small inventor, you see—I think that's a little bit misstating who——

Senator COONS. This question wasn't, in fact——

Mr. WILSON [continuing]. It's——

Senator COONS. My question to you wasn't limited to small inventors. It was just about whether or not the *Sotera* stipulations are narrowing the number of *Fintiv* denials. If you'll forgive me, I'm near the end of my time. Mr. Giles, just one last question, if I might. What's the largest concern you've heard from patent owners that they want to see addressed in a PTAB reform bill?

Mr. GILES. I'd say the largest (audio malfunction) that's applied by the PTAB. At the PTAB proceedings, the evidentiary level is—or the burden of proof is preponderance of the evidence, which is much lower than it is in district court, which is clearly convincing evidence. This burden of proof has led to the significantly higher rates of invalidation at the PTAB than in the district court. The two venues are not on an even playing field, and if the PTAB is acting as a alternative, faster forum for the district courts, it should also align with the burden of proof—should also align there.

Senator COONS. Thank you. Thank you to all the witnesses. Mr. Chairman, Mr. Acting Chairman, thank you.

Senator TILLIS [presiding]. On behalf of the Chair, Senator Blackburn.

Senator BLACKBURN. Thank you. Thank you to each of you for being here today. Mr. Giles, let me come to you. Over the last several years, a lot of our innovators in Tennessee, people who are smaller innovators or maybe they work for a large corporation—what they've seen is Big Tech companies end up coming at them on patent infringement. How can we ensure that PTAB is not enabling the larger tech companies to steal patents from small businesses and innovators?

Mr. GILES. The analysis that I've seen, the data that I've seen, is that the Big Tech companies are actually the biggest users of the PTAB process. It was a process that was put in place with smaller inventors in mind, but as the use of the PTAB has progressed, it's become more and more used by larger corporations to actually put pressure on smaller companies to try to force them to lower their negotiating position and to possibly so that they could acquire them. I think it was Chief Judge Michel that said—Judge Michel that called out the fact that these large corporations are using the PTAB in order to pressure smaller companies with patents to—to not pursue their rights, to relinquish their rights to these large corporations that then usurp them and not have to pay the royalties.

Senator BLACKBURN. Then, the some estimates that have seen PTAB invalidates partially or fully, I think, 84 percent of the patents it fully adjudicates—so, talk to me a little bit about the trend. Does it indicate a problem with the PTO when it is originally granting the patents, or why is it that there is a change of heart in that process? What could be causing that invalidation rate?

Mr. GILES. The invalidation rate by the PTAB is much higher than one would expect, and part of that is because of the burden

of proof that the PTAB uses. They actually use the same burden of proof that's used during the prosecution process, when the Patent Office is examining an original application, but they use that in a much—the patentee is in a much more limited position during the PTAB proceedings and is unable to—very likely unable to amend the claims. I know that there's one amendment allowed, but those are granted very, very rarely. By having this much lower burden of proof during the PTAB proceedings, it leads to these higher invalidation rates.

Senator BLACKBURN. Okay. Then how should that be fixed? What are the steps we should take? Because when I'm talking to people that are innovating for the auto industry; innovating for, you know, electric engines; innovating in the music industry for delivery systems; innovating in health IT—they're frustrated.

Mr. GILES. Yes. You know, Qualcomm is a large innovator, as well, and we are innovating in many of those same areas. What we can do to try to fix that is to—is to equate the burden of proof in the PTAB proceedings with that in district court. It should be using a clear and convincing evidence standard instead of a preponderance of the evidence standard, to more align—

Senator BLACKBURN. Okay, so then—

Mr. GILES [continuing]. With—

Senator BLACKBURN [continuing]. How does that invalidation rate at PTAB compare to the district court?

Mr. GILES. In the district court—these are rough numbers. In district court proceedings, you can expect about 30 percent of the claims are invalidated. In the PTAB proceedings, it's at least twice that high, if not more.

Senator BLACKBURN. Yes. It's higher. Thank you, Mr. Chairman.

Senator TILLIS. On behalf of the Chair, Senator Cruz.

Senator CRUZ. Thank you, Mr. Chairman, and welcome to each of the witnesses. Our Founders included in the United States Constitution the protection not just of property rights but also specifically of intellectual property rights. Article I, Section 8 makes clear Congress's duty to ensure the exclusive right of inventors. In fact, the word “right” only appears in the Constitution in two places—first, and forgettably, in a subject heading describing the rights of Members of Congress. The second place it appears is in the context of patents, specifically that the Constitution guarantees the rights of authors and inventors to secure the benefits of their writings and inventions.

I have some concerns when those rights, which often amount to a person's livelihood, can be stripped away by unaccountable bureaucrats, not elected nor appointed by the President nor confirmed by Congress. I know that my colleagues have been working hard on the PTAB Reform Act, and I applaud them for their efforts. I'm sure they would agree that their bill is an important one.

As such, I would hope they would likewise agree that any bill that would significantly alter the patent landscape, affecting billions and billions of dollars a year and implicating America's national competitiveness and maybe even our national security, should be entitled to a full and fair markup hearing, not a truncated, lightly attended hearing, but a full markup hearing by the Full Committee.

When the stakes are so high as they are in the context of billion-dollar patents, the cost of unintended consequences could be disastrous, not just for inventors and companies, but for America. I would urge my colleagues on the Judiciary Committee, particular Chairman Durbin and Ranking Member Grassley, to schedule a markup hearing on this bill for the Full Committee.

I do have significant concerns with PTAB itself. Its origins are somewhat suspect. Google, which enjoyed an amazingly cozy relationship with the Obama White House, sent their deputy counsel and their head of patent strategy, Michelle Lee, to head the PTO and establish PTAB. Interestingly, PTAB became a very friendly forum for Google and other Big Tech firms to challenge the rights of inventors. For example, in 2020, PTAB found 84 percent of the patents it fully reviewed to be invalid, and many patent owners that successfully defend their patents against Big Tech in district court are immediately dragged before PTAB, where they have to defend it anew.

Big Tech obviously loves PTAB. Eighteen of the top 20 filers in PTAB are Big Tech. Out of the PTAB petitions filed by the top 10 petitioners during 2021, Samsung, Apple, Google, Intel, and Microsoft collectively accounted for 81 percent of all such petitions. It isn't just Big Tech that loves PTAB. China has also found PTAB is a useful tool toward invalidating American patents. Chinese companies such as ZTE and Huawei are prolific petitioners at PTAB.

Again, the risks of getting this wrong are severe. If this bill should move forward, let's do so under the full light of day, subject to a full and fair markup hearing. The American people deserve no less.

Mr. GILES, I want to ask you a couple of specific questions. Number one, do you agree with what I just said, which is the consequences of changing this system are significant and should be considered carefully for unintended consequences?

Mr. GILES. Yes, I fully agree with that. The consequences concerning that system are real, and they could have a tremendous effect on the United States economy and national security.

Senator CRUZ. You also urge the passage of the STRONGER Patents Act. In your judgment, how would this act ensure fair proceedings?

Mr. GILES. There are many ways that are listed in the——

Senator CRUZ. Apparently the patent on the microphone is expired.

[Laughter.]

Mr. GILES. We can work on the communication technology, here. Okay. There are a number of things laid out in the STRONGER Patents Act. One is increasing the burden of proof for PTAB proceedings. Another is limiting the number of proceedings that a petitioner could bring. You can't bring subsequent proceedings. You can't bring multiple proceedings at the PTAB to attack—serially attack, and to continue to attack, patent rights and put smaller companies at a disadvantage. There are a whole number of other protections laid out in the STRONGER Patents Act.

Senator CRUZ. Thank you.

Chair LEAHY [presiding]. Mr. Tillis.

Senator TILLIS. Thank you all. I just had a few things. I did ask you to go back and give me some more substance behind things that you would consider to be areas where you have concern: my yellow. Really quickly, rapid-fire, what are your thoughts regarding the introduced bill's ban on institution of serial petitions? We'll start with Mr. Anderson.

Professor ANDERSON. That, for me, is a yellow. I'm not a big fan of reducing the opportunities to challenge patents, just like you—in district court, there's no limitation on how often a patent can be defended. I don't think you should have the same—I think the same thing should apply to the PTAB.

Senator TILLIS. Mr. Giles.

Mr. GILES. I think that provision goes part of the way but doesn't go the whole way. I actually do think that petitioners should be required to limit the number of petitions that they are able to file altogether, not only serially, but in parallel. Right now, the bill seems to open up the door to parallel petitions, which I will say is actually very similar to the process that is undertaken in district courts. District courts always require the parties to limit the amount of claims that they bring, limit the amount of references that they use, limit the scope of the invalidity proceedings in district court. It should be more align—along those lines in the PTAB, as well.

Senator TILLIS. Mr. Wilson.

Mr. WILSON. Yes. We're yellow on that. I think the thing that it forgets is that the reason that we're at the PTAB is that cases—patent infringement cases have been filed against us. If we are, you know, honest about it, we want to be able to file our petitions. You know, the public is benefited by having the petitions filed because, you know, they're often successful, and the patents that shouldn't have been issued in the first place are not going to be the subject of litigation any longer.

Senator TILLIS. Mr. Cain.

Mr. CAIN. Thank you. As a patent owner and as a petitioner, we find that it strikes a good balance as a reasonable compromise for the patent system.

Senator TILLIS. Okay. In the interest of time, I'm not going to take you—I wanted to get to some of the ones that hopefully we can get more feedback on. Things that I'd be interested in, if you could provide us with feedback after the Committee: the codification of the *Phillips* standard, the funding of small and micro-entities who face challenges at the PTAB, and I've got a couple of other ones in there. If you could drill down, I just really want your candid assessment of where we are, so that we can work together to make the bill better. Thank you, Mr. Chair.

Chair LEAHY. Thank you, Senator Tillis. I'm looking at PTAB, and some of the biggest beneficiaries, of course, we know are small businesses, entrepreneurs. I worry about the specious patent assertions. A patent, if you have one, is not something that constitutionally can never be touched or looked at. I think of some of the baseless patents: sunglasses strap, a crustless peanut-butter-and-jelly sandwich, or the method of swinging in a swing. You know, they're ludicrous.

PTAB proceedings are a lot less expensive than litigation. I'm trying to figure out how to get the cost paid in full, including attorney's fees, for small business patent owners. PTAB's designed for small businesses and entrepreneurs, and I want to make sure it works for them. Let me ask a couple questions.

Mr. Wilson, we've heard that discretionary denials of PTAB proceedings create uncertainty and unpredictability. I'm told that under a policy that requires filing PTAB proceedings long before the 1-year time bar, PTAB review becomes less useful from a business perspective. An accused infringer doesn't know what patent claims will be asserted and has to file an overbroad petition to the PTAB. The accused infringer does not have time to do a thorough prior art search. The accused infringer has no way to know whether the Patent Office will deem the petition too late because of their amorphous public guidelines saying when it's too late.

After the PTAB's discretionary denial policy was announced in the *Fintiv* case, what challenges has your business faced in the PTAB process, either in deciding to go to PTAB or the process of the proceedings? How's that for an open question?

Mr. WILSON. Thank you, Mr. Chairman. I think we are—have to be cognizant always that the way that you get to the PTAB is because someone has filed a lawsuit against you, and that's, in my experience, never a good place to be. You have to analyze whether or not to spend the money to prepare a petition very quickly, with a lot of effort, and you have to go through that process while evaluating, "Well, maybe going to court is better," or, "Maybe we ought to settle the case." There's a lot of factors up in the air while you're trying to determine whether or not to go to the PTAB. It's a very expensive process, either way, but I have to say, the PTAB is a much more cost-effective way to get to a decision, in my experience, than patent litigation.

If we're going to go outside of the statute that we all agreed to, the American Invents Act, and come up with additional considerations that the Patent Office is going to kind of unilaterally create and determine that, you know, we may now kind of randomly not accept a patent petition, a PTAB petition, that would've otherwise been acceptable, I think that is not doing us a service. I think that we should go back to the system that the American Invents Act was there—was created to do.

Let me just remind my colleagues about a couple of things. One is, during the AIA negotiations we had small business—retailers, banking, auto makers, restaurateur—all here participating in the process. They're not here this time, and I think it's because the PTAB—the American Invents Act did its job. We shouldn't necessarily change that by the Patent Office alone.

Chair LEAHY. As a patent owner, you'd rather have your patent's validity adjudicated by the PTAB with analysis?

Mr. WILSON. Yes, Mr. Chairman, absolutely. I know when I'm thinking of asserting one of my patents against another company that I am likely to have that patent reviewed at the Patent Office through the PTAB process. It is part of the analysis that goes into determining whether or not to bring a case in the first place, what patents to bring, what claims to assert. All of those things are

things that we can adequately, you know, take into consideration before we determine to file suit.

Chair LEAHY. Sort of following on this, Mr. Giles, I know the Innovation Alliance has had some concerns, but you've also provided a lot of feedback during the drafting of the PTAB. I know that I can speak for Senator Tillis and Senator Cornyn and myself: We've appreciated it, and we've addressed many, if not all, the grounds of your input, and so we've tried in earnest to address them. We recognize concerns about inventors being harassed with serial petitions. Isn't it helpful that our bill ensures that inventors are immune from successive petitions by the same and closely related parties?

Mr. GILES. Yes, it is helpful that the bill moves in that direction. It would be better if it went a few steps further, as outlined in the STRONGER Patents Act, which limits the number of petitions that can be filed altogether.

Chair LEAHY. I appreciate that. We retain the Patent Office's discretion to decline most proceedings. Do you support the Patent Office having discretion to deny institution?

Mr. GILES. Yes. I do think—others have commented on the *Fintiv* situation, and I do think that the Patent Office should still be afforded the ability to deny institution based on the proceedings in a district court proceeding. Many of the—many of the issues that people have raised have been worked out by the Patent Office over the past few years. People are citing to—trial dates moving, and the data that underlies that is actually trial dates under the—under the COVID restrictions that were happening at the same time, so I don't think it gives a very accurate depiction of when a trial date actually stays. The Director actually also came out today and cleared up the guidance—even though it was actually in the—in some of the orders by the PTAB judges already, but cleared up the guidance that—

Chair LEAHY. Do you agree with what the Director came out with today?

Mr. GILES. I haven't had a chance to completely analyze it. It just came out.

Chair LEAHY. Okay. Let me make that as a question for the record. If you could respond, let us know whether you agree or disagree. If you disagree, why? Okay?

Mr. GILES. Sure.

Chair LEAHY. You'll have plenty of time.

Mr. GILES. Oh, yes. Yes.

Chair LEAHY. We made PTAB affordable for small business owners. We covered their expenses, including attorney's fees. Isn't it helpful that our legislation makes the process completely free for small business inventors?

Mr. GILES. Is that to me, sir?

Chair LEAHY. Sure.

Mr. GILES. Okay. I've looked over the provisions of the small business support portion of it. I would actually welcome a much more full dialog on that portion of it, because I do think there are some nuances to it, where it may not get to the point—to the point where it's actually supporting a lot of the small businesses.

Chair LEAHY. Thank you. My last question is, Mr. Cain, I'm committed—and I know Senator Tillis is—to transparency throughout Government. At PTAB, the judge issues decisions, as you know, but we don't know if behind the scenes the Patent Office Director or others acting on the Director's behalf are influencing PTAB judges to decide certain cases in certain ways. Would it be beneficial to our patent system if the public knows when decisions are made by the Director rather than the independent PTAB judges and what the Director's reasoning might be?

Mr. CAIN. Thank you, Senator. It certainly would be very valuable to the public, patent owners, and petitioners. You want—in any area of the law, you want certainty and predictability, and the more transparent you can be, the less appearance of impropriety is likely.

Chair LEAHY. Thank you. I have a number of letters of support from different groups, and if we have no objection, I'll enter them into the record.

[The information appears as a submission for the record.]

Chair LEAHY. Shall we keep the record open for 7 days? We'll keep the record open for 7 days, and if people have things either from your answers that you want to add to or change, feel free. Do you have anything further?

Senator TILLIS. Yes. Mr. Chair, the record will be open for 7 days. The dialog's going to continue beyond that.

Chair LEAHY. Oh, my, that's for sure.

Senator TILLIS. I just want to be absolutely certain——

Chair LEAHY. That's called a New England understatement, even though it's North Carolina.

Senator TILLIS. You know, I just want to make it clear that we're in the business of debate and compromise. That's what we do. Senator Leahy and I do that every day. You can't address a concern that you don't know. I appreciate people coming forward, stating their opinions. My office is committed to listening to them. The only thing I don't tolerate are guerilla tactics to try and undermine what we're trying to do here. I don't expect any of you to be in that category because you're here testifying before us, but I would encourage anyone else who's watching what we're doing here to engage. Thank you, Mr. Chair.

Chair LEAHY. Thank you, and we stand in recess.

[Whereupon, at 3:59 p.m., the hearing was adjourned.]

[Additional material submitted for the record follows.]

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United States Senate, Committee on the Judiciary

Subcommittee on Intellectual Property

"The Patent Trial and Appeal Board: Examining Proposals to Address Predictability, Certainty,
and Fairness"

June 22, 2022

Jonas Anderson,

Professor of Law, American University Washington College of Law

I. Introduction

Thank you for inviting me to testify on the predictability and fairness of proceedings at the patent trial and appeal board. I am a professor of law at American University Washington College of Law in Washington, D.C. My areas of expertise include patent law, the federal courts, and intellectual property. I have authored numerous articles and op-eds on the operation of the patent system generally, and specifically on ways to improve the fairness of patent adjudication proceedings. See, J. Jonas Anderson & Paul Gugliuzza, *Federal Judge Seeks Patent Cases*, 71 DUKE LAW JOURNAL 419 (2021); J. Jonas Anderson, *Court Capture*, 59 BOSTON COLLEGE LAW REVIEW 1543 (2018); J. Jonas Anderson, *Judge-Shopping in the Eastern District of Texas*, 48 LOYOLA CHICAGO LAW REVIEW 539 (2016); J. Jonas Anderson, *Court Competition for Patent Cases*, 163 UNIVERSITY OF PENNSYLVANIA LAW REVIEW 631 (2015).

One area of my scholarship has focused on federal district court judges who seek to attract patent cases for their courtrooms. This “court competition” for patent cases, I believe, is a threat to the judiciary’s legitimacy. It is with this concern in mind that I will focus my testimony today.

I will begin my testimony by briefly describing how the PTAB has improved the functioning of the patent system. Then I will turn to how federal district court judges who actively seek out patent cases are threatening judiciary’s legitimacy. Then I will move into areas in which Congress can improve the PTAB while simultaneously reducing the ability of district court judges to attract patent cases.

I. The Benefits of the PTAB for the Patent System.

The Federal District Courts have traditionally been the primary venue to raise validity challenges of already-issued patents. While the Patent and Trademark Office traditionally has had some role to play in invalidating incorrectly issued patents, the main avenue for patent challengers to contest a patent was via litigation in the courts. In 2011, Congress created the PTAB as an alternative means of challenging issued patents. It was hoped that the PTAB would provide a lower cost means of challenging already-issued patents. After all, the cost of litigation in district court averaged over \$3 million dollars in 2009, according to the American Intellectual Property Law Association.

Congress did not create the PTAB as a substitute for litigation, but rather as a quicker, less expensive alternative to district court litigation. Congress was aware that the proceedings in the PTAB would often be accompanied by parallel in the district court. Thus, Congress created a number of carefully crafted tradeoffs designed to lower the overall cost of challenging a patent’s validity, while simultaneously reducing the overall workload of district courts.

For example, one of these tradeoffs created by Congress were the estoppel provisions that accompanied PTAB review. These estoppel provisions limit the arguments that can be raised at trial once a review has been performed at the PTAB. The estoppel provisions for IPRs extend to arguments that “could have been raised” before the PTAB.¹ Thus, the PTAB is crafted in such a way that petitioners are the beneficiaries of a lower-cost, speedier way to challenge a patent, while the parallel district court litigation is reduced in scope.

¹ 35 U.S.C. §§ 315(e), 325(e).

The AIA also makes these carefully crafted balances around the one-year time bar for petitions. The AIA gives petitioners one year from the date litigation commences, in which to bring a petition for review.² That statutorily mandated “one-year time bar” gives petitioners an adequate time to prepare the most effective filing possible, while simultaneously shielding from review those patents that have been subject to substantial district court litigation. Furthermore, the PTAB review can potentially narrow the claims and/or perform claim construction, thereby reducing the amount of work required by the district judge.

This one-year time bar protects both patent holders and patent challengers, granting quick review to patent challengers while shielding from review patents that have had substantial judicial action. Importantly, it also protects the work of the federal district courts by only potentially reviewing those patents that have been in litigation for less than a year, and refusing to grant review to those patents that have been tied up in litigation for over a year. Throughout the AIA, this trade off between quick review at the PTAB and full litigation at district court is apparent.

II. Competition among Federal District Courts for Patent Cases

In his end of the year report on the federal judiciary, Chief Justice Roberts brought up three potential areas of concern for the federal courts.³ The third area was the “arcane” area of judge selection for patent cases. Justice Roberts was responding to the great numbers of patent cases that are filed in just a few courts before just a few judges. Various members of this subcommittee have also voiced similar concerns over this “extreme concentration” of patent cases.

For example, last year nearly 25% of all patent cases were heard before a single judge on the US District Court for the Western District of Texas. Because of how cases are assigned to judges in that district, plaintiffs are able to select an individual judge to hear their case.

Like a most other district courts, the Western Division of Texas is divided into divisions. Among those divisions is the division of Waco with only one active judge. Because cases are assigned to a judge within the division in which the case is filed, a plaintiff that files within the Waco Division is certain to get that particular judge. And the Western District of Texas is not an outlier in their assignment procedures; numerous district courts allow for this “judge shopping” through divisional assignment.⁴

Judge shopping—the practice of choosing one’s judge—is not a practice that the federal judiciary should condone or enable. My co-author Paul Gugliuzza and I have proposed simple remedies by which Congress could eliminate judge shopping, including simple venue tweaks and/or pushing courts assign cases randomly.⁵ But some district court judges take advantage of judge shopping to engage in the forum shopping game. We have highlighted the most recent example of this “court competition” for patent cases occurring in the Western District of Texas.

² 35 U.S.C. § 315(b) (barred if “filed more than one year after the date on which the petitioner ... is served with a complaint alleging infringement of the patent.”).

³ Justice John Roberts, *2021 Year End Report on the Federal Judiciary*, available at <https://www.supremecourt.gov/publicinfo/year-end/2021year-endreport.pdf>.

⁴ See Alex Botoman, *Divisional Judge-Shopping*, 49 COLUMBIA HUMAN RIGHTS LAW REVIEW 297, 317-318 (2018).

⁵ J. Jonas Anderson and Paul Gugliuzza, *Federal Judge Seeks Patent Cases*, 71 DUKE L.J. 419, 478-482 (2021).

There, one judge in Waco has actively solicited patent plaintiffs to file in his courtroom, continuously denied transfer motions for defendants seeking a more convenient forum, created plaintiff-friendly procedures, and refused to entertain early stage motions for alleging lack of patentable subject matter.

The Waco Division of the Western District of Texas has an aggressive default schedule that keeps patents litigated in West Texas, in most cases, immune from PTAB review. For instance, trial in Waco will usually be scheduled to begin before inter partes review would typically conclude. This quick trial schedule includes scheduling claim construction hearings six months after the case management conference, with trial roughly eighteen months after the conference. Inter partes review at the PTAB, by contrast, typically takes eighteen months to complete, plus the time the defendant needs to prepare and file its petition after being sued for infringement. Thus, the PTAB is generally inclined to deny review of a patent that is also being litigated in Western Texas because of the earlier scheduled trial date.

As a result of this and other plaintiff-friendly procedural aspects, Waco is now home to nearly 25% of the nation's patent cases, plaintiffs flock to Waco in an effort to get the plaintiff-friendly benefits of the division's procedures, and the judge has been forced to make extensive use of special masters because of the flood of patent cases in his courtroom.⁶ This is an area where the Supreme Court and Congress ought to work together to find a common sense solution to the problem of judge shopping. These solicitation efforts intended to entice patent owners to come to a judge's courtroom evoke an uneasy feeling of unfairness and back room dealing.

III. Congress should eliminate the *NHK-Fintiv* line of cases at the PTAB. As currently constituted, *NHK-Fintiv* forces petitioners to make unwanted concessions and allows federal district judges to influence forum-shopping plaintiffs.

As described above, the prospect of avoiding the PTAB entices plaintiffs to forum shop and for some judges to engage in competition for that litigation. If judges can offer a more arduous path to the PTAB, they can influence those patent holders who are especially wary of the PTAB to file in the judge's court.

The statute mandates that IPR institution be based upon whether the petitioner is "reasonably likely" to prevail on "at least 1 of the claims challenged in the petition," and whether the "one-year time bar" has been met.⁷ Despite this, in 2018, in *NHK Spring v. Intri-Plex Technologies*, the PTAB considered whether pending district court litigation would resolve the issues presented more quickly than the PTAB.⁸ The PTAB determined that because the court (in this case, the Northern District of California) was likely to issue a final decision before the PTAB, that PTAB review would be inefficient and would not "provide an effective and efficient alternative to district court litigation."⁹ Thus, under *NHK*, the PTAB could consider the advanced state of litigation when making its unreviewable institution decision.

⁶ <https://www.law.com/texaslawyer/2021/08/26/how-a-former-law-clerk-earned-700k-this-year-as-a-court-appointed-technical-adviser/>

⁷ 35 U.S.C. §§ 314(a); 315(b).

⁸ *NHK Spring Co. v. Intri-Plex Techs., Inc.*, No. IPR2018-752, slip op. at 20 (PTAB Sept. 12, 2018).

⁹ *Id.*

In 2020 the PTAB issued an order in *Apple v. Fintiv* that went further than *NHK*.¹⁰ (The order was later denominated as a precedential order by the Commissioner of the PTO). In *Fintiv*, the PTAB listed the following six factors it would consider in exercising its discretion to deny institution based on parallel district court litigation:

1. whether the court granted a stay or evidence exists that one may be granted if a proceeding is instituted;
2. 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. 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
6. other circumstances that impact the Board's exercise of discretion, including the merits.
Id.

While these factors are enumerated as distinct considerations, the PTAB generally takes "a holistic view of whether efficiency and integrity of the system are best served by denying or instituting review."¹¹

The six *Fintiv* factors are not found in the statute. The statute only allows the PTAB to consider whether the likelihood of success of the petition, the one-year time bar, and whether the same arguments were presented to the Board previously.¹² *Fintiv*, on the other hand, converts one of those statutorily mandated requirements into one factor (out of six) and includes the catch-all term "other circumstances that impact the Board's exercise of discretion." This non-statutory, six factor *Fintiv* test should be reversed by the PTO, or better yet, statutorily clarified as the current proposed bill does.

A. The NHK-Fintiv line of cases has been exploited by district courts seeking to attract patent cases.

Fintiv was designed to give the PTAB more discretion over where it spent its resources: in theory, the PTAB could choose to devote its administrative patent judges' time to those cases that were less likely to have duplicative issues decided at the district courts. But in actuality the *NHK-Fintiv* line of cases has been an avenue for judges interested in attracting forum shopping plaintiffs to their courtrooms. This judge-centered forum shopping is contrary to the very notions of fairness from which the judiciary derives its authority.

Furthermore, the six factor test elevates decisions within the control of the district court above and beyond what Congress has stated are the grounds for instituting (or not) PTAB review. For example, factor one (whether the court granted a stay or evidence exists that one may be granted if a proceeding is instituted) concerns a practice that varies widely between different district courts. Some district courts are extremely likely to grant stays pending PTAB review, while

¹⁰ Apple Inc. v. Fintiv, Inc., No. IPR2020-19 (PTAB May, 5, 2020).

¹¹ *Id.*

¹² 35 U.S.C. §§ 314(a); 315(b); 325(d).

others are much less likely to do so. Patent-heavy districts like the District of Delaware and the Western District of Texas have been reluctant to grant stays, meaning that patent holders who file in those districts are more likely to avoid PTAB review of their patents under *Fintiv*.

Similarly, the second factor (proximity of trial date) is used by certain district courts in an effort to avoid PTAB review. A recent study by Andrew Dufresne, Nathan Kelly, and Lori Gordon shows that the trial dates relied on in *Fintiv* denials turn out to be wrong in 94% of cases.¹³ Using estimated trial dates to deny review of a patent when these dates turn out to be delayed in 94% of the cases is a terrible way to make discretionary judgments.

Some district courts, eager to hear patent cases, have used the *Fintiv* factors to attract plaintiffs that do not want to have their patents reviewed by the PTAB. The U.S. District Court for Western District of Texas currently receives around 25% of the patent cases nationally. Almost all of these cases are heard in the district's Waco Division.

The lone judge in the Waco Division employs an aggressive default schedule that, in most cases, results in the *Fintiv* factors cutting in favor of denying institution. As discussed, Judge Albright schedules *Markman* hearings six months after the case management conference, with trial roughly eighteen months after the conference. Inter partes review at the PTAB, by contrast, typically takes eighteen months—plus the time the defendant needs to prepare and file its petition after being sued for infringement. This practice means that the second factor of the *Fintiv* test usually favors denial of institution at the PTAB.

For example, in one PTAB decision involving a parallel case in the Western District of Texas, the PTAB denied institution of an inter partes review solely because of the Western District's speedy timeline.¹⁴ The PTAB found that all the *Fintiv* factors for exercising discretion favored institution—except the district court's timeline for trial.¹⁵ Senator Tillis has objected to this very practice, stating “Based on the facts currently available to me, it is difficult to imagine any plausible justification for the continued reliance on the demonstrably inaccurate trial dates set by the Waco Division.”¹⁶

The other *Fintiv* factors can also be manipulated by a judge interested in avoiding PTAB review for the plaintiffs in his courtroom. For instance, factor one (pending stays in the district court) are completely within the discretion of the district court judge. Some judges are notoriously reluctant to issue stays pending IPR. For example, the Waco Division of Western Texas' lone judge has stated publicly that he is unlikely to grant a stay absent special circumstances. See e.g., Britain Eakin, *Amid Scrutiny, Albright Focuses on Keeping Cases on Track*, LAW360 (Feb. 16, 2022). So, the practice of not granting stays ensures that the first factor favors denial of

¹³ Andrew T. Dufresne, Nathan K. Kelley & Lori Gordon, *How reliable are trial dates relied on by the PTAB in the *Fintiv* analysis?* 1600 PTAB & Beyond (October 29, 2021); <https://www.1600ptab.com/2021/10/how-reliable-are-trial-dates-relied-on-by-the-ptab-in-the-fintiv-analysis/>.

¹⁴ Sand Revolutions II, LLC v. Continental Intermodal Group – Trucking, LLC, IPR2019-01393, slip op. at 18 (PTAB Feb. 5, 2020).

¹⁵ *Id.*

¹⁶ Letter from Senator Tillis to Acting Director of the PTO, Nov. 2, 2021.

institution at the PTAB. Setting a case schedule that essentially eliminates the prospect of PTAB review undermines the system Congress set up in the AIA to weed out low quality patents.

B. *NHK-Fintiv* Has Not Eliminated Duplicative Judgements

Furthermore, the *NHK-Fintiv* framework has not succeeded in eliminating expensive, duplicative judgements at the PTAB and the district courts. Recently, a trial in the Western District of Texas between VLSI and Intel resulted in over \$2 billion dollar judgement for VLSI. Prior to the judgement, Intel had petitioned the PTAB for review of some of the patents at issue. But because of *Fintiv* and the Western District of Texas' early trial dates, the PTAB denied institution, finding that the court was likely to reach a conclusion before the PTAB.

Recently, OpenSkys (a non-party to the district court litigation) seeks to review those same patents at the PTAB. Because they are not in the Western District of Texas (or any other court for that matter) they are not subject to the same *Fintiv* factors. The PTAB granted the institution of the IPR of VLSI's patents, and could possibly undo the jury trial verdict awarding \$2 billion dollars. What is more, the petition filed by OpenSkies is a near exact replica of the previous unsuccessful petition filed by Intel. Thus, *Fintiv* resulted in more gamesmanship and cost in this case and may result in the work of the district court and the jury being wasted. This is not the efficient, lower cost result that Congress intended by creating the PTAB.

Another example of *Fintiv* thwarting the aims of the AIA can be seen in the case of *Fintiv v. Apple*. *Fintiv* (the entity) for which the *Fintiv* rule was created is still not at trial. The trial in that case has been scheduled for around half a dozen different dates. The date relied on by the PTAB in denying institution was March 3, 2021, whereas the PTAB anticipated coming to a conclusion at a later date in 2021. Fifteen months after that date, and months after the PTAB would have been statutorily mandated to finalize their decision, the trial still has not commenced. In fact, it was scheduled to go to trial this week, but was delayed yet again.¹⁷ Today, over a year past the original trial date, the case has still not reached trial.

The trial dates set by district courts and relied on by the PTAB for *Fintiv* factor two should not be used in evaluating whether to institute review or not. *Fintiv* results in wasted attorney hours arguing about the progress made in district court, rather than the merits of the petition for review. It has resulted in numerous, high profile cases being unnecessarily extended and *increasing* the cost and time of patent litigation.

C. *NHK-Fintiv* Results in Petitioners Filing Hurried Petitions and Forces Those Petitioners Who Are Litigating in Certain Jurisdictions to Make Unfair Concessions.

In recent months, practitioners have adjusted to the *Fintiv* factors. Petitioners know that because of *Fintiv* they must file any petition as soon as possible. They often hurriedly fire off a petition as quickly as possible in an effort to avoid the pitfalls of *Fintiv*. This practice also puts a strain on the patent office. Around 50% of institution requests involve detailed analysis of the *Fintiv* factors. Doing away with *Fintiv* would free the Patent Office of the burden of tracking the status of any parallel district court litigation and free the parties from having to pay money to litigate the issue.

¹⁷ Ryan Davis, *Fintiv's Emergency Motion Delays Apple Patent Trial In WDTX*, Law360 (June 7, 2022); <https://www.law360.com/articles/1500531/fintiv-s-emergency-motion-delays-apple-patent-trial-in-wdtx>.

Attorneys have also begun making concessions in their petitions for review in an effort to influence the outcome of factor number four (the issues are similar to those in litigation). In short, these concessions amount to a promise not to pursue certain arguments for invalidity in litigation. For defendants to patent infringement, these concessions can be seen as the price they must pay to avail themselves of the PTAB. But the frequency of these concessions varies greatly by the district court in which the litigation arises.¹⁸ Having to concede potentially important aspects of your defense is never a thing that litigants want to have to do; less so when those concessions are largely determined by which district court the plaintiff chose to file.

IV. Conclusion

The judiciary's reputation is essential to its legitimacy. The public's willingness to obey judicial decisions is in large part dependent on the court's legitimacy. The public's perception of the judiciary's independence and integrity is the primary source of its legitimacy, and ultimately its power. That legitimacy is threatened with rampant judge shopping in patent litigation. Judge shopping has the potential to spill into other areas of the law, since the practice is enabled by single division judge assignments. Congress should work with the Supreme Court to stop predictable judge assignment procedures.

Furthermore, Congress should undo the damage wrought by the *NHK-Fintiv* line of cases. *NHK-Fintiv* has resulted in increased judge shopping, with certain district court judges leveraging the *Fintiv* factors to entice patent plaintiffs to their courtrooms. Additionally, *Fintiv* has not resulted in increased efficiency for litigants litigating simultaneously in the PTAB and at federal district court. *Fintiv* has also resulted in forcing petitioners to file before they are prepared as well as making unwanted concessions. For all these reasons, Congress should undo *Fintiv*.

¹⁸ See Richard M. Bembien & Steven M. Pappas, *Fintiv Continues to Take Center Stage: The Effect of Parallel Litigation at the PTAB in 2021*, <https://www.sternekessler.com/news-insights/publications/fintiv-continues-take-center-stage-effect-parallel-litigation-ptab-2021> ("We found for parallel proceedings in the Western District of Texas, the petitioner filed a broad stipulation in approximately 44% the cases, either stipulating to full estoppel, as in *Sotera*, or not to use the same art in the parallel litigation. By contrast, for parallel proceedings in the Eastern District, the petitioner filed such broad stipulations only about 30% of the time.").

Testimony of

David A. Cain

Intellectual Property Counsel

GlobalFoundries, Inc.

Before the

U.S. Senate Judiciary Committee

Subcommittee on Intellectual Property

Hearing on

The Patent Trial and Appeal Board: Examining Proposals to Address
Predictability, Certainty, and Fairness

June 22, 2022

Good afternoon, Chairman Leahy, Ranking Member Tillis, and distinguished members of the Subcommittee on Intellectual Property. Thank you for this opportunity to discuss the topic of Patent Trial and Appeal Board (PTAB) reform.

GlobalFoundries (GF) is one of the world's leading semiconductor manufacturers, with production in the United States, Germany, and Singapore. Our feature-rich chips enable nearly every sector of the global economy.

Of the five at-scale semiconductor foundries in the world, GF is the only one headquartered in the United States and is a proud longstanding partner and supplier to the U.S. Department of Defense.

The semiconductor industry today involves producing billions of transistors on a single chip and requires the most technically complex manufacturing in the world. GF's success in this industry is due in large part to its innovation. GF's U.S. sites have produced three of the world's top 100 most prolific inventors of all time. Because of radio frequency

(RF) technology innovation developed at GF's Vermont facility, the smartphone in your pocket almost certainly contains GF chips.

Due to the importance of innovation to GF and the critical nature of the chips that we manufacture, America's patent system is exceptionally important to us. As the owner of more than 7,000 U.S. patents and as a U.S.-based manufacturer, GF seeks a fair and balanced Inter Partes Review (IPR) system for both patent owners and petitioners. We count on the patent system to protect our investment in innovation and to prevent our business from being harassed by poor-quality patents.

Every year GF faces infringement claims for patents that had no business being issued in the first place, which needlessly hurts our ability to supply semiconductors to the world. The cost of each semiconductor patent litigation defense can easily reach beyond \$5 million. Resources directed towards such litigation could otherwise be invested in capacity expansion and research and development, supporting job creation.

By passing the America Invents Act over a decade ago, Congress made huge progress in curtailing the abusive patent practices hurting American industry. Allowing for efficient patent review by the technically trained and patent savvy judges of the PTAB provides an efficient and effective tool to defend against poor-quality patents. Bad patents can be dealt with for a fraction of the cost of litigation while good patents can quickly be validated.

Therefore, GF strongly supports efforts to improve the IPR system. The recent Fintiv-factor discretionary denial practice has limited the availability of IPR review and inserted unfairness into the system. For example, defendants can be prevented from challenging a poor-quality patent at the PTAB merely because the district court sets an unrealistically early trial date. Faced with potential denial, defendants must rush to prepare a petition and may not have sufficient time to properly search for prior art, causing them to be estopped from relying on other relevant prior art later.

These early petitions filed within a few months of a district court complaint can create extra work for the PTAB itself. Such petitions generally occur before the patent owner has identified which patent claims it is asserting and how broadly it is construing those claims. Consequently, the PTAB will needlessly spend time reviewing claims that may never be asserted and may construe them for purposes of validity more narrowly than the patent owner will construe them in its infringement case.

The PTAB Reform Act resolves these issues by solidifying the one-year window for bringing IPR petitions, while also ensuring that petitioners are not allowed to bring serial patent challenges. These commonsense proposals provide fairness for both patent owners and petitioners. GF appreciates Congress' commitment to fostering American innovation and strengthening the greatest patent system in the world.

Thank you for allowing me to testify and to share GF's perspective.

Statement of

Robert Giles
Senior Vice President and Chief Intellectual Property Counsel
Qualcomm Incorporated

On Behalf of the Innovation Alliance

Before the
Subcommittee on Intellectual Property

Committee of the Judiciary
United States Senate

Hearing on
The Patent Trial and Appeal Board: Examining Proposals to Address Predictability,
Certainty, and Fairness

June 22, 2022

Chairman Leahy, Ranking Member Tillis, and Members of the Committee, thank you for holding this important hearing on the Patent Trial and Appeal Board (“PTAB”) and the PTAB Reform Act, and for inviting me to testify today. My name is Robert Giles, and I am the Senior Vice President and Chief Intellectual Property Counsel for Qualcomm Incorporated, the world’s leading wireless technology innovator and the driving force behind the development, launch, and expansion of 5G. When we connected the phone to the internet, the mobile revolution was born. Today, Qualcomm’s foundational technologies enable the mobile ecosystem and are found throughout the wireless communications ecosystem. We are bringing the benefits of cellular technologies to new industries, including automotive, the Internet of Things (“IoT”), and computing, and are leading the way to a world where everything and everyone can communicate and interact seamlessly.

I am here on behalf of the Innovation Alliance, a coalition of research and development-based technology companies that believe that maintaining a strong patent system is critical to supporting innovative enterprises of all sizes. The Innovation Alliance is committed to strengthening the U.S. patent system to promote innovation, economic growth, and job creation, and we support legislation and policies that help to achieve those goals.

Innovation Alliance member companies innovate across a wide range of industries, from audio compression, to wireless communications, to advanced video communication, to vehicle transmission and drive train technology, and semiconductor technology. Our member companies include, among others, Dolby Laboratories, Inc., Qualcomm Incorporated, nviolo, and Adeia. Despite the wide range of industries Innovation Alliance companies are involved in, each member shares a deep commitment to innovation and dissemination of their research efforts through patent licensing. Innovation in these industries requires the expenditure of vast sums of money in research and development (“R&D”) before an innovation can be commercialized.

Like other Innovation Alliance members, Qualcomm invests heavily in R&D efforts taking on substantial risks associated with technical innovation. Since its founding in 1985, Qualcomm has invested over \$73 billion in R&D to develop emerging mobile devices, networks, and entire ecosystems of technologies years before others. In addition to expending large financial sums, Qualcomm’s many innovation teams spend countless hours innovating and working with colleagues to protect these innovations. These human and capital resource investments represent strategic opportunity cost decisions – sometimes yielding positive return-on-investment outcomes and sometimes not. And these actions demonstrate Qualcomm’s continuous commitment to develop technologies impactful to everyone – not any one group or individual.

A strong patent system is central to the future of a resilient, growing, and increasingly technology-driven U.S. economy that allows us to protect our national security.¹ For decades, the U.S. patent system has secured our global technology leadership by incentivizing the R&D that is needed to invent ground-breaking technologies. However, the United States’ global

¹ See, e.g., Alexander Kersten, *How Moves to Weaken Standard-Essential Patents (SEPs) Threaten U.S. National Security*, CSIS (Apr. 12, 2022), <https://www.csis.org/analysis/how-moves-weaken-standard-essential-patents-seps-threaten-us-national-security>; Andrei Iancu & David J. Kappos, *U.S. Intellectual Property Is Critical to National Security*, NEW YORK L. J. 266 (Jul. 7, 2021).

technology leadership position has been threatened by judicial and legislative actions, such as the current implementation of *inter partes* review (“IPR”) as conducted by the PTAB, that weaken patent rights.

The Innovation Alliance urges Congress to pass the STRONGER Patents Act to strengthen U.S. competitiveness and global leadership. STRONGER would (1) empower U.S. inventors to protect their patent rights against infringers by permitting courts to grant injunctions in appropriate cases, and (2) overhaul the PTAB to ensure its proceedings are conducted in a fair and consistent manner in line with federal courts. Importantly, for example, STRONGER would prevent petitioners from filing a second IPR on the same patent claim if the petitioner failed to show a reasonable likelihood of success in its first IPR.

In contrast, the Innovation Alliance urges Senators to oppose the PTAB Reform Act because it would further tilt the playing field to infringers. Specifically, the PTAB Reform Act eliminates the “Fintiv doctrine,” which allows the PTAB to deny institution of a petition in order to prevent abuse, promote efficiency, and conserve resources of the USPTO and individual parties. The PTAB Reform Act would prevent the PTAB from considering harassing and abusive repetitive proceedings when deciding whether to institute an IPR. It would also create a legally questionable backdoor to give standing to parties who would not otherwise have it. These changes harm inventors and move the patent system in the wrong direction.

I. Robust Patent Protections Are Essential to the U.S. Economy and National Security

The U.S. patent system is the foundation of our innovation economy and is the reason that U.S. technological leadership is envied worldwide. It grants inventors—whether they are individuals, start-ups, or established businesses—defined property rights in their inventions for a limited time, in exchange for publicly disclosing the technical details of those inventions through required filings with the United States Patent and Trademark Office (“USPTO”). By rewarding innovation and enabling inventors to quickly build upon each other’s ideas, this system is the driving force behind U.S. innovation leadership.

Strong patent protections are foundational to the U.S. economy and national security for two main reasons. First, a robust patent protection regime is necessary to appropriately incentivize private companies to invest in the costly and risky long-term R&D needed for leadership in emerging technologies such as AI, IoT, 5G, and now 6G. Second, patent rights facilitate commercialization, collaboration, and follow-on innovation. By granting exclusionary rights in an invention in exchange for public disclosure, patents “simultaneously protect, and disclose, the inventor’s contribution to the knowledge pool.”² At the same time, patent protections ensure that an invention can be freely bought, sold, or licensed, allowing patent owners to reap the benefits of their inventions, while transferring their invention directly to the party best positioned to commercialize it for public or industry use.

² David J. Kappos, *Why America’s Patent System Is Not Killing Innovation*, *Fortune* (May 8, 2015), <http://fortune.com/2015/05/08/why-americas-patent-system-is-not-killing-innovation/>.

Strong intellectual property (“IP”) protections and a strong culture of innovation are vital to economic growth and job creation. According to the USPTO, IP-intensive industries accounted for \$7.8 trillion in economic activity in 2019—41% of domestic output.³ These industries also directly supported 47 million jobs—33% of all employment in the United States.⁴ Compared to workers in non-IP-intensive industries, workers in IP-industries earn significantly higher wages and are more likely to participate in employer-sponsored health insurance and retirement plans.⁵ The innovation economy thus represents not only an essential piece of the overall American economy, but provides an important source of high quality job growth.

Strong patent protections are particularly important for small businesses and startups. Research shows that, on average, startups with patents increase their employment growth by 55% and grow their sales by an additional \$10.6 million compared to startups that fail to obtain a patent—and that patents increase startups’ likelihood of going public by 128%, being acquired by 84%, securing a loan by using the patent as collateral by 119%, and securing venture capital funding by 47%.⁶ Additional research has found that weaker patent protections reduce follow-on research by 37%, and that the effect is stronger for small businesses.⁷

U.S. national security also depends on strong patent protections and U.S. technological leadership.⁸ Encouraging technology development by U.S. companies through strong property rights protects our national interest by incentivizing the private investment of money and talent needed to develop technologies in key areas like telecommunications and AI, which will provide significant advantages economically and militarily to the country that develops them. This permits the U.S. and our companies to compete with firms such as those in China, which receive substantial governmental support and therefore do not rely on licensing revenue to fund R&D into new technology.⁹

³ U.S. PATENT AND TRADEMARK OFF., *Intellectual Property and the U.S. Economy: Third Edition*, 3, 13 (2022), <https://www.uspto.gov/ip-policy/economic-research/intellectual-property-and-us-economy>.

⁴ *Id.* at 4.

⁵ *Id.* at 11.

⁶ See Joan Farre-Mensa, Deepak Hegde, & Alexander Ljungqvist, *What is a Patent Worth? Evidence From the U.S. Patent “Lottery,”* NBER (Dec. 2018), https://www.nber.org/system/files/working_papers/w23268/w23268.pdf; see also Joan Farre-Mensa, Deepak Hegde & Alexander Ljungqvist, *The Bright Side of Patents*, NBER (Feb. 2016), <https://www.nber.org/papers/w21959>.

⁷ Ashish Arora, Sharon Belenzon, Matt Marx & Dror Shvaron, *(When) Does Patent Protection Spur Cumulative Research Within Firms?*, NBER, 18 (June 2021), <https://www.nber.org/papers/w28880>.

⁸ See e.g., *U.S. Intellectual Property Is Critical to National Security*, *supra* note 1 (“For the United States to maintain its technological edge, we must encourage Americans to make more discoveries in AI and other emerging technologies. This in turn requires providing strong intellectual property (IP) rights to incentivize and protect the huge investments required to make those discoveries.”).

⁹ See, e.g., Comment of Senators Coons, Hirono, and Tillis on DOJ, USPTO, & NIST *Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary FRAND Commitments* (Feb. 4, 2022).

Innovation in the technology-based industries the Innovation Alliance's members represent frequently requires the expenditure of vast sums of money in research, testing, and development before an innovation can be commercialized. This process often takes years. Further, many R&D expenditures never yield successful inventions or inventions that can be commercialized. To justify the extraordinary commitment of resources to fund this process of research, development, and testing, these companies require the certainty that they will be able to obtain property rights in their inventions that will enable them to profit from their successes. The patent system thus creates a virtuous circle in which the promise of monetary rewards for successful inventions encourages innovators to continuously invest resources in risky R&D ventures. Without this promise, the incentive to engage in resource-intensive innovation would be destroyed, disadvantaging U.S. companies on the world stage and ceding global technological leadership to countries with state-run economies.

Additionally, the patent system plays a critical role in encouraging commercialization and follow-on innovation. By ensuring that patent rights can be bought, sold, or licensed, the patent system enables innovations to be brought to market in the most economically-efficient ways possible. Many innovators may not have the expertise or resources needed to commercialize their own innovations; bringing a product to market often requires extensive collaboration between the inventor and investors, marketers, legal experts, and manufacturers. Small businesses in particular often lack the ability to fully conduct each of these functions within their own firm. As a result, innovators often rely on external partners to fully develop their products. This diffusion of responsibilities amongst firms has two chief benefits. First, it maximizes the marketplace's efficiency by allowing different, competing firms to specialize in these areas. Second, it strengthens the supply chain against future disruptions by promoting multiple, diverse firms that are capable of developing the product. Therefore, the ability to efficiently buy, sell, or license a patent in the same manner as any other piece of property encourages innovators to enlist the assistance of others who may have more experience bringing products to market. This ensures that new innovations are quickly and efficiently made available to consumers.

Likewise, the fact that the technical details of an invention must be publicly disclosed when a patent application is filed ensures that the latest discoveries are quickly available to the public. This, in turn, allows other innovators to easily examine the details of the most recent discoveries. With this information, others can more easily improve upon or develop new applications for the latest innovations. Without the incentive for public disclosure that the patent system provides, innovators would have much less reason to disclose their inventions publicly and would be more likely to keep them as trade secrets. This would undermine the free exchange of information between inventors and delay the process of follow-on innovation.

II. Aspects of the Current Patent System Threaten U.S. Technology Leadership

Despite the critical role that patents play in the U.S. economy, patent rights have been under attack in recent years, and many innovators now face substantial obstacles to asserting their rights to their inventions against infringers. An uncertain patent enforcement climate disincentivizes investment in innovative businesses in the United States that rely on strong patents. If U.S. companies are unable to receive a fair return on investment for their inventions, they will divert their engineering and business expertise elsewhere and the United States will fall far behind. There are already troubling signs of this happening. Venture capital funding has

begun to flow toward investment opportunities outside of the United States. For example, the United States' share of global venture capital funding fell from 82% in 2004 to 49% in 2021.¹⁰

Against this backdrop, Congress created the PTAB in 2011 to serve as an efficient, cost-effective alternative to district court litigation. Unfortunately, the PTAB has had the opposite effect. In contrast to federal district courts, the PTAB uses the lower preponderance of evidence burden of proof in invalidating patent claims and fails to presume the validity of a duly-issued patent despite the fact that the PTAB is an adjudicative body. As a result of these and various other pro-challenger policies, the PTAB has found in favor of the patent challenger in nearly two-thirds of its institution decisions and has invalidated at least one claim in over 80% of the petitions that reach a final written decision.¹¹ It has thus created a system in which any party may attack a duly-granted patent with such a high degree of certainty that entire businesses have sprung up to help companies game this result. Further, bad actors have begun gaming the system through stock shorts and other schemes all based on the expectation that an IPR will result in at least a partial invalidation of patent rights.

A. *The eBay Decision and the Unavailability of Injunctions to Stop Infringement*

For decades, U.S. federal courts adhered to the well-established rule that the owner of a valid and infringed patent was generally entitled to a court-issued injunction to preclude further infringement in the vast majority of cases. This changed in 2006 when the Supreme Court decided *eBay Inc. v. MercExchange, LLC*.¹² In *eBay*, the Court upended this longstanding rule, holding that a patent holder is not presumptively entitled to an injunction after a finding of infringement. The Court confirmed that patent holders seeking an injunction must satisfy the traditional four-factor test for obtaining equitable relief. This test requires the patent holder to show that: (1) the patent holder has suffered an irreparable injury that requires an injunction to stop; (2) monetary damages and similar remedies are not enough to compensate the patent holder for the harms suffered; (3) balancing the interests of the parties, an injunction is warranted; and (4) that the public interest would not be disserved by the issuance of an injunction. However, the Court issued a concurring opinion that significantly altered the traditional analysis of these four factors for patent holders seeking injunctive relief.

¹⁰ NAT'L VENTURE CAPITAL ASS'N, *2022 Yearbook*, 7 (2022), <https://nvca.org/wp-content/uploads/2022/03/NVCA-2022-Yearbook-Final.pdf>.

