

**REFORMING THE PATENT TRIAL AND
APPEAL BOARD—THE PREVAIL ACT
AND PROPOSALS TO PROMOTE
U.S. INNOVATION LEADERSHIP**

HEARING
BEFORE THE
SUBCOMMITTEE ON INTELLECTUAL PROPERTY
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WEDNESDAY, NOVEMBER 8, 2023

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

The Subcommittee met, pursuant to notice, at 2:39 p.m., in Room 226, Dirksen Senate Office Building, Hon. Christopher A. Coons, Chair of the Subcommittee, presiding.

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

**OPENING STATEMENT OF HON. CHRISTOPHER A. COONS,
A U.S. SENATOR FROM THE STATE OF DELAWARE**

Chair COONS. This hearing will come to order. Thank you to all of our witnesses for participating today. And I'd like to especially thank Ranking Member Senator Thom Tillis and his staff for working together on a consensus basis to put together this sixth hearing this year of this IP Subcommittee. As usual Thom, you and your team have been great partners.

Let me just lay a framework for my views on this legislation hearing today with a quick story.

Imagine this, a talented inventor develops and perfects a technology to solve a problem. A solution that works better than anything currently available on the market and at a lower cost. And she applies for a patent to protect her innovation. And after tens of thousands of dollars in attorney's fees, and a lengthy examination process, she is awarded a U.S. patent.

She then brings her technology to market. Her invention becomes a commercial success, improving the lives of American consumers and growing her business.

But that invention catches the eye of highly resourced corporations, who copy it without her permission and incorporate it into their products. With the help of attorneys, the inventor then files an infringement suit in Federal district court against these corporations.

And in response, the corporations each challenge her patent in separate venues—the Patent Trial and Appeal Board, or PTAB, as well as the district court.

And working together, they weaponize their resources and file multiple challenges at the PTAB, knowing they only have to succeed once to invalidate her patent, no matter what the district court might separately decide.

After years of time, expense, and effort, the inventor is ultimately stripped of her legal rights. Corporations are free to use her technology and put her out of business. This not-hypothetical example is representative of what too many individual inventors in the U.S. patent system are currently facing.

A decade ago, the America Invents Act established inter partes review and post-grant review proceedings at the PTAB with the goal to be cheaper, more efficient alternatives to district court litigation for weeding out improvidently granted patents. And unfortunately, across a decade of experience, all too often just the opposite is true.

Today, more often than not, very large, very well-resourced corporations, use the PTAB as a tool to wear down patent holders. More than 85 percent of defendants in patent litigation have used the PTAB as a duplicative rather than an alternative form to challenge a patent, often making the very same invalidity arguments in both district court and the PTAB.

The issues with these dual track challenges are made worse by the lower standard of proof used in PTAB, where a patent challenger needs only show by preponderance of the evidence in validity rather than the clear and convincing standard in district courts.

This not only runs contrary to the cost and efficiency goals of the AIA, but it has led to inconsistent results across these tribunals. In other words, over a decade of experience, patent challenges at the PTAB have not delivered on being faster, cheaper alternatives to district court validity litigation.

Abuses of this system are also well-documented. As recently as June, a Fortune 500 company was able to invalidate two patents at the PTAB after a Federal district court jury had awarded \$2 billion in patent infringement damages against that company.

Statutory loopholes, like that challenge, are allowed to take place even though the company in that case had already been denied PTAB review during the litigation, and was currently time barred from bringing such a challenge.

These kinds of outcomes weaken our patent system by making it less predictable, less reliable, less effective, which is why I was proud to introduce the bipartisan PREVAIL Act in June with Senator Tillis. We were joined with two other Members of this Committee, Durbin and Hirono.

If inventors and innovators don't have confidence in the ability to protect their inventions, they will stop investing in U.S. innovation and take their money elsewhere, take their skills and their innovative capabilities elsewhere, and we will risk the loss of our competitive edge.

This bill makes five, I think, simple reforms to realign how post-issuance reviews work, and I think it aligns them more closely with Congress' original intent.

PREVAIL imposes a standing requirement to challenge a patent in an IPR, but not a PGR, to encourage early challenges at the

PTAB. The bill requires the same showing for invalidity in the PTAB as required in district court: clear and convincing evidence.

It requires patent challengers to bring their validity challenges in either PTAB or the district court, but not both. It limits repeated challenges to the same patent within the PTAB in the USPTO.

And last, it adds some transparency and other safeguards to the PTAB while including provisions I've long championed to end PTO fee diversion, and ensure the PTO has the resources it needs to ensure strong examination and a strong patent system.

I look forward to continuing to work with my colleagues and stakeholders as we move this bill forward this year.

With Senator Tillis' cooperation, we've assembled a great, talented, and experienced panel with diverse views, and I encourage our witnesses to tell us what they like and what they dislike. What they'd like to see changed or improved. I'll introduce our four witnesses in a moment, but for now, I'll turn it over to Senator Tillis.

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

Senator TILLIS. Thank you, Chairman, and thanks to the witnesses for being here. I had an opportunity to greet them before you got here.

But, you know, we've got—people ask me, what are my priorities on Intellectual Property Subcommittee? The one thing I stipulate quickly is I'm not an expert.

Senator Coons has learned more about the law than I will ever know. But we have business problems here and we have impediments to innovation, we have impediments to creation that if we don't get this right, the United States is going to lose its advantage, its competitive advantage, and we have a serious pacing threat against China.

We have a business challenge, we need to resolve it. And I do believe that PTAB reform and patent eligibility reform are two key components that we have to look at.

The America Invents Act created PTAB, which serves as a necessary backstop, to invalidate truly low-quality patents that do not represent true innovation and never should have been issued.

The intent of the PTAB was to provide a faster and more efficient process in determining patent validity to be in an alternative Federal district court. Properly constructed and administered, PTAB can play a vital role in maintaining strong, reliable, and predictable IP rights.

However, we have found that much of this intent has been lost since its inception. I think things have changed, and the PTAB has ventured well beyond the original intent of the AIA, and the PTAB has become a progressively greater and greater forum for abuse and gamesmanship.

For inventors, large and small, innovating is a very costly endeavor, both in terms of time and money. Innovators should be able to have confidence in our IP system and the ability to predict, at least to some extent, how their invention will endure the patent examination process and potential challenge once a patent's issued.

That's why Chairman Coons and I introduced the PREVAIL Act earlier this year, and this legislation should restore, I think, faith

and confidence in the PTAB and in turn, further bolster the innovation engine that is the United States.

Now my hope for the hearing today, I'll just reflect—I'll deviate from some of my prepared comments and reflect on the conversation I had earlier today, or earlier this week with an IP forum.

Number one, I tend to say it in all the hearings: Get at the table, don't be on the table. If you want to negotiate and you've got concerns with the current language in the PREVAIL Act, come to the table. Identify use cases where we have to address a potential unintended consequence or a vulnerability, while we fix one thing, we break another.

But people need to be open and honest about it. To say that the status quo is acceptable and fair is probably the only statement you could make to me to shut me down and probably not spend much more time talking about it.

There needs to be change, but I want it to be balanced. I want it to be instructed by people on both sides of the issue. And I think this hearing can go a long way