¹¹ U.S. PATENT AND TRADEMARK OFF., *PTAB Trial Statistics FY22 Q2 Outcome Roundup IPR, PGR*, 11 (2022) (collecting statistics for FY 2022), https://www.uspto.gov/sites/default/files/documents/ptab_aia_fy2022_q2_roundup.pdf; U.S. PATENT AND TRADEMARK OFF., *PTAB Trial Statistics FY21 End of Year Outcome Roundup IPR, PGR, CBM*, 11 (2022) (collecting statistics for FY 2021), https://www.uspto.gov/sites/default/files/documents/ptab_aia_fy2021_roundup.pdf; U.S. PATENT AND TRADEMARK OFF., *PTAB Trial Statistics IPR, PGR, CBM Patent Trial and Appeal Board September 2020*, 10-11 (2022) (collecting statistics for Sept. 16, 2012 to Sept. 30, 2020), https://www.uspto.gov/sites/default/files/documents/trial_statistics_20200930.pdf.

¹² 547 U.S. 388 (2006).

The *eBay* Court rejected established rules about whether an injunction should or should not be granted. The Court, in a concurring opinion that has been widely adopted, specifically clarified that inventors that license patents, rather than manufacture the inventions themselves, should not often be able to obtain injunctive relief. Despite the contradictory language of the majority opinion, lower courts have consistently referred to this concurring opinion and effectively imposed a categorical rule *against* granting injunctions to inventors that license their patents. Specifically, lower courts have misapplied both the first and second prongs of the *eBay* test by routinely assuming that monetary damages are adequate to compensate patent owners for use of their intellectual property and that, as a result, further infringement of the patent could not cause irreparable injury. They routinely deny injunctions based on these flawed assumptions.

The effects of *eBay* cannot be overstated. Empirical research has found that the rate of permanent injunctions granted as a percentage of all cases filed dropped by more than 85% after *eBay*.¹³ Likewise, the rate at which patent holders even seek injunctive relief has also declined post-*eBay*.¹⁴

This trend has substantially weakened the value of U.S. patents as property rights. In a different concurring opinion in *eBay*, Chief Justice Roberts, joined by Justices Scalia and Ginsburg, implicitly recognized the importance of injunctions in negotiations by recognizing that it is very difficult to enforce a “right to exclude” with money damages alone. Thus, because patent owners cannot expect that a court will compel infringers to stop infringing, those infringing a patent have much less incentive to negotiate a license for use of the patent.

The inability to obtain an injunction to stop infringement thus permits patent users—companies that incorporate others’ patented inventions into their products—to pursue a strategy of “efficient infringement” (some even refer to this as “predatory infringement”). This means that because patent owners may not obtain a court order to stop infringement, the infringing user of a patent has much less incentive to stop infringing. Rather than seek a license for the patent, the efficient infringer will choose to infringe the patent, while assuming the risk that the patent owner will sue. Because a court is unlikely to enjoin the infringer’s use of the patent, the efficient infringer can typically expect to pay only a royalty to the patent owner as damages for its use of the patent.

The practical impact of lower courts’ misreading of *eBay* has been to devalue U.S. patent rights and tilt the scales against innovators, including small innovators who often seek to license their patents. Often, patent owners—especially small businesses and individual inventors—will simply give up or succumb to an artificially low license fee to avoid the substantial expense of litigating and defending against petitions before the PTAB.

This is especially true for individuals and small businesses that lack the resources to bring lawsuits against large corporations. Although the Supreme Court recognized in *eBay* that “some

¹³ Kirti Gupta & Jay P. Kesan, *Studying the Impact of eBay on Injunctive Relief in Patent Cases*, Hoover Inst. Working Grp. on Intell. Prop., Innovation, and Prosperity No. 17004, 16 (2017), <https://hooverip2.org/wp-content/uploads/ip2-wp17004-paper.pdf>.

¹⁴ *Id.* at 39.

patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves,”¹⁵ the inability to obtain an injunction eliminates the incentive for would-be licensees, especially large incumbents, to negotiate in good faith. Small inventors, startups, and universities that rely on licensing to fund R&D and other expenses are the parties who most need the ability to obtain an injunction.

This degradation of U.S. patent rights is undermining U.S. competitiveness globally. Many patent holders are now able to obtain better protections for their patent rights overseas than they are in the U.S. For instance, German courts issue injunctions as a matter of course following a finding of infringement, and “generally have no discretion as to whether to grant an injunction,” other than in rare “exceptional cases.”¹⁶ Many other European countries—including the Netherlands, France, Italy, Spain, Austria, Sweden, and Switzerland—have similar regimes,¹⁷ as do Asian countries like Thailand, South Korea, and Japan.¹⁸ And even Chinese courts have only limited authority to decline to grant an injunction.¹⁹

This gross disparity between the protections available to patent holders in the U.S. and some of the leading foreign economies undermines U.S. competitiveness. As a result, innovative companies in the United States and around the world have an increasing incentive to enforce their patented inventions outside the United States.

B. *The Patent Trial and Appeal Board (PTAB)*

The America Invents Act, signed into law in 2011, made many changes to the U.S. patent system. Among other things, it established the PTAB, an administrative tribunal charged with hearing challenges to patents through a procedure called *inter partes* review. The goal of the AIA was to provide an alternative method of adjudicating the validity of issued patents that was quicker and cheaper than district court litigation.

Instead, however, the PTAB has invalidated patents at an alarmingly high rate. For instance, the USPTO’s own data show that nearly two-thirds of IPR institution decisions find in favor of the patent challenger, over 80% of instituted IPRs that reach a final written decision result in cancellation of at least one challenged claim, and over 60% of instituted IPRs that reach

¹⁵ *eBay*, 547 U.S. at 393.

¹⁶ Michael Frohlich, AIPPI Special Committee on Patents and Standards, *Availability of Injunctive Relief for FRAND-Committed Standard Essential Patents, Including FRAND-Defense in Patent Infringement Proceedings*, 10 (Mar. 2014), <https://aippi.org/wp-content/uploads/committees/222/Report222AIPPI-report-on-the-availability-of-injunctive-relief-for-FRAND-committed-standard-essential-patentsEnglish.pdf>; see also *Godo Kaisha IP Bridge 1 v. Ford-Werke GmbH*, Case No. 7 O 9572/21 (ruling that Ford infringed on IP Bridge’s patent and ordering an injunction, recall of delivered cars, and damages).

¹⁷ *Availability of Injunctive Relief for FRAND-Committed Standard Essential Patents, Including FRAND-Defense in Patent Infringement Proceedings*, *supra* note 19 at 7-8.

¹⁸ *Id.*

¹⁹ *Id.* at 7.

a final written decision result in the cancellation of *every* challenged claim.²⁰ These extremely high invalidation rates at the PTAB have led one former judge on the U.S. Court of Appeals for the Federal Circuit to call the PTAB’s administrative judges “patent death squads,” responsible for “killing property rights.”²¹ It is clear from these statistics that the PTAB has been a useful tool for petitioners to challenge and cancel duly-issued patents.

Since the adoption of the AIA, large tech companies have frequently used the PTAB as a tool to drive up the cost of enforcing patent rights and, in turn, devalue U.S. patents. Former Chief Judge of the Federal Circuit Paul Michel has stated that these large tech companies use their “influence to chip away at patent rights [to] kill off smaller competitors or buy them up at fire-sale prices to maintain their market dominance” and “have long relied on a strategy of deliberate infringement because enforcement litigation is too expensive for younger smaller competitors.”²² Despite the fact that the PTAB effectively serves as an adjudicative body that addresses patent validity similar to a district court, the PTAB fails to presume that a patent is valid and applies a lower burden of proof (preponderance of the evidence) than district courts. As a result, the PTAB has cancelled thousands of patent claims since 2012.

As the chart below shows, Big Tech infringers are by far the most frequent users of the PTAB,²³ not smaller companies or the “mom and pop” entities whose protection is cited as supporting the need for aggressive post-grant procedures. The PTAB has opened the door to allow well-resourced companies to attempt to invalidate patent claims by filing multiple, harassing petitions against the same patent, contrary to the AIA’s goal of providing an efficient forum to resolve validity challenges. The frequency with which the PTAB has strayed beyond its intended mission of quickly eliminating only low-quality patents has created significant instability for all patent holders.

²⁰ U.S. PATENT AND TRADEMARK OFF., *PTAB Trial Statistics FY22 Q2 Outcome Roundup IPR, PGR*, 11 (2022) (collecting statistics for FY 2022), https://www.uspto.gov/sites/default/files/documents/ptab_aia_fy2022_q2__roundup.pdf; U.S. PATENT AND TRADEMARK OFF., *PTAB Trial Statistics FY21 End of Year Outcome Roundup IPR, PGR, CBM*, 11 (2022) (collecting statistics for FY 2021), https://www.uspto.gov/sites/default/files/documents/ptab_aia_fy2021__roundup.pdf; U.S. PATENT AND TRADEMARK OFF., *PTAB Trial Statistics IPR, PGR, CBM Patent Trial and Appeal Board September 2020, 10-11* (2022) (collecting statistics for Sept. 16, 2012 to Sept. 30, 2020), https://www.uspto.gov/sites/default/files/documents/trial_statistics_20200930.pdf.

²¹ Brian Mahoney, *Software Patent Ruling a Major Judicial Failure, Rader Says*, Law360 (Oct. 25, 2013), <https://www.law360.com/articles/482264>.

²² Paul Michel, *Big Tech is Overwhelming Our Political System*, RealClear Policy (Nov. 20, 2020), https://www.realclearpolicy.com/articles/2020/11/20/big_tech_is_overwhelming_our_political_system_650331.html.

²³ Innovation Alliance, *Infographic: Big Tech Companies Are Biggest Users of PTAB, 2012-2021* (June 20, 2022) <https://innovationalliance.net/from-the-alliance/infographic-big-tech-companies-are-biggest-users-of-ptab-2012-2021/>.



Contrary to the AIA's goals, duplicative proceedings brought at the PTAB are the norm, not the exception. A 2018 study found that nearly half of the IPR petitions filed by the PTAB's five most frequent petitioners (Samsung, Apple, Google, LG, and Microsoft) were brought against patent claims that the petitioner had already challenged at the PTAB.²⁴ While PTAB guidance has sought to reduce the number of serial and parallel petitions, recent legislative efforts have sought to prohibit the PTAB from moderating the number of filings. These duplicative proceedings enable large tech companies to price out smaller patent holders by adding expense and uncertainty for patent holders, rather than providing the promised alternative to prolonged, resource-intensive district court litigation. Thus, while PTAB proceedings were

²⁴ Steven Carlson & Ryan Schultz, *Tallying Repetitive Inter Partes Review Challenges*, LAW360 (Sept. 14, 2018), <https://www.robinskaplan.com/-/media/pdfs/tallying-repetitive-inter-partes-review-challenges.pdf>.

intended to be less expensive than federal district court litigation, the cumulative effect of defending a single patent against multiple challenges at the PTAB (and, frequently, in federal court as well), adds to the costs that innovators must bear to protect their patent rights, thus raising the overall cost of innovation.

Consider the following example demonstrating how patent infringers have used the PTAB to gain an unfair advantage over their adversaries. Centripetal, a cybersecurity technology firm based in Virginia, invented an Internet-based security system. According to Centripetal, Cisco invited the company to demonstrate its network protection system so that Cisco could consider licensing the technology—after Cisco signed a non-disclosure agreement, Centripetal disclosed its technology to Cisco and engaged in a series of negotiations to license the technology. According to Centripetal, Cisco declined to license the technology, but began incorporating it into Cisco products in 2017. Centripetal responded by suing Cisco in federal court for patent infringement. Cisco, in turn, filed numerous IPR petitions seeking to invalidate Centripetal’s patents.

In September 2019, the court lifted a stay for the patents not subject to IPR petitions and allowed those proceedings to continue. In October 2020, the court found that Cisco willfully infringed four of Centripetal’s patents and ordered Cisco to pay \$1.9 billion in damages, one of the highest damages awards ever issued in a patent case. In his judgment, District Judge Henry Morgan wrote: “The fact that Cisco released products with Centripetal’s functionality within a year of these meetings goes beyond mere coincidence.”²⁵ He noted that Cisco had “continually gathered information from Centripetal as if it intended to buy the technology from Centripetal,” but then “appropriated the information gained in these meetings to learn about Centripetal’s patented functionality and embedded it into its own products.”²⁶ The judge said Centripetal was owed \$756 million for past use of the inventions, which he increased by two-and-a-half times after finding that Cisco’s infringement was “willful and egregious.”²⁷

At the PTAB, Cisco challenged 9 patents using 14 IPR petitions. The PTAB invalidated all the claims of 6 of the patents, and some of the claims of another patent. A much higher invalidity rate as would be expected in district court. By filing numerous attacks against a single patent, Cisco’s use of the PTAB to strengthen its negotiating position against Centripetal runs counter to stated AIA goals. Cisco’s challenges and others like it distort the relative bargaining positions of parties in negotiations by creating a windfall benefit for infringers at the expense of patent owners. It was not the intent of the AIA to influence the private market in this manner, nor should it have been. But until these unintended consequences are addressed, companies like Cisco will likely continue to unfairly use the PTAB as a tool to gain unfair leverage against small companies.

The landscape surrounding PTAB challenges and their associated costs have been exacerbated by several operational details of the PTAB. In particular, the AIA uniquely

²⁵ *Centripetal Networks, Inc. v. Cisco Systems, Inc.*, 492 F. Supp. 3d 495, 602 (E.D. Va. 2020).

²⁶ *Id.* at 604.

²⁷ *Id.* at 608.

disadvantages patent holders. First, patent invalidity challenges are more easily filed at the PTAB than federal courts. Unlike federal courts, which have strict standing requirements that require a real dispute to exist between the parties to a lawsuit, virtually “[a]nyone can file a petition with the PTAB to challenge the validity of a patent: a defendant in court, someone merely threatened with infringement litigation, or even an organization dedicated to eliminating all patents on a technology altogether.”²⁸ Furthermore, under current law, a single patent can be challenged multiple times, leaving patent owners open to potential harassment by competitors, licensees, or others, with no legal mechanism to effectively secure, reliable patent rights.

Second, there are evidentiary restrictions imposed on PTAB proceedings. For example, discovery is significantly curtailed as compared with federal court litigation, and live witness testimony is generally prohibited. In certain circumstances, these evidentiary restrictions make it much harder for a patent holder to present all the relevant evidence, and thus undermines a patent holder’s ability to fully defend the validity of its patent.

Last, in district court litigation, a challenged patent is presumed valid and a party attacking it must show that the patent is invalid through “clear and convincing” evidence. No such presumption of validity applies in PTAB proceedings despite the fact that the PTAB is an adjudicative body similar to courts, and challengers need only demonstrate invalidity under the less rigorous “preponderance of the evidence” standard, further incentivizing validity challenges and creating additional uncertainty for patent holders. By retaining two different standards of proof at the PTAB and in district court, the current regime serves only to benefit well-resourced companies at the expense of small businesses and individual inventors.

III. Congress Should Pass the STRONGER Patents Act to Support the Value of Patent Rights and Maintain U.S. Innovation Leadership

The STRONGER Patents Act offers an important opportunity for Congress to codify and build upon the recent administrative actions taken by the USPTO to address the issues discussed above that, intentionally or not, have tilted the U.S. patent system against innovators. The STRONGER Patents Act addresses some of the most significant roadblocks faced by innovators and represents a significant step forward in restoring American innovation leadership. Several of the most consequential provisions for innovators are discussed below.

A. The STRONGER Patents Act Empowers U.S. Inventors to Protect Their Rights Against Infringers

U.S. courts should treat a patent like any other property right, permitting preliminary injunctions to protect patent owners against infringement while cases are pending, and granting permanent relief to protect patent owners from ongoing infringement after courts rule in their favor. Section 106 of the bill clarifies the application of *eBay Inc. v. MercExchange, LLC* by providing that, after a court has issued a finding of infringement of a valid and enforceable patent, the court shall presume that further infringement of that patent would cause irreparable

²⁸ Alden Abbott et al., *Crippling the Innovation Economy: Regulatory Overreach at the Patent Office*, Regulatory Transparency Project Intellectual Property Working Group, 12-13 (Aug. 14, 2017), <https://rcgproject.org/wp-content/uploads/RTP-Intellectual-Property-Working-Group-Paper.pdf>.

injury for which monetary damages are inadequate. This would reverse the current practice in many courts of near-categorical refusal to issue injunctions by creating a presumption in favor of an injunction if a court finds infringement, encouraging infringers to negotiate fair licenses based on the free market and keeping cases out of court.

Importantly, section 106 does not reverse or nullify the *eBay* decision itself. Rather, it merely codifies the proper application of *eBay*. Section 106 would not return the patent system to the pre-*eBay* period (still followed in many countries) where injunctions were granted virtually as a matter of course after a finding of infringement. Patent holders would still be required to satisfy the two elements of *eBay*'s four-part test not addressed by section 106—that is, they would be required to show that an injunction is warranted given the balance of the hardships between the plaintiff and the defendant, and that the public interest would not be jeopardized by an injunction.

Further, the presumptions of irreparable injury and the inadequacy of monetary damages established in section 106 are rebuttable presumptions. Accordingly, infringers would have the opportunity to present evidence to convince the court that, based on the unique facts of a given case, the harm alleged by a patent holder is not really irreparable or can be fully recompensed with monetary damages. Therefore, Section 106 would continue to permit courts to engage in the kind of fact-intensive analysis *eBay* contemplates before granting an injunction.

The Innovation Alliance strongly supports a presumption of irreparable harm and the inadequacy of money damages for a patent that has been found valid and infringed. Injunctive relief is critical to ensure that patent owners can stop unlawful infringement and fully vindicate their property rights. The inability to obtain an injunction, even with strong evidence of irreparable harm, only creates uncertainty and broadly devalues patents across the economy. While the STRONGER Patents Act would not allow courts to automatically grant an injunction upon a finding of infringement, it would ensure that courts do not categorically *deny* injunctive relief without engaging in a full and fair analysis of the relevant factors. Patent holders with strong evidence in support of a request for an injunction would have the certainty that, at a minimum, they will be given a fair hearing and thorough consideration by the court and will not be deprived of the ability to exclude others from using their property without a full review of the facts.

The certainty that a patent holder with a strong case to be made on the merits of the four-part *eBay* test will not be mechanically denied an injunction as a matter of course is essential to sustaining a vigorous innovation economy. It ensures that small businesses and individual inventors can enter into meaningful licensing negotiations with large competitors, thereby perpetuating the virtuous cycle of innovation in a way that encourages continued investment in R&D by innovative researchers and startups.

B. The STRONGER Patents Act Ensures Fairness in PTAB Proceedings

Additionally, several provisions of the STRONGER Patents Act make statutory changes to the PTAB's procedures to ensure that administrative proceedings before the tribunal are consistent, fair, and do not artificially stifle innovation.

1. Harmonizing Claim Construction Standards Used by the PTAB and District Courts

The STRONGER Patents Act would codify the guidance issued by the USPTO that requires the PTAB to use the *Phillips* standard for claim construction instead of the broader standard that was in use before the promulgation of the USPTO's 2018 final rule on this issue. In so doing, the bill would align the claim construction process used in both PTAB and district court proceedings.

We strongly support this provision because it eliminates incentives for entities challenging a patent to engage in gamesmanship by challenging a patent at the PTAB instead of federal court because of the more favorable claim construction standard available at the PTAB, compared to district courts. It also eliminates the “heads I win, tails you lose” of patent challengers to advocate entirely different claim constructions in the PTAB and district courts for validity and infringement purposes. Innovators contemplating making substantial investments in the R&D necessary to produce groundbreaking innovations need the certainty that the ultimate validity of their patent will not depend upon the forum in which its validity is adjudicated. This provision will help ensure that proceedings brought at the PTAB or a district court are fair to all parties, including individual inventors and small businesses.

It should also be noted that standardizing claim construction standards helps to further the AIA's goal of efficiency. When the PTAB uses the same claim construction approach as federal courts, decisions of the PTAB are of much greater subsequent value to federal judges.²⁹ Thus, while the Innovation Alliance applauds the USPTO's actions in this area, we support codifying into law the use of the *Phillips* standard in PTAB proceedings.

2. Aligning the Burden of Proof Applied in PTAB and District Court Proceedings

Similarly, the STRONGER Patents Act would ensure that the same burden of proof applies to parties seeking to invalidate a patent claim in federal court and the PTAB. Specifically, the bill would increase the burden of proof in PTAB proceedings by requiring a challenger to demonstrate a patent's invalidity by “clear and convincing evidence” instead of a mere “preponderance of the evidence,” and would apply the presumption of validity used in district court to PTAB proceedings.

We support this provision which, much like the provision harmonizing claim construction standards between the PTAB and district courts, is necessary to prevent the gamesmanship that can occur where a challenger chooses to seek the invalidation of a patent at the PTAB rather than federal court because of the lower evidentiary burden. We also believe the stricter “clear and convincing evidence” standard, along with the presumption of validity, provides due deference to the expert determinations made by the USPTO's patent examiners when they make the original decision to award a patent. Patent holders that have invested a substantial amount of money in

²⁹ Saurabh Vishnubhakat, Arti K. Rai, & Jay P. Kesan, *Strategic Decision Making in Dual PTAB and District Court Proceedings*, 31 Berkeley Tech. L.J. 45, 83 (2016).

the process of discovering, developing, and patenting their innovations need the certainty that the decision of the USPTO's patent examiners in the first instance have some meaning.

If the PTAB is permitted to wholly disregard a patent examiner's finding and essentially engage in *de novo* review each time a patent is challenged, the reliability of a patent granted by the USPTO is significantly reduced. This deprives patent owners the ability to accurately gauge the validity of a patent that has been issued, but not litigated, and thus creates uncertainty.

3. Requiring PTAB Challengers to Have a Stake in the Suits They Initiate

The bill also requires litigants to have a particular interest in order to challenge the validity of a patent before the PTAB, just as they would be required to have standing to file a suit in federal court. This ensures that PTAB challenges will be brought only by those entities with a direct business or financial stake in the outcome of the proceedings. Accordingly, these sections would help eliminate nuisance challenges and challenges brought for nefarious purposes that only serve as a tax on innovation.

The Innovation Alliance supports this provision because it provides innovators with certainty that only those individuals or entities who have a direct, vested interest in the validity or invalidity of their patents can file a challenge with the PTAB. Exposing innovators to challenges from parties with only an attenuated stake in the proceedings themselves creates the possibility of astronomical costs and protracted litigation without a direct benefit to either of the litigants or the U.S. economy at large.

4. Establishing Commonsense Limitations on Serial and Redundant Challenges

Sections 102(f) and 103(f) of the bill provide that a PTAB petitioner can only file a single proceeding to challenge a given patent in most instances. If the validity of the patent is upheld, the challenger cannot file another PTAB challenge. These sections also provide that a party who has filed an *inter partes* review proceeding at the PTAB may not later bring a challenge to the same patent's validity in federal court.

Finally, sections 102(h) and 103(h) of the bill provide that, when a federal district court has issued an opinion on the validity of a patent subject to concurrent review by the PTAB and the district court opinion has been appealed, the PTAB decision should be stayed pending resolution of the appeal.

The Innovation Alliance supports these provisions because they ensure the most efficient allocation of judicial resources by avoiding redundant and duplicative proceedings. Further, they will help ensure that a patent holder will not be subjected to protracted, expensive litigation simply because a challenger decides to file redundant challenges against the same patent. These provisions ensure that patent owners have *some* prospect of finality to adjudications of the validity of a given patent, at least with respect to the same challenger.

Strong patents are critical to maintaining U.S. leadership in a global innovation economy. Innovators in fields like 5G, AI, quantum computing, next-generation medical cures, and countless others rely on intellectual property rights to protect their technologies and to bring their

innovations to market. This legislation would ensure that innovators can enforce and defend their patents on a level playing field, ultimately strengthening U.S. competitiveness in innovative R&D.

IV. The PTAB Reform Act Would Weaken Patent Rights, Undermining U.S. Economic and National Security

The Innovation Alliance opposes the PTAB Reform Act, which caters primarily to large tech companies' objectives to weaken patent rights. The bill's approach runs directly contrary to the clearly-stated intention that the PTAB serve as a cost-effective alternative to litigation, rather than a companion to litigation. It focuses solely on post-grant review mechanisms, where patent owners are already at a disadvantage, and creates new additional opportunities for well-resourced companies to challenge patents repeatedly as a business tactic. It also upsets the ability of inventors to enjoy secure, reliable patent rights that were important to the drafters of the AIA and to incentivize patent owners to engage in costly, long-term R&D. At the same time, the bill takes away a key piece of discretion the AIA gave to the USPTO Director to act as a last-stop gatekeeper who could ensure fairness in how the new PTAB procedures were applied. Indeed, the level of discretion the AIA gave to the USPTO Director was essential to convincing stakeholders at the time to support the powerful new *inter partes* and post-grant review provisions, whose potential for abuse were apparent.

It is worth quoting from the House Judiciary Committee Report on the America Invents Act on these precise points:

The Committee recognizes the importance of quiet title to patent owners to ensure continued investment resources. While this amendment is intended to remove current disincentives to current administrative processes, the changes made by it are not to be used as tools for harassment or a means to prevent market entry through repeated litigation and administrative attacks on the validity of a patent. Doing so would frustrate the purpose of the section as providing quick and cost effective alternatives to litigation. Further, such activity would divert resources from the research and development of inventions. As such, the Committee intends for the USPTO to address potential abuses and current inefficiencies under its expanded procedural authority.³⁰

A. The PTAB Reform Act Invites Abuse, Inefficiency, and Waste of Resources

The Innovation Alliance strongly opposes the PTAB Reform Act's abrogation of the "*Fintiv* doctrine," which allows the PTAB to consider parallel proceedings in district court or at the International Trade Commission ("ITC") when deciding whether to use its discretion to deny institution of petitions that would otherwise meet the threshold requirement. As an initial matter, we do not believe policymakers need to or should constrain the discretion of the PTAB in this way. Discretion applied in a fair-minded, even-handed manner on a case-by-case basis is a cornerstone of administrative decision-making. At its core, the PTAB has always sought to take

³⁰ H.R. REP. NO. 112-98 (June 1, 2011), pt. 1 at 42.

a “holistic view of whether efficiency and integrity of the system are best served by denying or instituting review.”³¹ Indeed, the Director has been afforded vast discretion to institute PTAB review even when petitions do not strictly meet statutory requirements.³² Obviously, if the PTAB is to have discretion over whether to institute these proceedings, that discretion must cover both approval *and* denial of such institutions. PTAB discretion to deny institution of IPR petitions in light of duplicative proceedings is an important tool to prevent abuse, promote efficiency, and conserve resources of the USPTO and the parties.

A considerable worry at the time of the adoption of the AIA was how the USPTO would be able to handle the influx of patent proceedings at the newly-created PTAB and how it would be able to respond to attempts at gamesmanship as they inevitably arose in this new forum. Though there unfortunately are and always will be bad actors who attempt to exploit the PTAB system, the Innovation Alliance deeply appreciates the commitment of the USPTO to preventing those exploits as they are identified. The bill’s prohibition on the Director from considering parallel litigation when deciding whether to exercise her discretion to deny institution strips the Director of a key tool in preventing attempts at gamesmanship and hampers the Director’s ability to manage the Office’s docket. And instead of promoting certainty, two parallel validity reviews on any given patent claim, can yield divergent outcomes.

Fintiv discretion has helped conserve the resources of the USPTO and protect patent owners from having to concurrently, and continuously, defend their patents against repeated and duplicative challenges at the Board and in court. *Fintiv* has done so by allowing PTAB judges to weigh factors when determining whether to launch a review of a patent that is at issue in a parallel infringement case in federal court or the ITC. Those factors include whether and when a trial date has been set in the infringement case, the extent of overlapping issues, and whether the other tribunal has paused its case for PTAB review. In other words, *Fintiv* gives the PTAB discretion to deny institution of an IPR where duplicative litigation in federal court or the ITC would conclude before the PTAB trial or would otherwise unnecessarily burden the patent owner. That balancing test provides transparency in the process and incentivizes petitioners to act expeditiously and efficiently, consistent with the express purpose of the AIA for the PTAB to serve as a streamlined, cost-effective alternative to litigation. Protecting *Fintiv* discretion is important because the PTAB should have a tool to avoid situations in which parallel proceedings before the PTAB and a district court (or the ITC) would unreasonably burden patent holders with having to defend duplicative validity challenges. Taking this power away from the PTAB not only immediately makes this issue prevalent once more, but also prevents the PTAB from addressing further issues stemming from duplicative proceedings as they inevitably arise in the future.

While the Innovation Alliance wholeheartedly supports the bill’s goal of providing more certainty and finality in the PTAB process, we do not believe removal of *Fintiv* discretion would serve this goal. Under the bill’s approach, burdensome and duplicative parallel litigation would still be a problem. This is because the bill would not allow the PTAB to address the concern that

³¹ *Apple v. Fintiv*, IPR2020-00019, Paper 11, 6 (PTAB Mar. 20, 2020) (precedential).

³² See, e.g., *Thryv, Inc v. Click-To-Call Techs., LP*, 140 S. Ct. 1367 (2020); *Cuozzo Speed Techs., LLC v. Lee*, 579 U.S. 261 (2016).

Fintiv addresses—*i.e.*, the situation in which a petition would result in the patent holder being unreasonably burdened with defending a duplicative and burdensome challenge before the PTAB that is already being advanced in another forum (either a district court or the ITC). Indeed, the bill does not provide any basis for denying institution of an IPR because there is parallel and duplicative litigation on the same patent in another forum, even when that other litigation is in such an advanced stage that it would likely become final before a final written decision at the PTAB could be issued.

We believe that eliminating *Fintiv* discretion would result in greater unfairness and inefficiency in the patent system. Discretion is at the heart of what the PTAB does at every step in post-grant proceedings. The USPTO must make decisions about the merits of each case, such as whether a petition meets the threshold for institution, and whether the claims have been proven invalid in preparing a final written decision. The AIA by necessity confers discretion on the USPTO Director, and there is no reason that such discretion should not extend to whether to deny institution in view of fairness and efficiency concerns.

B. *The PTAB Reform Act Attempts to Allow Petitioners to Skirt Constitutional Standing Requirements for Appeals to the Federal Circuit*

The PTAB Reform Act includes a provision in § 319 that attempts to create an artificial constitutional injury for petitioners seeking appeal to an Article III court without standing. When the PTAB issues a final written decision finding that a patent is not unpatentable, a petitioner may not appeal that decision to the Federal Circuit unless that petitioner can establish Article III standing. This is not simply a matter of PTAB or Federal Circuit procedure, but a constitutional requirement. The Federal Circuit is an Article III court, meaning that an appellant must establish all of the elements to meet the Article III constitutional standing requirements. Elements of the constitutional standing requirement cannot be simply awarded statutorily as a means to circumvent this important constitutional safeguard. As the Supreme Court has stated, “[n]o principle is more fundamental to the judiciary’s proper role in our system of government than the constitutional limitation of federal-court jurisdiction to actual cases or controversies.”³³

C. *The PTAB Reform Act Creates Unnecessary Confusion and Procedural Obstacles*

Current law places the burden of proof on the PTAB petitioner at each stage of the proceeding, and allows patent owners to clarify their patent claims that are often challenged as overly-broad. Motions to amend were intended, in part, to serve as a check-and-balance against the AIA’s low burden of proof enjoyed by petitioners. Unfortunately, such motions have had a very low rate of success. Recent efforts by the PTAB in its motion to amend pilot program have markedly improved outcomes, but motions to amend still have less than a 20% chance of succeeding.³⁴ This is in stark contrast to the high institution rates and high cancellation rates at final decision noted above. The bill would further constrain the motion to amend process by

³³ *Spokeo, Inc. v. Robins*, 136 S. Ct. 1540, 1547 (2016) (citation and quotations omitted); see also *AVX v. Presidio Components, Inc.*, 923 F.3d 1357 (Fed. Cir. 2019).

³⁴ U.S. PATENT AND TRADEMARK OFF., *Patent Trial and Appeal Board Motion to Amend Study*, 3 (Jul. 2020), https://www.uspto.gov/sites/default/files/documents/20201028_ptab_mta_study_installment_6_tf_iq_813950_final_revised.pdf.

removing the burden of invalidity from petitioners and placing it on the USPTO, who is not a party to the IPR. The Innovation Alliance opposes this provision. The burden of establishing invalidity of a patent, or any claim thereof, should rest on the party asserting such invalidity—not on the patent holder or the USPTO. For this reason, we favor the approach set forth in the STRONGER Patents Act, which would maintain the burden of invalidating patent claims on the challenging party.

D. The PTAB Reform Act Stacks the Deck Against Inventors

The PTAB Reform Act would allow parties to PTAB proceedings to seek review of the PTAB's determination to institute an IPR under 35 U.S.C. § 314(d). This change would not only introduce significant delay into PTAB proceedings, directly contradicting the intent of the AIA to provide a streamlined, cheaper alternative to district court litigation, but it would also tilt the playing field further in the direction of petitioners. The PTAB currently is able to use the institution decision as an important gatekeeping function to quickly dismiss invalidity challenges that have little likelihood of success. This helps both to preserve PTAB resources and to protect duly-granted patents from unnecessarily protracted proceedings. The PTAB Reform Act would take away this safeguard and introduce lengthy appeal disputes into effectively every institution decision. Further, when an IPR is filed, district courts often stay related proceedings where the patent owner is attempting to stop infringement of their patent on the premise that the IPR will be quickly resolved. Whereas a decision denying institution would normally mean that the district court would lift the stay, this appeal procedure would unnecessarily continue this delay to a patent owner seeking relief from infringement. Thus, this appeals provision stands not only to draw out weak invalidity challenges against duly-granted patents, but also to freeze out a patent owner's ability to seek relief from bad actors infringing its patents at the same time.

The Innovation Alliance appreciates the Subcommittee's careful attention to the issues facing the PTAB. For the reasons noted above, we urge Members to support the STRONGER Patents Act which would strengthen patent rights, and to oppose the PTAB Reform Act which would weaken them.

Written Testimony of
Timothy K. Wilson
SAS Institute Inc.

Good afternoon. I would like to thank Chairman Leahy, Ranking Member Tillis, and every other member of this subcommittee for the opportunity to speak to you today. And thank you for convening this hearing about this important topic.

My name is Tim Wilson. I lead the patent team at SAS Institute, a privately-held software company headquartered in Cary, North Carolina. SAS was founded in 1976 and has been at the forefront of analytics for decades. I also serve as an adjunct law professor in patent law at Southern University Law Center in Baton Rouge, Louisiana.

I have been at SAS for 24 years and have been involved with the prosecution of many patents for inventions created by SAS employees. SAS owns over 600 US patents as well as numerous patents in other jurisdictions. I have also been involved with litigation over patents, both as a plaintiff and as a defendant. For example, in 2018, SAS initiated a lawsuit against a foreign company that included four SAS patents, two of which were subject to IPR petitions from our opponent.

When the America Invents Act (“AIA”) was passed, I observed the many stakeholders that came together and struck a compromise. Two of the most important interests were (1) litigation reform to deal with the massive increase in patent litigation by nonpracticing entities and (2) the creation and scope of the Patent Trial and Appeal Board (“PTAB”). In the end, nearly all of the litigation reform provisions that SAS supported were forgone, but that significant compromise was made in order to preserve the post grant review provisions through the PTAB.

The PTAB process is very important process to SAS. SAS felt so strongly about the integrity of the PTAB and its ability to conduct meaningful reviews of challenged patents that it litigated a case to the U.S. Supreme Court to overturn a procedure the PTO had been using contrary to the text of the AIA.¹

From my experience on both sides of the litigation table, I hold a balanced view that considers the competing interests involved in patent policy discussions. However, I strongly believe that improving patent quality should be a top consideration of all aspects of the patent system. It is my opinion that the U.S. patent system is greatly improved through the operation of the PTAB as intended by the AIA.

Patent Quality

Patent quality is critical for a well-functioning patent system. But it is a difficult problem. The key issue is whether a patent that issues should not have issued because the supposed invention is not actually new. There are many barriers to the PTO issuing high quality, valid patents that are difficult to overcome:

- Examiners are tasked with finding relevant prior art in massive, nearly endless sets of materials.

¹ *SAS Institute, Inc. v. Iancu*, 138 S. Ct. 1348 (2018).

- Applicants can submit intentionally vague disclosures carefully crafted to avoid any narrowing interpretations in court.
- Examiners have very limited time to review each case.
- Examiners bear the burden of showing claims are not patentable, rather than applicants having to show that they are.
- Attorneys representing applicants have more time and resources to spend on each application.
- Technology is getting more and more complex, suggesting the burden on examiners will only increase with time.

Each year over 8000 examiners at the USPTO examine over 600,000 patent applications. As a result, numerous patents having invalid claims are inevitably issued each year.

If the patent office is issuing patents with invalid claims because it is not resourced to do a thorough review, there will be a temptation to “fix the problem at its root.” I am sympathetic to that view and agree that is one way to approach the problem. But I do not think it is the most realistic approach because the cost would be very high, with no evidence that the increased cost would eliminate invalid claims being issued. Moreover, only a small percentage of patents are ever asserted or challenged in any way. The more realistic approach, and the one taken by the AIA, was to provide a more robust post-grant review system that could focus on the small percentage of patents that do get asserted.

The need for predictable and reliable post-grant review

An adversarial system involving a dispute between private parties permits more thorough prior art searching and analysis than the USPTO can do, given resource and time constraints. As a result, private parties, having more time and resources, often discover prior art that the examiner did not find. When that happens, it is important that those parties can challenge the issued patent using the post-grant review process created the AIA.

Inter partes review was created as a less expensive alternative to litigation, and the numbers bear that out. Litigation costs continue to climb. Litigation can cost a party \$3-4 million to get to a trial, while an IPR can go through a hearing for an order of magnitude less.² The USPTO’s PTAB can proceed at a much faster and more predictable schedule than prior reexamination alternatives. When a patent challenger identifies key prior art that the examiner missed and can put together a solid petition for review that calls the issuance of the patent into serious question, the PTAB should perform the review.

PTAB judges are perfectly positioned to evaluate these challenges. They are patent experts with technical backgrounds. In contrast, it would be a rare juror (much less jury) who would have that expertise. And unlike a jury which will give an up or down decision, the PTAB judges will craft a very thorough opinion detailing the reasons for the decision, making a clear record for appeal, and giving important guidance to the public and future parties dealing with similar issues. The PTAB is not operating without oversight either – appeals go to the patent-expert judges on the Federal Circuit. And the PTAB is performing well, with the Federal Circuit in 2021 affirming

² See AIPLA Report of the Economic Survey 2021, pp. 60-62.

80% of all IPR decisions, which compares favorably to the 75% rate at which the Federal Circuit fully upheld district court decisions.³ Additionally, in the years following the enactment of the AIA, there was a significant reduction in the total amount of patent litigation.⁴

Unfortunately, the PTAB started several years ago systematically denying petitions for reasons unrelated to the merits of the petition. Even though IPR was intended as a less-expensive alternative to litigation, the PTAB started forcing petitioners to resolve validity issues in litigation instead of at the PTAB. These so-called “discretionary denials” are often based on a decision by the PTAB called *Fintiv*. In the *Fintiv* case, the PTAB outlined six factors to consider in deciding whether to perform one of these “discretionary denials” when there is also pending civil litigation. For example, the PTAB will look at whether a court is likely to stay litigation, the expected trial date compared to the PTAB decision deadline, whether the court has substantively moved the case forward, whether the issues overlap between proceedings, and whether the parties are the same.

These factors are mentioned nowhere in the statute, and in my opinion, are inappropriately being used to analyze whether to institute a proceeding. Instead, in the text of the AIA itself, Congress included section 315, which outlines some of the bargains struck in enacting the AIA. It is entitled “Relation to other proceedings or actions” and addresses multiple different permutations of situations when an IPR and a civil action are pending at the same time.

Under section 315, a party cannot file a DJ action challenging a patent and subsequently file an IPR. Under section 315, when a party files an IPR and then a DJ action challenging the patent, the civil action is automatically stayed until certain conditions are met. And most importantly, under section 315, a patent challenger must file an IPR within one year of getting served with a complaint for patent infringement. Those carefully crafted compromises, made by Congress, are predictable and fair. Unlike the statute’s clear one-year time bar, *Fintiv*’s complex six-factor, fact-intensive balancing test introduces needless complexity, unpredictability, and high decisional costs for the PTAB.

The *Fintiv* factors approach the problem backwards. IPR is supposed to be a less expensive alternative to litigating where the patent’s validity is in serious question. But the *Fintiv* factors undermine that goal. *Fintiv*’s fourth factor about the overlap between the IPR and the civil case is illustrative: under that factor, the PTAB should disfavor institution of an IPR where the issues overlap. But that overlap is envisioned in the statute, and it is part of how efficiency is achieved. Specifically, section 315(e)’s provision on estoppel prevents challengers from raising in litigation validity defenses based on grounds raised during the IPR.

Making matters worse, the PTAB has often relied on incorrect assumptions about the litigation process in applying the *Fintiv* factors. In applying the second factor, which compares the expected trial date to the IPR decision deadline, the PTAB has routinely relied on inaccurate, overly aggressive, and unrealistic trial dates. One study found the dates the PTAB relied on were wrong

³ Dan Bagatell, Fed. Circ. Patent Decisions In 2021: An Empirical Review (January 6, 2022) (available at <https://www.law360.com/articles/1452355>).

⁴ RPX, What 15 Years of US Patent Litigation Data Reveal About the IP Market (January 25, 2021) (available at <https://insight.rpxcorp.com/news/65081-what-15-years-of-us-patent-litigation-data-reveal-about-the-ip-market/>).

94% of the time.⁵ In practice, initially set trial dates often change significantly. I have been involved in litigation for over two decades. In my experience, very little actually happens on the schedule initially set out, let alone the trial itself. I would like to thank Ranking Member Tillis for the letter he sent to the USPTO on November 2, 2021, about this issue. A particularly interesting example is the *Fintiv* case itself, which has been rescheduled and postponed multiple times and still has not happened.⁶ The actual trial date, if a trial occurs, will be more than a year later than the March 2021 date that PTAB relied on for its original denial.

Importantly, the USPTO is funded by user fees. PTAB filing fees are substantial and are set by the USPTO to offset costs of conducting the reviews. A successful petition requires at least \$41,500 in USPTO fees.⁷ Because petitioners are paying the costs of these reviews, the USPTO should not deny petitions by relying on inaccurate trial dates because the concerns about duplication of efforts are highly speculative.

The proper starting point for the PTAB should be the merits of each petition. If a petition has merit, the review should take place. If a petition lacks merit, it should be denied on that basis, not based on unrelated discretionary factors Congress did not see fit to include in the statute.

Solutions

There are many possible ways to address the problems created by the *Fintiv* decision.

One option is to remove any discretion from the Director in the institution decision. Meritorious petitions get instituted and non-meritorious ones do not. I favor this approach.

Another option is to prohibit consideration of ongoing civil action in the context of an institution decision. This also appears workable to me.

In any case, it is important that private sector entities who are targeted with patent assertions retain the ability to use the IPR process as the AIA intended.

SAS is also a patent owner. I understand the concerns people and organizations have raised about the problems serial petitions could pose if pursued in an unfair manner. While I don't think it is a widespread problem today, I am open to thinking about ways that narrow problem could be addressed as part of a compromise solution here, as was done during the original AIA negotiations.

I want to also point out that the institution decision of an IPR is not the only tool (or even the most logical one) available to address actual improper practices. ABA Model Rule 3.1 says lawyers

⁵ Andrew T. Dufresne et al., How Reliable are Trial Dates Relied on by the PTAB in the *Fintiv* Analysis (October 29, 2021) (available at <https://www.1600ptab.com/2021/10/how-reliable-are-trial-dates-relied-on-by-the-ptab-in-the-fintiv-analysis/>).

⁶ Ryan Davis, *Fintiv's* Emergency Motion Delays Apple Patent Trial in WDTX (June 7, 2022) (available at <https://www.law360.com/articles/1500531/fintiv-s-emergency-motion-delays-apple-patent-trial-in-wdtx>).

⁷ Scott McKeown, PTAB Trial Fees Increase 25% in October (August 4, 2020) (available at <https://www.patentpostorant.com/ptab-trial-fees-increase-25-in-october/>); see also USPTO fee schedule (Effective January 2, 2021) (available at <https://www.uspto.gov/learning-and-resources/fees-and-payment/uspto-fee-schedule#PTAB%20Fees>).

cannot bring a proceeding unless there is a basis in law and fact for doing so that is not frivolous. This rule is mirrored in the USPTO's rules of professional conduct. 37 CFR 42.11 and 37 CFR 11.18 also add to PTAB practice a rule similar to FRCP 11, including provisions about certifying that all papers presented are not being presented for any improper purpose, such as to harass, cause unnecessary delay, or increase costs. Violations of these rules or other improper practices could be addressed by sanctions by the PTAB or referral to the relevant state bar or the PTO's Office of Enrollment and Discipline.

In summary, I believe Congress could and should significantly improve the patent system by removing the ability for the USPTO to make discretionary denials of post-grant petitions, especially based on ongoing civil litigation, as the *Fintiv* framework has allowed. As a result, I support the bill that was introduced last week.

Thank you and I look forward to your questions.

Questions for Professor Jonas Anderson
Submitted by Senator Patrick Leahy
June 23, 2022

1. For small-business and independent-inventor patent owners, facing a challenge to a patent at the PTAB can be expensive. Even though addressing patent validity in a district court would be even more expensive, we want these patent owners to have a full opportunity to defend their patents. If a petitioner challenges a small entity's patent rights, I want to make sure that the patent owner does not forfeit those rights due to financial constraints.

- a. **Does the PTAB Reform Act address this concern by providing funding for small businesses and individual inventor patent owners who have not already brought their patents' validity into play by asserting them?**

Yes. The funding in the current bill will protect small and micro entities who have their patents challenged in the PTAB. In fact, the number of small and micro entities that have their patents challenged in the PTAB is very small, but this bill provides important financial incentives for those patent owners.

- b. **Does the STRONGER Patents Act, introduced in prior Congresses and mentioned by Mr. Giles, address this concern?**

Not to my knowledge.

- c. **More petitions for PTAB review are filed by large businesses than small businesses. Does that mean we should ignore how useful the process can be for small inventors and small businesses?**

No

2. The Patent Act requires the Director of the U.S. Patent and Trademark Office to establish fees for filing PTAB proceedings. Those fees are currently set at at least \$40,000 for each petition. Small businesses that are threatened with litigation may not be able to afford the fee for a PTAB proceeding, even though the PTAB is ultimately a less expensive venue than district court.

- a. **Small and micro entities receive a substantial discount on fees paid to the PTO when applying for a patent. Should small entities receive a similar discount when seeking to challenge a patent?**

Yes, and this bill would ensure that they are given the financial wherewithal to defend their patents.

3. In passing the *Leahy-Smith America Invents Act*, I intended PTAB reviews to be a more cost-effective, faster alternative to determine patent validity than district court litigation. District court litigation can easily span years. In contrast, PTAB proceedings by statute must generally be decided within a year. Litigation puts a substantial financial and time burden on inventors, small businesses, and startups around the United States. Even the threat of litigation is enough to make small businesses settle with non-practicing entities who know that the small businesses cannot afford to go through a prolonged litigation.

a. Does discretionary denial of PTAB proceedings due to pending court proceedings empower nonpracticing entities to seek larger settlements from defendants who are often startups and small businesses?

Yes. In fact, many nonpracticing entities select a district court because of the ability to avoid PTAB review. For example, litigation in the Waco Division of the Western District of Texas is scheduled to commence at an incredibly fast pace. Although these are more aspirational dates than hard and fast deadlines, the PTAB can deny review of the patent simply because the case is scheduled to be tried quickly. These discretionary denials fail to consider the actual date of trial: and 94% of these trial dates turn out to be wrong. Every attorney who has ever litigated understands that scheduled trial dates are, for the most part, moveable. The PTAB should not be considering these dates in their institution decisions.

b. Should district courts regularly stay their proceedings pending the outcome of PTAB proceedings? Why or why not, or under what circumstances?

It would be excellent to receive guidance from the Senate on this issue. If district court judges had some guideposts as to when stays are appropriate and when they are not, forum shopping plaintiffs would have less incentive to shop around. In my opinion, stays are entirely appropriate before claim construction or before discovery has been completed.

c. Would routine stays of district court proceedings reduce duplication between district courts and the PTAB, or curb gamesmanship in the filing of district court proceedings?

If the district courts had a uniform method of determining the appropriateness of stays, that would very much reduce the gamesmanship involved in forum shopping. Some district court judges advertise their courtrooms to patent plaintiffs and one way they do this is by consistently denying motions to stay and scheduling early trial dates (however illusory) to avoid PTAB review. If district courts all worked from the same playbook on granting of stays, that aspect of forum shopping would largely go away.

4. In Congress, I periodically hear references to abuses of the PTAB process by petitioners, but stakeholders' views on what is or is not abusive differ significantly.

a. What types of uses of the PTAB are abusive and why?

There are many types of abuse in the litigation system, but I am assuming that this comment refers to non-parties challenging patents in the PTAB. I don't think that is a problem, per se, but I believe that some petitioners do have other entities file petitions on their behalf in an effort to avoid the AIA's estoppel provisions.

b. If a petitioner files a meritorious petition that demonstrates that a patent should never have been issued, should its motivation for challenging that patent matter? Why?

I don't believe so.

c. Does the cancellation of invalid patent claims benefit or harm the public?

Ultimately it benefits the public.

5. The PTAB exists in recognition that patents that never should have issued create a drag on the economy.

a. How can inter partes review and post-grant review be strengthened to ensure patent quality and promote the innovation that is so vital to U.S. global competitiveness?

I believe the PTAB has been a great innovation for the patent system and society in general. The ability to challenge patents and invalidate invalid patents for a much lower cost than can be achieved thru litigation at the district courts has been a huge boon for society and true innovators. I believe that IPRs and PGRs are so important because they lower the cost of challenging and invalidating patents that should not have issued, and thus reduce the incentives to settle infringement claims on invalid patents.

But, I believe that more can be done to ensure that the process of adjudication at PTAB is always fair, dispassionate and even-handed.

6. At the hearing, Mr. Giles referred to high rates of cancellation of claims of *instituted* post-grant proceedings. However, the official PTO statistics show that, last fiscal year (FY21), only 16% of patent claims subject to a petition were found unpatentable by the PTAB. Meanwhile, all the rest of the claims were confirmed (so not cancelled), were denied institution or dismissed (so not cancelled), settled (so not cancelled), or resulted in the patent owner requesting adverse judgment and disclaiming them (5% of claims, which were cancelled at the patent owner's request).

- a. **Of the 16% of challenged claims that are found unpatentable, some are appealed to the Federal Circuit. Of those claims that are found unpatentable and subject to a Federal Circuit appeal, what percentage of the PTAB's decisions are affirmed by the Federal Circuit?**

I believe that the 83% affirmance rate below is accurate.

- b. **I understand that, when a PTAB decision is appealed to the Federal Circuit, the Federal Circuit has affirmed decisions invalidating patent claims (83% affirmance rate) much more often than it has affirmed decisions upholding patent claims (62% affirmance rate). The Federal Circuit applies the same standards to appeals from PTAB post-grant proceedings, regardless of who won at the PTAB. While no one is affirmed 100% of the time, and the PTAB has a good record on appeal, don't these numbers mean that if anything the PTAB is overly friendly to patent owners, more often wrongly confirming claims than wrongly invalidating claims?**

I am not sure that you can read that much into the affirmance rates. Yes it is nice to see that the PTAB is generally affirmed on appeal, that affirmance rate has to be considered within the context of selection affects: the rate of affirmance also reflects the rates at which cases are appealed from the PTAB and what sorts of cases are appealed. In general, the hardest, closest cases will be appealed. Also, the most valuable patents will be appealed. Thus it is hard to say that the PTAB is overly friendly to patentees or petitioners based on affirmance rates.

That being said, the affirmance numbers are within an expected range.

- c. **With the limited time and resources given to patent examiners to search for prior art, what would you estimate the rate of invalid patent grants to be? Do the challengers requesting PTAB proceedings have more time or better resources to find prior art than the initial examiner?**

Patent examiners have one of the most difficult positions in the patent system: they have to evaluate a patent application and the novelty and nonobviousness of a patent application in fast moving, cutting edge fields of technology. And they do so with very limited time per patent.

The PTAB provides a much more thorough review than an examiner could possibly hope to. At the PTAB (as opposed to examination), administrative law judges also have the benefit of a motivated opposing party that in most cases has much more time and incentive to find invalidating prior art. Because of this, it is to be expected that numerous invalid patents will slip through the examination process. We have traditionally relied on

Article III judges to invalidate those invalid patents, but doing so is costly, time-consuming, and judges often are rarely skilled in the art. Thus, the PTAB provides a great alternative to having to go to district court to prove invalidity.

7. In a June 23, 2022, House of Representatives hearing on the PTAB, Joseph Matal testified that the preponderance of evidence standard in PTAB post-grant proceedings was intentional, because it would make no sense for the PTO defer to itself when reconsidering its own decision, particularly when the PTAB is likely to consider additional evidence that was not properly assessed during examination.

a. Do you agree that this standard is appropriate when an agency is evaluating its own, prior actions?

While it is true that it is generally not preferred to have an agency defer to its own decisions, the PTAB occupies a unique place in the patent ecosystem. In over 80% of PTAB cases, the PTAB is asked to review a patent that is being used in the real world against another party: through a patent infringement action. Because of the parallel nature of so many PTAB cases, I would be in favor of having a single standard by which district courts and the PTAB judge the validity of the patent.

b. Is it commonplace for agencies to be required by statute to defer to their own previous determinations or are they typically allowed to correct prior mistakes when brought to their attention?

Agencies typically have authority to reverse their previous decisions.

8. Third-party litigation financing has become a multi-billion-dollar industry over the last few years. This growth has raised important issues regarding transparency and ethics in federal patent litigation. Most federal courts do not require any disclosure of third-party litigation funders. It is difficult, if not impossible, to find out who the funders are and where they are located. The presence of unknown third parties in litigation can interfere with the ordinary practice of discovery, settlement negotiation, and application of remedies, including causing a conflict of interest between the party and the funder. Sovereign wealth funds and other government entities can use the lack of transparency as a vehicle for damaging the competitiveness of U.S. innovative industries.

a. In April 2022, Chief Judge Colm Connolly of the U.S. District Court for the District of Delaware issued a new standing order regarding transparency in cases supported by third-party litigation funding. The order requires the disclosure of the identity of the funder, whether funder approval is necessary for settlement, the nature of the financial interest, and potentially the terms of the arrangement. The order applies to both plaintiffs and defendants, and to pending litigation. Because of the high number of innovative companies

incorporated in Delaware, this district court is a preferred venue for patent litigation, which now totals 40% of the overall cases. Do you support full transparency regarding the involvement of third-party litigation funding in patent cases?

Yes.

b. How does the involvement of a third-party litigation funder affect patent litigation, particularly if it is not disclosed?

On the one hand, it allows small entities to finance expensive litigation to enforce their patents: that is a good thing. If we did away with third-party litigation financing only big companies could afford the expense.

On the other hand, it hides the fact that many patents that are brought in litigation and end up at the PTAB are separated from their inventors: that is, the inventor or the inventing company has long since parted with the patent. And it is often hedge funds or other financial entities that now own the controlling share in the patent. This is not necessarily a bad thing for society: inventors can know that their inventions can be monetized for value, thus providing a necessary incentive to invent. But oftentimes the incentive to invent is so attenuated that there is no incentive provided for future inventors, but there is just an incentive to acquire patents for their financial value as tax on other innovators.

Simply, third party litigation is a good thing with valid patents: the funder provides a valuable service to small entities that otherwise cannot afford to enforce their patents. But third party litigation is a bad thing with invalid patents; such invalid patents can be used as financial vehicles to tax innocent companies.

c. What are the potential national security risks of undisclosed third-party litigation funding?

This is not my field, so I will defer on this question.

Questions from Senator Tillis for Jonas Anderson

1. What specifically do you like and what do you not like about our introduced bill?

There is a lot to like in the bill. Primarily, the changes to the PTAB's *Fintiv* standard are necessary. *Fintiv* grants the PTAB the right to refuse cases not based on the validity of the patent, but rather on a host of other, often illusory, factors.

Additionally, the codification of the *Phillips* standard for claim construction and the provisions that shift the burden for small entities and individual filers.

On things that I would like to see in the bill, I would want more assurances that the composition of PTAB panels is truly random, and not chosen by an administrator that is overly pro or anti-patent. Additionally, I would like to see *fintiv* completely overturned. The PTO should simply follow the statute as to whether they can institute review.

2. Regarding what you don't like in our bill, why don't you like it, and what would you like to see changed? When answering, please keep in mind that a balance must be struck between all interested and relevant parties.

See answer to #1, above.

3. How specifically can our introduced bill be made fairer to patent owners?

Assuring that cases are heard by random panels of three judges. There are good changes in this regard in the current bill, but the bill could increase the protections for patent owners.

4. What are your thoughts regarding the introduced bill's ban on institution of serial petitions? How can it be improved?

See above.

5. What are your thoughts regarding the introduced bill's codification of the *Phillips* standard? How can it be improved?

No changes necessary. This is a common sense approach to codifying a policy that aligns PTAB practice with district court practice. Codifying it now, at a time when the PTAB is in agreement with the district court, ensures that the PTAB's and district court's claim constructions are judged under the same standard.

6. What are your thoughts regarding the introduced bill's coverage of reasonable fees for small and micro entities who face challenges at the PTAB?

The changes are good. The amount of small and micro entities that are litigating patents is vanishingly small, and the amount that are litigating at the PTAB is even smaller still. However, protections such as those introduced in this bill will protect small and micro entities that find themselves litigating in the PTAB and that is beneficial for the patent system. I think most large companies would be happy to support these small entities.

7. What are your thoughts regarding the introduced bill's increased transparency regarding decisions – whether they are made by the USPTO Director or PTAB administrative patent judges?

These changes are needed, but they could go further. A chief pillar of our judicial system is the opportunity to be heard by dispassionate judges. This pillar crumbles when the judges hearing a case are hand selected by the USPTO Director. I would like to see even more protections in the PTAB from over-eager administrators.

8. Does the introduced bill's sanction of bad-faith

challengers who offer to deliberately delay or lose an instituted challenge in exchange for consideration go far enough to end gamesmanship? Are there any additional steps that can be taken to address gamesmanship?

Gamesmanship is a tough thing to root out in any litigation enterprise and the PTAB is not immune from the challenges either. I think the changes that this bill introduces are for the most part advantageous to the patent system, but they will not end litigants trying to gain an advantage from the system.

9. What are your thoughts regarding establishing a presumption of validity for patents that are being challenged at the PTAB?

I am not opposed to introducing a presumption of validity in IPRs. Just as the claim construction standard in this bill would mirror that of the district courts, it would be beneficial to have both systems (district court and the PTAB) working from similar starting points on validity. This question turns on how you view that PTAB process, whether it is a continuation of the examination process or whether it is an offshoot of litigation. I tend to view the PTAB proceeding as an offshoot of litigation, thus my view of the need to synthesize the standards used by both tribunals.

10. What are your thoughts regarding establishing a standing requirement for institution of a petition at the PTAB?

I am against a standing requirement in PTAB review. If the Senate is concerned with patentees having to defend their patent from parties that do not have a vested interest in the outcome, but rather are paid to challenge patents by other interested parties, they ought to adopt a more rigorous standard than currently employed, something like an interested-party standard. But I believe a rigorous standing requirement is not beneficial to society and invites potential litigants to play games with the standing requirements.

11. Are there any additional measures that we should consider as part of a comprehensive PTAB reform bill?

Some clarity on district courts and stays pending PTAB review would be welcome. Currently, each district court judge makes decisions on whether or not to grant stays based on what point the litigation has reached and what the timeline for the case is going forward. If the Senate were to provide guidance on the circumstances where staying a case is appropriate and not appropriate, the playing field would be leveled regarding this important matter. Litigants forum shop for judges in patent cases and one of the most divergent ways that judges handle patent cases is their stay practices. Moving towards conformity of judicial approach to this issue would be a welcome change.

Questions for David Cain
Submitted by Senator Patrick Leahy
June 23, 2022

1. In Congress, I periodically hear references to abuses of the PTAB process by petitioners, but stakeholders' views on what is or is not abusive differ significantly.

a. What types of uses of the PTAB are abusive and why?

While GF has never witnessed abusive use of the PTAB, we have read about a few extremely rare cases of entities filing IPR petitions where the petitioner does not offer a product or service relevant to the patented invention (i.e. that was or could be accused of infringement by the patent owner), and thus it faces no actual infringement risk from the patent and has no genuine, bona fide interest in the validity of the challenged patent claims. Instead, in these rare but potentially concerning opportunistic cases, the motivation is purely to use the IPR challenge to drive a form of payout. Two examples of this scenario have been reported on. The first example is filing an IPR petition after shorting the stock of the patent owner to reduce the price of the patent owner's stock.¹ The second example is filing an IPR petition against a patent, which was recently found to have been infringed.² This type of filing was done presumably to extract a settlement from the patent owner by creating a threat to their verdict of infringement while the infringement case is on appeal.

b. If a petitioner files a meritorious petition that demonstrates that a patent should never have been issued, should its motivation for challenging that patent matter? Why?

We should not care about a petitioner's motivation since invalid patents (based on meritorious petitions and prior art) should be struck down. The assertion of invalid patents is unproductive economically and causes a significant economic drain on operating companies when asserted in litigation. Although question "a" above asks about "abusive" IPR practice, it has been rare to date. IPR petitions typically cost several hundred thousand dollars to prepare and of course require invalidating prior art to meet the threshold requirement for institution. It is therefore a significant endeavor to invalidate a patent – but the net result allows for the progress of science and engineering without an inappropriate toll or tax by the patent owner. And finally, perhaps most importantly, scrutinizing the petitioner's motivation will increase discovery and litigation costs on both sides – such increased burden is certainly not merited when the petitioner is accused of infringement, and is likewise ill-advised even if the petitioner is not accused of infringement, as taking invalid patents out of circulation is always in the public interest.

¹ <https://www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408>

² <https://news.bloomberglaw.com/ip-law/intel-patent-verdict-tensions-spark-reveal-of-unusual-offer>

c. Does the cancellation of invalid patent claims benefit or harm the public?

The cancellation of invalid patent claims unquestionably benefits the public. The existence of an illegitimate property right in the form of a patent claim that should have never been issued stifles public productivity, development, and further innovation. Further, there is a wasteful burden on the justice system to adjudicate invalid patent claims.

2. The PTAB exists in recognition that patents that never should have issued create a drag on the economy.

a. How can inter partes review and post-grant review be strengthened to ensure patent quality and promote the innovation that is so vital to U.S. global competitiveness?

Patent litigation defendants should be guaranteed the statutory full year from a notice of an infringement lawsuit to file a IPR petition. Defendants may have had no prior notice of an infringement assertion and may be facing numerous allegations all filed on the same day. Therefore, defendants benefit from the full year to properly address patent validity (in the most efficient forum) and file a clear and well-reasoned petition when the patent claims have questionable validity. Recent USPTO Director memorandums have gone a long way towards guaranteeing the full year, but legislation is needed to ensure that this memorandum is not superseded by a later memorandum, causing uncertainty and unpredictability in the patent system.

Further, with the proven effectiveness and efficiency of the PTAB system, PTAB review should be expanded to allow consideration of not just printed publications but all prior art. Further, PTAB review should allow for challenges to 35 USC sec. 112 validity issues of lack of enablement and lack of written description. The expertise of the PTAB in both patent law and technology makes all such issues appropriate for PTAB review. This modification would benefit defendants, patent owners, and the federal courts by permitting all claim validity challenges being adjudicated by the PTAB. This modification would prevent two different claim validity venues for the same claim; the PTAB for printed publications and the Federal Courts for all other prior art.

Finally, there would be less need for PTAB reviews if continuation application practice were limited. There has been a long-standing practice with U.S. patents of keeping a string of continuing applications alive and then crafting new claims many, many years after the original application was filed in a way that distorts the claims to make them read on new technology that was far outside the scope of the invention. These continuing applications seem to produce more poor-quality patents than others and therefore add extra burden to the PTAB.

The above proposals would strengthen inter partes review and post-grant review, thereby ensuring patent quality while promoting innovation.

Questions from Senator Tillis for David Cain

1. What specifically do you like and what do you not like about our introduced bill?

All of the amendments included in the bill are well balanced to improve the PTAB and the patent system as a whole. As GF is both a large patent owner and has been an IPR petitioner, we see the bill as reasonably balanced for both petitioners and patent owners.

A key provision of the bill is the prohibition of the PTO declining a proceeding based on an ongoing civil action. This amendment is needed to ensure that defendants do not have to rush to file a petition and are guaranteed a full year to file. A defendant may have had no prior notice that an infringement lawsuit would be asserted against it and may be facing numerous claims from the same patent owner all filed on the same day. The statutory full year is needed to properly research patent validity and to file a clear and well-supported petition when the patent claims have questionable validity.

2. Regarding what you don't like in our bill, why don't you like it, and what would you like to see changed? When answering, please keep in mind that a balance must be struck between all interested and relevant parties.

Nothing in this bill causes us serious concern. It strikes a balance between patent owners, businesses, and the public. Our answer to question 6 below includes a proposed improvement to the small entity IPR fee coverage language that would address a minor concern.

3. How specifically can our introduced bill be made fairer to patent owners?

As an owner of over 7000 U.S. patents, GF sees this bill as fair to patent owners. We believe that passage of this bill would not diminish the value of GF's patent portfolio, nor would it discourage GF from innovating or from continuing to file patents at

the USPTO.

4. What are your thoughts regarding the introduced bill's ban on institution of serial petitions? How can it be improved?

The bill as introduced is fair to patent owners and petitioners. It ensures that a petitioner only gets "one bite at the apple" by requiring that all of a petitioner's PTAB validity challenges be brought at one time. If defendants have the full statutory year to file their PTAB petitions, it is reasonable that they be required to file all such petitions at one time.

5. What are your thoughts regarding the introduced bill's codification of the *Phillips* standard? How can it be improved?

The bill as introduced is fair to patent owners and petitioners. It ensures that the same claim construction law will be applied regardless of the forum.

6. What are your thoughts regarding the introduced bill's coverage of reasonable fees for small and micro entities who face challenges at the PTAB?

While the scenario of small and micro entities facing a PTAB challenge is very unlikely, the coverage of reasonable fees offers a great deal of protection for a small entity inventor. However, one can foresee non-practicing entities finding ways to exploit this clause for fee coverage for patents in which they have a financial interest. This concern could be addressed by disallowing fee coverage when an IPR petition is filed by a defendant in a civil action regarding the patent. A patent owner that has filed an infringement lawsuit has already demonstrated the ability to fund the dispute resolution process and should not need the fee coverage. In fact, with the efficiency of the PTAB system such an entity would likely save money by resolving validity through the PTAB instead of through the district court.

7. What are your thoughts regarding the introduced bill's increased transparency

regarding decisions – whether they are made by the USPTO Director or PTAB administrative patent judges?

The additional transparency required by the bill would be beneficial to all decisions. In each case it would either reduce any appearance of impropriety and conflict of interest, or it would make clear to the public that the decision was made by a constitutionally appointed representative of the President.

8. Does the introduced bill's sanction of bad-faith challengers who offer to deliberately delay or lose an instituted challenge in exchange for consideration go far enough to end gamesmanship? Are there any additional steps that can be taken to address gamesmanship?

The bill intentionally targets those who have no actual interest in the validity of the challenged patent claims yet still file petitions merely to extort payment from the patent owner to make the challenge go away. This therefore properly addresses the issue of gamesmanship; the bill sanctions those who face no actual infringement

risk from the patent and have no genuine, bona fide interest in the validity of the challenged patent claims. No further steps need be taken to address gamesmanship. Further steps would increase the burden on both sides of a PTAB review. Such burden is certainly not merited when the petitioner is accused of infringement, and is likewise ill-advised even if the petitioner is not accused of infringement, as taking invalid patents out of circulation is always in the public interest.

9. What are your thoughts regarding establishing a presumption of validity for patents that are being challenged at the PTAB?

Establishing a presumption of validity for PTAB challenges would not benefit the patent system or the public. The members of the PTAB are not only experts in patent law but are technical experts as well. Because of this they are exceptionally well suited to properly weigh claim validity and do not need to give extra deference to the examiner who allowed the claims. The deference accorded to the Patent

Office by the Federal Courts is rooted in the deference due the Patent Office's exercise of its authority and its technical expertise, which lay juries lack. The PTAB need not give that same level of deference as it is a part of the same authority as the patent examiners and has similar levels of technical expertise.

Regardless, the burden of proving invalidity before the PTAB is still on the petitioner, therefore there already exists a level of validity presumption.

10. What are your thoughts regarding establishing a standing requirement for institution of a petition at the PTAB?

Aside from the extremely rare instances of bad-faith PTAB challenges, petitioners have always had a real interest in challenging the validity of the patent claims. A standing requirement would only add more red-tape and delay to the IPR process.

While PTAB challenges are more efficient and effective than challenging validity in District Court, it is still an expensive endeavor costing hundreds of thousands of dollars. Therefore, petitions are not filed without a real interest, real stakes, for the petitioner. This is why the PTAB is not inundated by petitions for patents that are not being asserted, as the undertaking is just too costly.

Aside from the isolated instances of bad-faith PTAB challenges there is no issue with frivolous petitions, therefore a standing requirement would only add unnecessary cost and delay to the process.

11. Are there any additional measures that we should consider as part of a comprehensive PTAB reform bill?

With the proven effectiveness and efficiency of PTAB challenges, such challenges should be expanded to consider not just printed publications but all prior art. Further, PTAB review should allow for challenges to 35 USC sec. 112 validity issues of lack of enablement and lack of written description. The expertise of the PTAB in both patent law and technology makes all such issues appropriate for PTAB review. This would benefit defendants, patent owners, and the federal courts by allowing for the option of all claim validity challenges being adjudicated by the PTAB.

Further, there would be less need for PTAB reviews if continuation application practice were limited. There has been a long-standing practice with U.S. patents of keeping a string of continuing applications alive and then crafting new claims many,

many years after the original application was filed in a way that distorts the claims to make them read on new technology that was far outside the scope of the invention. These continuing applications seem to produce more poor-quality patents than others and therefore add extra burden to the PTAB.

**United States Senate Subcommittee on Intellectual Property
Questions for the Record in the June 22, 2022 Hearing on The Patent Trial and Appeal
Board: Examining Proposals to Address Predictability, Certainty, and Fairness**

Questions from Senator Tillis

1. What specifically do you like and what do you not like about our introduced bill?

Thank you for the invitation to testify before the Senate Judiciary Subcommittee on Intellectual Property and for your follow-up questions. We appreciate the opportunity to share our thoughts on the PTAB Reform Act of 2022.

Provisions we oppose:

- Abrogating *Fintiv* discretion to consider duplicative parallel proceedings;
- Attempting to create standing to appeal final Patent Trial and Appeal Board (“PTAB”) decisions;
- Permitting review of PTAB institution decisions;
- Shifting the burden for proving patentability for claim amendments; and
- Limiting PTAB discretion on how to proceed where there are multiple related proceedings before the Office.

Provisions we believe could be improved:

- Limiting repeated petitions;
- Allowing real party in interest discovery;
- Providing financial support to small or micro entities;
- Addressing petitioners who deliberately lose or delay an IPR and clarifying certain types of permissible sanctions; and
- Prohibiting *ex parte* communications.

Provisions toward which we are neutral:

- Implementing an *Arthrex* fix.

Positions we support:

- Codifying the use of the district court *Phillips* claim construction standard at PTAB proceedings.

2. Regarding what you don't like in our bill, why don't you like it, and what would you like to see changed? When answering, please keep in mind that a balance must be struck between all interested parties and relevant parties.

Provisions we oppose:*Removing Fintiv Discretion Would Create an Unfair and Inefficient Patent System*

The Innovation Alliance strongly opposes the PTAB Reform Act's abrogation of the "*Fintiv* doctrine," which allows the PTAB to consider parallel proceedings in district court when deciding whether to use its discretion to deny institution of petitions that would otherwise meet the threshold requirement. PTAB discretion to deny institution of IPR petitions in light of duplicative proceedings is an important tool to prevent abuse, promote efficiency, and conserve resources of the USPTO and the parties.

Fintiv discretion has helped conserve the resources of the USPTO and protect patent owners from having to concurrently, and continuously, defend their patents against repeated and duplicative challenges at the PTAB and in court. *Fintiv* has done so by allowing PTAB judges to weigh factors when determining whether to launch a review of a patent that is at issue in a parallel infringement case in federal court. Those factors include whether and when a trial date has been set in the infringement case, the extent of overlapping issues, and whether the other tribunal has paused its case for PTAB review. In other words, *Fintiv* gives the PTAB discretion to deny institution of an IPR where duplicative litigation in federal court would conclude before the PTAB trial or would otherwise unnecessarily burden the patent owner. That balancing test provides transparency and incentivizes petitioners to act expeditiously and efficiently, consistent with the express purpose of the America Invents Act ("AIA") for the PTAB to serve as a streamlined, cost-effective alternative to litigation. Protecting *Fintiv* discretion is important because the PTAB should have a tool to avoid situations in which parallel proceedings before the PTAB and a district court would unreasonably burden patent holders with having to defend duplicative validity challenges. Taking this power away from the PTAB not only immediately makes this issue prevalent once more, but also prevents the PTAB from addressing further issues stemming from duplicative proceedings as they inevitably arise in the future.

Further, any concerns about the PTAB's use of its discretion under *Fintiv* should be addressed by Director Vidal's recent guidance in her Interim Procedure for Discretionary Denials in AIA Post-Grant Proceedings with Parallel District Court Litigation. As shown in the PTAB Parallel Litigation Study that accompanied the Director's interim guidance, *Fintiv* denials have dropped sharply in the last year, and the Director's guidance should lead to even fewer denials, as it constrains PTAB panels from exercising their discretion in certain situations, such as when a *Sotera* stipulation is present or when the panel finds that the petition's merits are compelling. And as the Director noted in her guidance, it is imperative that she be allowed discretion to deny institution in light of parallel proceedings in order to combat abuse of the IPR system.

We believe that eliminating *Fintiv* discretion would result in greater unfairness and inefficiency in the patent system. Discretion is at the heart of what the PTAB does at every step in post-grant proceedings. The USPTO must make decisions about the merits of each case, such as whether a petition meets the threshold for institution, and whether the claims have been proven invalid in preparing a final written decision. The AIA by necessity confers discretion on the USPTO Director, and there is no reason that such discretion should not extend to whether to deny institution in view of fairness and efficiency concerns.

Attempting to Create Standing to Appeal Final PTAB Decisions

The PTAB Reform Act includes a provision in § 319 that attempts to create an artificial constitutional injury for petitioners seeking appeal to an Article III court without standing. Under current well-established law, a petitioner may not appeal the PTAB's final written decision that a patent is not unpatentable to the Federal Circuit unless that petitioner can establish Article III standing. This is not simply a matter of PTAB or Federal Circuit procedure, but a constitutional requirement designed to sharpen arguments and limit precious judicial resources to parties with a real stake in a case's outcome. The Federal Circuit is an Article III court, meaning that an appellant must establish all of the elements to meet the Article III constitutional standing requirements. Elements of the constitutional standing requirement cannot be simply awarded statutorily as a means to circumvent this important constitutional safeguard. As the Supreme Court has stated, "[n]o principle is more fundamental to the judiciary's proper role in our system of government than the constitutional limitation of federal-court jurisdiction to actual cases or controversies."¹

Permitting Review of Institution Decisions Would Increase Costs and Decrease Efficiency

The PTAB Reform Act would allow parties to PTAB proceedings to seek review of the PTAB's determination to institute an IPR under 35 U.S.C. § 314(d). This change would not only introduce significant delay into PTAB proceedings, directly contradicting the intent of the AIA to provide a streamlined, cheaper alternative to district court litigation, but it would also tilt the playing field further in the direction of petitioners. The PTAB currently is able to use the institution decision as an important gatekeeping function to quickly dismiss invalidity challenges that have little likelihood of success. This helps both to preserve PTAB resources and to protect duly-granted patents from unnecessarily protracted proceedings. The PTAB Reform Act would take away this safeguard and introduce lengthy appeal disputes into effectively every institution decision. Further, when an IPR is filed, district courts often stay related proceedings where the patent owner is attempting to stop infringement of their patent on the premise that the IPR will be quickly resolved. Whereas a decision denying institution would normally mean that the district court would lift the stay, this appeal procedure would unnecessarily continue this delay to a patent owner seeking relief from infringement. Thus, this appeals provision stands not only to draw out weak invalidity challenges against duly-granted patents, but also to freeze out a patent owner's ability to seek relief from bad actors infringing its patents at the same time.

Shifting the Burden for Proving Patentability for Claim Amendments Would Disadvantage Patent Owners

Current law places the burden of proof on the PTAB petitioner at each stage of the proceeding, and allows patent owners to clarify their patent claims that are often challenged as overly-broad. Motions to amend were intended, in part, to serve as a check-and-balance against the AIA's low burden of proof enjoyed by petitioners. Unfortunately, such motions have had a very low rate of success. Recent efforts by the PTAB in its motion to amend pilot program have

¹ *Spokeo, Inc. v. Robins*, 136 S. Ct. 1540, 1547 (2016) (citation and quotations omitted); see also *AVX v. Presidio Components, Inc.*, 923 F.3d 1357 (Fed. Cir. 2019).

markedly improved outcomes, but motions to amend still have less than a 20% chance of succeeding.² This is in stark contrast to the high institution rates and high cancellation rates at final decision noted in my testimony (*i.e.*, that the PTAB has found in favor of the patent challenger in nearly two-thirds of its institution decisions and has invalidated at least one claim in over 80% of the petitions that reach a final written decision). The bill would further constrain the motion to amend process by removing the burden of invalidity from petitioners and placing it on the USPTO, who is not a party to the IPR. The Innovation Alliance opposes this provision. The burden of establishing invalidity of a patent, or any claim thereof, should rest on the party asserting such invalidity—not on the patent holder or the USPTO. For this reason, we favor the approach set forth in the STRONGER Patents Act, which would maintain the burden of invalidating patent claims on the challenging party.

Limiting PTAB Discretion to Resolve Related Proceedings Would Invite Delay and Gamesmanship

The PTAB Reform Act proposes concerning changes to the guidance provided under § 315(d)(1) regarding multiple proceedings before the USPTO. Under current law, the Director may choose to stay, transfer, consolidate, or terminate a proceeding before the USPTO based on the existence of another proceeding involving the same patent that is also before the USPTO. The bill limits the Director's discretion by forbidding the Director from terminating an IPR in favor of an *ex parte* proceeding. Coupled with the further amendments that (1) the Director be required to issue a decision regarding these supposed related proceedings and that (2) a party can appeal the Director's decision, the PTAB Reform Act carves the path for a petitioner to effectively attempt to halt the prosecution of any patent application that shares a priority date with a duly-granted patent in the same family. We are concerned that this change would introduce unreasonable delays into the patent examination process and would provide an avenue for bad actors seeking to undermine a patent application with a means to delay the issuance of a patent.

Provisions we believe could be improved:

The Bill Does Not Sufficiently Limit Multiple Petitions

We appreciate the PTAB Reform Act's codification of the current PTAB practice of denying institution for petitions that challenge claims that have already been challenged on an earlier date by the same party. However, multiple petitions would still be a significant problem under the bill. The bill's proposed rule barring follow-on petitions would be limited to petitions challenging the same claims, not the same patent. As a result, subsequent petitions attacking the validity of the same patent would be allowed so long as they challenged different claims. Likewise, the "same-day" exception would give rise to significant abuse, encouraging "kitchen sink" filings of multiple petitions on the same day, each attacking the same claim but under different obviousness theories. For example, the PTAB Reform Act would allow for ten different petitions to be filed on the same day, each based on a different prior art argument, and would

² U.S. PATENT AND TRADEMARK OFF., *Patent Trial and Appeal Board Motion to Amend Study*, 3 (Jul. 2020), https://www.uspto.gov/sites/default/files/documents/20201028_ptab_mta_study_installment_6_tf_iq_813950_final_revised.pdf.

also allow patent challengers a full year to bring a new petition against amended claims that they already had a chance to challenge during the amendment process.

The Bill Should Further Clarify the Scope of Real Party in Interest Discovery

We support the addition of a provision allowing discovery into real parties in interest in IPR proceedings. However, we believe that this subsection could benefit from further clarification regarding the types of discovery that the rulemaking should allow—for example, by clarifying that the parties should be allowed to depose witnesses who submit affidavits or declarations and to request evidence identifying the petitioner’s real parties in interest.

Providing Financial Support to Small or Micro Entities Does Not Outweigh the Costs Imposed on Them by the Bill

We would not oppose a provision under which the USPTO would pay for the reasonable costs of a small entity to defend its patents from an IPR. Such financial assistance may be warranted because small entities often do not have the resources to defend their patents from validity challenges in IPRs. We believe the proposal would have a very modest impact, however, because we understand that very few IPRs are brought against small or micro entities. Further, we believe that the financial support offered to small and micro entities, and the definitions of these entities used in the draft language, do not sufficiently protect small businesses from the added costs and burdens imposed by other provisions in the bill.

The Bill Should Clarify How Sanctions Against Petitioners who Deliberately Lose or Delay an IPR Would be Applied to Patent Owners

We appreciate the bill’s attempts to address certain kinds of bad-faith conduct by parties in IPRs. We are concerned, however, that the inclusion of the language “which sanctions shall be equally applicable to petitioners and patent owners” is confusing, as it may imply that any sanctions must be issued against both parties, and it is unnecessary, because the section plainly applies to either party without that clause.

The Bill Should Ensure that Exceptions to the Prohibition on ex parte Communications are Limited

We support the proposed prohibition on *ex parte* communications between supervisory officers and judges assigned to an IPR panel. However, we are concerned with the exception provided in the bill, as the Code of Conduct for United States Judges allows a judge to “consult with other judges or court personnel whose function is to aid the judge in carrying out adjudicative responsibilities.”³ We are concerned that this exception may swallow the rule and would prefer that any exceptions be explicitly clarified in the text.

3. How specifically can our introduced bill be made fairer to patent owners?

In addition to the changes listed above in response to Question 2, the PTAB Reform Act

³ Code of Conduct for United States Judges, Canon 3A(4).

would more fairly treat patent owners and strengthen the patent system by implementing provisions in the STRONGER Patents Act. Strong patents are critical to maintaining U.S. leadership in a global innovation economy. Innovators in fields like 5G, AI, quantum computing, next-generation medical cures, and countless others rely on intellectual property rights to protect their technologies and to bring their innovations to market. The STRONGER Patents Act would ensure that innovators can enforce and defend their patents at a PTAB that is consistent and fair, ultimately strengthening U.S. competitiveness in innovative R&D, in the following ways:

Aligning the Burden of Proof Applied in PTAB and District Court Proceedings

The STRONGER Patents Act would ensure that the same burden of proof applies to parties seeking to invalidate a patent claim in federal court and the PTAB. Specifically, the bill would increase the burden of proof in PTAB proceedings by requiring a challenger to demonstrate invalidity of patent claims by “clear and convincing evidence” instead of a mere “preponderance of the evidence,” and would apply the presumption of validity used in district court to PTAB proceedings.

This provision is necessary to prevent the gamesmanship that can occur where a challenger chooses to seek the invalidation of a patent at the PTAB rather than federal court because of the lower evidentiary burden. We also believe the stricter “clear and convincing evidence” standard, along with the presumption of validity, provides due deference to the expert determinations made by the USPTO’s patent examiners when they make the original decision to award a patent. Patent holders that have invested a substantial amount of money in the process of discovering, developing, and patenting their innovations need the certainty that the decision of the USPTO’s patent examiners in the first instance have meaning.

If the PTAB is permitted to wholly disregard a patent examiner’s finding and essentially engage in *de novo* review each time a patent is challenged, the reliability of a patent granted by the USPTO is significantly reduced. This deprives patent owners the ability to accurately gauge the validity of a patent that has been issued, but not litigated, and thus creates uncertainty.

Requiring PTAB Challengers to Have a Stake in the Suits They Initiate

The STRONGER bill also requires litigants to have a particular interest in order to challenge the validity of a patent before the PTAB, just as they would be required to have standing to file a suit in federal court. This ensures that PTAB challenges will be brought only by those entities with a direct business or financial stake in the outcome of the proceedings. Accordingly, these sections would help eliminate nuisance challenges and challenges brought for nefarious purposes that only serve as a tax on innovation. The Innovation Alliance supports this provision because exposing innovators to challenges from parties with only an attenuated stake in the proceedings themselves creates the possibility of astronomical costs and protracted litigation without a direct benefit to either of the litigants or the U.S. economy at large.

Establishing Commonsense Limitations on Serial and Redundant Challenges

Sections 102(f) and 103(f) of the STRONGER bill provide that a PTAB petitioner can only file a single proceeding to challenge a given patent in most instances. If the validity of the

patent is upheld, the challenger cannot file another PTAB challenge. These sections also provide that a party who has filed an instituted IPR at the PTAB may not later bring a challenge to the same patent's validity in federal court.

Finally, sections 102(h) and 103(h) of the STRONGER bill provide that, when a federal district court has issued an opinion on the validity of a patent subject to concurrent review by the PTAB and the district court opinion has been appealed, the PTAB decision should be stayed pending resolution of the appeal.

The Innovation Alliance supports these provisions because they ensure the most efficient allocation of judicial resources by avoiding redundant and duplicative proceedings. Further, they will help ensure that a patent holder will not be subjected to protracted, expensive litigation simply because a challenger decides to file redundant challenges against the same patent. These provisions ensure that patent owners have *some* prospect of finality to adjudications of the validity of a given patent, at least with respect to the same challenger.

4. *What are your thoughts regarding the introduced bill's ban on institution of serial petitions? How can it be improved?*

As noted above in response to Question 2, we appreciate the bill's codification of the current PTAB trial practice of denying institution for petitions that challenge claims that have already been challenged on an earlier date. However, multiple petitions would remain a significant problem under the bill. The PTAB Reform Act's proposed rule barring follow-on petitions would only apply to petitions challenging the same claims, not the same patent, permitting subsequent petitions attacking the validity of the same patent if they challenged different claims. Further, the bill's "same-day" exception would lead to significant abuse, encouraging "kitchen sink" filings of multiple petitions on the same day, each attacking the same claim but under different obviousness theories. For example, the bill would allow for ten different petitions to be filed on the same day, each based on a different prior art argument, and would also allow patent challengers a full year to bring a new petition against amended claims that they already had a chance to challenge during the amendment process.

5. *What are your thoughts regarding the introduced bill's codification of the Phillips standard? How can it be improved?*

We support the bill's codification of the *Phillips* standard as currently drafted.

6. *What are your thoughts regarding the introduced bill's coverage of reasonable fees for small and micro entities who face challenges at the PTAB?*

As noted above in response to Question 2, we would not oppose a provision under which the USPTO would pay for the reasonable costs of a small entity to defend its patents from an IPR. Such financial assistance may be warranted because small entities often do not have the resources to defend their patents from validity challenges in IPRs. We believe the proposal would have a very modest impact, however, because we understand that very few IPRs are brought against small or micro entities, and the assistance does not sufficiently outweigh the costs imposed on patent owners by other provisions of the bill.

7. *What are your thoughts regarding the introduced bill's increased transparency regarding decisions – whether they are made by the USPTO Director or PTAB administrative patent judges?*

We support the proposed bill's transparency provisions, including the prohibition on *ex parte* communications between supervisory officers and judges assigned to an IPR panel. However, we have concerns regarding the exception provided in the bill, as the Code of Conduct for United States Judges allows a judge to "consult with other judges or court personnel whose function is to aid the judge in carrying out adjudicative responsibilities." We are concerned that this exception may swallow the rule and would prefer that any exceptions be explicitly clarified in the text.

8. *Does the introduced bill's sanction of bad-faith challengers who offer to deliberately delay or lose an instituted challenge in exchange for consideration go far enough to end gamesmanship? Are there any additional steps that can be taken to address gamesmanship?*

We appreciate the PTAB Reform Act's attempts to address certain kinds of bad-faith conduct by parties in IPRs. We are concerned, however, that its inclusion of the language "which sanctions shall be equally applicable to petitioners and patent owners" is confusing, as it may imply that any sanctions must be issued against both parties. We further believe that language is unnecessary because the section plainly applies to either party without that clause.

9. *What are your thoughts regarding establishing a presumption of validity for patents that are being challenged at the PTAB?*

We would strongly support a provision that established a presumption of validity for patents challenged at the PTAB, along with an accompanying change in the burden of proof from "preponderance of the evidence" to "clear and convincing evidence." Such a change is necessary to prevent the gamesmanship that can occur where a challenger chooses to seek the invalidation of a patent at the PTAB rather than federal court because of the lower evidentiary burden. We believe the stricter "clear and convincing evidence" standard, along with the presumption of validity, provides due deference to the expert determinations made by the USPTO's patent examiners when they make the original decision to award a patent. Patent holders that have invested a substantial amount of money in the process of discovering, developing, and patenting their innovations need the certainty that the decision of the USPTO's patent examiners in the first instance have some meaning.

If the PTAB is permitted to wholly disregard a patent examiner's finding and essentially engage in *de novo* review each time a patent is challenged, as the current law allows, the reliability of a patent granted by the USPTO is significantly reduced. This deprives patent owners the ability to accurately gauge the validity of a patent that has been issued, but not litigated, and thus creates uncertainty. We thus recommend that the PTAB Reform Act include provisions establishing a presumption of validity and changing the burden of proof to the "clear and convincing evidence" standard.

10. *What are your thoughts regarding establishing a standing requirement for institution of a petition at the PTAB?*

We would strongly support a provision that would establish a standing requirement for institution of a petition at the PTAB, such as the one included in the STRONGER Patents Act. Such a provision would ensure that PTAB challenges will be brought only by those entities with a direct business or financial stake in the outcome of the proceedings, which would help eliminate nuisance challenges and challenges brought for nefarious purposes that only serve as a tax on innovation. Requiring parties to have standing to institute a petition at the PTAB would provide innovators with certainty that only those individuals or entities who have a direct, vested interest in the validity or invalidity of their patents can file a challenge with the PTAB. Exposing innovators to challenges from parties with only an attenuated stake in the proceedings themselves creates the possibility of astronomical costs and protracted litigation without a direct benefit to either of the litigants or the U.S. economy at large.

11. *Are there any additional measures that we should consider as part of a comprehensive PTAB reform bill?*

As noted in response to Question 3, we support including the provisions in the STRONGER Patents Act.

Questions from Senator Leahy

1. *You testified on behalf of a trade group called the Innovation Alliance. In patent matters, I hear from all sorts of groups, and it is not always clear what companies or individuals are behind them or are funding them. Understanding this is important especially because I may hear the same policy proposal from two different groups, and I may not be told that those groups are actually being funded by the same source. Some groups make their membership and funding public. For instance, the Innovation Alliance represents on its website that its members are your company—Qualcomm—as well as InterDigital; AbbVie; Aware, Inc.; Cantor Fitzgerald, LP; Digimarc Corporation; Dolby Laboratories, Inc.; Fallbrook Technologies, Inc.; Immersion; and Xperi Corporation. Other groups do not make their membership and funding public.*
 - a. *Besides the Innovation Alliance, does Qualcomm fund any groups that lobby Congress on anything related to patents?*
 - b. *In particular, has Qualcomm ever provided funding or payments, directly or indirectly, to any organizations that are active in patent policy debates before Congress, such as (by way of example) Engine, the Alliance of U.S. Startups & Inventors for Jobs (USIJ), U.S. Inventor, the High Tech Inventors Alliance (HTIA), the Eagle Forum, the Federalist Society, the Heritage Foundation, the Computer & Communications Industry Association (CCLIA), the U.S. Chamber of Commerce's Global Innovation Policy Center, or the Twenty-First Century Coalition for Patent Reform (21C)?*

- i. Which organizations?
 - ii. How much funding has Qualcomm provided to each of them?
- c. Has Qualcomm ever provided funding or payments, directly or indirectly, to any individuals who are active in patent policy debates before Congress who were previously high-ranking officials at the U.S. Patent and Trademark Office (Director, Acting Director, Deputy Director, or Acting Deputy Director), the Intellectual Property Enforcement Coordinator, Article III judges, or members of Congress?
 - i. Which individuals?
 - ii. For each individual, through which organization or organizations, if applicable?
 - iii. How much funding has Qualcomm provided to each of them?
- d. What is Qualcomm's overall lobbying budget for 2022?

Qualcomm is deeply committed to engaging in the development and discourse of public policies, such as the STRONGER Patents Act, that promote U.S. technological competitiveness and global leadership by strengthening the patent system, and we support organizations that further these important goals. A strong patent system is central to the future of a resilient, growing, and increasingly technology-driven U.S. economy that allows us to protect our national security. For decades, the U.S. patent system has secured our global technology leadership by incentivizing the R&D that is needed to invent ground-breaking technologies. As Congress considers legislation, such as the PTAB Reform Act, that would weaken the U.S. innovation ecosystem and disadvantage patent owners, it is important for policymakers to hear from subject matter experts and stakeholders that would be regulated and affected by the legislation.

In the Lobbying Disclosure Act ("LDA"), Congress recognized a balance between the First Amendment right to participate in the legislative process and the public interest in transparency.⁴ Qualcomm has followed the LDA's requirements by registering appropriate employees and filing quarterly and semi-annual lobbying activity reports with the Clerk of the House and the Secretary of the Senate. In addition to adhering to the requirements of the LDA, Qualcomm has endeavored to further promote transparency by voluntarily publishing its political contributions and expenditures.⁵

- 2. *In the hearing you suggested that the invalidation rates at the PTAB are inappropriately high and mentioned 84%. However, the official PTO statistics show that, last fiscal year (FY21), only 16% of patent claims subject to a petition were found unpatentable by the PTAB. Meanwhile, all the rest of the claims were confirmed (so not cancelled), were denied institution or dismissed (so not cancelled), settled (so not cancelled), or resulted in*

⁴ Lobbying Disclosure Act, 2 U.S.C. § 1607(a) ("Nothing in this Act shall be construed to prohibit or interfere with - (1) the right to petition the Government for the redress of grievances; (2) the right to express a personal opinion; or (3) the right of association, protected by the first amendment to the Constitution.").

⁵ See Qualcomm Incorporated, Disclosures Under Political Contributions and Expenditures Policy Fiscal Year 2021 (September 28, 2020 - September 26, 2021), available at https://d1io3yog0ou5.cloudfront.net/_47bcf020bc9c78924cf74a7b33f7a545/qualcomm/db/784/7084/file/FY21+Full+Year+Disclosure_Final.pdf.

the patent owner requesting adverse judgment and disclaiming them (5% of claims, which were cancelled at the patent owner's request).

- a. *Do you dispute the PTO's statistics?*
- b. *If PTAB proceedings unfairly favor petitioners as you seemed to suggest, how do you explain the fact that patent owners prevail the vast majority of the time?*

The statistics cited in our testimony—that the PTAB has found in favor of the patent challenger in nearly two-thirds of its institution decisions and has invalidated at least one claim in over 80% of the petitions that reach a final written decision—are based on the official PTAB statistics.⁶ We believe that the rates of institution and rates of cancellation in final written decisions are far more salient to the question of what statutory reforms are necessary at the PTAB, as those are the statistics that include decisions by the PTAB on the merits, and are thus the best metrics for understanding how the PTAB is applying the statute. As the statistics show, when the PTAB applies its institution standard (that there is a “reasonable likelihood” that the petitioner will ultimately prevail under the preponderance of the evidence standard), the PTAB decides that threshold has been met nearly two-thirds of the time. Similarly, when the PTAB finally reaches the question of whether the petitioner has met its preponderance-of-the-evidence burden, it finds in favor of the petitioner over 80% of the time.

We disagree with the assertion that patent owners prevail the vast majority of the time at the PTAB. To arrive at the conclusion that the PTAB's statistics show that patent owners are prevailing in the vast majority of petitions, one would need to count all settlements, non-merits dismissals, and requests for adverse judgment by the patent owners as a win for the patent owner. But applying the same logic to district court cases would lead to the conclusion that defendants win not only a vast majority, but nearly every district court patent litigation dispute, undermining almost all arguments advanced in favor of the creation or the continued existence of the PTAB.⁷

3. *During patent prosecution, the examiners at the PTO apply the broadest reasonable interpretation to construe claim terms. However, in district court litigation, the courts will*

⁶ U.S. PATENT AND TRADEMARK OFF., *PTAB Trial Statistics FY22 Q2 Outcome Roundup IPR, PGR*, 11 (2022) (collecting statistics for FY 2022), https://www.uspto.gov/sites/default/files/documents/ptab_aia_fy2022_q2_roundup.pdf; U.S. PATENT AND TRADEMARK OFF., *PTAB Trial Statistics FY21 End of Year Outcome Roundup IPR, PGR, CBM*, 11 (2022) (collecting statistics for FY 2021), https://www.uspto.gov/sites/default/files/documents/ptab_aia_fy2021_roundup.pdf; U.S. PATENT AND TRADEMARK OFF., *PTAB Trial Statistics IPR, PGR, CBM Patent Trial and Appeal Board September 2020*, 10-11 (2022) (collecting statistics for Sept. 16, 2012 to Sept. 30, 2020), https://www.uspto.gov/sites/default/files/documents/trial_statistics_20200930.pdf.

⁷ See Docket Navigator Court & Judge Comparison Report Outcomes Comparison (available at <https://search.docketnavigator.com/patent/search/comparison/patent-court-comparison>) (showing that of the approximately 19,000 patent cases filed in U.S. district courts from 2016 to present, nearly 16,000 ended in settlement and that patentees have prevailed on the merits in only about 500 of those 19,000 cases, for a success rate of approximately 2.5%).

use a narrower Phillips standard. The Patent Act currently does not require that the PTAB use the same Phillips standard as the courts.

- a. In the hearing you mentioned that you recognized the PTAB Reform Act included compromises that favor patent owners, including the proposed requirement that the PTAB use the Phillips standard in post-grant proceedings. Which standard for claim construction do you think the PTAB should be applying when hearing challenges to a patent?*

We support the bill's codification of the *Phillips* standard as currently drafted.

- 4. In the hearing, both Professor Anderson and I cited the statistic that projected trial dates relied upon by the PTAB are inaccurate 94% of the time, to which you responded that those delays were due to postponements caused by the COVID-19 pandemic.*
 - a. How accurate were projected trial dates relied upon by the PTAB before the coronavirus pandemic?*
 - b. How did you arrive at that number?*

The cases from the study cited by Professor Anderson were all affected by the COVID-19 pandemic, as the study focused exclusively on institution decisions that issued between May and October in 2020. None of the decisions that the PTAB analyzed under the *Fintiv* framework included future trial dates that were scheduled before the coronavirus pandemic, as *Fintiv* was not designated as precedential until May 2020 (and the *Fintiv* decision itself did not issue until March 2020, the same month COVID-19 was declared a global pandemic). Even going back to *NHK Spring* (the first case to consider co-pending district court litigation in the discretionary denial analysis, and the predecessor to *Fintiv*), the number of petitions denied due to future district court trial dates that were unaffected by the pandemic is likely to be statistically insignificant, as *NHK Spring* was not designated as precedential until May 2019, and PTAB statistics show that fewer than ten IPR petitions were denied under *NHK Spring* in 2019, with the majority coming in the second half of the year, when parallel trial dates were likely to be scheduled for after March 2020.

Further, as explained below in response to Question 8, the Director has issued interim guidance on how PTAB panels are to consider parallel district court litigation and is pursuing rulemaking on this issue, mitigating any concerns about the interplay between district court litigation and PTAB institution decisions.

- 5. In Congress, I periodically hear references to abuses of the PTAB process by petitioners, but stakeholders' views on what is or is not abusive differ significantly.*
 - a. What types of uses of the PTAB are abusive and why?*
 - b. If a petitioner files a meritorious petition that demonstrates that a patent should never have been issued, should its motivation for challenging that patent matter? Why?*
 - c. Does the cancellation of invalid patent claims benefit or harm the public?*

Abuse of the PTAB system is a problem that the PTAB takes seriously, as shown by Director Vidal's interim guidance on applying *Fintiv*, which repeatedly states that the PTAB needs discretion to consider parallel district court proceedings in situations where abuse of the system could be present. One recent example of such abuse is shown in the OpenSky petitions filed against VLSI. Following VLSI's \$2 billion dollar verdict in district court against Intel, OpenSky—an entity with no stake in the litigation or the patents—filed IPRs to extract a nuisance settlement from VLSI.⁸ Further, defendants in patent infringement suits often file multiple, duplicative IPRs merely for the purpose of altering the negotiating positions of the companies, rather than to seek a cost-effective alternative to district court.

As explained further in response to Question 8 we generally believe Director Vidal has taken steps to clarify the use of *Fintiv* discretion in her interim guidance with respect to competing concerns about maintaining the ability to combat abuses at PTAB and the public's interest in cancellation of plainly invalid patents. The PTAB Reform Act of 2022 would remove a tool that the Director clearly sees as essential to that balance by eliminating her ability to consider parallel district court proceedings for any reason. For this and many other reasons, we cannot support the PTAB Reform Act of 2022's unnecessary and harmful abrogation of *Fintiv*.

6. *In your testimony, you suggested that an unintended consequence of the Leahy-Smith America Invents Act is that big companies will continue to "unfairly use the PTAB as a tool to gain unfair leverage against small companies."*

- a. *How many inter partes review petitions and post-grant review petitions has Qualcomm filed in the last 3 years?*
- b. *How many of those are against small companies?*
- c. *Do those patent holders argue that any of those petitions were vexatious or repetitive?*

Qualcomm is one of only a few companies that brings and faces PTAB challenges with essentially equal frequency. This perspective gives us unique insight on how the competing concerns of patent owners and patent challengers should be balanced. Qualcomm has filed 19 IPR petitions and 0 PGR petitions in the last three years. These petitions were filed against large operating companies, universities, and patent assertion entities. None of the patent owners in these IPRs filed at the PTAB as small entities. None of these petitions challenged the same patent, *i.e.*, only one petition per patent, and none of the patent owners argued that the petitions were vexatious or repetitive.

7. *I periodically hear reference to concerns that the foreign companies, like companies in China, can use the PTAB to challenge issued U.S. patents. I understand that 51%—more than half—of issued U.S. patents are issued to foreign inventors.*

- a. *Do you have concerns that foreign companies like those in China can use the PTAB to challenge issued U.S. patents?*

⁸ See <https://www.law360.com/articles/1496674/ptab-needs-tougher-rules-to-thwart-abusive-iprs-attys-say>.

- b. Do you have the same concerns that foreign companies like those in China can obtain U.S. patents and use them—whether valid or invalid—to seek nuisance licenses from U.S. businesses?*

U.S. innovation leadership depends on strong patent rights that incentivize the private investment of money and talent that is needed to develop new technologies. This virtuous cycle of R&D and investment permits the U.S. and our companies to compete with firms such as those in China, which receive substantial government support and therefore do not rely on licensing revenue to fund R&D into new technology. However, a cornerstone of the U.S. patent system is the non-discriminatory treatment of inventions. Section 101 of the Patent Act states: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor.”⁹

Like many companies that participate in the global economy, Qualcomm holds patents in many countries and avails itself of governing laws to protect its patented technologies. A reciprocal patent system that respects and acknowledges these laws is vital for the U.S. to maintain its position as the world’s leader in inventing and developing emerging technologies. While we note that many foreign firms are frequent users of the PTAB, the U.S. patent system has procedures in place to protect strategic U.S. economic and national security interests. One procedure that helps the PTAB achieve this goal is its ability to use its discretion to deny institution of petitions in light of abuse of the system by litigants. The PTAB Reform Act of 2022’s curtailing of the Director’s discretion on institution would weaken the PTAB’s ability to combat abuse of the system, whether it comes from foreign or domestic firms.

8. *There has been a lot of controversy surrounding the last Administration’s decision to consider ongoing district court litigation, beyond the statutory time bars, when deciding whether to allow a patent challenge to move forward at the PTAB. PTO Director Kathi Vidal recently announced new agency guidance on discretionary denials related to civil actions. This guidance cabins the ongoing-litigation factors that can be a basis for denying institution.*
- a. Do you agree with Director Vidal’s interim procedures for dealing with parallel district court litigation?*
- b. What factors from the Fintiv decision or from Director Vidal’s guidance do you think should be left intact in a legislative compromise?*

We appreciate Director Vidal’s commitment to transparency and predictability at the PTAB and her dedication to promulgating regulations through notice-and-comment rulemaking. We plan to file comments as part of the rulemaking process on the application of *Fintiv*, but we generally support the balance that the Director has struck with her recent interim guidance. Any concerns about the PTAB’s use of its discretion under *Fintiv* should be addressed by this guidance. As shown in the PTAB Parallel Litigation Study that accompanied the Director’s interim guidance, *Fintiv* denials have dropped sharply in the last year, and the Director’s guidance should lead to even fewer denials, as it constrains PTAB panels from

⁹ 35 U.S.C. § 101.

exercising their discretion in certain situations, such as when a *Sotera* stipulation is present or when the panel finds that the petition's merits are plainly compelling. And as the Director noted in her guidance, it is imperative that she be allowed discretion to deny institution in light of parallel proceedings in order to combat potential abuses of the IPR system.

We support the Director's position of incentivizing patent challengers to agree to stipulate that they will not argue any invalidity grounds in parallel district court litigation that were raised or could have been raised in their IPR petition. Defendants who agree to so stipulate are using the PTAB as it was intended—a cost-effective alternative to district court litigation—mitigating concerns about duplication of efforts at the PTAB and district court. We remain concerned, however, that the PTAB has no authority to enforce these stipulations. We would therefore include a provision that required the stipulations to be filed with, and honored by, the district court, in any legislation on parallel proceedings in district court and the PTAB.

However, in cases where a patent challenger refuses to stipulate that it will not raise in district court any invalidity grounds that could have been raised in its IPR petition, the patent challenger has shown that it is not seeking to use the PTAB as an alternative to district court litigation, but is instead intentionally duplicating proceedings. If a petitioner is not willing to avoid duplication at the patent office and in district court, the standard for institution should be set high. One such way to overcome this bar could be by showing that the petition challenges a patent that is clearly invalid, similar to the Director's guidance that "compelling" petitions will be instituted regardless of parallel district court proceedings. Though we believe the Director's guidance on this point should more clearly state how difficult this standard should be to meet, we generally support the concept that the small subset of patents that clearly should not have been issued should be considered by the PTAB regardless of parallel proceedings.

Written Answers to Senators' Questions for the Record

July 13, 2022
 Timothy K. Wilson
 SAS Institute Inc.

Questions Submitted by Senator Patrick Leahy

1. Some claim that the PTAB is more likely to find a patent invalid than a district court, and that therefore patent owners prefer to have their patents' validity addressed in district court. But those arguments cherry-pick the *instituted* PTAB proceedings rather than looking at all filed petitions. My understanding is that, in fact, patents are invalidated in district court more often than they are invalidated at the PTAB.
 - a. Why do you think the invalidation rate is higher in district court?
 - b. Does this reflect an institutional bias in favor of patent owners? If so, what changes would you suggest to address this bias and ensure a level playing field for petitioners?
 - c. Why do you think patent owners are opposed to using the PTAB to address their patents' validity, when the PTAB is less likely to find a patent invalid? Do you believe it is related to economic factors, such as prolonged district court litigation making parties more likely to settle?

Answer:

In my opinion, some commentators who refer to the PTAB as "Patent Death Squads" tend to use the misleadingly inflated invalidation rate of instituted petitions that are subsequently invalidated. Obviously, most instituted petitions will result in invalid claims because the institution decision already requires that the PTAB has found that some claims are more likely than not invalid. That rate reflects several facts: (i) that the high bar for instituting a review is screening out unmeritorious petitions and (ii) that judges reviewing those petitions are doing their jobs. To get a more complete picture, it is necessary to look at outcomes for all petitions. According to the USPTO's FY2021 "End of Year Outcome Roundup," patent owners prevail completely 40% of the time (petition denied or all claims found to be patentable), while petitioners prevail completely 16% of the time (all claims found to be unpatentable).¹

PTAB challenges involve the patents that patent asserters are specifically choosing to assert, out of many other patents that never get asserted. If those asserting patents are choosing their best patents, the PTAB's invalidation of those patents may cast doubt over the quality of the rest of them. A more likely explanation may be that those asserting patents are intentionally choosing the worst patents to assert *because* of their vagueness and overbreadth.

¹ See PTAB Trial Statistics FY21 End of Year Outcome Roundup: IPR, PGR, CBM at 10 (available at https://www.uspto.gov/sites/default/files/documents/ptab_aia_fy2021__roundup.pdf).

An additional preliminary point is worth making explicitly. The current policy debate focuses too much on balancing the patent owner's interests with the petitioner's interests. That focus risks missing the most important interest at stake here: the public interest. The government should not grant private monopolies to those who have not truly invented the invention as claimed in the patent (they may or may not have actually made an invention, but that invention must be reflected clearly within the claims). All patents that should not have been granted harm the public interest, and the public benefits when those patents are invalidated. The simple fact is that invalid patents deserve to be invalidated for the benefit of the public. A petitioner that prevails in invalidating an invalid patent is doing an unmitigated public good, no matter who that petitioner is and, likewise, the PTAB is performing a service to the public by invalidating an invalid patent.

(a) As for comparing invalidity rates between district courts and the PTAB, I understand there have been reports over the past decade showing a higher rate of invalidation in district courts than in the PTAB. While any study of invalidity rates will contain countless assumptions, biases, and nuances, the overall conclusion stated in the question is not surprising because there are many reasons why district courts may invalidate patents at a higher rate.

First, a district court has more ways to find a patent invalid than the PTAB. After *Alice*, district courts have applied Section 101 declare numerous patents directed to abstract ideas ineligible. District courts can invalidate claims under Section 112. And even with regard to prior art, district courts are allowed to consider prior art like sales and public uses, while the PTAB is limited to patents and printed publications.

Second, PTAB proceedings and litigation proceedings differ significantly in many ways that may contribute to invalidity rates. The procedures and timelines are different. The vast majority of district court cases settle before a validity determination is made. Any analysis of decided validity issues will necessarily be a very small subset of the overall case volume, and there is little reason to believe that small subset is representative of the broader set. For example, cases that are meritorious may be more likely to settle if the defendant has real concern about infringing a valid patent. On the other hand, some cases with clearly invalid patents will sometimes settle if the plaintiff seeks such a small amount that the defendant decides the fight is not worth the money it would take. Indeed, the business model of many patent asserters relies on defendants doing this math and deciding to settle without regard for the merits.

(b) I do not think there is institutional bias towards patent owners at the PTAB compared to district courts. I think there are so many differences between the two fora that they are hard to compare apples to oranges by comparing invalidity rates. Instead, I would look to how they perform on appeal. If there were significant biases that led the PTAB to systematically different validity decisions as the district courts, I expect those would be balanced out on appeal because the same court reviews all patent appeals. Moreover, any potential bias would be mitigated by requiring the USPTO to make institution decisions to be based on the merits, rather than a balancing test of discretionary factors (like those in *Fintiv*) that carries a significant risk of uneven application.

(c) In my view, patent owners that assert patents with invalid claims do not want to use the PTAB to address their patents' validity because they view the PTAB as all downside. In other words, if the goal is to assert an invalid patent, the last thing the patent owner wants is an accurate determination of validity in the PTAB. If the patent owner is trying to assert the patent and a district court stays litigation to allow a PTAB review to proceed, the patent owner loses the leverage of the litigation to force settlement. No longer can the patent owner attempt to use litigation costs and business distraction to drive settlements that are not warranted by the merits. In my experience and based on discussions with many others since the AIA passed, the nuisance value that patent owners can extract from non-meritorious patent assertions dropped by an order of magnitude following the passage of the AIA.

However, patent owners that assert patents with valid claims might prefer to use the PTAB because their patents will now more quickly and efficiently become the "gold plated" patents that all patent owners seek due to the estoppel against the petitioner. They will be able to use those gold plated patents to enforce their proprietary positions in markets against their competitors exactly as envisioned by the framers of the Constitution, and the public interest will have been served by encouraging the disclosure of important inventions in exchange for the time-limited right.

2. In Congress, I periodically hear references to abuses of the PTAB process by petitioners, but stakeholders' views on what is or is not abusive differ significantly.

- a. What types of uses of the PTAB are abusive and why?
- b. If a petitioner files a meritorious petition that demonstrates that a patent should never have been issued, should its motivation for challenging that patent matter? Why?
- c. Does the cancellation of invalid patent claims benefit or harm the public?

Answer:

As a preliminary point, I want to reiterate that it serves the public interest to invalidate patents that should not have been issued in the first place. From that point of view, the motives of the petitioner are irrelevant. And while I agree with the premise that some commentators do complain about abuses, those situations seem anecdotal and infrequent. I will provide specific answers to the questions posed, but I do not believe abusive practices at the PTAB are a pervasive issue.

(a) In my view, it would be improper to file a PTAB petition for a purpose other than truly wanting the PTAB to determine validity. For example, I believe it is improper for a non-practicing petitioner to file IPRs solely to force a settlement where the patent owner pays the petitioner to drop the challenge. I do not believe this to be a pervasive problem at the PTAB today but would favor creating narrow legislative language to address this type of abuse.

(b) If a petitioner files a meritorious petition that demonstrates that a patent should never have been issued, only in limited circumstances should the petitioner's motivation matter. For example, if the petitioner has no intention to see the proceeding through to a decision and is solely interested in forcing a payment from the patent owner to settle the IPR, that is an improper purpose. But for cases that proceed to a final decision invalidating patent claims, that result is a great public benefit regardless of the petitioner's motives.

(c) As I have mentioned above, the cancellation of invalid claims benefits the public greatly. Any time the government incorrectly grants a private party a 20-year monopoly, the public loses.

3. The PTAB exists in recognition that patents that never should have issued create a drag on the economy.

- a. How can inter partes review and post-grant review be strengthened to ensure patent quality and promote the innovation that is so vital to U.S. global competitiveness?**

Answer:

I agree with the premise that patents that should never have been granted harm the economy. Apart from deterring other innovation through avoidance, erroneously issued patents provide fodder for meritless litigation that distracts corporate attention from doing business and wastes untold resources in legal fees instead of R&D and providing jobs. This is especially troubling when non-transparent foreign sovereign wealth funds, hedge funds, and novel litigation finance schemes, merely seek a return on their investments without regard to the harm caused by holding up American businesses through using the cost of litigation. It may be worth this subcommittee's time and effort to investigate who ultimately benefits from the vast majority of patent litigation in this country.

(a) There are many potential ways to strengthen IPR and PGR proceedings. For example:

- Add Section 101 (patent ineligibility) as a ground for review.
- Add Section 112 (enablement, indefiniteness, adequacy of description) as a ground for review.
- Add a process for examining amended claims in PTAB proceedings to ensure the USPTO never issues unexamined claims.
- Lengthen the one-year time bar for PGR petitions to prevent gamesmanship by patent owners. For example, one year after the petitioner learns of the patent.

Patents are not property like real estate. Unlike real property, the metes and bounds of patents are not only fuzzy but they often overlap. If we can trust the PTO to grant patents in the first place, we must entrust them to take a second look where warranted, and, of course, the Federal Circuit

provides a backstop to make sure the PTAB continues to issue quality decisions about the validity of issued patents and ensure the public interest.

Questions Submitted by Senator Thom Tillis

1. What specifically do you like and what do you not like about our introduced bill?

Answer:

Overall, I believe the introduced bill is a fair compromise. As to the specific provisions:

- I **strongly support** the idea of removing *Fintiv* denials. These denials were never contemplated during the AIA process whereby the interests of all stakeholders were considered, and meaningful compromises were already made. I would, however, prefer this to be achieved by eliminating discretionary denials altogether.
 - On this provision, the introduced language causes me some concern. I am worried the 314(f)(2) exception will swallow the rule. That exception permits denial based on parallel proceedings in district court if the court proceeding is considered with respect to the determination under 314(a) that there is a reasonable likelihood the petitioner will prevail on at least one challenged claim. I am concerned the PTO may use that exception to continue discretionary denials, for example, by considering aspects of the invalidity defense in the civil litigation.
 - The 314(f) exception also broadly refers to “an ongoing civil litigation” – much broader than litigation specifically between the petitioner and patent owner over the challenged patent.
 - I **strongly support** the addition that the one-year time bar does not apply when a complaint is filed but then dismissed without prejudice. This will help avoid gamesmanship.
 - I **strongly support** the addition clarifying that the patent owner has the burden to show patentability for substitute claims on all grounds of patentability, including sections 101 and 112. It is critical that the PTO never issues claims that have not been scrutinized under all statutory provisions.
 - I **support** the provisions regarding Director review of decisions by the PTAB.
 - I am, however, concerned that requests for Director review become routine in every case, in turn making proceedings more expensive across the board and the review less meaningful in each individual case. The USPTO should consider charging additional fees for these reviews, as the Director’s time is limited and valuable.
 - I **support** the addition of an IPR window after a reexamination.
 - I **support** the provision providing appellate standing for anyone subject to the estoppel.
- ***
- I **can get on board with** the motivations behind the provisions about the PTAB’s operations including the applicability of the Code of Conduct for Judges to ALJs, the prohibition on ex

parte communication, and transparency in panel composition. While I do not believe these changes are necessitated by systematic problems, they are a net positive, so I support them.

- **I can get on board with** the provisions requiring the Director to decide what to do with multiple proceedings as well as making the result reviewable by petition.
 - I am concerned the piece about “termination” that may allow dismissal of meritorious petitions.
- **I can get on board with** the limitation of RPI evidence to information relevant to a statutory bar from participating, to avoid just broad RPI discovery even where unnecessary.
- **I can get on board with** the provisions regarding sanctions for abusive behavior by petitioners, although I do not believe there are widespread problems today in this regard.
- **I can get on board with** the idea of fee provisions for small and micro entities, but I have concerns about abuses. While I agree with the goals of this provision, I am fearful that creative non-practicing entities will find ways to take advantage of this fee support through novel business models.

- **I do not support** the provision noting that Director decisions can be designated as “precedential” because I do not agree the PTAB should be issuing any decisions as “precedential.” The PTAB is not a court. Additionally, this practice may not be consistent with the APA because it does not follow traditional notice-and-comment procedures.
- **I do not support** the claim construction standard codified away from PTO’s traditional use of BRI. I would prefer to codify the BRI standard.
 - If used at all in the PTAB, the standard used in civil proceedings should be limited to the review of the issued claims. Any substitute claims should be subject to the BRI standard because they are getting their first real scrutiny.

- **I strongly oppose** the limit on repeated petitions. If it stays in the bill, it should stay limited to same-party restrictions. It is important that a party that is sued on a patent always has the right to challenge the claims of that patent once in the PTAB. A party should never be deprived of this right based solely on the actions of others.
2. Regarding what you don’t like in our bill, why don’t you like it, and what would you like to see changed? When answering, please keep in mind that a balance must be struck between all interested and relevant parties.

Answer:

See my answer to Question #1, above.

3. How specifically can our introduced bill be made fairer to patent owners?

Answer:

It is already very fair to patent owners. There is a lot of compromise already in here. There was plenty of compromise in the AIA and the patent owners got much of what they wanted.

- 4. What are your thoughts regarding the introduced bill's ban on institution of serial petitions? How can it be improved?**

Answer:

See my answer to Question #1, above. The bill can be improved by requiring the Director to institute on any meritorious petition. There may be legitimate reasons justifying the second petition. For example, the petitioner, acting with reasonable diligence, may discover new, better prior art after already filing a first petition. By completely banning second petitions by the same party, the provision gives no weight to the important public interests in cancelling patents than should never have been issued.

- 5. What are your thoughts regarding the introduced bill's codification of the Phillips standard? How can it be improved?**

Answer:

See my answer to Question #1, above. The bill can be improved by instead codifying the BRI standard. As an alternative, substitute claims should be subject to the BRI standard because they are getting their first real scrutiny.

- 6. What are your thoughts regarding the introduced bill's coverage of reasonable fees for small and micro entities who face challenges at the PTAB?**

Answer:

See my answer to Question #1, above. I like the idea but worry about gamesmanship by actors in the patent assertion industry, which has never shown a lack of creativity in devising new business models and financing schemes.

- 7. What are your thoughts regarding the introduced bill's increased transparency regarding decisions – whether they are made by the USPTO Director or PTAB administrative patent judges?**

Answer:

See my answer to Question #1, above. I support these provisions.

- 8. Does the introduced bill's sanction of bad-faith challengers who offer to deliberately delay or lose an instituted challenge in exchange for consideration go far enough to end gamesmanship? Are there any additional steps that can be taken to address gamesmanship?**

Answer:

See my answer to Question #1, above. I do not see a pervasive problem involving bad faith behavior by petitioners, but I agree this behavior should be discouraged. In my view, the most effective deterrents are those that put lawyers' credentials on the line.

- 9. What are your thoughts regarding establishing a presumption of validity for patents that are being challenged at the PTAB?**

Answer:

There should be no presumption of validity in the PTAB. To get over the institution threshold in the first place, a petitioner has already demonstrated there is no reason to defer to the examiner. In fact, once that threshold is met, the original decision to issue the patent has been called into serious question. It would make little sense to give deference to that decision.

In fact, the district court standard is what needs to be changed. Patents should be presumed valid based on the examination they actually receive. In practice, applicants argue for the validity of their independent claims, and the dependent claims get approved because they depend from an allowable claim. While the independent claims may deserve a presumption of validity because the examiner found them to be distinguishable from all the identified prior art, the dependent claims *have not ever been independently approved* by the examiner. Instead, they are often trivial variations on the independent claims.

For example, claim 1 of a patent may be a lengthy claim describing the invention, and claim 2 (which depends from claim 1) may add a trivial detail such as "wherein the input device is a keyboard." If the examiner approves claim 1 as patent worthy, claim 2 will be approved "for free" by virtue of the claim dependency, not because it is independently novel and nonobvious beyond claim 1. Obviously, a keyboard is not new; nor is using one as an input device because that is the point of a keyboard. But if claim 1 is later shown to be invalid based on some prior art the examiner did not find, the current statute would still apply the presumption of validity for claim 2, even though it only added a trivial detail.

The impact of this disconnect becomes magnified because most patents have very few independent claims and many more dependent claims. For that reason, *most claims issuing in any given year do not deserve any presumption of validity.*

Instead of this nonsensical approach, which applies a presumption of validity for dependent claims based on an examination that does not happen, the statute should be modified to make clear that the presumption should be limited to the independent claims.

10. What are your thoughts regarding establishing a standing requirement for institution of a petition at the PTAB?

Answer:

I do not think there should be any standing requirement for PTAB petitions.

If a company finds a patent that is a blocker, it should be able to challenge it even if the patent owner has never approached the company. Also, the grant of a patent restricts the entire public. Members of the public should be able to file to protect the public domain.

11. Are there any additional measures that we should consider as part of a comprehensive PTAB reform bill?

See my answer to Question #1, above. In addition, I believe there are many potential ways to strengthen IPR and PGR proceedings. For example:

- Add Section 101 (patent ineligibility) as a ground for review.
- Add Section 112 (enablement, indefiniteness, adequacy of description) as a ground for review.
- Add a process for examining amended claims in PTAB proceedings to ensure the USPTO never issues unexamined claims.
- Lengthen the one-year time bar for PGR petitions to prevent gamesmanship by patent owners. For example, it could be one year after the petitioner learns of the patent.

**United States Court of Appeals
for the Federal Circuit**

CENTRIPETAL NETWORKS, INC.,
Plaintiff-Appellee

v.

CISCO SYSTEMS, INC.,
Defendant-Appellant

2021-1888

Appeal from the United States District Court for the
Eastern District of Virginia in No. 2:18-cv-00094-HCM-
LRL, Senior Judge Henry C. Morgan, Jr.

Decided: June 23, 2022

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ANDREW JOHN PINCUS, Mayer Brown LLP, Washington, DC, for amicus curiae High Tech Inventors Alliance. Also represented by CARMEN LONGORIA-GREEN.

Before DYK, TARANTO, and CUNNINGHAM, *Circuit Judges*.
DYK, *Circuit Judge*.

Appellant Cisco Systems, Inc. (“Cisco”) appeals from the judgment of the U.S. District Court for the Eastern District of Virginia holding that Cisco willfully infringed claims 9 and 17 of U.S. Patent No. 9,203,806 (“the ’806 patent”); claims 11 and 21 of U.S. Patent No. 9,560,176 (“the ’176 patent”); claims 18 and 19 of U.S. Patent No. 9,686,193 (“the ’193 patent”); and claims 24 and 25 of U.S. Patent No. 9,917,856 (“the ’856 patent”). The court awarded enhanced damages and royalties exceeding \$2.75 billion to patentee-appellee Centripetal Networks, Inc. (“Centripetal”). See *Centripetal Networks, Inc. v. Cisco Sys., Inc.*, 492 F. Supp. 3d 495, 608 (E.D. Va. 2020) (“*Merits Op.*”).

Because we hold that the district court judge was disqualified from hearing the case once he became aware of his wife’s ownership of Cisco stock on August 11, 2020, see 28 U.S.C. § 455(b)(4), we reverse the district court’s denial of Cisco’s motion for recusal, *Centripetal Networks, Inc. v. Cisco Sys., Inc.*, 492 F. Supp. 3d 615 (E.D. Va. 2020) (“*Recusal Op.*”), vacate all orders and opinions of the court entered on or after August 11, 2020, including the final

judgment, and remand for further proceedings before a different district court judge.

BACKGROUND

This case began on February 13, 2018, when Centripetal sued Cisco for infringement of ten of Centripetal's U.S. patents in the Eastern District of Virginia.¹ The patents relate to systems that perform computer networking security functions. Cisco petitioned for *inter partes* review ("IPR") of many of the asserted claims, and Centripetal subsequently narrowed the claims in the district court proceeding to those not undergoing IPR.²

The case was originally assigned to Judge Mark S. Davis. On November 6, 2018, Centripetal requested that the case be reassigned to Judge Henry C. Morgan, Jr., who had recently presided over a jury trial involving related technology and five of the same patents. That motion was granted on November 27, 2018, over Cisco's opposition. Beginning on May 6, 2020, Judge Morgan presided over a 22-day bench trial, which included an over 3,507-page record, 26 witnesses, and over 300 exhibits. Judge Morgan heard final arguments on June 25, 2020.

While the case was still pending before him, Judge Morgan learned that his wife owned Cisco stock. He sent an email to the parties on August 12, 2020, notifying them that while preparing his 2019 financial disclosure report to

¹ On March 29, 2018, Centripetal filed an Amended Complaint adding infringement of claims 1–25 of the '856 patent to its causes of action, bringing the total number of asserted patents to eleven. *See* Am. Compl. at 157 (¶ 356), ECF No. 29, Case No. 18-cv-94-HCM-LRL (E.D. Va. Mar. 29, 2018).

² The Patent Trial and Appeal Board later found the claims of six related patents, which are not the subject of these proceedings, to be unpatentable.

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the judiciary the previous day, his judicial assistant had discovered that his wife owned 100 shares of Cisco stock valued at \$4,687.99. The judge informed the parties that his wife had purchased the stock in October 2019 on the advice of her stockbroker and had “no independent recollection of approving the transaction.” *Recusal Op.*, 492 F. Supp. 3d at 617. He further explained that at the time he was informed of the existence of the stock, a “full draft of [his] opinion [on the bench trial] had been prepared” and “[v]irtually every issue was decided prior thereto.” *Id.* (citation omitted). Finally, he stated that the “shares did not and could not have influenced [his] opinion on any of the issues in th[e] case.” *Id.* (internal quotation marks and citation omitted).

The statute governing recusal of federal judges in such circumstances is 28 U.S.C. § 455. It provides, in relevant part:

- (a) Any justice, judge, or magistrate of the United States shall disqualify himself in any proceeding in which his impartiality might reasonably be questioned.
- (b) He shall also disqualify himself in the following circumstances: . . .
 - (4) He knows that he, individually or as a fiduciary, or his spouse or minor child residing in his household, has a financial interest in the subject matter in controversy or in a party to the proceeding, or any other interest that could be substantially affected by the outcome of the proceeding. . .
- (c) A judge should inform himself about his personal and fiduciary financial interests, and make a reasonable effort to inform himself about the personal financial interests of his

spouse and minor children residing in his household. . . .

- (f) Notwithstanding the [above], if any . . . judge . . . would be disqualified, *after substantial judicial time has been devoted to the matter*, because of the appearance or discovery, after the matter was assigned to him or her, that he or she individually or as a fiduciary, or his or her spouse . . . *has a financial interest in a party* (other than an interest that could be substantially affected by the outcome), disqualification is not required if the . . . judge [or his spouse], as the case may be, *divests himself or herself of the interest that provides the grounds for the disqualification*.

28 U.S.C. § 455 (emphasis added).

Following Judge Morgan’s disclosure, Centripetal notified the court that it had no objection to the judge’s continuing to preside over the case. *Recusal Op.*, 492 F. Supp. 3d at 617–18. Cisco, on the other hand, filed a motion for miscellaneous relief nine days later (hereinafter “Motion for Recusal”), requesting Judge Morgan’s recusal under both § 455(a) and (b)(4). *Id.* at 618. Judge Morgan ordered Centripetal to file a response. Centripetal opposed the Motion for Recusal on the grounds that § 455(b)(4) was inapplicable and, even if it were applicable, the § 455(b)(4) violation could be cured by divestiture pursuant to § 455(f).

On September 9, 2020, Judge Morgan heard oral argument on the motion. At the hearing, Judge Morgan stated that at the time he learned of his wife’s ownership of the Cisco stock, he had already completed a 130-page draft of his opinion, though he had not “decided 100 percent of it.” J.A. 18580. He told the parties that although he recognized “the simplest thing would be to sell the stock,” he had “already strongly indicated that [he] might be considering awarding damages in the case” by “ask[ing] for additional

evidence on damages” at trial, “and that might mean that [the final] judgment would have an adverse effect upon Cisco’s stock.” J.A. 18577. Selling the stock in light of that possibility, he said, “would defeat the very purpose of the Rules,” implying concern about insider trading. *Id.*

Accordingly, Judge Morgan explained, instead of selling his wife’s stock, he had it placed in a blind trust set up solely for the Cisco stock. Under the terms of the trust, Judge Morgan was to be notified when the trust assets had been completely disposed of or when their value became less than \$1,000. *See* Appellant’s Suppl. Br. 4. There is no suggestion in the briefs or record that Judge Morgan received any such notification while the case was pending before him.

On October 2, 2020, Judge Morgan issued an opinion and order denying Cisco’s Motion for Recusal. Therein, he concluded that because “a reasonable person would not conclude that [he had known] of th[e] interest [in Cisco] and yet heard the case[,] . . . [§] 455(a) d[id] not warrant recusal.” *Recusal Op.*, 492 F. Supp. 3d at 622. As for § 455(b)(4), Judge Morgan found it did not apply in this case because he had not discovered his wife’s interest in Cisco until he had decided “virtually” every issue and “mostly drafted [the] opinion.” *Id.* at 623. Even if § 455(b)(4) did apply, Judge Morgan concluded that placing the Cisco shares in a blind trust “cured” any conflict because it constituted “divestiture” under a safe harbor provided by § 455(f). *Id.* at 624.

On October 5, 2020, Judge Morgan issued a 167-page Opinion and Order containing his findings of fact and conclusions of law that Cisco willfully infringed the asserted claims of the ’856, ’176, ’193, and ’806 patents. He awarded Centripetal damages of \$755,808,545 (enhanced 2.5 times to \$1,889,521,362.50), pre-judgment interest of \$13,717,925, and “a running royalty of 10% on the apportioned sales of the accused products and their successors

for a period of three years followed by a second three year term with a running royalty of 5% on said sales.” *Merits Op.*, 492 F. Supp. 3d at 608.

Cisco moved for amended findings and judgment under Rule 52(b) with respect to direct infringement and damages and for a new trial under Rule 59(a)(2). *See Centripetal Networks, Inc. v. Cisco Sys., Inc.*, 526 F. Supp. 3d 137, 139–40 (E.D. Va. 2021). The court denied those motions on March 17, 2021. *Id.* at 140. Cisco timely appealed to this court, raising issues pertaining to the district court’s infringement and damages findings and also raising the question “[w]hether the district judge should have recused himself under 28 U.S.C. § 455(b).” Appellant’s Br. at 5. On March 18, 2022, we issued an order limiting the issues to be addressed at oral argument solely to the recusal issue. Following the April 4, 2022 oral argument, we granted Centripetal’s motion for leave to file supplemental briefs on the recusal issue. That briefing concluded on April 29, 2022.

We have jurisdiction over this matter under 28 U.S.C. § 1295(a)(1).

DISCUSSION

Cisco has waived any argument that Judge Morgan was disqualified from hearing the case under § 455(a).³ Rather, Cisco argues that Judge Morgan was required to recuse under § 455(b)(4) absent divestiture under § 455(f). We agree. Indeed, Centripetal itself does not dispute that recusal was required absent divestiture. *See* Appellee’s Resp. Br. at 60; Appellee’s Suppl. Br. at 2. There are thus two primary questions before us. The first is whether Judge Morgan was relieved of his duty to disqualify under § 455(b)(4) because his wife had “divest[ed] . . . herself of

³ Recusal under § 455(a) may be waived, but recusal under § 455(b) cannot be waived. *See* § 455(e).

the [financial] interest [in Cisco]” pursuant to § 455(f). If we conclude that the requirements of § 455(f) were not satisfied, the second question is the proper remedy, which turns in large part on whether Judge Morgan’s failure to disqualify himself was harmless error. *See Liljeberg v. Health Servs. Acquisition Corp.*, 486 U.S. 847, 862 (1988).

We review a district court’s denial of a motion for recusal for abuse of discretion. *See United States v. Mitchell*, 886 F.2d 667, 671 (4th Cir. 1989); *see also Shell Oil Co. v. United States*, 672 F.3d 1283, 1288 (Fed. Cir. 2012) (“Consistent with the vast majority of courts to consider this issue, we review a judge’s failure to recuse for an abuse of discretion.”).⁴

I

We first address whether placement of the Cisco stock in a blind trust satisfied the statutory requirements of § 455(f). Section 455(f) stands as the only exception to the bright-line rule that a federal judge is disqualified “based on a known financial interest in a party.” *Chase Manhattan Bank v. Affiliated FM Ins. Co.*, 343 F.3d 120, 127 (2d Cir. 2003). As noted above, it provides:

Notwithstanding [§ 455(a) and (b)(4)], if any . . . judge . . . would be disqualified, *after substantial judicial time has been devoted to the matter*,

⁴ We have indicated that recusal motions are governed by the law of the regional circuit. *See Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 882 F.2d 1556, 1567 n.8 (Fed. Cir. 1989). Here, whether we apply the law of this Circuit or the Fourth Circuit, the outcome is the same. Whether applying the regional circuit law is the correct approach in light of the substantial interest in having a uniform standard on issues of recusal, with respect to the various trial-level tribunals that we review, must await another case.

because of the appearance or discovery, after the matter was assigned to him or her, that he or she individually or as a fiduciary, or his or her spouse . . . has a financial interest in a party (other than an interest that could be substantially affected by the outcome), disqualification is not required if the [] judge [or his spouse], as the case may be, *divests himself or herself of the interest that provides the grounds for the disqualification.*

§ 455(f) (emphasis added).

Here, there is no dispute that the Cisco stock constitutes a “financial interest” and that “substantial judicial time [had] been devoted to the matter,” such that Judge Morgan’s wife could have divested herself of that interest under § 455(f) to avoid the judge’s disqualification.⁵ What is disputed between the parties is whether her placement of the stock in a blind trust qualified as divestment.

A “blind trust” is “an arrangement whereby a person, such as a public official, in an effort to avoid conflicts of interest, places certain personal assets under the control of an independent trustee with the provision that the person is to have no knowledge of how those assets are managed.”

⁵ Cisco does not suggest that divestiture under § 455(f) was unavailable because Judge Morgan’s wife’s interests would be “substantially affected” by the outcome.

We have no occasion to decide if divestment under § 455(f) would alleviate the need to recuse in all cases. Some courts suggest that it does not apply in all cases. *See, e.g., Union Carbide Corp. v. U.S. Cutting Serv., Inc.*, 782 F.2d 710, 715 (7th Cir. 1986) (“We do not mean to endorse sale as a cure for disqualification in all cases[;] Section 455(b) is only one node in the network of statutory and non-statutory ethical principles that control the conduct of federal judges.”).

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Blind Trust, Webster's New World Dictionary 149 (3d ed. 1988). According to Centripetal, placing the stock in the blind trust qualified as divestment.

Although it is well established that selling a financial interest in a company qualifies as divestment,⁶ Centripetal admits that there are no cases holding that placement of stock in a blind trust constitutes divestment. The only authority Centripetal cites for its argument that placing stock in a blind trust is a valid divestment mechanism under § 455(f) is an unsupported assertion in a law review article. See Appellee's Resp. Br. at 60 (citing Marianne M. Jennings & Nim Razook, *Duck When a Conflict of Interest Blinds You: Judicial Conflicts of Interest in the Matters of Scalia and Ginsburg*, 39 U.S.F. L. Rev. 873, 904 (2005)).

In a case turning on statutory interpretation, “our first job is to try to determine congressional intent, using traditional tools of statutory construction.” *Dole v. United Steelworkers of Am.*, 494 U.S. 26, 35 (1990) (quoting *NLRB v. Food & Com. Workers*, 484 U.S. 112, 123 (1987)). “Our ‘starting point is the language of the statute,’” *id.* (quoting *Schreiber v. Burlington N., Inc.*, 472 U.S. 1, 5 (1985)), but we also “look to the provisions of the whole law, and its object and policy,” *id.* (quoting *Massachusetts v. Morash*, 490 U.S. 107, 115 (1989)); see also *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 291 (1988) (same).

Because § 455 does not define “divest,” we look first to the word’s “ordinary meaning . . . at the time Congress

⁶ See, e.g., *In re Certain Underwriter*, 294 F.3d 297, 300–04 (2d Cir. 2002) (finding that district court judge’s sale of stock in parties constituted divestment); see also *In re Initial Pub. Offering Sec. Litig.*, 174 F. Supp. 2d 70, 81–90 (S.D.N.Y. 2001) (tracing legislative history to support holding that a judge may continue to preside over a matter if she sells stock in a party).

enacted the statute.” *Wis. Cent. Ltd. v. United States*, 138 S. Ct. 2067, 2070 (2018) (quoting *Perrin v. United States*, 444 U.S. 37, 42 (1979)); see *Mohamad v. Palestinian Auth.*, 566 U.S. 449, 454 (2012) (citing *FCC v. AT&T Inc.*, 562 U.S. 397, 403 (2011)). When Congress enacted § 455(f) in 1988, Judicial Improvements and Access to Justice Act, Pub. L. No. 100-702, 102 Stat. 4642, 4667 (1988), “divest” was ordinarily understood to mean to “dispossess or deprive,” *Divest*, 1 *Webster’s Third New International Dictionary* 663 (1986); see also *Divest*, *Webster’s New World Dictionary* 400 (3d ed. 1988) (same); *Divest*, 4 *Oxford English Dictionary* 889 (2d ed. 1988) (same). What must be “divested” under § 455(f) is “the financial interest” giving rise to the disqualification. The statute defines “financial interest” as “ownership of a legal or equitable interest, however small.” § 455(d)(4) (emphasis added). Thus, it logically follows that to “divest” oneself of “ownership” of a legal or equitable interest is possible only if one is “deprived or dispossesse[d]” of ownership—something that is possible only if the interest is sold or given away.

Also telling is Congress’s use of the present tense in § 455(b)(4), providing that a judge should not sit when he or she “has a financial interest” in a party. That verb usage suggests that selling or donating the stock is the only cure envisioned under § 455(f). But at the time of Judge Morgan’s actions, his wife still “ha[d] a financial interest” in Cisco. While placing the stock in a blind trust removed her control over the stock, it did not eliminate her beneficial interest in Cisco.

There is authority suggesting that placement of stock in a blind trust does not constitute divestiture. The Judicial Conference’s Committee on Codes of Conduct has ruled, well before the events of this case, that “[a] judge’s use of a blind trust does not obviate the judge’s recusal obligations.” Advisory Op. 110, Comm. on Codes of Conduct, Jud. Conf. of the U.S. (Aug. 2013); see also M. Margaret McKeown, *To Judge or Not to Judge: Transparency and*

Recusal in the Federal System, 30 Rev. Litig. 653, 669 n.57 (2011) (“[A] judge cannot avoid recusal by placing assets in a blind trust . . .”). We are entitled to give some weight to the committee’s views because Congress enacted § 455(b) to match Canon 3C of the Code of Judicial Conduct, which provides in relevant part that a judge “shall disqualify himself in a proceeding” where he “knows that he . . . or his spouse . . . has a financial interest . . . in a party to the proceeding,”⁷ and to ensure that statutory and ethical duties were consistent with each other, see H.R. Rep. No. 93-1453 (1974), reprinted in 1974 U.S.C.C.A.N. 6351, 6351, 6353 (amendments to § 455 were meant to “conform generally with the recently adopted canon of the Code of Judicial Conduct which relates to disqualification of judges for bias, prejudice or conflict of interest” in order to make “both the statutory and the ethical standard virtually identical”); *Liljeberg*, 486 U.S. at 858 n.7 (explaining that the 1974 amendment to § 455 was “to conform with the recently adopted ABA Code of Judicial Conduct, Canon 3C”); see also *Union Carbide Corp. v. U.S. Cutting Serv., Inc.*, 782 F.2d 710, 715 (7th Cir. 1986) (“In matters of judicial ethics[,] we are bound to give some weight to the view of the committee of judges that the Judicial Conference of the United States has established to advise federal judges on ethical questions.”).

There are, moreover, two central purposes of the statute that would be undermined by defining divestment to include placement of stock in a blind trust. First, unless the trustee immediately sold the stock interest upon creation of the blind trust (which did not occur here), the blind trust would allow a judge to continue to sit on a case for which he knows he or his spouse has a beneficial interest

⁷ See Code of Judicial Conduct for United States Judges, Canon 3(C)(1)(c), reprinted in 69 F.R.D. 273, 277 (1975).

in the outcome, in direct contravention of the statute's purpose. *See Chase*, 343 F.3d at 128 ("Congress has . . . provided that a known financial interest in a party, no matter how small, is a disqualifying conflict of interest and one that cannot even be waived by the parties."). The significance of this factor is apparent in how the Executive Branch handles corresponding rules governing recusal of executive branch officials who have a "financial interest" in a particular government action. *See* 18 U.S.C. § 208(a). A regulation interpreting § 208 "and other Federal conflict of interest statutes and regulations" provides that recusal rules continue to "apply to the assets that an interested party transfers to [a blind] trust until such time as he or she is notified by the independent trustee that such asset has been disposed of or has a value of less than \$1,000." 5 C.F.R. § 2634.403(a)(2).⁸ The reason for this requirement, the regulation provides, is that until the interest is disposed of, "the interested party knows what assets he or she placed in the trust" and therefore, "the possibility still exists that the interested party could be influenced in the performance of official duties by those interests." *Id.*

Second, even if the trustee had sold the stock at the time the blind trust was created, the exception provided under § 455(f) is nevertheless a narrow one, and construing "divest" to include placement of stock in a blind trust would be in direct conflict with another provision of the statute. Section 455(c) provides that "[a] judge should inform himself about his personal and fiduciary financial interests,

⁸ The \$1,000 limit for the executive branch is not applicable to judges. Any interest, "however small," is disqualifying. *In re Va. Elec. & Power Co.*, 539 F.2d 357, 368 (4th Cir. 1976) ("If a judge has an ownership interest in a party or in the subject matter in controversy, it matters not at all whether the interest is a large or infinitesimally small amount.").

and make a reasonable effort to inform himself about the personal financial interests of his spouse and minor children residing in his household.” This was exactly the Judicial Conference Committee’s concern in Advisory Opinion 110. It explained that “[t]he Committee has consistently advised that the use of a blind trust would be incompatible with a judge’s duty to ‘keep informed’ about financial interests under Canon 3C(2),” after which § 455(c) is modeled. Advisory Op. 110. That logic makes sense here, since there would have been no way for Judge Morgan to keep informed of his personal financial interests (and thus comply with his obligations under § 455(c)), if his or his wife’s stock were kept in a blind trust, which is, by definition, designed to shield him from such knowledge.⁹

* * *

In light of the foregoing, we hold that placing assets in a blind trust is not divestment under § 455(f), and Judge Morgan was disqualified from further proceedings in the case under § 455(b)(4).

⁹ Although Judge Morgan suggested there would be an appearance of insider trading if he sold the stock, no such possibility exists. Selling the stock to comply with ethical obligations is not insider trading, as was made clear in the Stop Trading on Congressional Knowledge Act of 2012 (“STOCK Act”), Pub. L. 112–105, 126 Stat. 291, 298 (2012). Although the STOCK Act provides that the insider trading restrictions of securities law apply to judicial employees (as well as to members of Congress and other federal officials), it states that nothing in the Act shall be construed to “be in derogation of existing . . . ethical obligations governing . . . judicial officers.” *Id.* at 297–98. Here, the sale of the stock would have been done to comply with ethical obligations.

II

We next consider the appropriate remedy. “Although § 455 defines the circumstances that mandate disqualification of federal judges, it neither prescribes nor prohibits any particular remedy for a violation of that duty.” *Liljeberg*, 486 U.S. at 862. Here, the question is whether the rulings Judge Morgan made after August 11, 2020, when he became aware of his wife’s financial interest in Cisco, should be vacated as a remedy for his failure to recuse.

As we explained in *Shell*, to determine whether vacatur is the appropriate remedy for a violation of § 455(b), we apply the harmless error analysis set forth by the Supreme Court in *Liljeberg*. Under that test, “mandatory recusal does not require mandatory vacatur.” *Shell*, 672 F.3d at 1293; see also *Williamson v. Ind. Univ.*, 345 F.3d 459, 464–65 (7th Cir. 2003) (finding vacatur “is not automatically justified” for a violation of § 455 “if [the] error was harmless”). Although *Liljeberg* involved a violation of § 455(a), it is now well-recognized that the harmless error analysis applies equally to violations of § 455(b). See *Shell*, 672 F.3d at 1292; *Polaroid Corp. v. Eastman Kodak Co.*, 867 F.2d 1415, 1421 (Fed. Cir. 1989); see also *Patterson v. Mobil Oil Corp.*, 335 F.3d 476, 485 (5th Cir. 2003) (“[W]e are confident that § 455(b) violations are also subject to the doctrine of harmless error.”).¹⁰

¹⁰ Another distinction is that *Liljeberg* involved a Rule 60(b) motion, whereas this case involves a motion for recusal. This court and others have held that the same analysis generally applies to motions for recusal and Rule 60(b) motions. See *Polaroid Corp. v. Eastman Kodak Co.*, 867 F.2d 1415, 1421 (Fed. Cir. 1989); *In re Sch. Asbestos Litig. v. Kelly*, 977 F.2d 764, 785 (3d Cir. 1992). However, in the Rule 60(b) context, the interests of finality must be

Under *Liljeberg*, there are three factors courts should consider when deciding whether to vacate a judgment: (1) “the risk of injustice to the parties in the particular case”; (2) “the risk that the denial of relief will produce injustice in other cases”; and (3) “the risk of undermining the public’s confidence in the judicial process.” 486 U.S. at 864. Each of these factors weighs against a finding of harmless error in this case.

A

1

There are several circumstances in which courts have found the first *Liljeberg* factor—“the risk of injustice to the parties in the particular case”—weighs in favor of finding harmless error for violations of § 455. None is present in this case.

The first is where the ruling involves a pure question of law that is subject to plenary review on appeal, a posture that some courts in some circumstances have found relevant.¹¹ That is not what we have here. The rulings at issue

given due weight. See *Buck v. Davis*, 137 S. Ct. 759, 779 (2017) (citing *Gonzalez v. Crosby*, 545 U.S. 524, 529 (2005)).

¹¹ See *United States v. Cerceda*, 172 F.3d 806, 813 n.10 (11th Cir. 1999) (en banc) (“In cases where the Court of Appeals reviews a district judge’s challenged actions and affirms them on the merits either before or at the same time it considers whether the judge violated section 455(a), the possibility of a significant risk of injustice is substantially reduced—particularly if the review of the merits was plenary.”); see also *Williamson*, 345 F.3d at 464–65 (“On appeal, this court reviews the grant of summary judgment *de novo* . . . and therefore Williamson has received a full review by an impartial panel.”); *Patterson*, 335 F.3d at 485 (“Because we review a summary judgment ruling *de novo*, using the same standards as the district court, the

in this case resulted from a bench trial in which Judge Morgan exercised broad discretion in making findings of fact and credibility determinations. Indeed, Centripetal relies heavily on Judge Morgan’s “broad discretion” in arguing for affirmance of the judgment. Appellee’s Resp. Br. at 51 (quoting *Conoco, Inc. v. Energy & Env’t Int’l, L.C.*, 460 F.3d 1349, 1362–63 (Fed. Cir. 2006)); *see also, e.g., id.* at 50 (“After weighing the evidence, the court found Dr. Striegel credible and accepted his analysis.”); *id.* at 51 (citing *Endo Pharms. Inc. v. Actavis LLC*, 922 F.3d 1365, 1374 n.10 (Fed. Cir. 2019) (explaining credibility findings are not disturbed on appeal)); *id.* at 59 (stressing that “the court ‘made detailed factual findings’ as to why the close call

parties are guaranteed a fair, impartial review of the merits of the ruling.”); *In re Sch. Asbestos Litig.*, 977 F.2d at 787 (finding no “serious injustice to the parties in th[e] case” pre-trial where summary judgment rulings were subject to plenary review upon final judgment); *Parker v. Connors Steel Co.*, 855 F.2d 1510, 1526 (11th Cir. 1999) (concluding that judge’s potential bias presented no risk of injustice to party seeking vacatur because court exercised plenary review over merits in same appeal and concluded that district judge’s grant of summary judgment was proper); *In re Cont’l Airlines Corp.*, 901 F.2d 1259, 1263 (5th Cir. 1990) (“The risk of injustice to the parties in allowing a summary judgment ruling to stand is usually slight,” as “[s]uch rulings are subject to de novo review.”). *But see Shell*, 672 F.3d at 1294 (“[A] judge’s failure to recuse does not automatically constitute harmless error whenever there is *de novo* review on appeal.”); *see also Ward v. Village of Monroeville*, 409 U.S. 57, 61 (1972) (rejecting the notion, in the context of state law proceeding where judge had a financial interest in the outcome, that “any unfairness at the trial level c[ould] be corrected on appeal and trial de novo in the County Court of Common Pleas”).

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factor supported enhancement, including the impact of its credibility determinations”).

The second circumstance is where the opposing party has delayed raising a known ground for recusal. *See, e.g., In re United Shoe Mach. Corp.*, 276 F.2d 77, 79 (1st Cir. 1960) (“[K]nowing of a ground for requesting disqualification, [a party] can not be permitted to wait and decide whether he likes subsequent treatment that he receives.”); *Ogala Sioux Tribe v. Homestake Mining Co.*, 722 F.2d 1407, 1414 (8th Cir. 1983) (denying relief in part because alleged grounds for disqualification were known at the time the case was decided by the trial judge but not raised until the case was on appeal); *In re Int’l Bus. Machs. Corp.*, 618 F.2d 923, 932 (2d Cir. 1980) (adopting timeliness requirement for § 455); *see also Liljeberg*, 486 U.S. at 868 (“It is [] appropriate to vacate the judgment unless it can be said that respondent did not make a timely request for relief . . .”).

In *Polaroid*, we affirmed the district court’s denial of a motion for disqualification and vacatur made six-and-a-half years after the judge’s decision and disclosure that her mother-in-law held stock in one of the parties. 867 F.2d at 1416–17. In denying vacatur, we noted that “[t]he passage of time” is a factor in the “equity/fairness equation,” *id.* at 1418–20, and we considered all that the judge who denied the motion had to say about “Kodak’s acquiescence, aging of witnesses, fading of memories, and the unfairness of vacating . . . [the] orders and requiring Polaroid to start all over,” *id.* at 1420.

Here, there has been no such delay. Cisco moved for Judge Morgan’s recusal just nine days after he disclosed his wife’s ownership of Cisco stock.

The third circumstance where courts have declined vacatur is where substantial time has passed since the rulings in question (even though there has been no delay in making the motion when the facts became known). In this

respect, Centripetal relies on the Eleventh Circuit's en banc decision in *United States v. Cerceda*, 172 F.3d 806 (11th Cir. 1999) (en banc). But in that case, which dealt with the possible re-trial of multiple criminal defendants, it had been six years since one of the trials, and one of the key witnesses—who had been 84 years old and in poor health at the time of the first trial—would have been over 90 years old at the time of a new trial. *Id.* at 815. Centripetal has made no comparable showing in this case. Beyond a conclusory assertion in its supplemental brief that “evidence ha[s] gone stale,” Appellee's Suppl. Br. at 6, Centripetal has not made any actual showing of staleness of evidence or fading of witness' memories in the time since the trial was held two years ago.¹²

Even if it had, any prejudice caused by the passage of time may be tempered by the fact that, as discussed in further detail below, this case would proceed under Federal Rule of Civil Procedure 63 on remand. Under that rule, a newly assigned judge has the ability to resolve the case based on the transcript from the previous trial. 11 Charles Alan Wright & Arthur R. Miller, *Federal Practice & Procedure* § 2922 n.19 (3d ed. 2022) (collecting cases).¹³

¹² Moreover, we question whether the relevant date for staleness is the date the judge declined to recuse or the date of the decision on appeal. If the former is the relevant date, the lack of prejudice is even clearer here.

¹³ The replacement judge may recall any witness, and must do so at the request of a party if the testimony is “material and disputed” and the witness is available to testify again without undue burden. Fed. R. Civ. P. 63. “If, on the other hand, there are issues of credibility that cannot properly be resolved on the basis of the record or for any other reason the replacement judge concludes that it is not possible to proceed in fairness to the parties, the judge has discretion to grant a new trial.” 11 Wright & Miller,

The fourth circumstance where courts have refused vacatur for a violation of § 455(b) is where one party has “made a showing of special hardship by reason of their reliance on the original judgment.” *Liljeberg*, 486 U.S. at 869. There has been no such showing in this case.

2

Unable to bring this case under existing authorities, Centripetal nonetheless makes several arguments as to why the first *Liljeberg* factor weighs against vacatur. It argues that there is no risk of injustice to Cisco because Judge Morgan had “decided the case” prior to learning of his wife’s ownership of Cisco stock, and therefore the judgment should stand since it was decided at a time when there was no § 455(b)(4) violation. Appellee’s Resp. Br. at 63 (citing J.A. 30). But that is not a fair characterization of the facts. At the September 9, 2020 hearing on Cisco’s motion for recusal, Judge Morgan stated that at the time he learned of his wife’s financial interest in Cisco, he had drafted “130-some pages” of the opinion. J.A. 18580. But the opinion issued on October 5, 2020 was 167 pages, showing that the judge went on to draft an additional 37 pages after learning of the stock ownership. And although at that same hearing he stated that his views as to the appropriate resolution of the case were fixed, he admitted that he had not “decided 100 percent of it.” *Id.* In any event, until an opinion is issued, it is well within a judge’s prerogative to change his mind or to otherwise revise the decision. Here, the opinion was subject to revision until the time it issued.

Federal Practice & Procedure § 2922 (providing cases). “If a new trial is granted, the record of the previous trial may be used as a substitute for testimony of unavailable witnesses.” *Id.*

Moreover, after learning of his wife's stock ownership, Judge Morgan continued to sit on post-trial motions that needed to be decided but had not even been briefed by the parties. Cisco's post-trial motions were rejected in a 49-page opinion and order issued on March 17, 2021, while Judge Morgan knew his wife continued to hold stock in Cisco.¹⁴

Centripetal next argues that there is no risk of injustice to Cisco because there is no evidence of actual bias, relying on a case applying § 455(a) (requiring recusal where there is an appearance of impropriety) in which the court declined to vacate orders, at least in part, because there was no evidence of actual bias.¹⁵ See Appellee's Suppl. Br. at 8 (citing *In re Sch. Asbestos Litig. v. Kelly*, 977 F.2d 764, 785–87 (3d Cir. 1992) (declining to vacate orders en masse where there was, among other things, no “likelihood of actual bias”)). Section 455(b)(4) is different. Unlike § 455(a), it is not triggered by an appearance of impropriety, but by a known financial interest, which creates not only an appearance of impropriety but impropriety itself. We have previously ordered vacatur under § 455(b)(4) notwithstanding “that there [wa]s neither an allegation nor suggestion that the judge was unduly influenced by his wife's financial interest.” *Shell*, 672 F.3d at 1291.

The objective of the statute—public confidence in the judiciary—would be severely undermined by requiring a

¹⁴ See *United States v. O'Keefe*, 128 F.3d 885, 891 (5th Cir. 1997) (“Once a judge recuses himself from a case, the judge may take no action other than the ministerial acts necessary to transfer the case to another judge.”); see also *Shell*, 672 F.3d at 1291 (citing *O'Keefe*, 128 F.3d at 891).

¹⁵ On this point, Centripetal oddly relies on Cisco's waiver of any violation of § 455(a) as somehow an admission that Judge Morgan held no actual bias. There was no such admission.

showing of actual bias in order to vacate orders infected with a § 455(b)(4) violation. Making such a bias determination would require the sort of line drawing that the statute was designed to avoid.¹⁶ We note that in the closely related context of orders rendered by judges with a “direct, personal, substantial [and] pecuniary” interest in reaching a certain outcome in a case, the Supreme Court has rejected the notion that a showing of actual bias is required for a due process violation. *Ward v. Village of Monroeville*, 409 U.S. 57, 60 (1972); *see also id.* at 61 (finding that if a state statute governing the disqualification of interested, biased, or prejudiced judges required “that an accused [person] must show [actual prejudice] in his particular case, the statute requires too much and protects too little”); *Aetna Life Ins. Co. v. Lavoie*, 475 U.S. 813, 825 (1986) (“The Due Process Clause ‘may sometimes bar trial by judges who have no actual bias and who would do their very best to weigh the scales of justice equally between contending parties. But to perform its high function in the best way, justice must satisfy the appearance of justice.’” (quoting *In re Murchison*, 349 U.S. 133, 136 (1955))).

Centripetal also relies on the time and cost of the litigation thus far, the complexity of the case, and the delay in

¹⁶ The reason § 455(b)(4) establishes a bright-line rule and does not require a showing of prejudice is because of the great difficulty in establishing actual prejudice in any particular case. *See Chase*, 343 F.3d at 128 (“[A] bright-line test . . . avoids many difficult line-drawing decisions and is in that sense actually helpful to judges.”); *see also* H.R. Rep. No. 93-1453, *reprinted in* 1974 U.S.C.C.A.N. 6351, 6358 (1974) (observing that without a bright-line rule, a judge would be left to “decide the disqualification issue at his peril, with the possibility that if he decided to sit he may be subject to criticism or that public confidence in the federal judicial system may be weakened”).

obtaining judgment, as weighing against vacatur. But Centripetal cites no case where these considerations alone led to a finding of harmless error, and we do not think that those factors here significantly weigh against vacatur. These considerations would exist in every case where a ground for recusal arises after significant trial proceedings.

Finally, to the extent that Centripetal argues that there is no need to vacate Judge Morgan's rulings because his wife owned stock in the losing party (and his interests would be adversely affected, not benefited, by his decision), *see* Appellee's Resp. Br. at 63, that fact does not remove the risk of prejudice. Where a judge becomes aware of a possible appearance of impropriety, there is a substantial risk that he or she might bend over backwards to rule against that party to try to prove that there is no bias. *See In re Sch. Asbestos Litig.*, 977 F.2d at 782 ("[B]ias c[an] manifest itself in a number of ways."). Congress did not make recusal obligations contingent on which party's stock was owned, and we are aware of no case suggesting that this is a relevant factor.

Accordingly, considering all relevant factors, we find that the risk of injustice to the parties weighs against a finding of harmless error and in favor of vacatur.

B

The second *Liljeberg* factor also weighs against finding harmless error and in favor of vacatur. In *Liljeberg*, the Supreme Court indicated that a relevant consideration is whether granting or denying vacatur "w[ould] [] produce injustice in other cases." 486 U.S. at 868. The Court indicated that this factor weighs in favor of vacatur when it "may prevent a substantive injustice in some future case by encouraging a judge or litigant to more carefully examine possible grounds for disqualification and to promptly disclose them when discovered." *Id.*

Centripetal argues that the refusal to vacate here would have no effect in other cases because the facts of this case are unusual, *see* Appellee’s Suppl. Br. at 9 (“Rarely will a judge discover a financial interest in a party months after an extensive bench trial, after the judge already invested years of resources and time, and after the judge decided to rule against that party and nearly completed his trial opinion in the case, but before finalizing and publishing that opinion.” (emphasis omitted)), and because the denial of Cisco’s Motion for Recusal “rest[ed] on the specific facts of this case,” Appellee’s Resp. Br. at 63 (quoting *Polaroid*, 867 F.2d at 1420). We disagree. Refusal to vacate here would have a significant adverse effect in other cases. While the specific facts of this case may be unique, they are symptomatic of an increasingly common problem, as discussed in the next section. A vacatur here would signal to judges in other cases the importance of complying strictly with the procedures spelled out in § 455(f). A failure to vacate would suggest that sitting on a case in which the judge’s family has a financial interest is not a serious issue.

We find the second factor weighs in favor of vacatur.

C

Finally, and perhaps most significantly, the denial of vacatur here risks “undermining the public’s confidence in the judicial process.” *Liljeberg*, 486 U.S. at 864. Centripetal argues that “[v]acating under the unusual facts of this case” would cause the public to “lose confidence in the finality of judgments.” Appellee’s Suppl. Br. at 10–11. Quite the contrary. The failure to vacate here would strike at the heart of what the statute was designed to protect. The Supreme Court in *Liljeberg* explained that the purpose of § 455 is to “promote public confidence in the integrity of the judicial process.” 486 U.S. at 860; *see also Davis v. Xerox*, 811 F.2d 1293, 1296 (9th Cir. 1987) (noting that “Congress was willing to accept disruptions” that may be caused by remedying violations of § 455 “in return for the perceived

benefits of promoting public confidence in the judiciary”). It is seriously inimical to the credibility of the judiciary for a judge to preside over a case in which he has a known financial interest in one of the parties and for courts to allow those rulings to stand.

This assessment is confirmed by responses to the recent reports of many federal judges presiding over cases in which they or relevant family members owned stock in a party. See James V. Grimaldi et al., *131 Federal Judges Broke the Law by Hearing Cases Where They Had a Financial Interest*, Wall St. J. (Sept. 28, 2021). Congress responded by recently enacting the Courthouse Ethics and Transparency Act, Pub. L. No. 117-125, 136 Stat 1205 (2022), which requires judges to make more timely and accessible disclosures of their financial holdings and potential conflicts of interest. See also 168 Cong. Rec. H4522 (daily ed. Apr. 27, 2022) (statement of Rep. Hakeem Jeffries) (“Failure to recuse can cause real harm to parties seeking fair and impartial justice and leave a cloud of doubt over any decision that is made once the conflicts are subsequently uncovered.”). Chief Justice Roberts similarly responded by devoting a substantial portion of his 2021 Year-End Report on the Federal Judiciary to discussing the importance of judges complying with their ethical obligations. Chief Justice John G. Roberts, Jr., 2021 Year-End Report on the Federal Judiciary, 3.

It simply cannot plausibly be argued that public confidence in the judiciary will be degraded by a decision that vacates a judge’s rulings rendered while he had a known financial interest in one of the parties. Rather, in the circumstances here, vacatur is essential to preserve public confidence.

* * *

We therefore conclude that the *Liljeberg* factors weigh against finding harmless error in this case. We note that in cases involving recusal under § 455(b)(4), few circuit

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decisions have declined to vacate a prior ruling made while the judge was aware of the disqualifying interest and failed to divest. Still rarer are decisions declining to vacate substantive rulings in such circumstances. We think it should be a very unusual case where vacatur is denied when a judge discovers a clear disqualifying interest under § 455(b)(4), recusal is required, there is a failure to divest, and the judge proceeds to rule on the case despite that clear obligation.

III

Because we find Judge Morgan's violation of § 455(b)(4) was not harmless error, vacatur is the appropriate remedy. *See Shell*, 672 F.3d at 1293. Because § 455(b)(4) requires "actual knowledge" of disqualifying circumstances, *Chase*, 343 F.3d at 127, the only rulings subject to vacatur are those issued after Judge Morgan learned of his wife's financial interest in Cisco, on August 11, 2020. Those rulings are the Opinion & Order denying Cisco's Motion for Miscellaneous Relief (i.e., Motion for Recusal), ECF No. 619 (Oct. 2, 2020); the Opinion & Order re Infringement and Damages, ECF No. 621 (Oct. 5, 2020); and the Opinion & Order Denying Post-Judgment Motions & Declaring the Case Final, ECF No. 638 (Mar. 17, 2021).

Centripetal argues that reassignment to a new judge is not necessary if we vacate and remand. Allowing the same judge to reaffirm his own rulings would severely undermine § 455, which is why cases are routinely reassigned upon vacatur of judgment under § 455. *See, e.g., Shell*, 672 F.3d at 1294. In any event, that argument is moot in light of the unfortunate death of Judge Morgan on May 1, 2022, of which we take judicial notice.¹⁷ Accordingly, upon

¹⁷ *See* Obituary, *Judge Henry Coke Morgan Jr.*, *Virginian-Pilot* (May 8, 2022), available at

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remand the case will be assigned to a new judge in the normal course, pursuant to Rule 63, which allows a replacement judge “if a judge conducting a hearing or trial is unable to proceed.” Fed. R. Civ. P. 63.

CONCLUSION

For the foregoing reasons, we reverse the Opinion & Order denying Cisco’s Motion for Miscellaneous Relief (ECF No. 619), *see Recusal Op.*, 492 F. Supp. 3d 615, we vacate the Opinion & Order re Infringement and Damages (ECF No. 621), *see Merits Op.*, 492 F. Supp. 3d 495, and the Opinion & Order Denying Post-Judgment Motions & Declaring the Case Final (ECF No. 638), and remand for further proceedings before a newly appointed judge, who shall decide the case without regard for the vacated opinions and orders.

REVERSED IN PART, VACATED IN PART, AND REMANDED

COSTS

Costs to Appellant.



June 22, 2022

Dear Members of the Subcommittee on Intellectual Property of the Senate Committee on the Judiciary,

Ensuring meaningful access to Patent Trial and Appeal Board (PTAB) proceedings promotes patent quality and benefits the nation's startups and small business innovators. As you consider PTAB-related legislation, we urge you to remember the important role the PTAB plays in curbing abuse of the patent system and mitigating the harm of low-quality patents. Today's hearing on *The Patent Trial and Appeal Board: Examining Proposals to Address Predictability, Certainty, and Fairness* can make a valuable contribution towards building a more balanced patent system centered around quality.

We are non-profits and trade associations that support and advocate for the nation's tech startups and small business innovators. Engine is a non-profit that works with government and a community of thousands of high-tech, growth-oriented startups across the nation to support technology entrepreneurship through research, policy analysis, and advocacy. ACT | The App Association is an international advocacy and education non-profit organization representing more than 5,000 small business technology firms that develop the software applications and connected devices powering the Internet of Things. The Consumer Technology Association represents the \$505 billion U.S. consumer technology industry, and its membership ranges from dynamic startups to the world's largest patent holders. The Developers Alliance is the world's leading advocate for software developers and the companies invested in their success, with members including industry leaders in consumer, enterprise, industrial, and emerging software, and a global network of more than 70,000 developers.

Today's domestic innovators have to confront low-quality patents—including those claiming things that were already known—and *inter partes* review (IPR) is an important tool for improving patent quality. Studies estimate that more than 25 percent of issued patents would be found invalid if adjudicated, and in the software and business method space those estimates jump to 39 percent and 56 percent, respectively.¹ These invalid patents stand in the way of innovation and can force U.S. companies to avoid R&D in the areas those patents improperly cover. Invalid patents are also routinely weaponized against startups, innovators, and small businesses across the country, draining

¹ Shawn P. Miller, *Where's the Innovation? An Analysis of the Quantity and Qualities of Anticipated and Obvious Patents*, 18 Va. J. L. & Tech. 1, 6-7 (2013). See also, e.g., John R. Allison et al., *Our Divided Patent System*, 82 U. Chi. L. Rev. 1073, 1099 (2015) (43 percent of patents subject to final court judgment were found invalid).

valuable resources that could be spent on product development, salaries, customer acquisition, and more.²

Solving the patent quality problem requires a multifaceted approach, and we encourage policymakers to seriously consider how to improve the quality of issued patents,³ but we also need mechanisms like IPR to clear out invalid ones. The U.S. patent system expects innocent third parties to incur most of the cost of removing invalid patents from the system, and IPR reduces those costs by an order of magnitude.⁴ That, in turn, levels the playing field in abusive patent assertion and makes those harmful practices less profitable.

Indeed, IPR has contributed to a drop in the amount of abusive litigation, reduced the settlement value of low-quality patents, and led to lower litigation costs.⁵ And when the PTAB cancels an invalid claim, it can have outsized benefits for startups and small business innovators. We know that invalid patents and abusive assertion cause the greatest disruption for these smaller companies. And most startups cannot afford the high costs of lengthy district court litigation to defend frivolous accusations.⁶ While IPR is still quite expensive, it is much more affordable, putting a real defense within reach.⁷ And when one company or entity is willing to go through the process of challenging an invalid claim before the PTAB, it frees up space for all other innovators and can often resolve (threatened) litigation for numerous small businesses.⁸

² See, e.g., Christopher R. Leslie, *The Anticompetitive Effects of Unenforced Invalid Patents*, 91 Minn. L. Rev. 101 (2006); Colleen Chien, *Startups and Patent Trolls*, 17 Stan. Tech. L. Rev. 461 (2014); 153 Cong. Rec. H10270-10307 (Sept. 7, 2007), <https://www.congress.gov/congressional-record/2007/09/07/house-section/article/H10270-1> (statement of Rep. Lamar Smith, referring to precursor to AIA, and saying: “The bill will eliminate legal gamesmanship from the current system that rewards lawsuit abuses. It will enhance the quality of patents and increase public confidence in their legal integrity.”).

³ E.g., Letter from Engine to Senate Subcommittee on Intellectual Property 3 (June 22, 2021) (summarizing and citing to suggestions for improving patent quality); Abby Rives, *A Declining Focus on Patent Quality at the USPTO and What it Means for Startups*, Engine (Oct. 21, 2020), <https://www.engine.is/news/ip-recap-102120> (similar, and discussing reorganization at patent office to eliminate certain quality-focused positions).

⁴ Compare Am. Intellectual Prop. Law Ass’n, 2019 Report of the Economic Survey 50-51 (2019) with *id.* at 52 (reporting costs of patent litigation, including defending NPE suits, and costs of IPR).

⁵ E.g., *id.* at 50-51; Malathi Nayak, *Cost of Patent Infringement Litigation Falling Sharply*, Bloomberg BNA (Aug. 11, 2017), <https://biglawbusiness.com/cost-of-patent-infringement-litigation-falling-sharply>; Ryan Damon et al., *Five Years Later: Lessons Learned from the First Inter Partes Review*, ACC Docket (May 3, 2018), <https://www.accdocket.com/articles/supreme-court-decisions-inter-partes-review.cfm> (reporting data showing how “IPRs have reduced the cost to challenge questionable patents and also reduced their settlement value”); *Patent Review is Working for Startups*, Engine, <https://innovatewithoutfear.engine.is/wp-content/uploads/2020/01/IPR-is-working-one-page.pdf> (showing less non-practicing entity litigation since IPR went into effect).

⁶ E.g., Chien, *supra* note 2, at 461-62 (in survey of startups, majority had received a demand and large percentage reported significant operational impact); *Startups Need Comprehensive Patent Reform Now*, Engine 7-14, <http://static1.squarespace.com/static/571681753c44d835a440c8b5/57323c0ad9fd5d07a3d0f66b/57323c14d0fd5d07a3d0f66c/1462910484459/Startup-Patent-Troll-Stories1.d.pdf?format=original> (recounting startup stories).

⁷ *Supra* note 4. For example, while it costs approximately \$325,000 to challenge an electrical or computer-focused patent in IPR, the average seed-stage startup raises \$1.2 million to cover all its expenses for 22 months, and most startups have far less money than that. *The State of the Startup Ecosystem*, Engine 17 (2021), <https://engine.is/squarespace.com/s/The-State-of-the-Startup-Ecosystem.pdf>.

⁸ See, e.g., *HP Inc. v. MPHJ Tech. Inv., LLC*, 817 F.3d 1339, 1342 (Fed. Cir. 2016) (after letters were “sent . . . to numerous small businesses, alleging that those businesses likely infringed the ‘381 patent,” and “[b]ecause the letters were sent to users of HP’s multi-function printers, HP petitioned for IPR of the ‘381 patent”); *Distinctive Developments, Ltd. v. Unilac USA, Inc.*, IPR2013-00391, Paper 38 (PTAB Dec. 3, 2014) (IPR challenged patent that was already asserted in ten

The innovation ecosystem needs affordable, efficient, and accessible means to challenge low-quality patents. But a functioning PTAB system relies on the Board considering meritorious petitions. In recent years, we have seen PTAB practices that allow meritorious petitions to be ignored.⁹ So even when the PTAB knows there is a reasonable likelihood claims are invalid, it can leave them in force, to be asserted in demand letters and lawsuits against startups and small business innovators. Unsurprisingly, these restrictions in access to IPR have correlated to a marked increase in abusive patent litigation, especially in certain pockets of the country.¹⁰ All of this conflicts with the letter and the spirit of the America Invents Act and has created new uncertainties and costs in PTAB practice and the patent system more broadly.¹¹

We commend you for convening today's hearing, and we hope you will explore how to restore and improve the PTAB system to ensure it can deliver on the promise of better quality and protecting small innovators across the U.S. from invalid patents and abuse of the system.

Thank you for your consideration, and we remain committed to engaging with the Subcommittee on these and other important issues.

Sincerely,

Engine

ACT | The App Association

Consumer Technology Association

Developers Alliance

lawsuits against multiple defendants); Daniel Nazer, *EFF Wins Final Victory over Podcasting Patent*, Elec. Frontier Found. (May 14, 2018), <https://www.eff.org/deeplinks/2018/05/eff-wins-final-victory-over-podcasting-patent>; Aaron L. Parker et al., *How Sports Tech Companies Can Fight Back Against Patent Trolls*, Finnegan (July 27, 2018), <https://www.finnegan.com/en/insights/articles/how-sports-tech-companies-can-fight-back-against-patent-trolls.html>.

⁹ E.g., Robert Colletti et al., *The Recent Rise of Discretionary Denials at the Patent Trial and Appeal Board*, JD Supra (Nov. 19, 2020), <https://www.jdsupra.com/legalnews/the-recent-rise-of-discretionary-97285/> ("Under NHTK/Fintiv, the Board can decide not to institute a timely, meritorious petition that fully complies with all statutes and regulations").

¹⁰ See, e.g., Startups & the U.S. Patent System: Prioritizing Quality and Balance to Promote Innovation, Engine 16 (July 2021), <https://static1.squarespace.com/static/571681753c44d835a440c8b5/1/60f8579bae6a2d324b7440a2/1626888093336/Engine+Patent+Quality+Booklet+2021+7.21.pdf>; *Forum Shopping: A Familiar Tactic in Abusive Patent Litigation, Back on the Rise*, Engine (Nov. 9, 2020), <https://www.engine.is/s/WD-Tex-Diagram-Updated-with-text.pdf>.

¹¹ See, e.g., 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, 543-47 (2020) (analyzing statute, legislative history, and practical consequences of discretionary denial practices, and concluding that they do not appear to be supported by statute).

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**Statement of Charlie Sauer
Founder and President of the Market Institute**

**Senate Committee on the Judiciary
Subcommittee on Intellectual Property**

**Hearing on The Patent Trial and Appeal Board: Examining Proposals to Address
Predictability, Certainty, and Fairness**

June 22, 2022

The Market Institute advocates on behalf of small businesses and limited government. We appreciate this opportunity to submit written testimony, and our comments will focus on how patents and inventors are at the core of a healthy American economy.

Patents give inventors the incentive to invest their hard-earned money into an idea. Patents are what give inventors the assurance that if they invent the next big thing—then that thing is theirs to profit from. But when someone owns a patent for the next big thing, others can become jealous. That is why it is vital to have a legal system that protects patent rights and the power of inventors to protect their ideas.

Patent rights are the only rights explicitly laid out in the Constitution. Admittedly, Thomas Jefferson had some reservations about patents because they gave the inventor a limited monopoly. But he eventually supported the idea, a patent bill was passed in the first Congress, and Jefferson went on to say that “an act of Congress authorising the issuing patents for new discoveries has given a spring to invention beyond my conception.”

Recently, however, groups from activists to large technology companies have attacked patents. These companies see intellectual property as a cost of business that they do not want to pay. So they have lobbied to ways to make patents less valuable and to make it more difficult for patent holders to defend their inventions. During this effort, in 2011, Congress passed the *America Invents Act*, which established the Patent Trial and Appeal Board (PTAB). The legislation’s intent was to provide another way to ensure the validity of patents. It did this partially through a process called *inter partes* review to determine whether a patent should have been initially granted at all. Trying to streamline the patent adjudication process was a laudable goal, but that is not what has happened with the PTAB.

The PTAB invalidates practically all the patents that come before it. More specifically, it invalidates approximately 60% of all patent claims after trial and approximately 87% of all patents have at least one claim invalidated post-trial. Former Chief Judge of the Federal Circuit, Paul Michel, observed that large technology companies use their “influence to chip away at

patent rights” and “have long relied on a strategy of deliberate infringement because enforcement litigation is too expensive for younger smaller competitors.” The current state of litigation in the PTAB is part and parcel of this strategy.

Aside from its bias against patent rights, large technology companies also force smaller inventors to litigate in both federal court and the PTAB because PTAB trial are costly—averaging around \$450,000. To bully smaller inventors, what these larger companies typically do is drag them to the PTAB after federal cases have already been brought. Right now, PTAB judges can stay their proceedings under a legal rule known as the *Fintiv* Doctrine. Without that doctrine, which these companies are trying to legislate out of existence, larger technology companies can still litigate in federal court if they lost against smaller inventors at the PTAB. That sort of prolonged multi-venue litigation is simply too much for inventors who have already invested their personal time and resources to come up with an idea that should be fully their own.

The only thing that smaller inventors and larger technology companies may agree on is that the PTAB is not working as the authors of the *American Invents Act* likely intended. The PTAB’s current state, however, should not be an excuse to tip the scales further against smaller inventors and in favor of large technology companies. There is a reason that large technology companies are the top users of the PTAB. As this Committee evaluates what reforms are necessary, it must keep in mind the needs of smaller inventors who cannot invest the time and money defending their inventions against much better resourced adversaries. That is because these inventors have already invested so much in coming up with the inventions themselves—the sort of innovation that the Founding Fathers believed was so necessary to a well-functioning economy they wrote patent protections into the Constitution itself.

**Senate Committee on the Judiciary
Subcommittee on Intellectual Property
Statement for the Record
Association for Accessible Medicines (AAM)**

AAM greatly appreciates the work of Senator Patrick Leahy (D-VT), Senator John Cornyn (R-TX), and Senator Thom Tillis (R-NC) in seeking to improve the Patent and Trial Appeal Board (PTAB) and inter partes review (IPR) process. For more than 10 years, IPR has worked as a tool to accelerate patient access to more affordable generic and biosimilar medicines. While we are still reviewing the PTAB Reform Act with our members, we value the bipartisan efforts by the Senators and their staff, appreciate the constructive dialogue, and look forward to continuing to work with them to enhance patent quality. PTAB's ability to take a second look at questionable patents is critical to ensuring a competitive pharmaceutical market and to lowering the cost of medicine for America's patients.

STATEMENT FOR THE RECORD

Adam Mossoff

Professor of Law,
 Antonin Scalia Law School
 George Mason University

COMMITTEE ON THE JUDICIARY
 Subcommittee on Intellectual Property

United States Senate

**“The Patent Trial and Appeal Board: Examining Proposals to Address Predictability,
 Certainty, and Fairness”**

June 22, 2022

I. Introduction

Chairman Graham, Chairman Leahy, Ranking Member Grassley, Ranking Member Tillis, and Members of the Subcommittee:

Please accept the following statement for the record on the Patent Trial and Appeal Board Reform Act (PTAB Reform Act).¹ In this statement, I address the important function of recent reforms adopted by the U.S. Patent & Trademark Office (USPTO). These reforms are central to reestablishing the reliable and effective patent rights that have been the driver of the U.S. innovation economy for over two hundred years. Thus, Congress should not enact the PTAB Reform Act, which abrogates these reforms while failing at the same time to fully address serious strategic abuses of the Patent Trial and Appeal Board (PTAB).

Created by the America Invents Act of 2011 (AIA), the PTAB has brought the U.S. patent system fully within the operations and practices of the modern administrative state. Accordingly, the PTAB’s operations have raised concerns about respect for due process and for the norms of the rule of law often expressed about the administrative state more generally.² Lawyers and judges have complained that the PTAB engages in what has come to be widely identified as “shenanigans” in violating basic norms of due process in pursuit of its *raison d’etre*—to cancel patents.³

¹ I am submitting this statement for the record solely on my own behalf, and my statement does not reflect the views of my employer or of any institution or organization with which I am affiliated.

² See Philip Hamburger, *Is Administrative Law Unlawful?* (Univ. Chicago Press, 2014).

³ See *Innovation in America: How Congress can make our patent system STRONGER*, Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary, 116th Cong. (testimony of Adam

In addition to these fundamental concerns about the PTAB's own actions as an administrative tribunal, many companies and organizations have engaged in strategic behavior in filing petitions at the PTAB. They have been able to exploit the PTAB for ill purposes simply because Congress imposed almost no procedural or substantive limitations on the PTAB in the few provisions of the AIA that created this administrative tribunal.

For example, anyone in the world can file a petition to cancel a patent for any reason. This has given birth to PTAB-petitioning entities who can file petitions for a wide range of illegitimate reasons, such as harassment of patent owners and manipulation of stock prices. These petitions also have served a key role in the rise of predatory infringement practices by large, well-funded defendants who are sued for infringement in court. Similarly, the AIA did not impose any restraints on the number of petitions that can be filed against a patent owner, which has led to the filing of numerous petitions by different companies—a practice now widely known as “serial petitioning.”

The PTAB Reform Act does not address these fundamental violations of due process and the rule of law, although it confusingly appears to do so in some of its provisions. For conciseness, this statement focuses on only two fundamental concerns with the PTAB Reform Act. First, the PTAB Reform Act's abrogation of the *Fintiv* factors ignores longstanding administrative law precedent that agencies have legitimate discretionary authority to refrain from engaging in enforcement actions, such as instituting an administrative hearing at the PTAB. If the *Fintiv* factors are abrogated, this would promote the continued abuse of the PTAB as a parallel litigation track by Big Tech companies, which use the PTAB as a key tool in their predatory infringement strategies. Second, the PTAB Reform Act does not properly address the problem of petitions filed at the PTAB for abusive purposes, despite its provisions that allegedly prohibit serial petitioning and petitions filed for the purpose of extortion. Its limitations to single-party serial petitions and petitioners who explicitly offer to lose or withdraw a petition ignore the well-established problems of different companies filing multiple petitions and petitions filed for other improper purposes.

In sum, the PTAB Reform Act does not provide the real reform that is necessary and right—properly limiting the PTAB to respect due process and to prevent its abuse by strategic behavior by petitioners. Despite it seemingly restricting discretionary decision-making, this is a false promise. The PTAB Reform Act empowers and expands the PTAB through its continued abuse by companies and PTAB-petitioning entities who improperly use it to harass patent-owners, to engage in predatory infringement purposes, or both. Congress should reject the PTAB Reform Act.

The Abrogation of *Fintiv* Discretionary Denials is Wrong as Matter of Law and Policy

The primary impetus for the PTAB Reform Act has been the legal and policy pushback against the *Fintiv* factors adopted by the USPTO in 2020.⁴ In exercising its discretion to deny a petition to

Mossoff, Professor of Law, Antonin Scalia Law School, George Mason Univ.).
https://papers.ssrn.com/abstract_id=3457804.

⁴ These factors are sometimes referred to as the “NHK-Fintiv factors” given that they are based in two precedential decisions by the PTAB. See *Apple Inc. v. Fintiv, Inc.*, No. IPR2020-00019 (P.T.A.B. Mar. 20, 2020); *NHK Spring Co., Ltd. v. Intri-Plex Techs., Inc.*, No. IPR2018-00752 (P.T.A.B. Sept. 12, 2018). I will follow common practice today in referring to them as the “*Fintiv* factors.”

institute an Inter Partes Review hearing, the PTAB concluded in *Apple v. Fintiv* that it could account for parallel proceedings in an Article III court, such as the proximity of the resolution of the court proceeding involving the same patent.⁵ The legal and policy reaction was immediate.

Apple, Google, Cisco, and Intel filed a lawsuit to overturn the *Fintiv* factors. They soundly lost before the trial court.⁶ The Supreme Court ultimately denied their cert petition earlier this year.⁷

The loss of these Big Tech companies in their lawsuit confirms that their efforts to abrogate the *Fintiv* factors for discretionary denials lack a firm foundation in both law and policy. First, as a simple legal matter, Big Tech is wrong that the USPTO lacks the proper discretionary authority to account for parallel proceedings in court in *denying* a petition to institute a hearing for the PTAB to cancel a patent. There is well-established and longstanding legal authority in administrative law that agencies have substantial discretion to not undertake enforcement actions.⁸ In 2014, the Second Circuit Court of Appeals recognized that “[i]t is rare that agencies lack discretion to choose their own enforcement priorities.”⁹ Thus, when the PTAB determines that will *not* institute a hearing in response to a petition, the USPTO is acting well within administrative law that it has the greatest discretionary authority in choosing not to act.

In fact, it is notable that Big Tech is seeking to have its legal cake and eat it too on this issue. In amicus briefs and in the broader policy debates, Big Tech has vigorously argued in the past that the PTAB has significant discretionary rulemaking authority. In *Cuozzo Speed Technologies v. Lee* and *SAS Institute, Inc. v. Iancu*, for example, Big Tech defended a broad-based discretionary authority inherent in the PTAB as an administrative agency to enact rules in which there is no explicit mandate in the AIA.¹⁰ Big Tech cheered the decision by the *Cuozzo* Court that “inter partes review is less like a judicial proceeding and more like a specialized agency proceeding” in conferring *Chevron* deference on the PTAB’s discretionary decision to adopt the broadest-reasonable interpretation standard in claim construction.¹¹ Obviously, the broadest-reasonable interpretation standard in claim construction furthered Big Tech’s interests in securing the high

⁵ *Id.*

⁶ See *Apple Inc. v. Iancu*, No. 5:20-CV-06128-EJD, 2021 WL 5232241 (N.D. Cal. Nov. 10, 2021).

⁷ Blake Brittain, *Apple, Mylan lose Supreme Court bids to challenge patent review rule* (Jan. 22, 2022), <https://www.reuters.com/legal/transactional/apple-mylan-lose-supreme-court-bids-challenge-patent-review-rule-2022-01-18/>.

⁸ See, e.g., *Massachusetts v. E.P.A.*, 549 U.S. 497, 527 (2007) (recognizing the legal principle in administrative law that “discretion is at its height when the agency decides not to bring an enforcement action”); *Heckler v. Chaney*, 470 U.S. 821, 831 (1985) (“This Court has recognized on several occasions over many years that an agency’s decision not to prosecute or enforce, whether through civil or criminal process, is a decision generally committed to an agency’s absolute discretion.”); *American Horse Protection Ass’n, Inc. v. Lyng*, 812 F.2d 1, 4 (D.C. Cir. 1987) (recognizing the significant discretionary authority in an agency’s refusal to undertake an enforcement action given in part its similarity to a prosecutorial decision not to indict, “which traditionally involve executive control and judicial restraint”).

⁹ *Natural Resource Defense Council, Inc. v. U.S. Food & Drug Admin.*, 760 F.3d 151, 171 (2d Cir. 2014).

¹⁰ See *SAS Institute, Inc. v. Iancu*, 138 S. Ct. 1348 (2018); *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 (2016).

¹¹ *Cuozzo*, 136 S. Ct. at 2135.

rates of cancellation of patents in PTAB hearings. Yet, when this discretion now cuts against its interests, Big Tech now argues that the PTAB lacks the same discretionary rulemaking authority that it advocated for and defended in *Cuozzo* and *SAS Institute*.

Second, as a matter of policy and economics, it is unsurprising that Big Tech has so vigorously sought to reverse the *Fintiv* factors, because this has impeded its practice of predatory infringement. Along with PTAB-petitioning entity, Unified Patents, Big Tech companies have filed the most petitions at the PTAB in the past ten years; the companies who filed the failed lawsuit against the *Fintiv* factors—Apple, Google, Cisco, and Intel—are among the top ten PTAB petitioners of all time.¹² The reason for this is simple: Big Tech uses the PTAB as a key part of its well-established practice of predatory infringement (also known as “efficient infringement”).¹³ Predatory infringement occurs when a company determines that it “economically gains from deliberately infringing patents” because the company understands that it will ultimately pay less in legal fees than in paying a properly negotiated license with the patent owner.¹⁴ Predatory infringement succeeds, because it is now incredibly uncertain and expensive for patent owners to file infringement lawsuits due to a host of changes to the patent system over the past 15 years, including the costs of defending one’s patent at the PTAB. Commentators regularly identify large Bit Tech companies like Apple or Google as engaging in predatory infringement.¹⁵

Big Tech has exploited the PTAB in its predatory infringement tactics because it has been able to use the PTAB for something that this agency tribunal was not intended to become: a parallel-track patent litigation system. In the debates leading up to the enactment of the AIA, it was explicitly stated by stakeholders that the PTAB would not create a two-track litigation system for patents. But this is exactly what the PTAB has become since 2012. One empirical study found a 70% overlap in defendants being sued for patent infringement and petitioners filing at the PTAB.¹⁶

These duplicative challenges in both court and in the PTAB impose immense significant burdens on patent owners. When a patent owner must spend financial resources to repeatedly defend the same patent again and again in multiple venues, it cannot invest those resources in additional innovation, recruitment of talent, or operational expansion, among other things. Moreover, the threat of a 78% cancellation rate for patents reviewed in PTAB administrative hearings, as was the case for PTAB hearings in early 2022, imposes additional costs and uncertainties on patent owners who seek their remedies in court and, as a result, are inundated with numerous PTAB petitions

¹² See *Infographic: Big Tech Companies Are Biggest Users of PTAB, 2012-2021*, From the Alliance Blog (June 20, 2022), <https://innovationalliance.net/from-the-alliance/infographic-big-tech-companies-are-biggest-users-of-ptab-2012-2021/>.

¹³ See Adam Mossoff & Bhannati Viswanathan, *Explaining Efficient Infringement*, CPIP Blog (May 11, 2017), <https://cpip.gmu.edu/2017/05/11/explaining-efficient-infringement>.

¹⁴ *Id.*

¹⁵ See Joe Nocera, *Why Sonos Has Already Lost Its Patent Suit Against Google*, Bloomberg (Jan. 10, 2020), <https://www.bloomberg.com/opinion/articles/2020-01-10/even-if-sonos-wins-its-suit-against-google-it-loses>; *The trouble with patent-troll-hunting*, The Economist (Dec. 14, 2019), <https://www.economist.com/business/2019/12/14/the-trouble-with-patent-troll-hunting>.

¹⁶ See Saurabh Vishnubhakat, Arti K. Rai, & Jay P. Kesan, *Strategic Decision Making in Dual PTAB and District Court Proceedings* 31 BERKELEY TECH. L. J. 45 (2016) (finding 70% overlap).

filed in response to their lawsuit.¹⁷ (In reviewing all written decisions by the PTAB, others have identified an overall cancellation rate of 84% of at least a portion of all the patents reviewed in PTAB administrative hearings.¹⁸)

The result is that patent owners are significantly disincentivized to sue in defending their rights against predatory infringement practices by Big Tech, especially for individual inventors, startups, small companies, and universities. The legal protection of patented innovation becomes only the “sport of kings,” in the apt words of Judge Paul Michel.¹⁹ In sum, Big Tech uses the PTAB as a parallel proceeding to impose additional costs on inventors, startups, smaller companies, and other under-capitalized commercial entities who are the victims of their predatory infringement tactics.

This economic and policy reality for patent owners today explains Big Tech’s vigorous opposition to the *Fintiv* factors. If the PTAB denies instituting an administrative hearing to review a patent that a Big Tech company has been sued for infringing, then this reduces Big Tech’s ability to use PTAB administrative hearings as a legal cudgel in its predatory infringement toolbox. This is key to understanding Big Tech’s sudden reversal on its previous support for wide-ranging discretionary rulemaking authority by the PTAB, which Big Tech has asserted the PTAB should be given *Chevron* deference—contrary to its arguments in its recent failed lawsuit against the *Fintiv* factors. The arguments against the *Fintiv* factors should not just be rejected as a matter of law, they should also be rejected as a matter of patent policy. The *Fintiv* factors are a modest step that reestablishes the reliable and effective patent rights against the predatory infringement tactics of Big Tech.

The Problem of Abusive Petitioning is Not Addressed by the PTAB Reform Act

The PTAB Reform Act allegedly addresses the problem of abusive petitions by prohibiting serial petitions filed by the same petitioner against the same patent, as well as prohibiting petitions filed for the purpose of extortion in which the petitioner offers to delay or lose if paid consideration. Neither of these purported prohibitions address the actual problem of abusive PTAB petitions filed for the purpose of harassing patent owners. Instead, these provisions in the PTAB Reform Act only give the appearance of a cure for a longstanding problem that they do not actually fix, and thus they sow only confusion about whether the problem has in fact been addressed.

First, with respect to the alleged prohibition on serial petitioning, the PTAB Reform Act significantly limits this prohibition in two key respects. First, it applies to a *single party or real*

¹⁷ See Daniel F. Klodowski, Michael R. Galgano et al., *IPR, CBM, and PGR Statistics for Final Written Decisions Issued in January and February 2022*, At the PTAB Blog (Apr. 1, 2022), <https://www.finnegan.com/en/insights/blogs/at-the-ptab-blog/ipr-cbm-and-pgr-statistics-for-final-written-decisions-issued-in-january-and-february-2022.html>.

¹⁸ See Josh Malone, *Assessing PTAB Invalidity Rates* (June 24, 2021), <https://usinventor.org/assessing-ptab-invalidity-rates/>.

¹⁹ *The Impact of Bad Patents on American Businesses: Hearing Before the Subcomm. on Courts, Intellectual Prop., and the Internet of the H. Comm. on the Judiciary*, 115th Cong. (2017) (statement of J. Paul R. Michel, former Chief Judge of the U.S. Court of Appeals for the Federal Circuit) (“Indeed, most owners of patents can no longer afford to enforce them. ... Experts opine that to enforce a small portfolio an owner needs \$15 million in cash and \$3 billion in market cap. ... [T]he ‘sport of kings,’ horse racing, has been replaced by patent litigation.”).

party in interest filing multiple petitions. Second, it applies only to multiple petitions against the *same patent claim(s)*.

Serial petition is a significant and well-established problem at the PTAB that has long been used to harass patent owners by improperly imposing on them additional costs in defending their patents,²⁰ and the limitations imposed by the PTAB Reform Act on serial petition does not address this problem. As one empirical study has reported, serial petitioning is a problem insofar as “a *number of patents* have been targets of *serial challenges* spread across both multiple petitions and *multiple challengers* in IPR petitions.”²¹ Thus, the PTAB Reform Act cannot and will not end abusive serial petitions filed against *multiple patents* and *multiple patent claims* by *different petitioners*.

In failing to recognize why serial petitioning occurs explains why the PTAB Reform Act will not address this serious problem. The purpose of serial petitioning is to impose significant costs on patent owners as one tactic in the strategic policy of predatory infringement. As long as a defendant in a patent infringement lawsuit can continue to impose costs on a patent owner—both the actual costs of defending the patent at the PTAB and the additional costs of uncertainty and delay—then it succeeds in preventing inventors, small companies, and other undercapitalized innovators from seeking their proper legal relief for the violation of their property rights. This is why serial petitioning was an entirely predictable problem when the PTAB was created by the AIA for the simple reason that the AIA imposed no substantive limitations on petitions beyond the estoppel requirements set forth in § 315 (a limitation on the PTAB that was sought to be undone through an alleged technical corrections bill introduced shortly after the AIA was enacted).

Given the estoppel limitations on filing of petitions in the original AIA provisions creating the PTAB, defendants in patent infringement lawsuits have already strategically devised methods for filing multiple petitions against patent owners to impose additional significant costs on these patent owners. This includes filing multiple petitions against multiple patents, as well as filing petitions by multiple parties against these multiple patents and patent claims. Since these PTAB petitions are filed by distinct legal entities, and they are not real parties in interest under the patent statutes, these serial petitions have succeeded in being filed and have led to institution decisions.

For example, a single patent owner who had sued multiple Big Tech companies for patent infringement in 2014 was the victim of *90 petitions* filed against *multiple patents* it owned by *multiple parties* filing the petitions.²² In the patent infringement lawsuits by VirnetX, Microsoft

²⁰ See, e.g., Anne S. Layne-Farrar, *The Cost of Doubling Up: An Economic Assessment of Duplication in PTAB Proceedings and Patent Infringement Litigation*, LANDSLIDE, May–June 2018, at 52, 55 (“On a per-patent basis, out of 3,460 patents with an IPR challenge filed, 842 (24 percent) were ‘serially petitioned patents.’ (footnotes omitted)).

²¹ Saurabh Vishnubhakat, Arti K. Rai & Jay P. Kesan, *Strategic Decision Making in Dual PTAB And District Court Proceedings*, 31 BERKELEY TECH L. J. 1, 70 (2016) (emphases added); see also Gregory Dolin, *Dubious Patent Reform*, 56 BOSTON COLLEGE L. REV. 881, 939-44 (2015) (describing the practice of multiple petitions filed by multiple entities against a patent owner).

²² See Vishnubhakat et al., *supra* note 21, at 21.

filed 12 petitions over the course of six months against 6 patents owned by VirnetX.²³ Notably, RPX had already filed multiple petitions against 4 of these 6 patents, alleging the exact same grounds of invalidity, which is unsurprising given the commercial relationship between Microsoft and RPX (which was not a legal relationship sufficient to trigger the estoppel provisions for petitions filed by a real party in interest at the PTAB).²⁴ Similar correlations between defendants in patent infringement lawsuits have long existed at the PTAB between other PTAB-petitioning entities and Big Tech defendants in patent infringement lawsuits.

These serial petitioning practices would *not* be prohibited by the provisions of the PTAB Reform Act that purportedly claim to end these practices given the limitations of its provisions to serial petitions filed by the *same party* or real party in interest against the *same patent claim(s)*.

Second, the harassment of patent owners by PTAB petitioners would not end with the limited prohibition in the PTAB Reform Act against bad-faith petitioners engaging in extortion in filing petitions who promise to delay or lose in exchange for a payoff. Given the uncertainties and high cancellation rates at the PTAB, the mere *threat* of a petition being filed can be more than sufficient. Also, if the threatening party has the financial wherewithal to follow through on the threat, and it takes only one such instance to make it a viable threat, then the extortionary threat of a PTAB petition remains despite the prohibition in the PTAB Reform Act.

The PTAB Reform Act prohibits only the specific nature of the extortionary tactics employed by OpenSky against VSLI,²⁵ but bad-faith petitions and the strategies for filing them are far more varied than this one approach. For example, it would not prohibit petitions filed to manipulate stock prices for financial gain, such as the petitions filed by Ken Bass. In that case, the PTAB rejected the motion for sanctions filed by the patent owner (Celgene) given that Bass was not engaging in extortion, concluding that his “economic motive for challenging a patent claim” is “legal,” i.e., the short-selling of Celgene stock, and thus his motive was neither a basis to sanction Bass nor to deny his petition. Bass’ petitions were fully considered by the PTAB given that Bass was not seeking an extortionary payout to metaphorically throw the fight with Celgene if his petitions resulted in an institution decision by the PTAB.²⁶ The prohibition against bad-faith petitions also would not prohibit bad-faith petitioning practices in which collusion between PTAB-petitioning entities and defendants sued for infringement results in PTAB petitions filed only to impose additional costs on patent owners as victims of a predatory infringement strategy.

Conclusion

The PTAB was intended to eliminate mistakenly issued patents that clog the efficient operations of the U.S. innovation economy. Instead, the PTAB has fundamentally destabilized the U.S. patent

²³ See Dolin, *supra* note 21, at 938-39.

²⁴ *Id.*

²⁵ See Gene Quinn, *OpenSky Attorney Emails Expose the Seedy Underbelly of PTAB Practice* (March 4, 2022), <https://www.ipwatchdog.com/2022/03/04/opensky-attorney-emails-expose-seedy-underbelly-ptab-practice/id=147155/>.

²⁶ See Gene Quinn, *Kyle Bass IPR challenge moves forward, what does it mean for patent reform?*, IPWATCHDOG (Oct. 12, 2015), <http://bit.ly/1jltJ4U>.

system and undermined this essential foundation for the U.S. innovation economy. It has destabilized the patent system through “shenanigans,” but, more importantly, it is often-used tool by Big Tech to engage in predatory infringement. This explains Big Tech’s vigorous opposition to the *Fintiv* factors, which is incorrect in both law and policy, as well as contradicts Big Tech’s prior enthusiastic endorsement of the PTAB’s discretionary rulemaking authority.

As I have stated in prior testimony on the STRONGER Patents Act, Congress should impose significant procedural and substantive limitations on the PTAB to ensure that it respects due process and the norms of the rule of law, as well as prevents strategic abuse by petitioners.²⁷ The PTAB has rightly adopted via its rulemaking authority much-needed reforms in recent years. These reforms should be permanently fixed into its structure such that patent owners will not be subject to the vicissitudes of changing regulations with changes in Executive Branch administrations.

Unfortunately, the PTAB Reform Act does not achieve this goal. While superficially appearing to restrict discretionary decision-making by the PTAB, it in fact achieves the opposite. The PTAB Reform Act expands the power of the PTAB to receive petitions filed for the purpose of predatory infringement strategies by Big Tech and, even in its nominally restrictive provisions, it does not prohibit actual abuses, such as filing serial petitions by multiple parties against multiple patents for the purpose of imposing additional costs on a patent owner in a predatory infringement strategy.

Given space limitations, this statement for the record addressed only the legitimate authority by the PTAB to deny petitions that serve the predatory infringement strategy in the improper use of the PTAB as a parallel litigation track in the patent system, and the failure of the PTAB Reform Act to address the actual problem with harassment of patent owners, such as by serial petitions.

The PTAB Reform Act has additional significant problems, such as attempting to confer standing in Article III courts on PTAB-petitioning entities appealing PTAB decisions affirming the validity of patents. This suffers similar legal and policy failings. First, it is unconstitutional, as standing in court is a requirement under the “case or controversy” clause in Article III of the Constitution, which cannot be changed by statute. Second, this attempted change in standing for PTAB-petitioning entities expands the ability of petitioners to harass or otherwise impose additional costs and delays on patent owners who are victims of the predatory infringement strategy of Big Tech.

In sum, the PTAB Reform Act should not be enacted by Congress. This bill would not address actual abuses of the PTAB by strategic actors. Through its abrogation of the *Fintiv* factors and its conferral of Article III standing on PTAB-petitioning entities, among other changes, the PTAB Reform Act would in fact expand the power of the PTAB to cancel more patents and thus make it more susceptible to continued abuse by Big Tech and other entities exploiting its processes and decisions to engage in predatory infringement practices. If real reform of the PTAB is sought by Congress, the STRONGER Patents Act should be reintroduced and enacted by Congress.

²⁷ See *supra* note 3.

STATEMENT FOR THE RECORD

Conservatives for Property Rights¹

U.S. Senate Judiciary Subcommittee on Intellectual Property

The Patent Trial and Appeal Board:
Examining Proposals to Address Predictability, Certainty, and Fairness

June 22, 2022

Chairman Leahy, Ranking Member Tillis, and Members of the Subcommittee:

The Patent Trial and Appeal Board badly needs a spotlight on it. As it stands, PTAB endangers America's inventors whose commercial success is vital to our global leadership in innovation, both in "frontier" technologies and high-value industries. Beleaguered inventors face tremendous threats, due to PTAB and its most frequent users.² These inventors and entrepreneurs face David versus Goliath scenarios, but in PTAB proceedings, these Davids usually lose and patent challenger Goliaths usually win. Thus, Congress should reconsider PTAB and either reform it so it affords patent owners sufficient due process and fairness akin to patent litigation in federal court and the U.S. International Trade Commission, or eliminate PTAB.

The Patent Trial and Appeal Board, its quasijudicial panels, and its adversarial proceedings such as inter partes review have earned a reputation as "patent death panels." Despite improvements by the Patent and Trademark Office in recent years, PTAB remains lacking in fairness and due process, and predisposed to invalidate patents. PTAB is highly favored by its most frequent users and feared by inventors, patent owners, entrepreneurs in IP-centered startups, and businesses that pursue innovation or commercialization of patented inventions.

Falsely Advertised

The America Invents Act, enacted in 2011, established the Patent Trial and Appeal Board, "a fully adversarial, quasijudicial entity in which anyone, even competitors, may pursue patent validity challenges repeatedly throughout the patent term."³ With the benefit of a decade's record to assess PTAB, ample evidence demonstrates that this administrative body exercising judicial power has rendered patent certainty and reliability completely unsettled.⁴

During the AIA debate, PTAB was promoted as a faster, cheaper alternative to patent litigation in federal court. It was portrayed as addressing "weak patents" (as defined by implementers and predatory patent infringers). Instead of an alternative option for reviewing a subset of patents, PTAB provides petitioners another, potent arrow in the quiver of patent litigation to target any patent. Hence, multiple bites at the apple against the same patent, parallel proceedings in different forums and serial PTAB proceedings, extraordinary uncertainty for

¹ Conservatives for Property Rights is a coalition of conservative and libertarian organizations that emphasizes the central importance of private property in all its forms — physical, personal, and intellectual.

² Big Tech and Chinese national champions (e.g., Huawei, ZTE) are the most frequent challengers of patents in PTAB. <https://innovationalliance.net/from-the-alliance/infographic-big-tech-companies-are-biggest-users-of-ptab/>

³ <https://insight.ieeeusa.org/articles/the-steady-separation-of-patents-and-private-property-rights/>

⁴ <https://www.property-rights.org/post/unhappy-10th-birthday-aia>

patent owners and their would-be investors, disquieted title to one's patent, and unreliability of patents as an intangible asset by which to bring one's invention to commercial market. A coauthor of the AIA, former Rep. Lamar Smith, has acknowledged how PTAB as he envisioned it has been hijacked: "entire industries have emerged to perpetuate these abuses."⁵ Thus, PTAB runs counter to private property rights, which patents were intended to secure to inventors, exclusively for a set time.

Patent Death Squads

Patent owners face jeopardy with every validity challenge in PTAB, whereas petitioners can stall for time to delay patentees' commercialization, while continuing unauthorized commercial use of the invention. This delay regarding the patent's validity, coupled with tremendous added expense to defend one's patent, is disruptive to larger patent owners that have the wherewithal to bring legal resources to bear in these matters while continuing research, development, and commercialization. Such disruption and diversion of precious resources is particularly debilitating to independent inventors, entrepreneurs, and small businesses.⁶

Further, if PTAB invalidates a patent in an at-bat in the early innings of the patent term, the patent owner loses the property he or she created, loses the right to exclude that the patent was supposed to secure, and loses all the investment of money, time, and effort that went into invention and patent prosecution. Assuming the petitioner brought the PTAB action in response to a patent infringement complaint, PTAB's cancellation of the patent or patent claims may well put the patent owner in dire straits, perhaps even facing bankruptcy, while the petitioner gets away with unauthorized commercial use of the invention without risk of accountability and liability. Thus, the dynamics and stakes at PTAB are grossly asymmetrical for petitioners and against patentees. And all of it diminishes private property rights.

Patent invalidation rates of PTAB versus federal court have long raised eyebrows because PTAB invalidation rates have consistently been far higher than those of Article III courts. Generally, PTAB has invalidated between 95 percent and 83 percent of challenged patent claims.⁷ A study of FY 2020 PTO data found 3,105 PTAB-challenged patents received a final written decision after PTAB proceedings, with 2,612, or 84 percent, of the patents having at least one claim cancelled.⁸

Moreover, getting conflicting results from PTAB and a court on the same patent is not uncommon. For instance, an analysis of PTO data for a sample of patents found that the administrative tribunal invalidated 168 of 220 patents PTAB reviewed *after* a federal court had determined the patent was valid.⁹ That is, a quasijudicial panel in the executive branch—employing procedures and standards that fail to provide the same level of fairness, due process, or even statutory presumption of validity and the same standard of proof—essentially overruled a court's determination 76 percent of the time. Not only has PTAB invalidated the same patents a federal court has upheld, but an IPWatchdog review found in one sample "58

⁵ https://news.bloomberglaw.com/ip-law/dont-weaken-the-leahy-smith-america-invents-act?mkt_tok=QDUwLVRBQSQ01MTEAAAGDebLRpW1Mi7JZobkF_bQuxaEagCasa1pQk_BWA46hgGhrwOy6DDHGClDByuOknyrEK7NKMy0xIDgY3WyzZObQGhR_DpXdlHexcWpggBxcaXYw

⁶ <http://www.ipwatchdog.com/2016/11/12/patents-property-right-now-patent-liability/id=74679/>

⁷ See e.g., <http://www.ipwatchdog.com/2014/03/24/ptab-death-squads-are-all-commercially-viable-patents-invalid/id=48642/> and <https://www.washingtontimes.com/news/2016/mar/24/adam-mossoff-weighing-the-patent-system/>.

⁸ <https://usinventor.org/assessing-ptab-invalidity-rates/>

⁹ <http://www.ipwatchdog.com/2018/01/07/ptab-errors-fatal-legitimate-patents/id=91457/>

cases where the patent is invalidated at the PTAB on the same statutory grounds asserted at district court and which did not lead to invalidity.”¹⁰

Modest Reforms

Several reasonable PTAB reforms have been implemented administratively.¹¹ These include changing the claim construction standard for interpreting patent claims in PTAB proceedings, requiring PTAB to apply the *Phillips* standard used in Article III courts and the International Trade Commission in patent validity proceedings, rather than the “broadest reasonable interpretation” standard.¹² Pursuant to *SAS v. Iancu*, PTO implemented the PTAB rules of practice for instituting PTAB proceedings on all challenged patent claims and all grounds, along with elimination of the presumption at institution favoring petitioners on testimonial evidence.¹³ Congress appropriately chose to let the temporary Covered Business Methods PTAB proceeding expire upon its statutory deadline of September 30, 2020—removing one of PTAB’s several postgrant forums available to petitioners for highly likely invalidation of patents.¹⁴

Discretionary Denials and Parallel Proceedings

As PTAB developed a body of cases, policies, and practices, PTO leadership recognized the need to modify policies and practices, and to exercise its statutory discretionary authority with respect to institution of PTAB proceedings. PTO leaders exercised discretion (35 U.S.C. §§ 314(a) and 325(d)) to preclude institution of proceedings when petitioners file multiple or serial petitions or challenge issued patents in both PTAB and federal court.¹⁵ A Precedential Opinion Panel has designated certain PTAB petitions and cases, within the PTO director’s statutory discretion, as precedents to guide future decisions on institution of PTAB proceedings. In other words, precedents guide decisionmaking to promote handling future petitions in cases of a similar nature as prior cases. Precedential decisions include *Apple v. Fintiv* (Case IPR2020-00019, March 20, 2020); *Becton, Dickinson v. B. Braun Melsungen* (Case IPR2017-01586, December 15, 2017), and *General Plastic Industrial Co. v. Canon Kabushiki Kaisha* (Case IPR2016-01357, September 6, 2017). The U.S. Supreme Court affirmed this statutory denial authority in *Cuozzo Speed Technologies v. Lee* and *Thryv v. Click-to-Call*. PTO leadership sought to initiate rulemaking to enhance reliance on important countervailing factors contained in statute; however, transition of administrations placed that effort on hold.¹⁶

CPR commented to PTO regarding discretionary denials of superfluous or nefarious PTAB petitions, saying in part:

¹⁰ <https://www.ipwatchdog.com/2018/01/08/58-patents-upheld-district-court-invalidated-ptab/id=91902/>

¹¹ CPR has supported several PTAB reforms. See https://www.property-rts.org/files/ugd/651e0c_1ec1d9f1883b475589a4b9e6d6f213d7.pdf, https://www.property-rts.org/files/ugd/651e0c_330aaca647a145db80a8c56ece44ff79.pdf, and https://www.property-rts.org/files/ugd/651e0c_f9f369ce8ee846b7a6af9d9d2a5406ec.pdf.

¹² https://www.property-rts.org/files/ugd/651e0c_31402aad4c3f4be1a926511d9227c298.pdf

¹³ https://www.property-rts.org/files/ugd/651e0c_6ad171b9d7914588823cb8a90c193622.pdf

¹⁴ https://www.property-rts.org/files/ugd/651e0c_427ba0ea8a7e43d3b0ce85c32cf7c5d4.pdf

¹⁵ https://www.property-rts.org/files/ugd/651e0c_330aaca647a145db80a8c56ece44ff79.pdf

¹⁶ <https://www.ipwatchdog.com/2020/10/22/uspto-seeks-comments-discretion-institute-trials-ptab/id=126626/>

“CPR agrees that PTAB’s unfettered institution of proceedings has made gamesmanship by deep-pocketed parties not only possible, but easy and profitable. The nonexclusive factors set forth in the precedential denial case *General Plastic Co. v. Canon Kabushiki Kaisha* and those applied in *Valve Corp. v. Electric Scripting Products (Valve I and Valve II)* appropriately exercise statutory authority to preclude serial petitions against the same patent. The same or related petitioners, their schemes on timing multiple PTAB challenges, husbanding prior art as pretext for subsequent challenges, and the like deserve to be denied the ability to string out an unending series of administrative proceedings. Ensuring due consideration of the above countervailing factors [‘the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete proceedings instituted’] would appropriately give balance to PTAB institution decisions, which strengthens property rights.”¹⁷

Today, PTAB remains a tool of serial patent infringers and incumbents intent on keeping innovative new competitors from challenging their position with new, better technologies and products. For example, in the case of patent owner Low Temp Industries against alleged infringer Duke Manufacturing, a federal court found LTI’s patent valid and issued an injunction against Duke. Duke appealed the ruling to the Federal Circuit and petitioned inter partes review at PTAB. PTAB granted review, despite *Fintiv* factors that should have kept the dispute solely in court. LTI noted in seeking reconsideration, *Duke’s both-and litigation strategy ensures duplicative parallel proceedings* in Article III court and PTAB’s administrative tribunal.¹⁸

Another example is patent owner VLSI Technology, which prevailed in a jury trial, proving patent validity and Intel’s infringement of VLSI’s patent, and winning an infringement verdict of \$2.2 billion. Two new LLCs (OpenSky and Patent Quality Assurance) were allegedly established after the fact in order to challenge the same patents Intel had infringed. The LLCs had not infringed VLSI’s patents themselves. The new LLCs filed IPRs allegedly to extract payments in exchange for dropping the IPRs. VLSI contends that OpenSky and PQA filed “copycat” submissions of Intel’s previously rejected petitions with PTAB. OpenSky relied on hearsay — “Intel’s expert declarations from Intel’s rejected petitions” — which is inadmissible, including as the basis of IPR institution decisions. Nevertheless, PTAB granted these dubious allies of the infringer inter partes review.¹⁹ Thankfully, PTO Director Kathi Vidal has granted the review VLSI requested of this suspect institution decision.

Also, cybersecurity firm Centripetal Networks sued Cisco for infringing four of its patents, and a federal court found Cisco not only to have infringed, but that the patent infringement was “willful and egregious.” In 2020, the court ordered Cisco to pay damages of \$2.75 billion for its willful misconduct.²⁰ The case is before the Court of Appeals for the Federal Circuit. Palo Alto Networks, a third party involved in separate litigation with Centripetal, petitioned PTAB challenges against Centripetal’s patents. PTAB recently instituted Palo Alto’s petitioned proceeding. Centripetal has request a POP review on the question, “Whether petitions filed substantially for the purpose of harassing patent owners who prevail in Article III courts, such as petitions targeting patents that have not been asserted against the petitioner but are the basis of district court judgments that are pending on appeal, should be discretionarily denied.”

¹⁷ Op.Cit., p. 2.

¹⁸ <https://itbg.org/wp-content/uploads/2021/08/1530979.pdf>

¹⁹ https://www.property-rts.org/files/ugd/651e0c_2a31cdf2e48b4997bb53e74bfb0482bc.pdf

²⁰ <https://www.crn.com/news/networking/cisco-ordered-to-pay-1-9-billion-in-patent-infringement-suit>

These examples illustrate how various parties can game the system, challenging patents' validity in PTAB, federal court, and the ITC in overlapping, intertwined litigation.

Legislative Proposals

Several constructive legislative reforms dealing with PTAB have been proposed. CPR has supported a variety of approaches. The ***Restoring America's Leadership in Innovation Act*** (H.R. 5874) would address most of the worst problems of steadily weakened patent rights and the patent system. RALIA would repeal PTAB and PTAB's administrative proceedings, along with several changes the AIA and judicial errors wrought. CPR strongly supports RALIA.²¹ RALIA would do the most to return to status quo ante for patent exclusivity and certainty.

The bipartisan, bicameral ***STRONGER Patents Act*** would largely codify beneficial reforms made under PTO Director Andrei Iancu, as well as bring PTAB proceedings into line with the standards, due process, and fairness in procedure and substance afforded parties in federal courts and ITC proceedings. These reforms include heightened burden of proof, a standing requirement, appellate rights, disclosing challengers' real party in interest, and deference to Article III judicial rulings on patent validity. CPR strongly supports STRONGER.²²

The Republican Study Committee's ***Countering Communist China Act*** (H.R. 4792) is a broader legislative package dealing with a range of U.S.-China competitiveness and security issues. H.R. 4792 contains patent provisions, including the PTAB reform measures from the STRONGER Patents Act and the consent provision from the Inventor Rights Act. The narrower ***Inventor Rights Act*** would require certain patent owners' consent to enter PTAB proceedings. CPR supports both bills.²³

Other approaches would address problems PTAB causes, introduce some balance among adversarial parties, or remove inherent incentives in PTAB's present makeup that incentivize abusive conduct and gamesmanship. Some of these are remediated in the above bills.

- **Require PTAB to defer to Article III courts and the ITC.** PTO's administrative body should suspend proceedings or deny institution if the same patent is before the judiciary or the ITC. PTAB should be bound by judicial rulings on a patent, and PTAB decisions should be appealable to Article III courts, including de novo review and jury trial. These would preclude radically different outcomes occurring on similar facts and correct an administrative panel's holding more judicial power than actual judicial bodies, particularly on a property issue.
- **Bind PTAB to the statutory presumption of patent validity.** If PTAB is to adjudicate adversarial disputes, it should have to abide by 35 U.S.C. §282's validity presumption.
- **Require PTAB to grant patent owners' requests to amend patent claims.** The AIA provides patent owners the right to amend patent claims in PTAB proceedings (35 U.S.C. §316(d)). In practice, PTAB often denies requests to amend claims. PTAB should have no option but to allow claim amendment midproceeding. This is only fair and statutory.
- **Require PTAB to decline to institute on more than one petition against the same patent.** PTAB cannot be a faster, cheaper alternative to federal court on patent validity questions without hard and fast limitations of a time window and of one bite at the apple—the

²¹ https://www.property-rts.org/files/ugd/651e0c_ac55f5354bc4b578e319d5e7e7d75d8.pdf

²² https://www.property-rts.org/files/ugd/651e0c_412754bd5c564155bc66f4c85a8d8884.pdf, https://www.property-rts.org/files/ugd/651e0c_90171c769aef4c2f8d8c681e11e23d9b.pdf

²³ https://www.property-rts.org/files/ugd/651e0c_2ea2eeab75ec473ea0acf8d2910a76b6.pdf, https://www.property-rts.org/files/ugd/651e0c_12e26aee77f4f3186c540d320a248c7.pdf

apple being a given patent, not the panoply of potential petitioners. To be sure, serial PTAB proceedings against one's same patent, especially when there are parallel proceedings in federal courts or the ITC, are anything but a "faster, cheaper alternative."

- **As long as patents face the uncertainty of multiple PTAB proceedings, require subsequent petitioners to face the prospect of financial loss.** This could be something like requiring petitioners to post a significant bond when filing a PTAB petition. Either failing to obtain institution or obtaining institution and prevailing on invalidation of any or all challenged patent claims should result in the patent owner collecting the bond monies. This would compensate the patent owner's legal costs and inconvenience, and cost the petitioner for its nuisance. PTO should receive a share of the bond amount for PTAB denials. Petitioner payment for denials could help reduce frivolous or harassment petitioning. In case of claim invalidation, the bond monies should entirely go to the patent owner as "just compensation" for the taking of private property. Also, petitioners could be required to pay patent owners their total legal costs regardless of PTAB proceeding outcome in instances after the first PTAB proceeding or if parallel proceedings are occurring.
- **Change PTAB's financial incentives to institute.** Presently, PTAB collects sizable, additional fees when petitions are granted review, but not if institution is denied. This is a meaningful fact for a fee-based agency. Congress should end this temptation to institute.

Of especial concern is legislation that would even further weaponize PTAB. The *Restoring the America Invents Act* ("RAIA") and a recent iteration of RAIA, the *PTAB Reform Act*, reverse the modest PTAB mitigation discussed above.²⁴ These bills subject Article III courts to being overruled by mere administrative quasijudicial PTAB panels. The legislation also uncorks estoppel and cancels the *Fintiv* doctrine. The Alliance of U.S. Startups and Inventors for Jobs warns that the PTAB Reform Act tilts the rules so "every patent that poses a competitive risk to Big Tech and that is being litigated or considered by the ITC, or has already been found valid and infringed, is guaranteed an IPR" (emphasis in original).²⁵ RAIA or the PTAB Reform Act would turn an already Kafkaesque nightmare system for inventors and patent owners into a never-ending cycle of administrative validity challenges. CPR strongly opposes this legislation.

* * * * *

In conclusion, CPR believes PTAB is used and abused, decidedly advantaging patent infringers and bad-faith actors. It denies patent owners reliability and certainty, and does a disservice to inventors, investors, and the U.S. innovation ecosystem. PTAB's existence jeopardizes inventors of standards-essential inventions, national security- and competitiveness-related inventions, emerging technologies inventions, independent and small-business inventing and commercialization, and the opportunities and interests of future generations' students who have the capacity for STEM employment and entrepreneurship. We ask the subcommittee to address PTAB's inequities and unfairness, its deleterious effect on inventors and entrepreneurs, and its decided disadvantaging of small businesses that, with strong, reliable patents, might have a competitive change against established incumbent firms in all economic sectors.

²⁴ <https://townhall.com/columnists/jamesedwards/2022/04/26/raias-gift-to-big-tech-and-china-n2606334>

²⁵ https://twitter.com/USIJorg/status/1537936023618916352?s=20&t=EGBz9zCm8OOwmCpJEGP_EQ

Statement for the Record

Submitted by Eagle Forum Education & Legal Defense Fund

Hearing of the U.S. Senate Judiciary Subcommittee on Intellectual Property

“The Patent Trial and Appeal Board:
Examining Proposals to Address Predictability, Certainty, and Fairness”

June 22, 2022

Mr. Chairman, Mr. Ranking Member, and subcommittee:

During debates leading to the Smith-Leahy America Invents Act, Eagle Forum Education & Legal Defense Fund founder Phyllis Schlafly¹ noted: “Foreign countries are free to copy our [patent] system. Instead they want to copy our inventions.” Advocates of the AIA and its legislative precursors claimed their goal was “harmonization” of patent systems. “She would write that all such efforts were aimed at making the U.S. system more inferior (as it sought to make the U.S. system more like other countries’ systems around the world). She was clear that she would not object to efforts aimed at the ‘harmonization’ of the rest of the world to make their patent systems more like the superior U.S. one.”²

AIA advocates hailed their bill, which included the Patent Trial and Appeal Board and its adversarial administrative proceedings, as “patent reform.” Mrs. Schlafly cautioned that it contained “no reform at all.”³ Ten years hence, we know she was right. Rather than “reform,” the AIA and PTAB assaulted private property rights, due process, and keys to U.S. success.

PTAB has destabilized American patent rights. PTAB has unhinged predictability, certainty, and fairness for U.S. patents and inventors. PTAB proceedings gut the constitutionally guaranteed private property right of exclusivity to one’s inventions for a limited time. PTAB, as Mrs. Schlafly put it, “subjects [inventors] to expensive new litigation and retroactively attacks” patents.⁴

AIA proponents claimed that PTAB would weed out “bad” or “weak” patents. It would provide a faster, cheaper alternative to court litigation. Instead, PTAB has a wide-open door to anyone who wants to challenge a patent’s validity, even on flimsy grounds. The likelihood of repeated challenges before PTAB panels, a weapon of challengers’ “lawfare”—waging litigation in both federal court and PTAB simultaneously and sequentially—means no issued patent ever has quiet title. No patent owner can expect or rely on the right of exclusivity for the patent term.

Nor does PTAB in any fashion result in a speedy patent validity determination—at least not one that could be considered final and dispositive for the remainder of the patent term. It does not reduce patent owners’ legal costs associated with their patents, but rather it increases overall expenditures exponentially. And PTAB is certainly not an alternative to federal district court; it is yet another forum in which patent owners must defend their patents against (often the same

¹ <https://www.ipwatchdog.com/2017/05/19/phyllis-schlaflys-devotion-patents-inventors/id=83375/>

² <https://www.ipwatchdog.com/2018/05/23/invention-patents-phyllis-schlaflys-legacy/id=97574/>.

³ Ibid.

⁴ [https://pseagles.com/Patent Act Is Dangerous to U.S. Security](https://pseagles.com/Patent%20Act%20Is%20Dangerous%20to%20U.S.%20Security)

basic) validity challenges in multiple venues of litigation. Rather, PTAB has proven itself to be little more than another brick in the wall of the constitutionally suspect Administrative State.⁵

As Mrs. Schlafly warned, PTAB poses a tremendous threat to U.S. national security and industrial competitiveness. During the AIA debate, she quoted a Chinese official regarding the legislation in an op-ed. The Chinese official described the ramifications of the Leahy precursor to the AIA: “Yongshun Cheng, former senior judge and deputy director of the Intellectual Property Division of Beijing High People’s Court, stated bluntly that the proposed U.S. patent bill is bad news for American innovation and good news for foreign infringers. He pointed out that the bill ‘is friendlier to the infringers than to the patentees in general as it will make the patent less reliable, easier to be challenged, and cheaper to be infringed.’”⁶

Unfortunately for America’s inventors, patent owners, patent commercializers, investors, and members of society who would benefit from the new jobs, new products, and new wealth patents create, a Chinese rival spoke more accurately and truthfully about PTAB’s effects. Meanwhile, U.S. politicians and their patent-infringing allies dissembled about the AIA and missed by a mile with their prognostications. The Chinese official’s estimation should have been a flashing red light and siren to American lawmakers. Instead, Big Tech, China’s national champions, and predatory patent infringers have been the sole beneficiaries and are the most active challengers at PTAB.⁷ PTAB is increasingly a tool for abuse.⁸ The biggest problem for our nation and our future as a global innovation leader in emerging technologies, not to mention for our economic strength, is that the dissemblers continue to use the same false narrative about “weak” patents and downplay PTAB’s destructive role in patent reexamination and litigation.⁹

Eagle Forum ELDF considered the reasonable, modest administrative reforms at PTO and to PTAB made by former Patent and Trademark Office Director Andrei Iancu to be constructive and to provide a modicum of balance.¹⁰ Yet, even modest mitigation of PTAB’s excessive bias toward petitioners, particularly discretionary denial of PTAB petitions under consideration of *Fintiv* doctrine when other proceedings weigh the same patents’ validity in other forums, proves too inconvenient to Big Tech and other members of the Infringers Lobby.

The proposals contained in the PTAB Reform Act seems to show that PTAB cannot lean far enough against inventors and patent owners, in the eyes of the Infringers Lobby’s champions. The Alliance of U.S. Startups and Inventors for Jobs, comprised of bonafide high-tech inventors and entrepreneurs, says the PTAB Reform Act “is disastrous” for its class of innovators. USIJ notes that “every patent that poses a competitive risk to Big Tech and that is being litigated or considered by the ITC [U.S. International Trade Commission], *or has already*

⁵ <https://usinventor.org/wp-content/uploads/Maladministrative-State-Transcript.pdf>

⁶ https://pseagles.com/Patent_Reform_Is_A_Patent_Giveaway

⁷ <https://innovationalliance.net/from-the-alliance/infographic-big-tech-companies-are-biggest-users-of-ptab/>

⁸ E.G., *OpenSky Industries v. VLSI Technologies*, IPR2021-01064

⁹ <https://www.ipwatchdog.com/2021/07/29/closer-evidence-based-look-patent-quality-advocacy/id=136160/>

¹⁰ See, for example, <https://www.uspto.gov/sites/default/files/documents/11172020EagleForumEducationandLegalDefenseFund.pdf> and <https://www.uspto.gov/sites/default/files/documents/06-19-20%20Eagle%20Forum%20Education%20%26%20Legal%20Defense%20Fund.pdf>

been found valid and infringed, is guaranteed an IPR [inter partes review].”¹¹ (emphasis in original)

Moreover, these proposals would essentially harden an administrative body’s ability to overrule Article III courts’ rulings on the same patents—something the Founders who wrote the judicial branch into the Constitution and separated powers among the branches would likely decry. The undoing of *Fintiv* doctrine and of estoppel, for instance, would ensure that patents may be targeted throughout their terms, despite what a federal court or the ITC may have determined through far more robust due process and procedural fairness. The only commendable proposal would codify the *Phillips* standard of patent claim construction. Otherwise, like the proposed policies of the Restoring the America Invents Act, the effect of the PTAB Reform Act’s proposals would be to crush America’s true innovators and reward China and Chinese competitors vying for global leadership in “frontier” technologies.¹²

In conclusion, PTAB remains a powerful weapon—for canceling issued patents, empowering patent infringers, destroying exclusive private property rights, and aiding and abetting foreign competitors and adversaries in their quest to overcome U.S. leadership in cutting-edge technologies and industries. Judging by this hearing, it appears certain that things will only get worse for American inventors and the U.S. national interest. Thus, the future seems destined to hold unpredictability, uncertainty, and unfairness for America’s bonafide innovators.

#

¹¹ https://twitter.com/USIJorg/status/1537936023618916352?s=20&t=FGBz9zCm8OOwmCpJFGP_EQ

¹² <https://townhall.com/columnists/jamesedwards/2022/04/26/raias-gift-to-big-tech-and-china-n2606334>

Medtronic

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June 22, 2022

The Honorable Patrick Leahy
Chair, Subcommittee on Intellectual Property
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Thom Tillis
Ranking Member, Subcommittee on Intellectual Property
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable John Cornyn
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, D.C. 20510

Re: Support for S. 4417, The Patent Trial and Appeal Board Reform Act of 2022

Dear Senators Leahy, Cornyn, and Tillis:

Medtronic is pleased to write to you regarding our support for S. 4417, the Patent Trial and Appeal Board (PTAB) Reform Act of 2022. We share your goal of driving innovation by ensuring patent quality, while maintaining robust enforcement mechanisms in U.S. courts. We believe your proposed changes will help restore balance to this system.

As background, Medtronic is a global healthcare technology company with more than 90,000 people across 150 countries, including more than 43,000 in the U.S. Our innovative

solutions have revolutionized the treatment of more than 70 health conditions, including heart arrhythmia, stroke and diabetes. From the very beginning, when our founders developed the first battery-powered pacemaker in a Minneapolis garage, innovation has been core to our identity.

We rely on patents to protect our pioneering inventions and incentivize continued innovation. We currently have over 48,000 patents worldwide, including over 22,000 patents in the U.S. We have been involved with patent litigation as both plaintiff and defendant. Since the inception of the America Invents Act, Medtronic has been involved in close to 100 *inter partes* reviews, including challenging patents as Petitioner and defending patents as Patent Owner. As a result, Medtronic is in a unique position to comment on the PTAB Reform Act of 2022.

In our view, the PTAB functions best when it is allowed to fulfill its intended purpose of reviewing patent validity issues on the merits, whether at the institution stage or after a full hearing. Maximizing those opportunities, while minimizing denials of review for discretionary or administrative reasons, tends to benefit the patent system as a whole.

We believe your proposed legislation will further these interests. Particularly noteworthy are the following provisions:

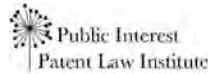
- (1) The change prohibiting denial of *inter partes* review based on “an ongoing civil action or a proceeding before the International Trade Commission” will eliminate a major concern of stakeholders that the PTAB has become unavailable as a forum for reviewing validity issues on the merits in certain cases.
- (2) The change regarding sanctions for abusive practices (such as “deliberately delaying or losing, or offering to deliberately delay or lose, an instituted proceeding in exchange for consideration”) will help shield patentees from non-litigant Petitioners whose sole purpose for initiating review is a shakedown.
- (3) The clarification that estoppel takes effect “upon the issuance of the final written decision” would eliminate uncertainty as to the timing and effect of estoppel in parallel litigation. This change helps promote certainty in the process, benefiting all parties.

Medtronic appreciates your efforts to improve the PTAB review process.

Sincerely,



Kristina M. Pisanelli
VP, Global Government Affairs - Americas



June 29, 2022

Dear Members of the Subcommittee on Intellectual Property of the Senate Committee on the Judiciary,

We write to ensure the public's interest in the proper functioning of the patent system is represented in the hearing on *The Patent Trial and Appeal Board: Examining Proposals to Address Predictability, Certainty, and Fairness*. Thank you for your work on this important issue and for giving the public's interest the consideration it deserves.

The Public's Interest in the Patent System

Millions of Americans depend on access to patented technology, but most do not participate directly in the patent system. These constituencies include research scientists, small business owners, farmers, repair technicians, truck drivers, teachers, and patients. Because they do not acquire, own, or assert patents, their interests are inadequately represented in the institutions that comprise the patent system—the U.S. Patent and Trademark Office (PTO) and federal courts. This lack of representation makes it more difficult for the patent system to strike an appropriate balance between incentivizing private investment and preserving public access to knowledge.

Patent law requires consideration of the public's interest. As the Supreme Court has long recognized, the patent system is "designed to serve the *public purpose* of promoting the 'Progress of Science and useful Arts.'"¹ Because patents give their owners the right to stop others from making or using anything within the scope of their patent's claims, they have "far-reaching social and economic consequences of a patent [that] give the public a paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope."²

The Public Interest Patent Law Institute (PIPLI) is a nonprofit, nonpartisan organization that works to ensure the patent system promotes the progress of science and technology for the benefit of all Americans. To enhance public representation in the patent system, PIPLI conducts policy research; provides pro bono counseling and legal aid to people affected by the patent system; advocates for greater transparency, ethics, and equity in the institutions that shape patent law; and represents the public's interest before institutions that shape patent law and policy, including courts, agencies, and standard-setting organizations.

Abusive Patent Assertion Activities Premised on Invalid Patents

Because we provide pro bono legal assistance, we regularly hear from people who experience the harmful consequences of invalid patents firsthand, including small businesses, academic

¹ *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945) (emphasis added); see also *Cuozzo Speed Techs., LLC v. Lee*, 579 U.S. 261, 263 (2016) (citing *Precision Instrument*, 324 U.S. 806 at 816); *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, 138 S. Ct. 1365, 1374 (2018) (citing *id.*).

² *Id.*

researchers, developers of open source technology, and nonprofit organizations. They typically contact us after receiving letters demanding payment for licenses to patents of extremely questionable validity—and threatening legal action if they are unwilling or unable to pay. These demands primarily come from entities that own and assert patents, but do not develop, manufacture, or provide any goods or services of their own.

The exorbitant costs of patent litigation empower patent owners to demand enormous licensing fees for patents that would likely be held invalid if challenged in court.³ Among those who contact PIPLI, initial demands in the range of \$10,000 to \$50,000 dollars are typical. While these demands are less than the staggering \$700,000 it costs to litigate a low-stakes patent case,⁴ they are still far more than most people can afford.

Unfortunately, threats of litigation have the most power against those who are least equipped to defend themselves. That makes people and organizations without less financial resources *more* likely to receive demands premised on patents that would not withstand legal challenges. Because companies with deep pockets can afford to spend millions of dollars challenging such patents in federal court or before the Patent and Trial Appeal Board (PTAB), owners of the low quality patents often avoid suing them. Instead, they target those who cannot afford to fight back.

When small businesses try to defend themselves, they often suffer even if their invalidity arguments should prevail. For example, one company that tried to mount a litigation defense bankrupted itself spending money on attorneys before the case even came close to going to trial.⁵ A few years later, the patent was held invalid after a much bigger company—Domino's Pizza—mounted an effective challenge in district court that was upheld on appeal.⁶ But the decision came too late to save the business or its employees' jobs.

The Incomplete Record of Harm Invalid Patents Cause

We do not know the full extent of harm invalid patents inflict on the public because license demands that are not litigated are not reflected in public records. When a technology developer stops working on a new product because it cannot satisfy a patent assertion entity's license demands, there is no record of that loss. Moreover, people who receive litigation threats from

³ See, e.g., John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 208 (1998) (reporting results of empirical study that found more than half of litigated patents were held invalid due to novelty or obviousness).

⁴ According to the American Intellectual Property Law Association's 2019 survey, a patent trial with less than \$1 million at risk "will cost \$700,000, while the very high value cases will cost \$4M or more." Rus Krajec, *Current Patent Litigation Costs Are Between \$2.3 to \$4M - from the Blueiron blog*, Associated Press, July 10, 2020, <https://ipnews.com/press-release/news-direct-corporation/technology-business-intellectual-property-patents-a5dd5a7d415e7bae6878c87656c90112>.

⁵ Electronic Frontier Foundation, *Alice Arrives Too Late to Save A Startup*, <https://www.eff.org/alice/alice-arrives-too-late-save-startup>.

⁶ Jan Wolfe, *Fed Circuit delivers win to Domino's Pizza over online order patent*, November 1, 2019, <https://www.reuters.com/article/ip-patent-dominos/fed-circuit-delivers-win-to-dominos-pizza-over-online-order-patent-idUSL2N27H2SJL>.

patent assertion entities have compelling reasons not to talk about their experiences publicly.⁷ As a result, the public record does not capture the full extent of harm invalid patents cause.

We cannot remedy that deficiency, but we can try to mitigate it by highlighting a few examples of real people who faced licensing demands premised on patents of questionable validity and got pro bono assistance from nonprofit organizations, including PIPLI and the Electronic Frontier Foundation (EFF). These examples illustrate the harm invalid patents cause and demonstrate the public's need for affordable, effective, and fair mechanisms for challenging invalid patents.

Accounts from People Harmed by Invalid Patents

1. *Daniel Villalobos*

Daniel Villalobos is a Georgia resident who runs a small family business, EasyTracGPS, which installs and maintains GPS tracking systems for trucking, taxi, and limousine companies. In 2019, he learned that a patent infringement complaint against the business had been filed in court when he received emails from patent lawyers and search firms offering their paid services.

The patent, U.S. Patent No. 8,760,286, belonged to Inventergy, a company that owns and asserts patents, but does not make or sell its own products or services. The patent did not claim anything that could possibly qualify as an invention—it simply described generic steps, like collecting and sending location information, and generic computer components, like a memory and processor.

Daniel did not have the resources to defend his business in court or pay for a license he did not need. He contacted EFF, which agreed to represent EasyTracGPS pro bono. EFF sent Inventergy a letter, explaining why their patent was invalid under the Patent Act and their accusations violated Georgia state law, which prohibits bad faith accusations of patent infringement.⁸

Fortunately, neither Daniel nor EFF ever heard from Inventergy again. Nevertheless, the patent remains in effect and Inventergy continues to assert it. We do not know how many businesses have had to spend money on legal or licensing fees that could and should have gone to productive activities, like product development and employee salaries, instead.

Brijesh Kumar

Brijesh Kumar is the Chief Technology Officer of a small business in New Jersey, Rapidsoft Systems, which provides software development and information technology (IT) services. Brijesh is a leading authority on wireless, mobile and networking technology, an author of numerous technical papers, and the named inventor on several patents.

⁷ People often keep their negative experiences with the patent system private because: (1) they reached a settlement which includes a restrictive confidentiality and/or non-disparagement clause, barring them from telling others about their experience; (2) they paid licensing fees and do not want to make themselves a target for other patent owners by publicly disclosing their willingness to pay such fees to avoid litigation; and (3) they have not settled or paid a fee, and are afraid to “poke the bear” by speaking publicly about unresolved accusations, however meritless.

⁸ EFF's letter is publicly available at https://www.eff.org/files/2019/09/27/06.21.2019_-_easytracgps_letter.pdf.

In 2021, Rapidsoft was sued by Social Positioning Input Systems (SPIS), one of many entities controlled by Leigh Rothschild, a notoriously patent owner and litigant. Mr. Rothschild and companies associated with him have filed more than 820 patent infringement lawsuits, including more than 50 cases filed by SPIS in 2021 alone. The manner in which these cases are litigated have established Mr. Rothschild's reputation for vexations and abusive litigation conduct.⁹

Many companies targeted by Rothschild entities opt to settle, but Brijesh's technical expertise led him recognize the patent's weaknesses and gave him the will to fight back. He hired attorneys and filed a motion to dismiss the case because of the patent's invalidity. The motion was pending for five months, but the judge took no action, neither holding a hearing nor issuing an opinion. During that time, Brijesh's legal fees continued to mount, and there was no end in sight: even if the judge granted his motion, SPIS would appeal, and he would have to keep spending money on legal fees.

Brijesh contacted PIPLI, which agreed to represent him pro bono to ensure he was not rushed into a settlement because of his limited resources. Ultimately, a settlement was reached, and the case was voluntarily dismissed before the court ever ruled on Brijesh's invalidity motion. Brijesh ultimately spent enormous sums of money to challenge SPIS's invalid patent, but because of the district court's inaction, SPIS was able to continue imposing costs until they became unbearable.

Because the patent is still in effect, SPIS continues to assert it against businesses that have to invest in litigation and licensing rather than technology or product development. When the patent system encourages investment in attorneys rather than engineers and employees, it is promoting the legal profession, not innovation, and thus falling short of the Constitution's mandate.

Karl Schroll

Karl Schroll is the sole proprietor of School360Tours, which creates multimedia-rich virtual tours for schools, including many public schools in Colorado, where Karl lives and works. This year, Karl was contacted by Richard Wilson, the owner of U.S. Patent No. 6,754,400, and President of Tour Technology Systems (TTS). Like other patent assertion entities, TTS makes money by licensing its patent rather than making or selling any products or services. According to its website, TTS believes it is entitled to payment for any website that includes a virtual tour.¹⁰

Karl knows that virtual tour technology predates the patent because he used that technology before the patent's priority date. But as the sole proprietor of a small business, Karl cannot afford to pay

⁹For example, the U.S. Court of Appeals for the Federal Circuit has approved awards of attorneys' fees against Mr. Rothschild based on "undisputed evidence" of "Rothschild's vexatious litigation, *Rothschild Connected Devices Innovations, LLC v. Guardian Prot. Servs.*, 858 F.3d 1383, 1390 (Fed. Cir. 2017), and the district court in Delaware has awarded fees against Mr. Rothschild for vexatious litigation after he "attempted to exert pressure on other defendants to settle or be left to spend money litigating a patent that had twice been found to cover ineligible subject matter." *Rothschild Digital Confirmation, LLC v. CompanyCam, Inc.*, 494 F. Supp. 3d 263, 267 (D. Del. 2020).

¹⁰Tour Technology Software, <https://tourtechnologysoftware.com> ("IF YOU ARE . . . DISPLAYING A 360 VIRTUAL TOUR ON YOUR SITE, YOU ARE PART OF THE INFRINGEMENT.")

attorneys challenge to the patent in court or before the PTAB.¹¹ Nor can he—or his public school clients—afford to spend more to pay Mr. Wilson for the use of technology which he did not invent.

Karl contacted PIPLI for help, and we are currently representing him pro bono. We do not know how the situation will resolve, but we know Mr. Wilson's patent is invalid under the law, and will fight to ensure Karl, public schools, and the taxpayers who fund them, do not have to pay more than they should simply because the cost of challenging an invalid patent is so great.

The Need for Affordable, Effective, and Fair Mechanisms for Patent Validity Challenges

Although we wish there were more affordable, effective, and fair ways to challenge the validity of granted patents, we are grateful for the inter partes and post-grant review proceedings Congress created as part of the America Invents Act. The public is better off because they exist.

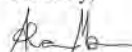
Because IPR and PGR proceedings are available, the public has the ability to band together to raise the funds required to file a review petition, which is still far less than the cost of district court litigation. Indeed, EFF successfully raised funds from more than 1,000 people to challenge, successfully, a patent asserted against a host of small and independent podcasters.¹² These proceedings would serve the public even better if reductions or waivers of the PTO's fees were available for people like Karl and nonprofits like EFF. That would enable members of the public to challenge invalid patents before the PTAB when attorneys are willing to donate their services.

Conclusion

The harmful consequences of invalid patents must not be taken lightly. Patents can incentivize innovation, economic growth, and access to knowledge, but only if the inventions they claim are truly new and useful. When patents instead claim subject matter which is old, obvious, or incomprehensible, they chill innovation, thwart competition, and deprive the public of knowledge.

For the same reasons the public needed efficient mechanisms for challenging invalid patents when Congress passed the America Invents Act, the public needs that system to remain affordable, effective, and fair. Ensuring access to such proceedings will help ensure the patent system promotes the progress of science and technology for the benefit of all Americans.

Sincerely,



Alex Moss
Executive Director
Public Interest Patent Law Institute

¹¹ The USPTO charges a fee of \$19,000 to file a petition for review and charges a post-institution fee of \$22,500 if the petition is granted. USPTO Fee Schedule, <https://www.uspto.gov/learning-and-resources/fees-and-payment/uspto-fee-schedule>. These fees do not include the fees attorneys charge.

¹² EFF v. Personal Audio LLC, <https://www.eff.org/cases/eff-v-personal-audio-llc>.

STATEMENT FOR THE RECORD

Marc Ehrlich
Marian Underweiser

Intellectual Property Executives (Ret.)

COMMITTEE ON THE JUDICIARY Subcommittee on Intellectual Property

United States Senate

"The Patent Trial and Appeal Board: Examining Proposals to Address Predictability, Certainty, and Fairness"

June 22, 2022

Chairman Graham, Chairman Leahy, Ranking Member Grassley, Ranking Member Tillis and Members of the Subcommittee, kindly accept the following statement for the record:

Introduction

Thank you for your efforts to reform the Patent Trial and Appeal Board (PTAB). We appreciate your efforts to address inequities in the operation of the PTAB in order to achieve the laudable objectives of the 2011 America Invents Act (AIA) which envisioned the PTAB as an inexpensive and efficient alternative to patent litigation. Unfortunately, as it is currently drafted, the Patent Trial and Appeal Board Reform Act (PTAB Reform Act) does little to address – and instead exacerbates – the PTAB's historic unfairness to patent holders. It casts aside processes developed over years of experience by PTAB judges and the efforts of prior Directors to make the PTAB more efficient and even-handed. In its current form, the PTAB Reform Act will have the unwanted effect of further slanting the PTAB towards the interests of those who seek to undermine the rights of US patent holders, particularly a small group of large technology companies, commonly referred to as Big Tech.¹ The PTAB Reform Act looks very much like a Big Tech wish list.

We are independent, retired intellectual property experts with over a collective half-century of experience in all aspects of patent law including significant involvement in patent policy-

¹ <https://www.hightechinventors.com/post/htia-sends-letter-in-support-of-restoring-the-america-invents-act>;
<https://www.ipwatchdog.com/2022/05/02/google-general-counsel-clinton-call-u-s-patent-system-reform-not-heeded/id=148783/>;

making, which in part entailed a formative role in the development and drafting of the 2011 Leahy-Smith America Invents Act (AIA). We have participated on behalf of the companies we served during our careers and since retirement we've worked with individuals and organizations to address some of the most pressing issues facing the US patent system.² We hope our comments along with those of other members of the patent community will serve to highlight areas where this bill will exacerbate the PTAB's well-established inequitable treatment of patent holders.

Since its creation by the AIA, the PTAB has granted review of challenged patents and invalidated patents it reviews at rates that are so far out of line with what drafters expected, and so far from the rates of comparative fora such as the courts, ITC, or the prior re-examination panels, that it has become the preferred tool for those who benefit from invalidating patents.

The Senate Committee on the Judiciary (SJC) seeks to explore "predictability, certainty and fairness" in the PTAB. It is a fact that the PTAB predictably and certainly institutes IPR's on almost 70% of the petitions it reviews, and it's also a fact that the PTAB invalidates at least one claim in almost all challenged patents.³ With such predictable and certain patent review and invalidation at the PTAB we have witnessed the birth of business models in which (for example) accused infringers pay a non-practicing entity to challenge patents at the PTAB on their behalf⁴ – a practice previously forbidden at the PTO⁵; and schemers have shorted stocks based on the filing of IPRs⁶ or have sought to extort money from the holders of successfully litigated patents via the filing of IPRs.⁷ The PTAB is so predictably and certainly harmful to patent rights that it has literally spawned entire business models, referred to in the House hearing by one Congressman as 'reverse patent trolls'⁸ and new modes for bad actors to arbitrage its inevitable elimination of patent rights.

You are also considering whether the PTAB is fair. When the PTAB was in its infancy and was invalidating patents at rate of around 90% we were told that the patents it was killing were low quality "low hanging fruit" and the high initial rejection rate was "to be expected" and would

² The views expressed herein are those of the authors and do not reflect the views of any current or former employer of those of any organization with which we are affiliated.

³ U.S. PATENT AND TRADEMARK OFF., PTAB Trial Statistics FY22 Q2 Outcome Roundup IPR, PGR, 11 (2022) (collecting statistics for FY 2022),

⁴ See, e.g., <https://www.unifiedpatents.com>

⁵ At least to the extent that the party for whom the IPR is being filed is not disclosed as a real party in interest – see e.g., *In Re Guan*, Reexamination Control No. 95/001,045 (Aug. 25, 2008) (Decision Vacating Filing Date).

⁶ See, e.g., <https://www.fiercepharma.com/legal/undeterred-by-ptol-setbacks-bass-slaps-new-challenges-on-acorda-patents>

⁷ See, e.g., <https://news.bloomberglaw.com/ip-law/intel-patent-verdict-tensions-spark-reveal-of-unusual-offer>

⁸ See, e.g., House Judiciary Committee Hearing on PTAB video at

https://www.youtube.com/watch?v=JH1Vr_8dAgnE&t=5s comments of Rep. Dan Bishop (NC) at time mark 1:12:33 et. Seq.

moderate.⁹ It has not. This presents an unenviable predicament for Congress. If the PTAB is being fair when it evaluates patents, then it is correctly finding that nearly 70% of the duly-granted patents brought to its attention have at least one challenged claim that is reasonably likely to be invalid, and thus merit their review. Further, it is correctly deciding that over 80% of the patents it does review contain at least one invalid claim. If these numbers are correct, then apparently there is a systemic problem with the initial examination of patents by USPTO patent examiners. Inventors, companies and investors invest significant sums of money and time ensuring they secure patent protection, on which often rests the fate of their companies and their financial futures, but if the PTAB is acting fairly, only 2 in 10 are actually getting their money's worth. If it is determined that the PTAB is acting fairly toward patentees, then there is a much larger patent system problem to contend with.

We do not believe there is a fundamental problem with the USPTO's patent examination processes. We firmly believe that the PTAB has always and continues to treat patent holders unfairly. We will provide in these comments explanations for how this has happened to date and why the PTAB Reform Act will only serve to make things worse for patent holders.

The Director's Discretion Applies to Both Institutions and Denials – *Fintiv* Must Be Preserved

One issue on which both sides of the PTAB debate agree is that the Director must be afforded broad discretion when considering the institution of IPRs. We disagree on just what that discretion entails. Our position, as well as common sense and a plain reading of the AIA dictate that broad discretion to institute also, of course, includes broad discretion to deny institution. The Big Tech companies, on the other hand, believe discretion is a one-way street. They favor *unfettered discretion to institute* IPRs in cases where the AIA may not have been followed, *but no discretion to deny the institution of an IPR* in situations where pursuing such IPR would undermine the AIA's goals of efficiency and fairness, such as when a co-pending litigation in an Article III court involving the same parties, patents and issues has advanced to a point where it will conclude prior to the statutory time set for the IPR.

Big Tech Director Discretion: Heads I Win – Tails You Lose

Setting aside the fact that discretion to institute definitionally means to decide whether or not to institute, the disingenuousness of Big Tech's "heads I win tails you lose" position is hard to overlook. In *Cuozzo Speed Technologies v Lee*,¹⁰ these opponents of *Fintiv* discretion argued for and applauded the Supreme Court's decision that the Director had the discretion to institute an IPR that included claims not pled by the petitioner but instead injected into the proceeding by the PTAB judges. That is, they believe the Director should have discretion to insert the Office's own challenges into a petitioner's IPR petition despite the statutory mandate that the claims in an IPR petition be pled with particularity. Imagine the same thing happening in a court, where

⁹ See, e.g., <https://www.jdsupra.com/post/contentViewerEmbed.aspx?fid=62cd7aef-ad88-4f74-9e98-57410c28eb53>

¹⁰ 136 S.Ct. 2131 (2016)

a judge adds to and corrects a party's defective pleading. Later in *Thyrv, Inc. v. Click to Call Technologies, Inc.*, these same Big Tech *Fintiv* opponents argued for and cheered the Supreme Court's finding that the Director had the discretion to completely ignore AIA Sec. 315(b)'s one year time bar on IPR petitions and grant review of a patent that had been fully litigated 12 years prior to the IPR petition!¹¹ A litigation that concluded over a decade before the petition was brought - over a decade before the AIA even existed. But the vast unfettered discretion of the Director to ignore even an explicit provision in the AIA forbidding such institutions was argued for and upheld with support from these *Fintiv* opposers. In fact, that staggering breadth of discretion does not seem to be enough, as the PTAB Reform Act now seeks to codify as an exception to the one year bar, cases like *Thyrv*.¹² Why should Big Tech rely on mere Director discretion when it seems they can simply codify exceptions to the laws that restrict institution? Why indeed?

But now, Big Tech has a problem. They have argued strenuously for the Director's discretion to institute. What happens when that same discretion is applied to denying the institution of an IPR? In *Apple v. Fintiv*,¹³ the PTAB explained that in cases where a parallel district court proceeding concerning the same patent, parties and issues was likely to conclude prior to the IPR, the Director had the discretion to deny institution of the IPR. Clearly, this an exercise of discretion to deny institution that is far more modest than the prior exercises of discretion to institute. It is narrower and far more consistent with the provisions and policy of the AIA than the injection of the PTAB's own contentions into a petition or the wholesale disregard for the statutory one-year bar on institutions. Nevertheless, Big Tech could not abide IPR denial discretion. They took to the courts in an attempt to overturn the Director's discretion¹⁴ to deny institution and upon losing soundly in the courts¹⁵ they've now turned to Congress to codify an illogical and absurdly one-sided view of "discretion." To the *Fintiv* opposers Director discretion is a 'heads I win tails you lose' proposition. This will be the state of the law should the PTAB Reform Act go forward, but the loser will not just be patent holders, but US innovation itself.

Justice May Be Blind, But That Does Not Mean Judges Should Wear Blinders

There is no principled reason to eliminate the discretion of the Director to deny institution based on a parallel district court litigation. Inventors are granted the rights to their inventions

¹¹ 140 S.C. 1367 (2020). The weak argument for this exception proposed by the PTAB and accepted by the Supreme Court was that this litigation was dismissed without prejudice. Query what the status of an eventual litigation dismissal with or without prejudice has to do with AIA Sec. 315(b) prohibitions on institution for petitions filed more than one year after the date that the patentee is served with a complaint. The statute makes no mention of the eventual resolution of the complaint but hinges solely on the filing of a complaint, thus the Director's decision to ignore 315(b) was based on nothing having to do with the statute.

¹² See, PTAB Reform Act S 4417 at Sec. 2 (Patents) (a)(2)(B) amending 35 CFR 315(b) indicating that the time limitation shall not apply if the complaint is dismissed without prejudice.

¹³ IPR 2020-00019 (PTAB Mar. 2020,) (Precedential).

¹⁴ See, e.g., <https://www.eastgateip.com/apple-cisco-google-intel-sue-the-director-of-the-uspto-alleging-purported-new-rule-applying-fintiv-factors-violates-administrative-procedures-act/>

¹⁵ See, e.g., <https://www.sterneckessler.com/news-insights/news/high-court-turns-down-intels-challenge-ptabs-fintiv-rule>

via Art. I Sec. 8 of the US Constitution. As Sen. Cruz explained during the recent hearing on the PTAB Reform Act, this is one of only two sections in the Constitution that speaks of rights being granted by the government.¹⁶ Given the constitutional foundation of the patent rights grant, the courts and the Congress must be on guard against actions that deprive rights holders of their patents without ensuring their day in court.¹⁷

There are important differences between the PTAB, an Article I tribunal staffed by bureaucratic administrative judges, and duly appointed Article III judges operating in an Article III Federal court. Consider the following partial list of important differences between the proceedings: PTAB trials do not permit live testimony where judges can assess the credibility of witnesses, they do not provide the fulsome discovery necessary to support and defend arguments, there is almost no use of dissents by empaneled judges so there is no ability to learn from conflicting opinions between judges, and panels frequently are inconsistent in applying even precedential PTAB rules and case law.¹⁸ All of these and other differences make the PTAB a less robust if potentially quicker and less expensive forum to determine the constitutionally grounded rights of patent holders. This doesn't mean we should do away with the PTAB, but it does mean that when a Director exercises her considerable discretion to promulgate rules addressing when to decline agency review and defer to a parallel proceeding in an Article III court, Congress should not lightly wipe away such discretion as the PTAB Reform Act would do.

The language in the PTAB Reform Act in relevant part reads "In deciding whether to institute ...the Director shall not in any respect consider an ongoing civil action..."¹⁹ Does that sound like a law intended to ensure due process for patent holders? More generally, how is it that the existence of parallel district court proceedings could be irrelevant to policy goals of efficiency and fairness, let alone achieving the AIA's goal of the PTAB proceedings providing an alternative to litigation? Is an instruction for a judge to ignore the parallel proceedings regarding the same parties, patents, and issues ever sound legislation? Does it square with the basic principles of fairness, of judicial economy, of due process? The answer to each of these is no. While justice may be blind, it is never good policy to intentionally blindfold judges to the parallel actions of their adjudicatory counterparts. There is no sound reason to eliminate *Fintiv* and many compelling reasons not to eliminate *Fintiv* discretion

Leave Fintiv Intact, Let It Evolve

Fintiv was the by-product of years of experience of PTAB judges with parallel proceedings. It was developed to eliminate redundant efforts between the courts and the PTAB in a manner

¹⁶ See video at <https://www.youtube.com/watch?v=Gaipluofdo> at 57:09 et seq.

¹⁷ The fact that in a substantial percentage of cases when patent holders appeal adverse PTAB proceedings to the CAFC they are dismissed under rule 36 means that many patent owners are losing their patent rights without ever having them considered by any agency other than the very agency that granted and later invalidated them and never have the benefit of even a single substantive ruling by an Article III court.

¹⁸ See, e.g., House Judiciary Committee Hearing on PTAB video at https://www.youtube.com/watch?v=JH4Vr_8dAgnE&t=5s at time mark 45:07 et. Seq.

¹⁹ See, PTAB Reform Act S.4417 at Sec. 2 (Patents) (a)(2)(B) amending 35 USC 315 by adding sub-section(f) INSTITUTION NOT TO BE DENIED BASED ON PARALLEL PROCEEDINGS

very similar to how courts might stay early-stage proceedings in favor of a contemporaneously instituted IPR. It is generally unwise to wipe away the learning of the judges themselves, especially where that learning continues to evolve. For example, and despite the young age of the *Fintiv* doctrine, the PTAB has already refined it several times to ensure that it is administered fairly both for patentees and petitioners.

The factors considered by PTAB judges have been expanded several times, most recently via Director Vidal's June 21, 2022 memorandum.²⁰ These changes address petitioner concerns with fairness. For example, one common complaint is that the PTAB's use of a court's posted trial date in determining whether a trial will conclude prior to an IPR is wrong because the posted trial date is incorrect more often than not. Director Vidal's guidance permits parties to offer and instructs her PTAB judges to consider statistical data for the relevant court's median time to trial, thus addressing the problem of inaccurately posted trial dates.²¹ The PTAB has also established precedent allowing an IPR petition filed with a prior pending District Court trial to proceed if the petitioner stipulates that it will not raise the same or substantially similar grounds in the IPR as have been raised in the court.²² Thus, even in *Fintiv*'s short existence the PTAB has readily proven it can adapt its rules to address the concerns of both patentees and petitioners. And in fact, statistics bear out their success. Whereas *Fintiv* denials were handed out in approximately 38% percent of IPR petitions in which *Fintiv* was raised in the early days following the rule's adoption, in 2022, less than 7% of IPR petitions raising *Fintiv* have been denied and that percentage continues to rapidly fall as the Office adapts its processes and as parties become familiar with the rules.²³

While we generally applaud the PTAB's process of evolving rules to address issues of efficiency and fairness, we do not believe they get everything right. For example, just like the PTAB Reform Act, Director Vidal's guidance instructs her judges to ignore parallel ITC proceedings. This is a mistake. The oft-raised objection to considering parallel ITC proceedings is that the ITC has no power to invalidate patent claims. But this is irrelevant. The ITC, PTAB and District Courts all evaluate the same provisions of the patent law, 35 USC 102 and 103. Each tribunal has different remedies at its disposal. While the ITC cannot invalidate claims like the PTAB, it can issue an Exclusion Order banning import into the US of infringing items, a remedy that the PTAB cannot provide. Furthermore, the ITC and District courts can evaluate infringement unlike the PTAB. The point is that the remedies available at each tribunal have no bearing on the fact that each considers the same statutory patent law sections for novelty and obviousness. However, our disagreement with eliminating ITC consideration further underscores the merits

²⁰ See, Memorandum: Interim Procedure for Discretionary Denials In AIA Post-Grant Proceedings With Parallel District Court Litigation at https://www.uspto.gov/sites/default/files/documents/interim_proc_discretionary_denials_aia_parallel_district_court_litigation_memo_20220621_.pdf

²¹ Id.

²² *Sotera Wireless, Inc. v Masimo Corp.*, IPR2020-01019, Paper 12 (PTAB Dec. 1, 2020) (Precedential as to Sec. II.A)

²³ See, e.g., <https://news.bloomberglaw.com/ip-law/fintiv-patent-review-denials-fall-as-calls-to-end-rule-persist>; and PTAB Parallel Litigation – Executive Summary at https://www.uspto.gov/sites/default/files/documents/ptab_parallel_litigation_study_exec_summ_20220621_.pdf

of allowing the PTAB to retain and evolve its *Fintiv* precedent. Over time it is much more likely that Director Vidal or one of her successors, informed by the learnings of their judges, will come to appreciate the wisdom of considering all parallel patent adjudications involving the same patents, parties and issues and amend the PTAB rules accordingly, rather than trying to fix such a mistake in the patent statute.

The PTAB Reform Act will Restore Abusive Parallel Petition Filing Practices

An often-overlooked abusive practice of petitioners is the filing of multiple petitions at the same time, challenging the merits of a single patent (so-called parallel petitions). The PTAB imposes word limits for petitioners limiting the size of a petition seeking IPR for a patent.²⁴ Petitioners have discovered that it is possible to get around these limits by filing multiple petitions at the same time challenging the same patent. Doing so, they can include more arguments and more prior art than they would be capable of fitting into the word limits for a single petition.

This practice quickly got out of hand. One very well documented example of this abuse arose in the protracted patent litigation between Rovi Corp. and Comcast²⁵. In the course of the litigation that spanned the district court, ITC, and the PTAB, Comcast filed over 124 petitions for IPR challenging 37 patents, an average of 3.35 petitions per patent.²⁶

The PTAB responded to this “parallel petition” abuse by adopting guidelines teaching panels to instruct petitioners to prioritize their parallel filings and to provide arguments for why the PTAB should hear any petition other than the highest priority petition.²⁷ This has at least partially addressed this abusive parallel petitions practice.

The PTAB Reform Act purports to address the filing of multiple petitions on the same patent, but in doing so it allows multiple petitions on the same patent to be filed as long as they are filed on the same day²⁸, the precise tactic used by those resorting to abusive parallel petition practice. In other words, the PTAB Reform Act seems to attempt to address abuses with serial petitions filed on different days but leaves open and endorses the abusive practice of parallel petitions. The PTAB Reform Act does not even codify the partial measures adopted via the PTAB guidelines for curbing this practice.

²⁴ 37 C.F.R. Sec. 42.24(a)(1)(i) (14,000 words)

²⁵ Note that Rovi Corp. is a former employer of one of the authors, but see *Supra* footnote 2

²⁶ See e.g., Comments In Response to 85 FR 66502, “Request For Comments On Discretion To Institute Trials Before the Patent Trial and Appeal Board,” 85 Fed. Reg. 66502 (Oct. 20, 2020), Docket No. PTO-C-2020-0055, available at <https://www.uspto.gov/sites/default/files/documents/1232020Tivolnc..pdf>

²⁷ Patent Trial and Appeal Board Consolidated Trial Practice Guide, November 2019 at pages 59-60.

²⁸ See PTAB Reform Act S.4417 at Sec. 2 (Patents) (a)(2)(B) amending 35 USC 315(d) by adding provision entitled: Limit on Repeated Petitions, which is limited to restricting only petitions filed on different days.

The PTAB Reform Act should have eliminated parallel petitions altogether. It makes no sense to set a word limit for petitions if you are going to allow the petitioner to file 10 petitions at the same time. Clearly it was not the intent of the PTAB in setting petition word limits to allow them to be trivially avoided through the filing of multiple parallel petitions.

Moreover, there is a strong argument that permitting multiple petition practice ignores the Supreme Court's ruling in *SAS Institute, Inc. v. Iancu*.²⁹ In that case the Supreme Court held that the PTAB was not permitted to partially institute an IPR petition, thereby picking the portions of the petition that it felt met the institution standard but opting not to review those contentions in the petition that failed to meet that standard. The Court held that if one claim in the petition met the institution standard the PTAB was required to review all of the claims in the petition.

With parallel petitions, petitioners are simply creating a longer single petition across multiple petitions. If you examine these parallel petitions, you will find they are largely word for word identical for many pages and differ only on a few pages where new arguments or prior art are added. When the patent office instructs applicants to pick their best from among multiple parallel petitions, they are in effect engaging in partial institution practice once again, since the multiple parallel petitions are nothing more than a scheme to avoid the single petition word limit. Congress can and should bring an end to this abusive practice of filing parallel petitions on the same patent.

The PTAB's Presumption of Validity Should Be the Same as the Courts

Another lost opportunity for the PTAB Reform Act is its failure to address the burden of proof applied by the PTAB. The PTAB is an alternative adjudicatory forum to the courts, and yet it does not apply the same presumption of validity to issued patents as the courts. Courts require 'clear and convincing' evidence to find a patent claim invalid, but the PTAB requires a mere 'preponderance of the evidence' (basically more than 50%) to invalidate the same claim. It is little wonder the rate of invalidation at the PTAB far exceeds that of district courts – it is also little wonder why the PTAB is overturned on appeal far less than district courts, as they are evaluating the same patents using different rules and the bar to invalidate for the PTAB is much lower than it is for the court.

When the AIA was written it was not foreseen by the drafters that the PTAB would become the primary venue for determining patent validity.³⁰ They also assumed there would be a ready path to amend patent claims invalidated in IPR proceedings. They were wrong on both counts. The PTAB is now used in parallel with the vast majority of court cases and thus in most instances it has become the only court deciding patent validity. But instead of using the same presumption of validity used by the courts, it uses the presumption of validity used by patent

²⁹ 138 S.Ct. 1348 (2018)

³⁰ See, e.g., House Judiciary Committee Hearing on PTAB video at https://www.youtube.com/watch?v=JHVr_8dAgnE&t=5s at time mark 27:31 et. Seq. Former Director Kappos explains that the PTAB has become the predominant forum for adjudicating patent validity and as such Congress should codify the standard of proving invalidity as clear and convincing evidence just as is in the Federal Courts.

examiners – a lower burden designed to allow the examiner to readily reject claims in a pending patent application to encourage a back and forth series of amendments and rejections between examiners and applicants to arrive at the appropriate scope of a patent by the time it is granted. Applying that standard after a patent is granted makes no sense. And it, likely more than any other factor, accounts for the wild discordance in invalidity rates between courts and the PTAB. It needs to change.

At the recent SJC hearing Senators Tillis and Leahy pointed out that the PTAB Reform Act would codify the Phillips claim interpretation standard that has been used by the PTAB since it was adopted as the standard by Director Iancu. They asked, isn't this a benefit for patent owners?

Certainly, codifying Phillips is good. It's logical to have the PTAB apply the same claim construction as the courts, codifying that is good for the patent system not just for patent holders. But unless you also adopt the presumption of validity standard used by the courts it is not going to have a tangible impact on addressing the disparate invalidation rates between courts and PTAB, and undoubtedly that is why the Big Tech supporters of this bill do not object to the codification of the Phillips claim construction standard. It is a half measure that has not and will not change the highly certain invalidation of patents we have all come to expect at the PTAB.

Estoppel to file additional PTAB actions on the same patent is not grounds for Article III Standing

The AIA permits parties lacking Article III standing to challenge the validity of patents at the PTAB. This is appropriate in that the public has an interest in ensuring patents are properly granted, however the PTAB Reform Act seeks to extend to these parties the right to appeal a loss at the PTAB to an Article III court. This is unconstitutional. It serves absolutely no beneficial policy interest, and it sets an alarming precedent that will flood the courts with appeals by parties who lack constitutional standing and are seeking redress from myriad administrative decisions throughout the government.

The PTAB Reform Act in prior drafts at least acknowledged this constitutional infirmity. That language has been removed from this most recent draft, but the feeble and ill-advised attempt to bootstrap standing for these parties remains. The Act gives a losing party at the PTAB who is capable of being estopped under AIA Sec. 315(e) from bringing a related action at the PTAB, standing to appeal to Federal Court.³¹ That is a poor attempt to skirt Article III, which requires actual harm in the form of a case or controversy that can be redressed by the court. But imagine if it were successful. The precedent it creates is that any agency that prohibits any party from having its adverse administrative decision reviewed by the agency, would then have an injury conferring standing to appeal to an Article III court. We simply don't believe this

³¹ See PTAB Reform Act S.4417 at Sec. 2 (Patents) (a)(2)(E) amending 35 USC 319 by adding provision entitled: Standing to Appeal.

provision is a serious part of the bill and it should be removed wholesale without further discussion.

If there is any notion that it should be retained, it would be helpful to hear at least some articulation of what policy is served by this provision. We have heard none offered for it and are at a loss to understand why non-practicing entities like Unified Patents need the right to appeal.

It's interesting to try to juxtapose the sections where the PTAB Reform Act restricts and where it invites the involvement of the court. The Act clearly does not want the court to carry on with a parallel litigation when an IPR is being requested, but when a petitioner loses at the PTAB it wants to afford that petitioner, regardless of standing, an opportunity to appeal to a court. So it seems, the Act seeks the courts' involvement when their involvement benefits petitioners and wants the courts excluded when their involvement would benefit patent holders. As you can see, with logic like this baked into the Act it is hard to see the bill as other than a Big Tech wish list.

Conclusion

The PTAB is in need of reform, but certainly not the type of reforms proposed by the PTAB Reform Act.

The bill casts aside thoughtful safeguards implemented by PTAB judges and Patent Office Directors based on a decade of experience with many thousands of IPR petitions, in favor of rigid rules that serve the interests of Big Tech to the detriment of patent holders. It blindfolds PTAB judges preventing them from considering parallel proceedings in the courts and ITC regarding the same patents, parties and issues. It codifies Director discretion to institute IPRs filed well after the AIA statutory time limits. It endorses the abusive practice of filing multiple parallel IPR petitions on the same day to avoid the PTAB's petition word limit without even picking up the PTAB's trial practice guidelines that have partly curtailed this abuse. It grants unconstitutional Article III standing to 'reverse patent trolls' like Unified Patents who do not practice the patents they challenge. And it retains the PTAB's use of a presumption of validity that is designed for patent examination notwithstanding they are an adjudicatory body rather than using the same standard applied by the courts.

There are meaningful opportunities to reform the PTAB to make it a more even-handed body that would be a meaningful alternative to Federal Court litigation. The PTAB Reform Act is a lost opportunity. Rather than addressing the statistically irrefutable anti-patent problems with PTAB review, the bill instead caters to Big Tech's wish list to further their goals of more easily infringing the rights of US patent holders.

June 27, 2022

Senate Committee on the Judiciary
 Senator Richard Durbin, Chairman
 224 Dirksen Senate Office Building
 Washington, DC 20510

Senate Committee on the Judiciary
 Senator Charles Grassley, Ranking
 224 Dirksen Senate Office Building
 Washington, DC 20510

House Committee on the Judiciary
 Rep. Jerry Nadler, Chairman
 2138 Rayburn House Office Building
 Washington, D.C. 20515

House Committee on the Judiciary
 Rep. Jim Jordan, Ranking Member
 2138 Rayburn House Office Building
 Washington, D.C 20515

Dear Senators Durbin and Grassley and Representatives Nadler and Jordan:

The undersigned trade associations are writing on behalf of the Quality Patents Coalition (QPC) to express our priorities as both the Senate and House Judiciary Committees examine ways to find common ground on patent reform legislation. The QPC is a coalition of companies and trade associations representing financial services, fintech, retail and restaurants. QPC is dedicated to ensuring the patent system fosters innovation and issues patents of the highest quality.

In anticipation of legislative action on patent reform we ask that the committee consider QPC priorities to ensure the U.S. intellectual property system provides for high-quality intellectual property, fair and efficient post-grant and inter partes review procedures as set forth in the America Invents Act, and adheres to the letter of the law and judicial precedent.

Low-Quality Patents Hurt the Economy

U.S. economic leadership hinges on innovation. The patent system must support real innovation and U.S economic growth. High-quality patents spur innovation and increase America's competitive advantage. Low-quality patents hurt businesses that make products and provide jobs to Americans.

Community banks, restaurants owners, retailers of all sizes, and virtually every business involved with the fulfillment of e-commerce orders have been harassed and extorted with demand letters from non-practicing entities asserting infringement of low-quality business method patents. Defendants targeted by entities asserting low-quality method patents should have access to effective, efficient administrative review including the ability to challenge validity under Section 101 of the Patent Act in inter partes reviews. Currently, defendants' choices are too often limited to costly litigation to invalidate a patent that never should have been issued or paying ransom to settle meritless litigation. Ensuring high standards for U.S. patents, both before and after they are issued, will provide greater economic opportunity for all Americans.

High-Quality Examination of Patent Applications

The best way to reduce the cost in dollars and innovation resulting from low-quality patents is to ensure that they are never issued in the first place. Patent quality is a critical component in driving efficiencies with respect to patent infringement litigation. Minimizing the issuance of low-quality patents means fewer frivolous lawsuits based on such patents. This requires a rigorous patent application examination process. There should be options and incentives for more rigorous examination of patent applications, such as providing benefits to applicants who obtain a certified prior-art search and/or opt for a more rigorous patent examination.

Greater Access to PGR/IPR Proceedings

When there are legitimate questions regarding the validity of a patent claim, all patent owners and petitioners should have access to effective, efficient post-grant and inter partes review proceedings at the USPTO. The due process rights of both patent owners and petitioners must be protected in the PGR/IPR process.

The PTAB should review asserted patents for all validity conditions. For two centuries, the Patent Act has required that patented inventions be novel and non-obvious, fully disclosed, clearly claimed, and eligible for patenting. All these requirements should be enforceable in PTAB reviews.

Section 101 is the most effective and efficient tool to address the validity of poor quality business method patents. Section 101 plays an important role with respect to patent quality by blocking the issuance of overly broad, abstract patent claims and by providing a tool for defendants in litigation to efficiently address such claims.

Unfortunately, a special interest loophole in the AIA prohibits petitioners from raising the issue of subject matter eligibility in IPR proceedings. This loophole has been exploited by non-practicing entities who assert low-quality business method patents, forcing defendants to choose between costly and time-consuming litigation or licensing low-quality IP that is more likely than not invalid. Congress must close the “101 loophole” to provide fair access to IPR proceedings to all parties, requiring that patented inventions be not only novel and non-obvious, but actually eligible for patenting.

Section 112 of the Patent Act should also be a basis for challenging a patent in a IPR proceeding. Making sure an invention is fully disclosed and clearly claimed is as important as making sure it novel and non-obvious, as uncertainty regarding claim scope only hurts the public.

Both Section 101 and 112 were grounds for invalidity considered in the now-sunset Certified Business Method (CBM) program created by the AIA. If anything, the CBM program illustrated how the inclusion of these grounds was not only not a burden on the PTAB, but actually worked well to ensure that improperly issued patents were invalidated regardless of the grounds of invalidity.

The Director and the PTAB should be prohibited from denying institution of PGR/IPR proceedings when all the requirements for institution have been met. Too often petitioners have been denied access to the PGR/IPR system because the Director and/or PTAB exercise their discretion to deny institution because of pending litigation in district court, even in cases where the petitioner is not a party to the litigation. However, the AIA was passed, in part, to create a separate system to allow petitioners to challenge the invalidity of a patent at the Patent Office, and it explicitly recognizes that the patent might be involved in concurrent district court litigation. To allow the Director and the PTAB to use the existence of that litigation as a basis to deny institution of a proceeding frustrates the very intent behind this provision of the AIA. As such, discretionary denials of PGR/IPR institution should be prohibited.

Equity in the Patent Litigation Process

As stated above, the QPC believes the most effective curb on abusive patent litigation is a fair, efficient PGR/IPR process that requires that patented inventions be novel and non-obvious, fully disclosed, clearly claimed, and eligible for patenting.

Accordingly, in situations where a PGR/IPR proceeding has been instituted there should be an automatic stay on district court litigation, eliminating wasteful and expensive dual proceedings. If the patentability of the asserted patent is confirmed by the PTAB, the patentee can still have its day in court. In fact, the estoppel effects that stem from the PGR/IPR proceeding actually narrow the issues for the district court litigation in the patentee's favor. However, if the patent is determined to be invalid by the PTAB, this can save the time and resources of the parties and the court system having to litigate an ultimately invalid patent.

Many district courts already routinely exercise their discretion to stay litigation pending a PGR/IPR review. However, those that do not have seen their dockets swell with filings by non-practicing entities hoping to use the time and expense of litigation to force parties accused of infringing questionable patents to accept settlement rather than expend resources attempting to invalidate the patent. Mandating automatic stays of district court litigation would help to lower the cost of invalidating these questionable patents, benefitting both the parties accused of infringement and the public at large.

In district court litigation not subject to a stay (especially if the "101 loophole" in IPR proceedings discussed above is not addressed by Congress), questions regarding subject matter eligibility should be decided early in litigation. Courts have already determined that Section 101 subject matter eligibility is a question of law that may have underlying questions of fact. In cases where there is not genuine dispute over the underlying facts, courts should determine Section 101 subject matter eligibility as early as possible, such as in response to a motion to dismiss or an early motion for summary judgment. This would prevent dilatory discovery and delay tactics that tie up the courts and drive up the cost of litigation on otherwise invalid patents.

Unfortunately, courts already have the power to address Section 101 issues early in litigation, but too often decline to do so. That fact alone further highlights the need to add Section 101 as a basis for challenging validity in PGR/IPR proceedings, as discussed above. However, that is only a partial solution to this problem. In situations where motions to dismiss and for summary judgment based on invalidity under Section 101, the denial of such motions should be subject to an interlocutory appeal. Such a right of appeal would help ensure district courts resolve subject matter eligibility issues as early as possible, and prevent unscrupulous patentees from using the litigation process to force accused infringers to accept settlement rather than expending resources invalidating a questionable patent.

On behalf of the diverse membership of the Quality Patent Coalition we thank you for your consideration.

American Bankers Association

American Transaction Processors Coalition

Bank Policy Institute

Electronic Transactions Association

Independent Community Bankers of America

National Restaurant Association

The Clearing House

Cc: Members of the Senate and House Committees on the Judiciary

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June 20, 2022

The Honorable Patrick Leahy, Chair
The Honorable Thom Tillis,
Ranking Member
Subcommittee on Intellectual Property
Committee on the Judiciary
United States Senate
Washington, D.C.

The Honorable Henry C. "Hank" Johnson, Chair
The Honorable Darrell Issa, Ranking Member
Subcommittee on Courts, Intellectual Property, and
the Internet,
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C.

Re: Senate Hearing on the Patent Trial and Appeal Board: [Examining Proposals to Address Predictability, Certainty, and Fairness](#) (June 22, 2022; 2:30 p.m.; Dirksen 226); House Hearing on the [Patent Trial and Appeal Board After 10 Years: Impact on Innovation and Small Businesses](#) (June 23, 2022, 10:00 a.m.; 2141 RHOB)

Distinguished Chairs and Ranking Members:

Congratulations on the decision to move forward with this week's Senate and House hearings addressing the impact of the PTAB on innovation and small businesses, and the predictability, certainty, and fairness of PTAB proceedings. These hearings appear certain to offer important policy insights on issues that lie at the heart of the patent system—and to illuminate options for refining the historic patent system reforms enacted through the [Leahy-Smith America Invents Act](#). I believe your respective subcommittees are now positioned to gather many proposals that could elevate the fairness and effectiveness of the PTAB in ways that go well beyond the measures in the recently introduced [Patent Trial and Appeal Board \(PTAB\) Reform Act of 2022](#).

To this end, I am attaching to this letter proposals, in the form of a legislative discussion draft, that your subcommittees may find worthy of consideration. The proposals in the attachment are an extension of my work with the [Naples Roundtable](#), specifically efforts to develop [fresh thinking](#) on reform measures that might materially *simplify and streamline* each of the critical components necessary for an effectively functioning, high-integrity patent system.

The attachment, as explained in more detail below, is an effort to construct a PTAB-focused set of patent reforms that address current criticisms of the operation of the U.S. patent system—in the belief that a fuller and more effective use of the resources that the USPTO has assembled within the PTAB holds the key to increasing the integrity of and the respect for our patent system. As noted below, the attached discussion proposal has three distinct aspects, each of which is separately detailed in the discussion below.

The Importance of the PTAB and Leveraging the New Opportunities That It Offers

If nothing else, the experience with the PTAB's operation over the past decade has revealed an entirely new patent system reality: *The PTAB, through the work of its [more than 200 technically and legally trained administrative patent judges](#), now constitutes a near-optimal forum for fairly and efficiently addressing all issues of the validity of issued patents.* Beyond dispute, the United States Patent and Trademark Office has now assembled a cadre of resolute public servants within the PTAB who are able to address the most complex patent validity issues fairly and efficiently, even for the most complex contemporary technologies.

One challenge for the patent system—and Congress—is how best to make use of this unique resource. A companion challenge is to optimize other aspects of the patent law under which the PTAB operates to better leverage the PTAB's full potential. These challenges, thus, afford Congress the opportunity for designing a much more central role for the PTAB in the fair and efficient resolution of all patent validity disputes. Below, I will endeavor to address *changes to our patent laws that might fully meet these challenges and realize this opportunity.*

The Imperative to Address the Criticisms of the Patent System's Operation Holistically

The aforementioned challenges and opportunities have arisen at a unique time in the life of the U.S. patent system. Never has the need for our patent system to harness the PTAB's potential to elevate the integrity of its operations been greater. Over my now more than four decades of [advocacy for major patent system reforms](#), I have never witnessed more pointed [criticism of how our patent system operates](#). Congress now faces legislating against the backdrop of a “bad patents” scenario to which it must forcefully react—but not overreact.

Congress is being urged to respond to the threats from “low-quality patents,” often said to be owned by “patent trolls,” who then are said to “take advantage of asymmetries in the economics of [patent] litigation to make quick cash.” These supposed “bad actors,” holding “bad patents,” are often accused of working their alleged patent evils [through patent thickets](#). This narrative has become a difficult one for Congress—or any constituency within the patent community—to ignore, in large part because these concerns have a component that is undeniably grounded in reality.

As this week's hearings may suggest, the PTAB's resources can be deployed more effectively to diminish the potency of that narrative—perhaps even moot it once and for all. *How can the PTAB's capability to bring an unprecedented degree of fairness, promptness, economy, and reliability to assessments of patent validity be leveraged to address—and hopefully assist in quieting—longstanding criticism of the operation of the U.S. patent system?*

It is to these ends that I have offered the aforementioned legislative discussion draft. It offers ideas for responding directly to criticisms of the PTAB's operation and the patent system more generally.

As suggested above, the fundamental theme of the attached discussion document is that *simplifying and streamlining elements of our patent system* can be done in ways that would enhance the reliability of the patent rights of innovators, while addressing a broad array of concerns that the patent system is far too open to potential abuse—a fact that even the strongest proponents of a strong patent system cannot deny. The PTAB reform measures are featured in the attached as a part of a more holistic approach to improving the integrity of the operation of the U.S. patent system. This holistic approach addresses all post-issuance patent validity review procedures that involve the PTAB, aspects of the law on patent validity that must be applied by the PTAB, and the patent examination process that results in issuing the patents eventually reviewed through the PTAB.

The Need for a Three-Pronged Approach to Addressing Critics of Today's Patent System

Given triple imperatives to issue fewer “low quality patents,” remove incentives that encourage the generation of “patent thickets,” and a severely blunt “the asymmetry in patent validity determination economics,” the aforementioned proposal contains the three distinct, but interrelated parts, referenced above. At a high level, these elements can be summarized as follows:

- *Rationalize the operation of the multiplicity of procedures in the USPTO that address in a substantive manner the validity of issued patents.* There are currently four post-issuance patent validity review procedures, i.e., patent reissue, post-grant review, ex parte reexamination, and inter partes review, which can or must involve the PTAB. The needed rationalization of these proceedings that I propose would maintain four separate procedures, *but tune each to a single, specialized purpose.* One proceeding would exist exclusively for the USPTO Director, acting sua sponte, to use to reexamine the claims of an issued patent. A second proceeding would be designed exclusively for the patent owner seeking to amend (or otherwise have reexamined) the claims of a patent. A third proceeding would then be open to any member of the public to raise invalidity issues with respect to each newly issued patent. The fourth and final proceeding would be exclusively available to accused patent infringers seeking to contest the validity of an issued patent. This fourth procedure would replace the current inter partes review with a *simplified, streamlined, and more expansive one* that would authorize the PTAB to address *all patent validity issues* that an accused infringer could raise as a defense to patent infringement.
- *Simplify patent validity determinations.* To appropriately confine patents to subject matter meriting exclusive rights, the legal foundation of every patent system ultimately rests on the consistent and reliable application of just four patentability requirements, which become requirements for determining if the claims of the patent are valid. These *four pillars of patentability* require that (1) patent-eligible subject matter must be limited to practically useful applications of technology; (2) claimed subject matter must be confined to that which differs a non-obviousness manner over prior, publicly available technology; (3) the scope of what is claimed must be additionally confined to what the patent specification itself demonstrates was actually invented and able to be put into practice without the need for undue experimentation; and (4) claims in patents must

define the patent-protected subject matter with reasonable certainty. The discussion proposal that I have attached is premised on the assumption that the work of the USPTO in examining patent applications—and the work of the PTAB in particular—would optimally focus entirely on just these four issues, *leaving other policy-driven limitations on the enforceability of patent rights to the courts*. To advance this end, I offer three proposals in the attachment to *recast three current patent validity requirements as patent enforceability issues*. This transformation would preclude finding patent claims invalid based upon (1) obviousness-type double patenting, (2) use or sale activities attributable to the inventor that are not available to the public, and (3) incorrect inventorship. Instead, the courts in patent infringement actions would address such matters through new unenforceability defenses to patent infringement—if and when the underlying patent policies involved required such consideration. As such, this conversion results in patent validity determinations that will be limited to objective issues, specifically issues not requiring extensive discovery. They also move to patent infringement litigation unenforceability issues that will arise with extreme infrequency, if ever. A final aspect of this second reform element would institute new requirements on patent applicants with respect to the information that they are required to disclose during the patent examination process. These new requirements are designed to reduce the quantity of inconsequential patentability-related information patent applicants currently provide to patent examiners, while dramatically increasing the quality and value of the prior-art information applicants would be required to provide to patent examiners.

- *Simplify patent examination practices.* The work of patent examiners—and that of the administrative patent judges of the PTAB—becomes more complicated when a single initial patent filing is permitted to spawn a patent thicket, *i.e.*, as more and more patents may issue over time based upon such a single patent filing. The possibility for thickets of patents, and even thickets of claims within a single patent, can lead to extreme situations. In a recent appeal, the Federal Circuit cited to [over 100,000 claims that were presented for examination by just a single inventor](#). Even if post-issuance review patent validity review procedures are rationalized as described above—and the requirements for patent validity are more tightly focused on just the four pillars of patentability—it is problematic for the patent examiner or the APJs of the PTAB to undertake their work with thoroughness, promptness, and accuracy unless the patent application filing process can be reformed to effectively discourage patent and claiming thickets. To accomplish this objective, I propose in the discussion draft that the patent statute offer inventors a *file-once, examine-once, and issue-once* approach to patent examination. Once a patent application is filed, all its claims are examined at once, eliminating a typical practice today where the patent examiner may restrict which claims are initially examined and force additional “divisional” patent filings to protect inventions defined by the claims not initially examined. In addition, new fees are proposed below that address excessive numbers of claims. These fees are designed to profoundly discourage unduly multiplying the number of claims in any patent application. Together, these anti-thicketing initiatives offer the potential to bring the quality of patent examination to an entirely new level of excellence, particularly when combined with the aforementioned simplification of the law on patent validity.

As noted in the discussion above, the three elements for patent reform proposed above were assembled in a single package precisely because of the potential to operate with a powerful synergy. The greater the ability of patent examiners to focus their patent examination work on just the four pillars of patentability, and the more informative the patent applicant input into the patent examination process, the greater the likelihood that each patent examination outcome will be full complete and highly accurate.

Similarly, the more objective and the higher the transparency of the underlying patent validity requirements, the greater the likelihood that the initial examination of a patent application will be accurate and complete. The greater the likelihood of an accurate and complete examination, the lesser the prospective burden on the USPTO's procedures for post-issuance validity review of issued patents. In turn, the lesser the burden on the USPTO's post-issuance review resources, the greater the prospect that each such proceeding can offer a fair and efficient determination of any patent validity issues being raised.

Lastly, the more effectively each of the four post-issuance review procedure can be tuned and tailored to address the needs of the parties involved, the higher the prospect of a fair and efficient process. This is especially true for accused patent infringers—the predominate users of today's inter partes review procedure—where the highest and best use of the capabilities of the PTAB holds the potential to supplant the need for a federal district court to address any issue of patent validity in a civil action for patent infringement.

What follows is a more detailed discussion of each of the three elements of the attached discussion draft. It will offer some further background and rationale for the changes proposed.

I. PATENT POST-ISSUANCE REVIEW SIMPLIFICATION

Background

Congress has been enacting statutes that permit the USPTO to engage in the post-issuance review of the validity of claims of issued patents for the past 186 years. The earliest “patent reissue” statute traces its history back to the Patent Act of 1836 (Section 13; 5 Stat. 117; July 4, 1836). It took another 144 years before a second form of post-issuance review was enacted into law, the ex parte reexamination statute, which became law in 1980 through Public Law 96-517 (94 Stat. 3015; Dec. 12, 1980).

Since 1980, the pace of congressional action has been much faster. The efforts to enact the first inter partes process for reexamining issued patents only became law in 1999, with the enactment of the American Inventors Protection Act (Section 4602; Public Law 106-113; Nov. 29, 1999) providing the now-repealed “inter partes reexamination” procedure. The current inter partes review and post grant review came into being in 2011, with the Leahy-Smith American Inventors Protection Act that created today's PTAB.

In the two decades since the inter partes reexamination statute was enacted, Congress has had only a limited opportunity to step back and address a fundamental question: *How many such separate procedures are actually needed and how can these procedures be best tuned and*

customized to serve the need of the respective constituencies who may become parties to them?

Over the past decade, there have been only limited discussions of the issue of “specialization”—how might the current post-issuance review procedures be optimized for use, and ultimately confined to use, by just a single constituency. A prime objective of Title I, as detailed below, is to advance this discussion on specialization and customization.

An Expanded Patent Reissue Statute with a Different Limitation on Broadening Claims

Title I would recodify the current patent reissue statute under Section 12 such that it could become the sole mechanism by which the *patent owner* could seek to amend patent claims or otherwise secure their reexamination. Compared to the existing statute, patent owners would have more facile and open access patent reissue—without any need for a showing of “error” in the original examination of a patent. Importantly, the revised reissue statute would define a different limitation on the use of the reissue process for the purpose of securing broadened patent claims. Section 12 proposes to do by limiting the availability of reissue to broaden patent claims to patent owners who seek a reissue within six years from the original nonprovisional patent application filing. This would replace the reissue statute’s current two-years limitation on a “broadening reissue” measured from the date of grant of the initially issued patent. Such a procedure would better meet the needs of the majority of patent owners, particularly those whose patents promptly issue, but then later discover a need for adjusting the claims of the patent.

Optimized Post-Grant Review for Members of the Public

Under Section 13 of Title I, the AIA post-grant review procedure would be substantially amended to permit PGR to become the sole forum for members of the public to challenge the validity of an issued patent in the USPTO. Substantial changes to the AIA PGR statute would accomplish this purpose, as well as address concerns of the public over its use. The deadline for petitioning for post-grant review would be expanded to 1-year from the date of issuance of the patent. The current estoppel provisions that preclude bringing subsequent invalidity challenges to an issued patent would be repealed. PGR institution would be non-discretionary, except in the situation where the USPTO found that no substantial legal or factual basis existed for challenging even a single claim of the patent. The PGR petition fee set by the Director could not exceed the fee for issuing a patent. For a patent containing more than 20 claims, the Director could order that invalidity issues proceed on the basis of representative claims. Given the simplification and streamlining of patent validity determinations set out in Title II and discussed below, the PGR process would be open to all newly issued patents, including first-to-invent patents—erasing the AIA limitation on PGR to only first-inventor-to-file patents. All these features, by removing existing impediments for prospective challengers to seek post-grant review, can be expected to increase the attractiveness of this procedure.

At the same time, this Section 13 incorporates changes to the AIA PGR statute to more fully account for the interests of patent owners seeking to defend the validity of patent claims. No patent could ever be subject to more than one PGR proceeding. A new summary judgment mechanism permits the Director to confine the review solely to grounds of invalidity where the petitioner has set out a substantial legal and factual basis. Where a multiplicity of grounds of invalidity is set out a PGR petition, the Director can similarly confine the PGR trial to

representative grounds. More importantly, a PGR petitioner unsuccessful at the PTAB would have no right to appeal a loss at trial. As with ex parte reexamination today, only the patent owner could institute an appeal to the Federal Circuit after an unfavorable decision by the PTAB. Finally, outside this PGR process, unless the petitioner is eventually accused of infringing the patent, there would be no other USPTO forum available for challenging issued patents. Except in the case of patent infringement litigation, the patent owner following a PTAB adjudication would have an expectation of “quiet title” to its patent rights vis-à-vis further USPTO challenges.

Ex Parte Reexamination Restricted to Director-Initiated Proceedings

As noted above, the modified PGR procedure has been expressly designed to be the sole mechanism for members of the public to address patent validity in the USPTO. This objective is accomplished in part through amendment of the ex parte reexamination statute under Section 14 of Title I. The amended statute would limit the availability of the ex parte reexamination process to the Director acting sua sponte. Thus, unlike under the current statute, patent owner requests and requests from members of the public to institute an ex parte reexamination would no longer be accepted—as described above, the patent owner would have the expanded reissue statute and members of the public would have access to a more inclusive PGR proceeding.

Unlike existing Director-ordered reexaminations under the current ex parte reexamination law, the reexamination under Section 14 would open to consideration any of the four pillars of patentability, not just novelty and non-obviousness. The Section 14 procedure would, however, limit the types of “prior art” that the Director can consider in instituting an ex parte reexamination to prior art in the form of patents and other printed publications—the same limitation applicable under the current patent statute.

Invalidity Proceedings Brought By Accused Infringers Replace Inter Partes Review

The final significant change in the post-issuance review universe comes in Section 15 of Title I. Under Section 15, the inter partes review statute would be repealed and replaced with a new trial procedure before the PTAB for determining patent validity questions raised by accused infringers in civil actions. These new procedures are simply called “invalidity proceedings” and would be instituted based upon “invalidity complaints,” which must be considered by the Director in the same manner discussed above for institution of post-grant reviews. Thus, institution of an invalidity proceeding is non-discretionary, but with the USPTO having the ability to issue use the various new mechanisms in the PGR statute to address issues of summary dismissal upon institution and representative claims and representative issues for adjudication. Otherwise, invalidity proceedings would materially differ from post-grant review only in barring amendments of patent claims during the proceeding, permitting the complainant the right of appeal any adverse decision to the Federal Circuit, and requiring invalidity be established before the PTAB using the same standard as would apply in the civil action.

While an accused infringer has the right to file an invalidity complaint at any time during the pendency of the civil action containing the accusation of infringement of the patent, the filing of the complaint within six months from the date of service of the complaint will preempt the consideration of invalidity in the civil action. This last aspect of this new invalidity proceeding

highly consequential. Because an invalidity complaint, unlike post-grant review, may address any issue of patent invalidity—not just novelty and non-obviousness over prior art—invalidity proceedings have the potential to bring an unprecedented level of promptness and economy to contested patent validity issues in civil actions for patent infringement.

II. PATENT VALIDITY DETERMINATIONS SIMPLIFICATION.

Background

The law on patent validity—and the effectiveness of the USPTO in applying that law—are inextricably tied together. The set of issues upon which the validity of an issued patent is assessed necessarily form the set of issues upon which the process of patent examination by the USPTO examiners must address. The more complex, arcane, subjective, and unpredictable the standards set for patent validity, the more challenging the job of the patent examiners to do their work in an accurate and complete manner. The lower the reliability of the examination, the greater the potential for calls upon USPTO resources for post-issuance reviews of issued patents—and the more difficult such reviews become at the PTAB.

The inextricable tie between validity law and its successful administration by patent examiner or APJ suggests that any effort at addressing “low quality patents” include an assessment of what a “high quality” law on patent validity would dictate. In reality, the underlying thesis that the USPTO can operate fair, efficient, prompt, and economical post-issuance patent validity review procedures is doubly tied to the law on patent validity. Optimal validity law reduces demand for such review by getting the initial patent examination accomplished in an accurate manner. When this objective is accomplished, it assures—for those more limited situations where the post-issuance review would be sought—the review process can similarly proceed with optimal efficiency and accuracy.

The above premises are the driving motivation for launching the discussion of reforms proposed in Title II. The proposed reforms look to remove, from both patent examination and post-issuance reviews, *any issue outside the four patentability pillars* (i.e., eligible subject matter, nonobvious differences over publicly available technology, sufficient disclosure, and claim definiteness).

Title II targets the repeal of three current grounds for finding a patent invalid that lie outside the four pillars. For each such ground, new unenforceability defenses are proposed that then address fully any patent policy concerns underlying the repealed grounds for invalidity. In each case, the corresponding unenforceability defense applies in those circumstances where the underlying policy considerations would not support the enforcement of the patent.

On the surface, this substitution might appear as though it were a mere zero-sum game, a transition with no resulting improvement in efficiency or economy of the overall patent system. An examination of the specific changes in the patent law proposed in Title II reveals, however, that precisely the opposite is the case.

The proposed constraint on the law on patent validity drives not only accuracy and efficiency in USPTO proceedings as well as civil actions to enforce patents. As discussed below, the efficiency advantage of unenforceability defense vs. invalidity ground is that these new unenforceability defenses should arise only rarely in any civil action to enforce a patent.

Abrogation of Obviousness-Type Double Patenting Law

The amendment in Section 22 epitomizes the efficiency and economy of transforming a patent invalidity rule into a statutory provision rendering patent rights unenforceable. Section 22 addresses the judicially-imposed, non-statutory law on obviousness-type double patenting. The law on obviousness-type double patenting effectively requires that every patent filing be examined to determine if any subject matter being claimed is *patentably distinct* from any claimed invention of any other issued U.S. patent—or any other pending U.S. patent application that might issue as a U.S. patent. When such “patentably indistinct” claims are found in a patent or another pending application for patent, the claims under examination must be rejected for either “double patenting” or, if no other patent has yet issued, “provisional double patenting.”

Rejections of this type can be overcome by making successful arguments for “patentable distinctness” or by the filing of a so-called “terminal disclaimer” that promises the patentably indistinct claims will remain forever commonly owned and patent rights cannot be enforced beyond the period where patent rights are justified. As these rejections have become more frequent in recent years, so have the laborious efforts of patent practitioners to respond to patent examiners making such rejections.

For various reasons, vast amounts of patent examination time can be expended making obviousness-type double patenting rejections and responding to patent applicants seeking to avoid them. Because of the manner in which patent applications are pursued by patent applicants today, it is somewhat routine for patent examiners in connection with the most complicated patent filings to spend pages and pages in communications with patent applicants addressing these obviousness-type double patenting issues. Because the obviousness-type double patenting law requires a claim-by-claim comparison, any claim of an issued patent can constitute obviousness-type double patenting with respect to any claim under examination.

As time has gone on, the judge-made law has grown more complicated and expansive. The doctrine, before the 1980’s, only applied to the issuance of a second patent naming the same inventor who had already obtained a first patent with similar claims, but—in part at the urging of Congress—today applies to patents by different inventors, sometimes different patent owners, and sometimes to invalidate the first-issued patent rather than the second-to-issue one. It can today apply to patents with claims that must differ in a non-obviousness manner to be valid.

The courts have imposed this law to prevent an unjustified timewise extension of the exclusionary rights under a patent and to prevent harassment, particularly by multiple patent owners, through suit on a second patent following suit on an earlier patent containing indistinct claims. However, the circumstances under which either of these potential abuses of the patent system might arise is exceedingly rare. Indeed, it is the rareness of the potential for actual, real-world harm that suggests a doctrine of patent invalidity—and the resources it consumes during

examination for patentability—is far less desirable than a statutory rule of unenforceability that would only come into play if the potential for harm was present given the actual enforcement of rights being sought.

For the reasons, Section 22 proposes to overrule the invalidity law on obviousness-type double patenting. Upon enactment, the USPTO would no longer need to address obviousness-type double patenting as a patentability issue. Similarly, obviousness-type double patenting would no longer be an issue in patent reissues, ex parte reexamination, or post-grant review.

In its place, Section 22 proposes that two new grounds for finding a patent unenforceable are to be imposed. The first of the two grounds of unenforceability would be in the extremely rare circumstance that an actual “double patent enforcement” was being attempted. Double patent enforcement is defined as a second enforcement action brought after a first enforcement action in which a different patent was being enforced containing patentably indistinct claims.

The second of the two new statutory grounds of unenforceability would be if enforcement under the exclusionary rights under the two patents with patentably indistinct claims exceeded a total of 20 years—which would represent a timewise extension of the right to exclude beyond the period that the current statutory patent term provides might be possible for a single patent. This 20-year period for exclusionary rights is justified because this is the longest possible term for exclusionary rights permitted for all patents under the current patent statute, specifically 35 U.S.C. §154(b)(2). Thus, these two unenforceability-limiting provisions entirely address the judicial concern over unjustified timewise extension of exclusionary rights and any potential harassment of accused infringers through assertion of patentably indistinct claims.

Elimination of Loss of Right to Patent Based Upon Non-Public Use or Sale Activities

A second provision of Title II serves a quite similar purpose. Under the Supreme Court’s [Helsum](#) decision, the AIA provision in 35 U.S.C. §102(a)(1), explicitly limiting prior art to be used for novelty and non-obviousness purposes to subject matter found to be [available to the public](#), was held not to apply for non-public use or sale activities, *i.e.*, inventions placed “[in public use or on sale](#).” Under this decision such non-public activities could result in novelty-defeating prior art.

While the patent statute was carefully and explicitly drafted by the House and Senate sponsors of the AIA to reach the contrary result—at least according to these drafters of the statute ([Senator Leahy](#): “[One of the implications of the point we are making is that subsection 102\(a\) was drafted in part to do away with precedent under current law that private offers for sale or private uses or secret processes practiced in the United States that result in a product or service that is then made public may be deemed patent-defeating prior art. That will no longer be the case. In effect, the new paragraph 102\(a\)\(1\) imposes an overarching requirement for availability to the public, that is a public disclosure, which will limit paragraph 102\(a\)\(1\) prior art to subject matter meeting the public accessibility standard that is well-settled in current law, especially case law of the Federal Circuit.](#)” [Senator Kyl](#): “[The main benefit of the AIA public availability standard of prior art is that it is relatively inexpensive to establish the existence of events that make an invention available to the public.](#)” [2011 AIA House Report](#): “[T]he phrase “available to the

public” is added to clarify the broad scope of relevant prior art, as well as to emphasize the fact that it must be publicly accessible.”)—the Court nonetheless accepted arguments that the patent statute should not permit patents to be enforced in circumstances where the inventor had placed in invention in public use or on sale long before seeking a patent on the invention, notwithstanding arguments that barring patents in such circumstances would defeat any continuing incentive to disclose such inventions to the public by requiring the inventor to maintain secrecy in order to protect from use by competitors.

Section 23 of Title II would remedy this unintended construction of the current patent statute by erasing the words “in public use or on sale” from the definition of prior art for all claimed inventions. The change to the patent statute would limit all prior art to subject matter available to the public, assuring that the determinations of prior art would be as objective and transparent as possible. This transparency is not only important for inventors, but also for members of the public seeking to understand if patent rights are valid or not. A transparent and objective standard for prior art facilitates greater certainty in the assessments of the validity of competitors patent rights because only sources of public information have a bearing on whether the standards for patentability have been satisfied.

The concerns of the Supreme Court in *Helsinn* would be addressed under Section 23 through a new unenforceability defense. It would apply in those—again extremely rare—circumstances where an inventor has placed an invention in secret use or engaged in secret sale activities for an extended period before seeking a patent. The new unenforceability provision set out in Section 23 would render a patent unenforceable unless the patent owner disclaimed any patent term beyond 22 years after a claimed invention was first placed in public use or on sale. This 22-year period comports with the provisions under the current law that permit the start of the 20-year patent term at the end of both a 1-year inventor “grace period” and a subsequent 1-year provisional patent application filing. This requirement for a disclaimer of term, however, would only apply to inventors who had engaged in extended use or sale activities in the United States, *i.e.*, those extending more than six years before applying for a patent.

While the amendments under Section 23 fully address the policy concerns with respect to longstanding pre-filing use or sale activities, they nonetheless maintain a reasonable and continuing incentive for inventors undertaking such use or sale activities in total secrecy to disclose their inventions using the patent system. Situations in which this unenforceability might be pleaded are unlikely in the extreme to arise with any frequency. Thus, once again, the policy rationale for the transformation of this validity requirement to an enforceability limitation is compelling, all the more so because it restores the AIA to the transparency vision its drafters had laid out for the statute.

Elimination of Incorrect Inventorship as a Ground for Invalidating Patent Claims

Section 24 of Title II provides a final ground of patent invalidity under the current patent law being transformed to a new, codified unenforceability statute. It relates to invalidity grounded on “misjoinder” or “non-joinder” of a joint inventor for a claimed invention. Under Section 24, both types of “incorrect inventorship” would never constitute a ground on which a patent claim could be found invalid.

In place of this ground for invalidity, Section 24 provides that no patent claim can be enforceable if both (1) the patent's inventorship is incorrect and (2) the corrected inventorship would result in a change of ownership of the patent. Hence, patents would, as they should, be rendered entirely unenforceable if the incorrect inventorship is consequential, *i.e.*, would change the person or persons who own the patent and, thus, who would be required by law to bring the action to enforce the patent. Thus, this provision of law would have effect only in those situations where the joint inventors had each agreed to assign the patented invention to an entity such as an employer, such that the failure to name one of the assignees on the patent, or the naming of an additional assignee not ultimately qualifying as a joint inventor, would be of no consequence to the rightful ownership of the patent by the assignee.

This change in the law of patent validity has an increased importance given the growing complexity of correctly naming of the inventor of a patent filing. This complexity arises for at least two reasons. More inventions today are the product of teams of joint contributors, often working in different disciplines. It has become increasingly difficult not to overlook or over-include individuals as named joint inventors.

In addition, prior to amendments made to the patent statute under the [Patent Law Amendments Act of 1984](#), inventorship determination was inherently simpler. Prior to 1984, each claim that appeared in a patent was required to be the work of the identical group of individuals—either the same sole inventor or an identical set of joint inventors. In 1984, this restriction on inventorship of a patent was eliminated by the PLAA. No two claims of a patent today need have the same inventor. Thus, keeping track of the correct inventorship on a patent can require tracking the inventorship of each claim, as claims are added, amended, or canceled altogether, during examination. Under Section 24, a mistake in tracking inventorship, if not consequential to ownership, would simply have no impact on whether the patent could be successfully enforced.

Eliciting More Useful Disclosures from Patent Applicants to Better Assist Patent Examiners

One final provision in Title II relates to information disclosures by patent applicants made during the process of examining patent applications, specifically disclosures of information as it relates to the most relevant "prior art" needed to assess whether claimed inventions in the patent application are novel and non-obvious. Under current practice, patent applicants will sometimes undertake such information disclosures by submitting dozens to hundreds individual items of "prior art," typically in the form of patents and printed publications. When such an item of prior art is submitted, the patent examiner is required to review the item of prior art to consider its possibly relevance.

In most situations, dozens—much less hundreds—of submitted items of prior art are not actually important to the questions of novelty and non-obviousness that the patent examiner is charged with determining. In most cases, what is consequential to patentability are only few such items of prior art, often a half-dozen or fewer.

The quality of patent examination cannot, therefore, be further enhanced by encouraging patent applicants to provide patent examination *more information*—particularly when there are patent

applicants today who are already providing vastly too much information of marginal, if any, actual relevance. Improving the completeness and accuracy of the patent examiner's work would, however, be advanced if patent applicants were obliged to provide *better information*. Most specifically, by not just submitting items of prior art by the bundle, but by concisely describing the relevance of each such item being submitted.

The most formidable barrier cited by patent applicants to citing fewer items of prior art (e.g., "prior art" submissions confined to the art regarded as most relevant) and offering clarity as to the significance or relevance of what is being submitted is the Catch-22 of "inequitable conduct" allegations. These are allegations that the "duty of candor and good faith" imposed on patent applicants (and the practitioners who represent them) has been breached by selective disclosures of some but not every item of potentially relevant prior art—or by identifying in concise terms the relevance of an item of prior art that can be attacked in hindsight as a potential misrepresentation of its full significance.

For decades, patent litigation has been awash with contentions of concealment and misrepresentations by patent applicants, and the patent practitioners who represent them, that are asserted to constitute prosecution misconduct. The inevitable reaction has been that today far too much information is often disclosed to patent examiners, with none of what is disclosed ever being characterized as to its possible relevance. This reactive behavior is understandable.

Concealments or misrepresentations, if found material and inferred to be intentional, result in every claim of the patent involved being held permanently unenforceable under the "inequitable conduct" defense. Regrettably, this status quo of "disclose everything and characterize nothing" now represents the only prudent manner in which the vast majority of patent practitioners apparently believe that the "duty of candor and good faith" to the USPTO must be implemented in order to protect essential interests of their clients in the enforceability of patent rights.

The historic unpredictability of holdings of "inequitable conduct" in the courts, including the Federal Circuit, has only compounded what must appear to most objective observers as a true parody of the duty candor and good faith that now characterizes dealings by patent applicants with the USPTO. A duty that was meant to assure that patent examination could focus on the most relevant and consequential prior art instead now causes patent examiners to waste countless hours wading through sometimes massive "information disclosures" that are of little to no value—and detract from time that might otherwise be directed to examination for satisfaction of the four pillars of patentability.

Section 25 offers amendments that would put an end to decades of standoff between the concerns by applicants and the needs of examiners with respect to information disclosures providing items of prior art. Most notably, the Section 25 amendments would remove any concern on the part of patent applicants, and the patent practitioners representing them, that the law on patent unenforceability, based on inequitable conduct or any other form of prosecution misconduct, will apply to render unenforceable any *valid* patent claim. Indeed, by assisting the patent examiner in efforts to assure that valid claims are secured, the patent claims become *unenforceability-proof* as against any claim of patent applicant or patent practitioner prosecution misconduct.

In addition, Section 25 would amend the requirements for information disclosures as they relate to items of prior art that would require a concise description of the relevance of each item of prior art provided for consideration by the patent examiner. To discourage submissions of largely irrelevant items of prior art, the Director would be authorized to establish a review fee that would be assessed per item of prior art. With the various Section 25 amendments working in tandem, the quantity of marginally useful information provided to patent examiners might be as dramatically reduced as the quality of the information provided would be dramatically increased.

In sum, the amendments in Title II, taken in the aggregate, would change in very profound respects the work undertaken by patent examiners upon picking up an application for examination. The information disclosure from the patent application as it relates to the most relevant and consequential prior art would be much more valuable in assuring that a full and accurate examination could be completed in an efficient manner. The examination effort that today is devoted to reviewing largely meaningless information disclosures—or issues such as obviousness-type double patenting—would instead be directed to the four patentability pillars of eligibility, non-obviousness, description, and definiteness.

Taken together, Title I and II offer discussion proposals that are still missing a key component in the quest to assure patent examination is optimized to increase the prospect that it will complete and accurate. To achieve that objective, the issue of patent proliferation—the potential for thickening—still must be addressed.

III. STREAMLINED PATENT APPLICATION FILING

The final frontier in this trilogy of initiatives to simplify and streamline lies in reforms to the patent application process. To a remarkable extent, during the past 50 years, the process of securing patents has shifted from a simple paradigm of a single patent application filing producing a single patent examination, after which a single patent issued, to a system where that initial patent filing simply takes on the role of the “trunk” in a “patent family tree” of multiple patents forming its branches and limbs. Indeed, today, it is commonplace to see a single initial patent filing sprouting a tree containing multiple patents. These patent family trees are sometimes found in a forest of such trees pejoratively known as “patent thickets.”

These patent families are not necessarily the result of any scheming by patent applicants, but can be a consequence of incentives provided to patent examiners to “divide” the examination of a full set of claims in a patent application into examination-sized pieces. The patent statute permits patent examiners to undertake this type of limited examination of the claims of a patent examination by allowing for “requirements for restriction” that oblige the patent applicant to “elect” a limited number of claims for examination, so that the remaining claims can be “withdrawn from any further consideration.” Typically, this conduct by the patent examiner forces the filing of new patent applications directed to subject matter withdrawn from consideration, which are known as “divisional applications.” As a result, a single patent filing can produce—just through this restriction practice—countless patents. In my own experience, I have had patent examiners restrict a single initial patent filing such that a family of dozens of individual patents eventually resulted from the required filing such “divisional applications.”

Such divisional applications are only one type of branch on a patent family tree. U.S. patent law permits “continuation” patent applications as well. Nothing in the patent statute limits the number of “continuation applications” that can be filed based on an initial patent filing. Just before a first patent issues on an initial patent application filing, a “continuation application”—which can be simply a clone of the original patent filing, but requiring some tweaking to the claims—is typically filed so that it might result in a second patent issuing on the tweaked claims. This cloning process can continue throughout a 20-year patent term, with serial continuation applications filed and more tweaked claims granted in separate patents.

Because the cloning process producing these continuation applications can proceed over decades, examining continuing applications can become difficult—and commonly involve multiple examiners—frustrating the ability to conclude the patent examination process with optimal efficiency. The result for members of the public is no less satisfying. Even if one, two, or five patents in the patent family have already issued, yet more “cloned” patents can issue with still different claims that must be taken into account.

And, of course, there are few incentives for inventors *to limit the number of claims* of any patent in the family. More claims make patent examination more complex—and create more potential issues in any post-issuance review proceeding in the USPTO. Critics of the operation of the current patent system not only express concern about thickets coming from the number of patents that might issue, but thickening from the aggregate number of issued patent claims.

Indeed, not surprisingly, more avenues to secure more patents containing ever more claims has simply encouraged critics of this type of patenting process to advocate for more and better means for challenging them. The result of such a war of addition is a patent system growing increasingly complex and decreasingly efficient.

A rational and objective observer is likely to conclude that the patent system worked far more optimally when continuation and divisional applications were far fewer in number. Indeed, the most rational among them might well conclude that the only sensible manner in which to operate a modern patent examination system, with particularly one now dominated with so many fast-moving technologies, is to legislate what I have often referred to as the *file once-examine-once-issue-once principle*.

This principle is notable for its utter simplicity: once the filing of a patent application has been undertaken, that patent application itself either issues as a patent with claims found to be patentable or, if it is found to contain no patentable claims, no patent ever issues on the application. Examiners examine all the claims presented for review in that one application—they do not “restrict” out claims that for consideration in a separate, divisional applications filing. Patent applicants do not hold back additional claims to seek another day in another patent through a continuation application. Both patent examiner and patent applicant address the full scope of the protection being sought at one time in this initial—and only—patent application filing.

When coupled with the proposals from Title II, this utterly simple, *one-and-done principle* for patent examination offers the potential truly optimizing the completeness and efficiency of the

process of securing patents. The potential payoff for the patent system in terms of patents of reliable validity could be remarkable.

Section 32 of Title III sets the stage for the one-and-done principle of patent examination by restating in a simplified form the requirements for filing the “nonprovisional patent application,” which becomes the only type of patent application permitted under the Title III amendments—no divisional patent applications and no continuation patent applications. The application requires only a simple statement of authorization for the patent filing by the inventor, in addition to the substantive aspects of the application relating to the patent application specification that includes the required claims.

Section 33 then repeals those sections of the patent statute that authorize divisional and other forms of continuing applications for patent. This section also requires examination of every claim provided in the patent application.

In addition, it contains a further provision allowing—but not requiring—patent examiners to object to any independent claim not directed to a single general inventive concept. These objections can require that the patent applicant limit the scope of any one such independent claim in the application to one such single general inventive concept, but neither require *nor permit* separate patent filings on order to secure patents on such subject matter directed to different general inventive concepts.

A final aspect of Section 33 would impose excess claims fees if the number of independent claims in an application or patent is in excess of three, as well as excess claims fees for each 10 dependent claims in excess of 30. These fees are of a magnitude to moderate the number of issued claims of a patent, while not imposing any categorical limitation on the number of claims. The fees are, nonetheless, geared to be proportionate to the level of effort required for examination as the number of claims is multiplied.

The provision of Section 33 both allowing restriction of the scope of any single independent claims to a single general inventive concept, and imposing excess fees for excessive numbers of such claims, serve a further purpose. This provision of Section 33 can be used by the USPTO to assure that patent examiners receive appropriate credit for their work examining patent applications that present claims directed to multiple general inventive concepts.

Indeed, through counting the number of independent claims in an allowed patent application, the USPTO can apportion examination credit in the same manner in which the separate examination of a divisional patent application filing produces such examiner credit for work done. Thus, the proposed change could serve the interests of applicants and examiners equally well.

While Title III would greatly simplify aspects of patent examination—and fully address key aspects of patent thickets—it would not leave patent applicants without recourse if the initial patent examination left the patent owner with unclaimed or mal-claimed subject matter. Title I widely opens the patent reissue statute to address the situation where inventors wish to rethink the scope of claims they have secured following the issuance of a patent.

America Invents Act Technical Corrections

The last section of Title III, Section 34, contains technical amendments to the America Invents Act. These changes do not affect any issues relating either to examination or post-issuance review. They are to have effect as though enacted under the relevant sections of the AIA relating to the inventor's oath or declaration, first inventor to file, and best mode.

CONCLUSIONS

Although not explicitly addressed in any detail above, the foregoing discussion proposals—while they streamline and simplify key aspects of the operation of the U.S. patent system—leave undiminished the ability of inventors to secure full and fair protection for the inventions they seek to patent. They were designed to recognize and respect the role patent rights play as an incentive to invest in the develop and commercialization of new technology.

In an equal and opposite manner, these changes seek to protect fully the interests of those urging patent rights be confined to meritorious inventions and the processes for securing such rights operate with rigor and accuracy. The proposed changes to the patent laws were, in fact, grounded on a belief that the integrity of the patent system and the respect for issued patents are both sorely in need of improvement, which cannot be accomplished without making fundamental changes to the patent examination process and companion changes to the PTAB's role in post-issuance patent validity determinations.

For these reasons, I believe that these discussion proposals may merit a serious vetting as your subcommittees seek to discern the impact of the PTAB on innovation and small businesses, together with the fairness and effectiveness of PTAB operations. The subcommittees together might consider a path taken 30 years ago, when they held a [joint hearing](#) on the [Patent System Harmonization Act of 1992](#) (H.R. 2798, 102nd Congress and S. 2605, 102nd Congress), launching a dialogue that eventually produced the AIA. As can be seen from the above, today's patent system might benefit from the same type of in-depth congressional attention on core features of its operation that led to the AIA's enactment.

Respectfully submitted,



Attachment: Discussion Draft

**Patent Thicket Reduction, Validity Determination Simplification, and Post-Issuance Review
Streamlining Act of 2022 – Discussion Draft**

117th CONGRESS
2nd SESSION

S. XXXX - H.R. XXXX

IN THE SENATE - HOUSE OF REPRESENTATIVES

_____, introduced the following bill, which was referred to the Committee on the Judiciary.

A BILL

To amend title 35, United States code, to improve fairness and effectiveness of proceedings before the Patent Trial and Appeal Board and other post-issuance patent review procedures.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 1. SHORT TITLE; TABLE OF CONTENTS, LEGISLATIVE PURPOSE.

(a) **SHORT TITLE.**—This Act may be cited as the “Patent Thicket Reduction, Validity Determination Simplification, and Post-Issuance Review Streamlining Act of 2022.”

(b) **TABLE OF CONTENTS.**—The titles under this Act are as follows:

TITLE I – PATENT POST-ISSUANCE REVIEW SIMPLIFICATION ACT

TITLE II – PATENT VALIDITY DETERMINATIONS SIMPLIFICATION ACT

TITLE III – PATENT EXAMINATION SIMPLIFICATION ACT

(c) **LEGISLATIVE PURPOSE.**—This Act, through its three separate titles, brings together in a single bill changes to the patent law that assure the fairness and effectiveness of the Patent Trial and Appeal Board in addressing issues of the validity of issued patents. Under Title I, the various post-issuance proceedings in the USPTO in which issues of the validity of an issued patent can be decided are rationalized to provide a single proceeding for challenging patents that is available to all members of the public through post-grant review, a single proceeding open to only patent owners through patent reissue, a single proceeding open only to the USPTO Director through ex parte reexamination, and a single proceeding open only to accused infringers through the filing of invalidity complaints before the PTAB. To assure that, in each of these review proceedings, all issues of patent validity can be fully and fairly addressed, a second title of this Act simplifies the law on patent validity by eliminating unneeded grounds for patent invalidity in favor of new defenses to the enforceability of patents, thereby streamlining both the initial examination of patent applications and the validity determinations for all patents once issued. The final title of this Act eliminates the possibility for creating thickets of patents from an initial patent filing by requiring all issues of patentability for all claims presented for examination be addressed in an inventor’s initial patent application filing, eliminating the need for, and the availability of, all forms of continuing patent applications that form the basis for such thickets.

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TITLE I – PATENT POST-ISSUANCE REVIEW SIMPLIFICATION ACT

SEC. 11. SHORT TITLE; TABLE OF CONTENTS, REFERENCES, LEGISLATIVE PURPOSE.

(a) **SHORT TITLE.**—This Act may be cited as the “Patent Post-Issuance Review Simplification Act.”

(b) **TABLE OF CONTENTS.**—The table of contents for this Act is as follows:

- Sec. 11. Short Title, Table of Contents, References; Legislative Purpose.
- Sec. 12. Simplifying Reissuance of Issued Patents.
- Sec. 13. Streamlining Post-Grant Review of Issued Patents.
- Sec. 14. Streamlining Ex Parte Reexamination of Issued Patents.
- Sec. 15. Streamlining Invalidity Complaints by Accused Infringers.

(c) **REFERENCES.**—Unless otherwise indicated, a reference herein to an amendment made under this Act, or a section or chapter of United States Code otherwise, is a reference to title 35, United States Code.

(d) **LEGISLATIVE PURPOSE.**—The intent and purpose of this Act is to simplify, rationalize, and streamline the procedures for the post-issuance review of issued patents in the United States Patent and Trademark Office. This Act provides (a) an expanded procedure for ex parte reexamination of any issued patent that can be invoked only by the USPTO Director acting *sua sponte*, (b) a single and simplified procedure for amending patents and otherwise securing their reexamination through an expanded patent reissue statute available only to a patent owner, (c) a simplified procedure for contesting the validity of any newly issued patent through streamlining the existing post-grant review procedure that is available to any member of the public seeking to challenge the validity of an issued patent, and (d) an expanded and streamlined procedure for addressing patent invalidity issues before the PTAB by accused patent infringers through the filing of invalidity complaints that supersede the inter partes review procedure.

SEC. 12. SIMPLIFYING REISSUANCE OF ISSUED PATENTS

(a) **STREAMLINED REISSUE STATUTE.**—Strike section 251 and insert

“§251. Reissue of patent.

“A patent owner may obtain a further examination of the initially issued or a previously reissued patent upon filing an application for the reissue of such patent together with the fee required by law. If an application for reissue is filed, the Director shall examine the application for reissue in the manner set forth in section 131. If it appears that the patent owner is entitled to the reissue, upon surrender of the patent being reissued, and in accordance with any amendment of the patent being reissued, a reissued patent shall be granted for the unexpired part of the term of the initially issued patent. No new matter shall be introduced into an application for reissue. No reissued patent may be construed to have enlarged the scope of the claims of the initially issued patent unless the application for reissue was filed not more than 6 years from the date on

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which the application for the initially issued patent was filed in the United States or, if the application contains a specific reference to an earlier filed application or applications under section 120, 121, or 365(c), from the date on which the earliest such application was filed.”

(b) EFFECTIVE DATE AND EFFECT.—

(1) **EFFECTIVE DATE.**—The amendments under this Section 12 shall take effect upon enactment and shall apply to patents issued before, on, or after the date of enactment.

(2) **SAVINGS CLAUSE.**—Notwithstanding the amendment under this Section 12, for any patent issued before the date of enactment, if an application for reissue of the patent is filed within 2 years from issue date of the initially issued patent, such reissue application shall not be subject to the 6-year period precluding claims of a patent reissued on the application from being construed to have an enlarged scope.

SEC. 13. STREAMLINING POST-GRANT REVIEW OF ISSUED PATENTS.

(a) POST-GRANT REVIEWS.—

(1) **INSTITUTION OF POST-GRANT REVIEWS.**—Strike section 321 and insert:

“§321. Post-grant review.

“(a) **IN GENERAL.**—Subject to the provisions of this chapter, a person who is not the owner of a patent may file with the Office a petition to institute a post-grant review of the patent. A fee, established by the Director in an amount not in excess of the fee required for the issuance of a patent under section 151, must accompany the petition.

“(b) **SCOPE.**—A petitioner in a post-grant review may request to cancel as invalid 1 or more claims of a patent on any ground of invalidity that an accused infringer would be entitled to raise under this title as a defense to infringement.

“(c) **FILING DEADLINE.**—A petition for a post-grant review of an initially issued or a reissue thereof may only be filed not later than the date that is 1 year after the date of the grant of the patent or its reissue.”

(2) **SUMMARY DISPOSITION; CONSOLIDATION.**—Strike sections 324 and 325 and insert:

“§324. Institution of post-grant review.

“(a) **DECISION TO INSTITUTE.**—Unless a preliminary response under section 323 establishes to the satisfaction of the Director that a petition under section 321 has failed to provide a substantial factual and legal basis upon which at least 1 challenged claim of the patent could be found to be invalid, the Director shall grant the petition to institute.

“(b) **TIMING OF INSTITUTION.**—The decision under subsection (a) shall not be made earlier than 1 year after the date the patent is issued or reissued (as the case may be) and not later than 3 months after the date specified in section 323 for the filing of a preliminary response to the petition.

“(c) **NOTICE.**—The Director shall notify the petitioner and patent owner, in writing, of the Director’s determination under subsection (a), and shall make such notice available to the public as soon as is practicable. If the requirement for institution under subsection (a) has been met, such notice shall include either (1) the date on which the proceeding shall be instituted or (2) the date parties must appear at a pre-institution conference under subsection (d). If the parties are

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required to appear at a pre-institution conference under subsection (d), the notice shall further include a listing of the issues that the parties will be required to address at the conference and any pre-conference written submissions with respect to such issues that the parties may elect to file.

“(d) PRE-INSTITUTION CONFERENCE.—

“(1) ISSUES FOR DETERMINATION.—The Director may require that a pre-institution conference under this section address one or more of the following issues—

“(A) SUMMARY DISMISSAL.—If the petition, in light of any preliminary response by the patent owner, sets forth one or more grounds of alleged invalidity for one or more claims of the patent that fail to establish a substantial factual and legal basis upon such claims could be found invalid, the Director may provide notice to the petitioner under subsection (c) ordering the petitioner to show cause why the final written decision under section 328(a) should not hold such claims not invalid on such grounds without further substantive consideration during the proceeding.

“(2) REPRESENTATIVE GROUNDS OF ALLEGED INVALIDITY.—If the petition contains a multiplicity of grounds of alleged invalidity with respect to any single requirement for patentability under section 101, 102, or 112, the Director may order that the petitioner identify a limited number of representative grounds for invalidity under each such section that will be the basis for the final written decision thereon.

“(3) REPRESENTATIVE CLAIMS.—If the patent containing more than 20 claims, or if any ground of alleged invalidity relates to more than 20 claims, that Director may order that the patent owner identify a limited number of representative claims for each ground of invalidity that will be the basis for the final written decision on such ground.

“(2) CONFERENCE PROCEEDINGS.—The pre-institution conference shall review any submissions of the parties and hear such additional arguments as the Director shall consider relevant. Following such hearing, the Director shall order the institution of the proceeding in such a manner as to assure a fair, efficient, and complete adjudication of the invalidity issues set forth in the petition.

“(3) INSTITUTION ORDER.—The institution order as required under the preceding paragraph shall set forth the grounds of alleged invalidity that the Director has determined must be summarily dismissed, each representative ground of alleged invalidity to be addressed in the proceeding on its merits, and the corresponding representative claims being considered with respect to each such ground.

“(e) NO APPEAL.—The determination by the Director to grant or deny a petition under subsection (a) or to summarily dismiss grounds of alleged invalidity or to order limitation of the review to representative grounds with respect to representative claims under subsection (d) shall be final and nonappealable.”

“§325. Relation to other proceedings or actions.

“(a) SINGLE POST-GRANT REVIEW PROCEEDING.—No original patent, and no reissued patent, may be subject to more than one proceeding instituted under this section 324, irrespective of the number of petitions for post-grant review that are filed under section 321(a) with respect to the patent or the reissued patent, as the case may be. For each petition under section 321(a) that is granted under section 324(a) with respect to an original patent or a reissue patent, the respective petitioners shall be parties to the post-grant review instituted with respect to the patent.

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“(b) **LIMITATION ON REVIEW FOR REISSUED PATENTS.**— No claimed invention of a reissue patent that is identical in scope to the claim of the original patent shall be subject to challenge in a post-grant review proceeding.

“(c) **NO PETITIONER ESTOPPEL.**—Raising a validity issue in a petition under this chapter does not preclude the petitioner from raising the same or any related issue in a proceeding instituted under chapter 31, irrespective of whether the petition is granted under section 324(a) or a final written decision is issued under section 328(a).

“(d) **CERTAIN PETITIONS TO BE DENIED.**—No petition filed under section 321(a) with respect to a patent may be granted if the petitioner has, prior to institution under section 323(b), has become a party to a proceeding instituted under chapter 31 with respect to the patent.”

(3) **LIMITATION ON RIGHT TO APPEAL.**—Strike section 329 and insert:

“§329. Appeal.

“A patent owner dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 328(a) may appeal the decision pursuant to sections 141 through 144. Any party to the post-grant review shall have the right to be a party to an appeal by the patent owner.

(b) **EFFECTIVE DATE, EFFECT, AND TRANSITION PROVISION.**—

(1) **EFFECTIVE DATE.**—The amendments under this Section 13 shall take effect 1 year after the date of enactment.

(2) **APPLICABILITY TO FIRST-TO-INVENT PATENTS.**—Notwithstanding section 6(f)(2)(A) of the Leahy-Smith America Invents Act limiting the applicability of chapter 32 to patents described in section 3(n)(1) of the Leahy-Smith American Invents Act, chapter 32, as amended by this Act, shall be applicable to any patent issued or reissued 1 year after the date of enactment.

(3) **EXISTING PETITIONS.**—The amendments under this Section 13 shall have not have effect with respect to any petition for post-grant review filed before 1 year after the date of enactment.

(4) **LIMITATION.**—The Director may impose a limit on the number of post-grant reviews that may be instituted under chapter 32 during each of the first 10 1-year periods in which the amendments made under this Section 3 are in effect.

SEC. 14. STREAMLINING EX PARTE REEXAMINATION OF ISSUED PATENTS.

(a) **STREAMLINED EX PARTE REEXAMINATION.**—

(1) **LIMITATION TO DIRECTOR-ORDERED REEXAMINATION.**—Strike sections 302-305 and insert:

“§302. Director determination on questions of patentability.

“With respect to one or more claims of a patent, the Director may determine that one or more substantial new questions of patentability exist. If such a determination is based on prior art, the determination shall be limited to consideration of disclosures from patents and printed publications, including any previously cited by or to the Office or considered by the Office.

“§303. Notice of Director determination.

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“A notice of the Director’s determination section 302 will be placed in the official file of the patent, and a copy promptly will be provided to the owner of record of the patent.

“§304. Reexamination order by Director.

“The notice under section 303 shall include an order for reexamination of the patent for resolution of each question of patentability. The patent owner may file, within two months from the date of the order a request for amendment to the patent, including the claims, for consideration in the reexamination.

“§305. Conduct of reexamination proceedings.

“Reexamination will be conducted according to the procedures established for initial examination under the provisions of sections 132 and 133. No proposed amended or new claim enlarging the scope of the claims of the patent will be permitted. All reexamination proceedings under this section, including any appeal to the Patent Trial and Appeal Board, will be conducted with special dispatch within the Office.”

(2) CONFORMING AMENDMENTS.—The items relating to sections 302 and 303 in the table of sections for chapter 30 of title 35, United States Code, is amended to read as follows:

“302. Director determination on questions of patentability.

“303. Notice of Director determination.”

(b) EFFECTIVE DATE, EFFECT, AND TRANSITION PROVISION.—

(1) EFFECTIVE DATE.—The amendments under this Section 14 shall take effect upon enactment.

(2) APPLICABILITY.—Notwithstanding paragraph (1), the amendments under this Section 14 shall not have effect with respect to any request, filed before 1 year after the date of enactment, under the provisions of section 302 that were in effect on the day before the enactment.

SEC. 15. STREAMLINING INVALIDITY COMPLAINTS BY ACCUSED INFRINGERS.

(b) STREAMLINED HANDLING OF PATENT INVALIDITY ALLEGATIONS.—

“CHAPTER 31 – INVALIDITY COMPLAINTS

“Sec.

“311. Invalidation complaints.

“312. Institution of invalidity proceedings.

“313. Effect on civil actions.

“314. Appeal.

“§311. Invalidation complaints.

“(a) IN GENERAL.—A party to a civil action under section 281 who is accused of infringing a patent, or a person who would have standing to plead non-infringement of a patent in a declaratory judgment action brought under section 2201 of title 28, United States Code, over

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which the court would have subject matter jurisdiction, may file an invalidity complaint with the Director seeking a final written decision of the Patent Trial and Appeal Board under section 328(a) that one or more claims of the patent are invalid. The invalidity complaint shall set forth the jurisdictional basis for filing the invalidity complaint and the specific grounds on which each challenged claim is asserted to be invalid and the evidence in support thereof, together with the fee and such other information as set forth in section 322 for a petition for post-grant review.

“(b) **TIMING WITH RESPECT TO CIVIL ACTION.**—An invalidity complaint under subsection (a) for which the jurisdiction is based on a civil action under section 281 may be filed with the Director at any time during the pendency of the civil action.

“(c) **STAY OF ENTRY OF JUDGMENT.**—A court in a civil action under section 281, in which one or more claims of a patent are asserted, shall stay the entry of a final judgment with respect to the infringement of the patent, pending the final written decision under section 328(a) on an invalidity complaint, unless the court finds that—

“(1) the invalidity complaint fails to raise a substantial question of validity for each asserted claim of the patent or

“(2) the interests of justice would not be served by the stay.”

“§312. Institution of invalidity proceeding.

“(a) **IN GENERAL.**— Unless the Director determines that the requirements under section 311(a) have not been met with respect to an invalidity complaint, the Director shall, within 3 months from the date of the filing of the complaint, institute an invalidity proceeding to adjudicate each invalidity issue raised in the complaint by providing the parties to the proceeding a notice as described in section 324(c) and, as necessary, conducting any pre-institution conference and issuing any pre-institution order as described in section 324(d).

“(b) **PROCEDURES.**—If an invalidity proceeding is instituted under subsection (a), the proceeding shall be conducted in accordance the provisions of sections 326 and 329 and conclude with a final written decision in accordance with the provisions of section 328 (absent a settlement in accordance with the provisions of section 327), except that no amendments to the claims of the patent shall be permitted during an invalidity proceeding and the burden of establishing invalidity shall be on the complainant in the manner set forth under section 282(a). Except as provided under subsection (a), the provisions of sections 323, 324, and 329 shall be inapplicable to an invalidity proceeding.”

“§313. Effect on civil actions.

“If an invalidity complaint with respect to a patent is filed by a party to a civil action within six months from the date of service of the complaint in the action on the party, such filing shall preclude the court in such action from considering any defenses to infringement of the patent in such action pleaded by a party to the action, except for defenses specified under section 282(b)(1).”

“§314. Appeal.

“A party dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 328(a) with respect to an invalidity complaint may appeal the decision pursuant to sections 141 through 144. Any party to the invalidity proceeding instituted on the invalidity complaint shall have the right to be a party to such an appeal.

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(b) EFFECTIVE DATE, EFFECT, AND TRANSITION PROVISION.—

(1) EFFECTIVE DATE.—The amendments under this Section 15 shall take effect upon enactment.

(2) APPLICABILITY.—Notwithstanding paragraph (1)—

(A) the amendments under this Section 15 shall not have effect with respect to any petition for inter partes review, filed under the provisions of section 321 that were in effect on the day before the enactment, before 1 year after the date of enactment and

(B) the amendments under this Section 15 shall not have effect with respect to any civil action under section 281 filed before the date of enactment.

**TITLE II – PATENT VALIDITY DETERMINATIONS SIMPLIFICATION
ACT**

***SEC. 21. SHORT TITLE; TABLE OF CONTENTS, REFERENCES, LEGISLATIVE
PURPOSE.***

(a) SHORT TITLE.—This Act may be cited as the “Patent Validity Determinations Simplification Act.”

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

Sec. 21. Short Title, Table of Contents, References, Legislative Purpose.

Sec. 22. Validity and Enforceability in Cases of Double Patenting.

Sec. 23. Validity and Enforceability of Claimed Inventions in Public Use or on Sale.

Sec. 24. Validity and Enforceability of Patents in Cases of Incorrect Inventorship.

Sec. 25. Information Disclosures and Prosecution Misconduct.

(c) REFERENCES.—Unless otherwise indicated, a reference herein to an amendment made under this Act, or a section or chapter of United States Code otherwise, is a reference to title 35, United States Code.

(d) LEGISLATIVE PURPOSE.—The intent and purpose of this Act is to simplify and streamline the post-issuance review of patents, as well as examination of applications for patent, by reducing the number of potential patentability issues that may require consideration during patent application examination and post-grant review of issued patents. The Act eliminates patent invalidity based upon obviousness-type double patenting, prior art not available to the public arising from on in use or sale activities, and improper inventorship. It replaces these grounds of invalidity with newly codified defenses to the enforceability of a patent. The Act codifies enhanced requirements for patent applicant submissions of relevant patents and printed publications during patent examination as a means of improving the efficiency and accuracy of patent examination and facilitates the discharge of these enhanced disclosure requirements by enacting a safe harbor for such disclosures by patent applicants by codifying the unenforceability defense to patent infringement based upon patent prosecution misconduct in a manner that excludes holding valid patent claims unenforceable on misconduct grounds.

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SEC. 22. VALIDITY AND ENFORCEABILITY IN CASES OF DOUBLE PATENTING.

(a) **OBVIOUSNESS-TYPE DOUBLE PATENTING INVALIDITY ABROGATED.**—Except as provided under the provisions of section 101 that precludes patenting of multiple claimed inventions defining the identical subject matter and section 103 that requires non-obviousness over prior art, no claimed invention of a patent shall be invalid on account of patentable indistinctiveness with respect to a claimed invention of the same or another patent. Claimed inventions in applications for patent must not be examined by the Office for similarity with respect to one another, except to assure compliance with sections 101 and 103.

(b) **UNENFORCEABILITY DEFENSES.**—In section 282, insert at the end:

“(d) **ENFORCEABILITY DEFENSES.**

“(1) **DOUBLE PATENT ASSERTION DEFENSE.**—A claimed invention in a patent alleged to be infringed in a civil action shall be unenforceable in such action if (A) the infringement allegation would have been barred on res judicata grounds had each of the claims of a second patent been included as claims of the asserted patent and (B) such second patent contains at least one claim that is patentably indistinct from at least one claim in the asserted patent for which neither of such patentably indistinct claimed inventions represents prior art to the other. For the purposes of this paragraph, two claimed inventions shall be regarded as patentably indistinct unless each would represent novel and non-obvious subject matter had the other constituted prior art to it.

“(2) **LIMITATION ON PATENT LIFE TO 20 YEARS FOR PATENTABLY INDISTINCT CLAIMS.**—Except for an extension of term under section 156, with respect to any two claimed inventions that are patentably indistinct from one another under paragraph (1), the rights granted under this title with respect to such claimed inventions shall not be enforceable after 20 years from the original patent issue date of either patentably indistinct claimed invention.”

(c) **EFFECTIVE DATE AND EFFECT.**—

(1) **EFFECTIVE DATE.**—The amendments made by this Section 22 shall be effective upon enactment, except that such amendments shall not—

(A) apply to a civil action involving a patent that was brought before the date of enactment or

(B) limit the enforceability of any claimed invention of a patent issued before the date of enactment to the extent that the claimed invention otherwise would have been enforceable absent the enactment of this Section 22.

(2) **DOUBLE PATENTING DISCLAIMERS.**—A terminal disclaimer under section 253(b) filed before the effective date shall have no effect on the enforceability of a patent if (i) a claimed invention in the patent is subject to a limitation on enforceability under section 282(d)(1) or (2) and (ii) the disclaimed term of the patent extends more than one year after the effective date.

SEC. 23. VALIDITY AND ENFORCEABILITY OF CLAIMED INVENTIONS IN PUBLIC USE OR ON SALE.

(a) **INVALIDITY GROUNDED ON ACTIVITIES NOT AVAILABLE TO THE PUBLIC ABROGATED.**

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(1) **FIRST-INVENTOR-TO-FILE PATENTS.**—In section 102(a)(1), strike “or in public use, on sale,”.

(2) **FIRST-TO-INVENT PATENTS.**—In sections 102(b) and 119(a), as in effect on the day before the enactment of the Leahy-Smith America Invents Act, strike “in public use or on sale” and insert “otherwise available to the public”.

(b) **UNENFORCEABILITY DEFENSE SUPERSEDING INVALIDITY DEFENSE.**—In section 282, as amended under Section 22, insert at the end:

“(3) **APPLICATION FILING LACHES DEFENSE.**—If the inventor or a joint inventor, directly or indirectly, had placed a claimed invention in public use or on sale in the United States more than six years prior to the effective filing date of the claimed invention, the patent claiming the invention shall be unenforceable unless, prior to the date on which the patent was initially issued, the patentee had disclaimed under section 253(b) at least the term of the patent extending beyond 22 years from the date on which the claimed invention was first placed in public use or on sale in the United States by the inventor or a joint inventor.”

(c) **EFFECTIVE DATE, TRANSITION PROVISIONS, AND EFFECT.**—

(1) **EFFECTIVE DATE.**—The amendments made by this Section 23 shall be effective upon enactment, except that such amendments shall not—

(1) apply to a civil action involving a patent that was brought before the date of enactment or

(2) limit the enforceability of any claimed invention of a patent issued before the date of enactment to the extent that the claimed invention otherwise would have been enforceable absent the enactment of this Section 23.

(2) **DISCLAIMERS RELATING TO PUBLIC USE OR ON SALE ACTIVITIES.**—Notwithstanding section 282(d)(3), for a claimed invention of a patent issued before six months after the date of enactment that, absent the amendments under this Section 23 would have been invalid under section 102 based on in public use or on sale activities, the period for filing the disclaimer required under section 282(d)(3) shall be 1 year from the date of enactment.

**SEC. 24. VALIDITY AND ENFORCEABILITY OF PATENTS IN CASES OF
INCORRECT INVENTORSHIP.**

(a) **UNENFORCEABILITY DEFENSE SUPERSEDING INVALIDITY DEFENSE.**—In section 282, as amended under Sections 22 and 23, insert at the end:

“(4) **INCORRECT INVENTORSHIP DEFENSE.**—Notwithstanding any other provision of this title, if a patent incorrectly names the inventor and the correction of inventorship would result in a change in the ownership of the patent, such patent shall not be enforceable unless and until the naming of the inventor of the patent is corrected. Except as provided in the preceding sentence, a patent shall not be held to be invalid or unenforceable for naming an individual as the inventor or a joint inventor who is not the inventor or a joint inventor of any claimed invention therein or for the failure to name as the inventor or a joint inventor an individual who is the inventor or a joint inventor of at least one claimed invention therein.

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(b) **EFFECTIVE DATE AND EFFECT.**—The amendments made by this Section 24 shall be effective upon enactment, except that such amendments shall not—

(1) apply to a civil action involving a patent that was brought before the date of enactment or

(2) limit the enforceability of any claimed invention of a patent issued before the date of enactment to the extent that the claimed invention otherwise would have been enforceable absent the enactment of this Section 24.

SEC. 25 . INFORMATION DISCLOSURES AND PROSECUTION MISCONDUCT.

(a) **PATENT APPLICANT DISCLOSURES.**—In section 122, strike subsection (e) and insert:

“(e) **DISCLOSURES OF PATENTS AND PRINTED PUBLICATIONS DURING EXAMINATION.**—

“(1) **APPLICANT DISCLOSURES.**—

“(A) **IN GENERAL.**—A patent or printed publication that may or does constitute prior art material to patentability of a claim in an application being examined, or otherwise is of potential or actual relevance to the patentability of a claim, may be submitted by the applicant to the Office for consideration during the examination of the application only if the applicant—

“(i) provides with the submission of such item a concise description of its potential relevance to the patentability of the claims being examined,

“(ii) pays any fee established by the Director for submission of such item; and

“(iii) meets such other requirements as to timing and form for the submission of the item as the Director may establish by regulation.

“(B) **EXCEPTIONS.**—The requirements under subparagraph (A) shall not apply to any patent or printed publication—

“(i) for which the specification of the application contains a concise description of its potential or actual relevance to the patentability of the original claims or

“(ii) that is exempted from such requirements under regulations established by the Director.

“(C) **CONSIDERATION BY THE OFFICE.**—A patent or printed publication shall not be considered, or be regarded as having been considered, by the Office unless it—

“(i) meets the requirements under subparagraph (A),

“(ii) falls within the exception under subparagraph (B),

“(iii) is listed in an action reporting on the prior art prepared by the Office during the examination of the application or a like report prepared in connection with a related foreign or international application that has been made available during examination in a timely manner, or

“(iv) is identified in a submission in connection with the application in compliance with paragraph (2).

“(2) **SUBMISSIONS BY THIRD PARTIES.**—

“(A) **IN GENERAL.**—Any third party may submit for consideration and inclusion in the record of a patent application, any patent, published patent application, or other printed publication of potential relevance to the examination of the application, if such submission is made in writing before the earlier of—

“(i) the date a notice of allowance under section 151 is given or mailed in the application for patent; or

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“(ii) the later of 6 months after the date on which the application for patent is first published under this section by the Office or the date of the first rejection under section 132 of any claim by the examiner during the examination of the application for patent.

“(B) OTHER REQUIREMENTS.—Any submission under subparagraph (A) shall—

“(i) set forth a concise description of the asserted relevance of each submitted document;

“(ii) be accompanied by such fee as the Director may prescribe; and

“(iii) include a statement by the person making such submission affirming that the submission was made in compliance with this paragraph.”

(b) PROSECUTION MISCONDUCT UNENFORCEABILITY DEFENSE.—In section 282, as amended under Sections 22, 23, and 24, insert at the end:

“(5) PROSECUTION MISCONDUCT DEFENSE.—Claims of a patent, except for claims not invalid under this title, may be declared unenforceable based upon prosecution misconduct in seeking or securing the patent, including any misconduct determined to be inequitable. The bar under the preceding sentence to misconduct-based unenforceability of a claim of a patent that is not invalid shall not otherwise limit remedies available under law based upon prosecution misconduct, including criminal penalties, disciplinary sanctions, and liabilities imposed under federal competition laws based on fraudulent conduct in connection with securing a patent.”

(c) EFFECTIVE DATE AND EFFECT.—The amendments made by this Section 25 shall be effective upon enactment, except that such amendments shall not apply to—

(1) a civil action involving a patent that was brought before the date of enactment or

(2) the examination of any application for patent filed before 6 months after the date of enactment.

TITLE III – PATENT EXAMINATION SIMPLIFICATION ACT

SEC. 31. SHORT TITLE; TABLE OF CONTENTS, REFERENCES, LEGISLATIVE PURPOSE.

(a) SHORT TITLE.—This Act may be cited as the “Patent Examination Simplification Act.”

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

Sec. 31. Short Title, Table of Contents, References; Legislative Purpose.

Sec. 32. Streamlined Patent Application Filing.

Sec. 33. Streamlined Patent Examination.

Sec. 34. Priority Rights Clarification.

Sec. 35. Conforming, Technical Amendments, Effective Date and Effect.

(c) REFERENCES.—Unless otherwise indicated, a reference herein to an amendment made under this Act, or a section or chapter of United States Code otherwise, is a reference to title 35, United States Code.

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(d) **LEGISLATIVE PURPOSE.**—The intent and purpose of this Act is to simplify and streamline the processes of filing applications for patent and issuing patents by assuring a full and complete examination is provided for each claim presented for examination in each nonprovisional patent application, thereby eliminating any need for any form of continuing patent application, all of which are eliminated under this Act, which thereby eliminates the possibility for any proliferation of patents that might issue based upon a single, original patent filing. The Act further simplifies patent filing requirements and offers technical corrections to the Leahy-Smith America Invents Act.

SEC. 32. STREAMLINED PATENT APPLICATION FILING.

(a) **STREAMLINED APPLICATION REQUIREMENTS.**—Strike section 111 and insert:

“§111. Nonprovisional and provisional applications for patent

“(a) NONPROVISIONAL APPLICATION.—

“(1) WRITTEN APPLICATION.—An application for patent filed under this subsection shall be made, or authorized to be made, by the inventor, except as otherwise provided in this title, in writing to the Director.

“(2) CONTENTS.—An application filed under this subsection shall include—

“(A) a specification that includes at least one claim, as prescribed by section 112;

“(B) if required, a drawing as prescribed by section 113; and

“(C) an identification of the inventor, as prescribed by section 115.

“(3) FEE AND IDENTIFICATION OF INVENTOR; FILING DATE.—

“(A) IN GENERAL.—The application must be accompanied by the fee required by law unless submitted within such period and under such conditions, including the payment of a surcharge, as may be prescribed by the Director. The identification of the inventor may be submitted after the specification and any required drawing are submitted, within such period and under such conditions, including the payment of a surcharge, as may be prescribed by the Director. The inventor statement required under section 115 must be submitted at or before the payment of the issue fee prescribed by section 151.

“(B) FAILURE TO SUBMIT.—Upon failure to submit the fee or the identification of the inventor within such prescribed period, the application shall be regarded as abandoned, unless it is shown to the satisfaction of the Director that the delay in submitting the fee or identification of the inventor, as the case may be, was unavoidable or unintentional. The filing date of an application shall be the date on which the specification and any required drawing are received in the Office.

“(4) NONPROVISIONAL DESIGNATION.—An application filed under this subsection may be referenced under this title as a nonprovisional application.

“(b) PROVISIONAL APPLICATION.—

“(1) AUTHORIZATION.—An application for patent filed under this subsection shall be made or authorized to be made by the inventor, except as otherwise provided in this title, in writing to the Director. Such application shall include—

“(A) a specification as prescribed by section 112(a);

“(B) if required, a drawing as prescribed by section 113 ; and

“(C) an identification of the inventor;

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“(2) CLAIM.—A claim, although required under section 112(b) for an application filed under subsection (a), shall not be required in an application filed under this subsection.

“(3) FEE AND IDENTIFICATION OF INVENTOR.—

“(A) Except as provided under subparagraph (B), the application under this subsection must be accompanied by the fee required by law and an identification of the inventor.

“(B) The fee and the identification of the inventor may be submitted after the specification and any required drawing are submitted, within such period and under such conditions, including the payment of a surcharge, as may be prescribed by the Director.

“(C) Upon failure to submit the fee or identification of inventor within such prescribed period, the application shall be treated as though it did not contain the required specification, unless it is shown to the satisfaction of the Director that the delay in submitting the fee or identification of inventor, as the case may be, was unavoidable or unintentional.

“(4) FILING DATE.—The filing date of an application filed under this subsection shall be the date on which the specification and any required drawing are received in the Patent and Trademark Office.

“(5) CONVERSION TO NONPROVISIONAL APPLICATION.—Notwithstanding the absence of a claim, upon timely request and as prescribed by the Director, an application filed under this subsection may be treated as an application filed under subsection (a). Subject to section 119(e), if no such request is made, the application filed under this subsection shall be regarded as abandoned 1 year after the filing date of such application and shall not be subject to revival after such 1-year period.

“(6) TREATMENT AS A PROVISIONAL APPLICATION.—Subject to all the conditions in this subsection and section 119(e), and as prescribed by the Director, an application for patent filed under subsection (a) may be treated as an application filed under this subsection.

“(7) NO RIGHT OF PRIORITY.—Unless converted under paragraph (5), an application filed under this subsection shall not be entitled to the right of priority of any other application under section 119 or 365(a).

“(8) OTHER APPLICABLE PROVISIONS.—The provisions of this title relating to applications for patent shall apply to applications filed under this subsection, except as otherwise provided, and except that provisional applications for patent shall not be subject to sections 115, 131, 135, and 157.”

“(9) PROVISIONAL DESIGNATION.—An application filed under this subsection may be referenced under this title as a provisional application.”

(b) STREAMLINED INVENTOR STATEMENTS.—

(1) REQUIRED STATEMENT.—Strike section 115 and insert:

“§115. Inventor naming and required statement.

“An application for patent, including an application that commences the national stage under section 371, shall include, or be amended to include, the name of the inventor thereof, together with such identifying information with respect to the inventor as the Director may prescribe by regulation. No patent may issue on an application unless each individual named as the inventor or a joint inventor has submitted to the Office an assignment of the application, or other signed statement, stating that the application was made or was authorized to be made by such individual and such individual believes himself or herself to be the original inventor or an

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original joint inventor of a claimed invention in the application. For an individual deceased, under legal incapacity, unavailable after a diligent search, or obligated to assign a claimed invention but refuses to do so or to make a required statement under this section, an applicant as described in section 118 may satisfy the requirement under this section by filing a substitute statement representing that, upon an explanation of the relevant facts, such individual is believed to be the inventor or a joint inventor. Except as provided in section 256(b), no claimed invention shall be held invalid or unenforceable based on the failure to comply with any requirement under this section.”

(2) **CONFORMING AMENDMENT.**—The item relating to section 115 in the table of sections for chapter 11 of title 35, United States Code, is amended to read as follows:

“115. Inventor naming and required statement.”

(3) **TECHNICAL AMENDMENTS.**—In section 116(a), strike “and each make the required oath”; section 152, strike “upon the application made and the specification sworn to by the inventor.”; and in section 252(c), strike “and sworn to”.

(c) **EFFECT AND EFFECTIVE DATE.**—This amendments under this Section 32 shall be effective on the date of enactment and shall have effect for any application for patent filed on or after the date of enactment.

SEC. 33. STREAMLINED PATENT EXAMINATION.

(a) **STREAMLINED EXAMINATION PRACTICES.**—Strike and reserve sections 120 and 121 and insert at the end of chapter 12:

“§136. Restriction of independent claims.

“The examiner may object to an independent claim as being directed to multiple general inventive concepts and may require that each independent claim be restricted to a single general inventive concept. The applicant may request a review of any objection under this section by petition to the Director, identifying what the applicant regards as the single general inventive concept present in each independent claim. The validity of a patent shall not be questioned for failure of any claim to be restricted to a single general inventive concept.

(b) **REQUIREMENT TO EXAMINE EACH CLAIM.**— In section 131, strike “application” and insert “each claim of the application.”

(c) **FEES.**—

(1) In chapter 4 of title 35, United States Code, insert at the end:

“§ 43. Additional fees for excess claims.

“(a) **EXCESS INDEPENDENT CLAIMS.**—Upon filing, or upon pendency in an application for patent otherwise, of claims in independent form in excess of 3, in addition to the fee specified in section 41(a)(2), the applicant shall incur an excess claims fee under this section in the amount of the total fee as specified in section 41(a) for the original filing, the search, and the examination

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of the application for each claim in independent form in excess of 3. Upon issuing a patent containing one or more claims in independent form in excess of 3, in addition to the issue fee specified in section 41(a)(4), the applicant shall incur an additional issue fee under this section in the amount of the fee as specified in section 41(a)(4) for each claim in independent form in excess of 3. At the time of payment of a maintenance fee under section 41(b) with respect to a patent, the patentee shall incur an additional maintenance fee under this section, in the amount of the fee as specified in section 41(b) for maintaining the patent in force, for each claim then in the patent in independent form in excess of 3.

“(b) EXCESS DEPENDENT CLAIMS.—Upon issuing a patent containing one or more dependent claims in excess of 30, in addition to the issue fee specified in section 41(a)(4), the applicant shall incur an additional issue fee under this section in the amount of the fee as specified in section 41(a)(4) for each 10 dependent claim in excess of 30. At the time of payment of a maintenance fee under section 41(b) with respect to a patent, the patentee shall incur an additional maintenance fee under this section, in the amount of the fee as specified in section 41(b) for maintaining the patent in force, for each 10 dependent claim then in the patent in excess of 30.”

(2) In section 41(a)(2)(A), strike items (i) and (ii) and strike the designation for item (iii).

(d) CONFORMING AMENDMENTS.—

(1) The items relating to sections 120-121 in the table of sections for chapter 11 of title 35, United States Code, are amended to read as follows:

“120. [Reserved.]”

“121. [Reserved.]”

(2) In the table of sections for chapter 12, insert at the end:

“136. Restriction of independent claims.”

(3) In the table of sections for chapter 4 of title 35, United States Code, insert at the end:

“43. Additional fees for excess claims.”

(e) TECHNICAL AMENDMENTS.—

(1) In section 100(i)(1)(B), strike “or to the benefit of an earlier filing date under section 120, 121, or 365(c)” and in section 100(i)(2) strike “patent for which reissue was sought” and insert “patent as initially issued”.

(2) In section 154(a)(2) and section 251 as amended under Section 22, strike “or, if the application contains a specific reference to an earlier filed application or applications under section 120, 121, or 365(c), from the date on which the earliest such application was filed”.

(3) In section 184(b), strike “, or divisions thereof”.

(4) In section 366, strike “, unless a claim for benefit of a prior filing date under section 365(c) of this section was made in a national application, or an international application designating the United States, filed before the date of such withdrawal”.

(5) Strike section 365(c).

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(f) EFFECT AND EFFECTIVE DATE.—

(1) **IN GENERAL.**—Except as provided under paragraph 2, the amendments under this Section 33 shall have effect one year after the date of enactment and shall have effect for applications for filed one year or more after the date of enactment.

(2) TRANSITION PROVISIONS.—

(A) For any application for patent, filed between the date of enactment and 1 year thereafter, in which no restriction requirement is made under section 121 before 1 year from the date of enactment, the amendments under this Section 33 shall have effect for such application except to the extent of denying the benefit of an earlier filing date under section 120, 121, or 365(c) or affecting the term of the patent under section 154(a)(2).

(B) For any application for patent, filed between the date of enactment and 1 year thereafter, in which a restriction requirement is made under section 121 before 1 year from the date of enactment, the amendments under this Section 33 denying the benefit of an earlier filing date under section 120, 121, or 365(c) or affecting the term of the patent under section 154(a)(2) shall not have effect for such application or for any application filed under section 111(a) not later than 2 years from the date of enactment asserting the right to benefit of the filing date of such application.

SEC. 34. CLARIFICATION OF PRIORITY RIGHTS.

(a) **PRIORITY RIGHTS CLARIFICATION.**—In section 119, strike subsection (e) and insert:

“(e) PRIORITY BASED ON PROVISIONAL APPLICATION FILING.—

“(1) **IN GENERAL.**—A nonprovisional application for patent filed under section 111(a), including an application filed under section 363, with respect to a claimed invention disclosed in the manner provided under section 112 in a provisional application filed under section 111(b) that names or is amended to name the inventor or a joint inventor who is named in the provisional application, including through amendment of the provisional application, shall have the same effect, as to such claimed invention, as though the nonprovisional application had been filed on the date of the provisional application, if the nonprovisional application—

“(A) is filed not later than 1 year after the date on which the provisional application was filed and

“(B) contains or is amended to contain a specific reference to the provisional application.

“(2) SPECIFIC REQUIREMENTS.—

“(A) **IN GENERAL.**—No application shall be entitled to the benefit of an earlier filed provisional application under this subsection unless an amendment containing the specific reference to the earlier filed provisional application is submitted at such time during the pendency of the application as required by the Director. The Director may consider the failure to submit such an amendment within that time period as a waiver of any benefit under this subsection. The Director may establish procedures, including the payment of a surcharge, to accept an unintentionally delayed submission of an amendment under this subsection during the pendency of the application.

“(B) **OTHER REQUIREMENTS FOR RELIANCE.**—A provisional application filed under section 111(b) may not be relied upon in any proceeding in the Office unless the requirements under section 111(b) have been met, including with respect to any required fees.”

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- (2) CONFORMING AMENDMENTS.—In section 119—
 - (1) in subsection (a), strike “(a)” and insert “(a) PRIORITY RIGHT.—”;
 - (2) in paragraph (b)(1), strike “(b)(1)” and insert:
 - “(b) RESTRICTIONS AND REQUIREMENTS—
 - “(1) IN GENERAL.—”;
 - (3) in paragraph (b)(2), strike “(2)” and insert “(2) WAIVER OF RIGHT.—”;
 - (4) in paragraph (b)(3), strike “(3)” and insert “(3) CERTIFIED COPIES.—”;
 - (5) in subsection (c), strike “(c)” and insert “(c) RIGHT BASED ON SUBSEQUENT FILING.—”
 - and
 - (6) in subsection (d), strike “(d)” and insert “(d) INVENTOR CERTIFICATE.—”.
- (b) INDEFINITE ARTICLE OMISSION.—In section 102(b)(1)(A), section 112(a), and section 291, strike “or joint inventor” and insert “or a joint inventor”.
- (c) TECHNICAL CORRECTION.—In section 112(a), strike the remainder of the sentence after “same”; and in section 282(b)(2)(A), strike the remainder of the subparagraph up to the semicolon after “112”.
- (c) EFFECTIVE DATE AND EFFECT.—The amendments under this Section 34(a) shall have effect as though enacted as amendments under Section 4 of the Leahy-Smith America Invents Act. The amendments under this Section 34(b) shall have effect as though enacted as amendments under Section 3(b)(1) of the Leahy-Smith America Invents Act. The amendments under this Section 34(c) shall have effect as though enacted as amendments under Section 15 of the Leahy-Smith America Invents Act.

UNITED for PATENT REFORM

UFPR Statement to the Senate Judiciary Subcommittee on Intellectual Property on its Hearing ‘The Patent Trial and Appeal Board: Examining Proposals to Address Predictability, Certainty, and Fairness

June 21, 2022

United for Patent Reform (UFPR) is a broad coalition of diverse American businesses advocating for a patent system that enhances patent quality, advances meaningful innovation, and protects legitimate American businesses from abusive patent litigation. Our members are small and large — they range from Main Street retail shops, REALTORS®, hotels, grocers, convenience stores, and restaurants to national construction companies, automobile manufacturers, and technology businesses. Collectively, our members represent over 80 million U.S. employees, a figure that accounts for nearly two-thirds of private sector jobs in the United States.

UFPR appreciates the opportunity to provide testimony in strong support of the work of Senators Leahy, Cornyn, and Tillis to address predictability, certainty, and fairness at the Patent Trial and Appeal Board (PTAB) and in its Inter Partes Review (IPR) process. IPR is our patent system’s efficient, cost-effective, and expert program for assessing validity of a patent, and it is imperative to ensure continued access to it.

Invalid patents can be a serious drag on innovation and job creation, and can erode public confidence in the patent system. Congress created the IPR program to help fix that problem when it passed the America Invents Act in 2011. IPR gives businesses the opportunity to ask the U.S. Patent and Trademark Office (PTO) to review its initial granting of a patent. For the more than 350,000 patents issued each year,¹ busy examiners have just nineteen hours on average to complete a review² and mistakes happen. IPR is an important and efficient procedure to correct any errors in the patent examination process.

Even though IPR has been critically important for American businesses to fight frivolous claims of patent infringement, saving litigants \$2 billion in legal fees,³ baseless complaints of unfairness in IPR have led the PTO to weaken the program, leading to a 46% uptick in patent litigation by NPEs from 2018 to 2021.⁴

¹ See United States Patent and Trademark Office Performance and Accountability Report, Fiscal Year 2021, Table 6.

² See Michael D. Frakes & Melissa Wasserman, Is the Time Allocated to Review Patent Applications Inducing Examiners to Grant Invalid Patents? Evidence from Micro-Level Application Data, *Review of Economics and Statistics* (2017).

³ See Patent Progress, Inter Partes Review: Five Years, Over \$2 Billion Saved, available at <https://www.patentprogress.org/2017/09/14/inter-partes-review-saves-over-2-billion/>.

⁴ See RPX, Q4 in Review: NPEs Cap Off a Busy 2021 as SEP Policies Evolve in the US and UK, available at <https://www.rpxcorp.com/intelligence/blog/q4-in-review-npes-cap-off-a-busy-2021-as-sep-policies-evolve-in-the-us-and-uk/>.



A recent opinion piece from Jonathan Johnson, CEO of UFPR member Overstock.com, explains how this rise in litigation has impacted businesses and, as a result, American consumers. Mr. Johnson identifies the weakening of the IPR program by the PTO as leading to NPEs “weaponizing invalid and questionable patents.”⁵ As Mr. Johnson points out, left unabated, these lawsuits can mean “[b]usinesses get poor—or shuttered. People are laid off. Useful tech gets flushed down the drain or goes overseas. American consumers suffer unawares.”⁶

It does not have to be this way – and IPR is a straightforward and surgical approach to address these concerns, impacting only about 0.2 percent of all active patents.⁷ But IPR knocks out those invalid patents that otherwise would be erroneously allowed to target even more American businesses. And often, it is businesses like Overstock.com and other UFPR members that are targeted by NPEs for their use of products and services provided by *another* business.

In many of these cases, the targeted end user of the technology does not initiate an IPR itself, but instead benefits from IPRs initiated by their suppliers and service providers. In fact, this benefit is felt not just by those Main Street businesses that have been sued or received threat letters, but also by those businesses that will never have to be on the receiving end of threatened litigation thanks to the IPR process. As Mr. Johnson puts it, the NPE will no longer be able to “siphon profits from hard-working business through bogus patent lawsuits.”⁸

⁵ Jonathan Johnson, Patent trolls have resurfaced and are hurting businesses, *Utah Policy* (Mar. 8, 2022), available at <https://utahpolicy.com/politics/63002-guest-opinion-patent-trolls-have-resurfaced-and-are-hurting-businesses> (Johnson op-ed).

⁶ Johnson op-ed.

⁷ See Unified Patents, Patent Quality Initiative Statistics – Dispelling PTAB Myths, available at <https://www.unifiedpatents.com/insights/2020/2/5/patent-quality-initiative-statistics-dispelling-ptab-myths>.

⁸ Johnson op-ed.

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The IPR review process benefits all businesses – those that bring the IPR itself to invalidate a patent that was granted in error, and those that are permitted to continue their use of a product or service unimpeded with its invalidation. Some examples highlighting these benefits are as follows:

- An NPE sued several businesses, including national grocery company Albertsons, and Missouri-headquartered outdoor gear retailer Bass Pro Shops, claiming they infringed on its patent related to the use of electronic gift cards. Fortunately, an Atlanta-based financial services company that was also sued by the NPE petitioned the PTO to review the patent through its IPR program – [and won](#). The patent was invalidated, and the Main Street businesses could once again allow their customers to give and use electronic gift cards.
- An NPE sued 74 businesses located in 23 states - including Alabama, Colorado, Kentucky, Michigan, and Texas - for using technology that allowed them to print over a network. Many of those targeted were small, family-owned commercial printing shops, like the fourth-generation business in Nashville, Tennessee that was targeted. Luckily, several commercial printer companies used the IPR process to have the PTO review the invalid patent in question and got the patent [overturned](#), helping to save many small businesses from having to pay a shakedown settlement or hefty litigation costs.
- Technology that allows businesses to scan documents directly to an email recipient saves countless hours. Thousands of businesses throughout the country rely on this technology daily, but all were threatened when a NPE attempted to use a bad patent to collect usage fees. The scanner manufacturers acted quickly to use the IPR process to [invalidate](#) the bad patent and restore their customers' access to their technology free of fear.⁹

The patent system exists not for the benefit of patent holders, but for the benefit of the public and to promote *true* innovation. By ensuring that invalid patents can be efficiently and cost-effectively addressed by expert patent judges, the public's confidence in our U.S. patent system will be strengthened, and American businesses and consumers will benefit.

⁹ See UFPR #StandWithMainStreet, available at <https://unitedforpatentreform.com/stop-badpatents>.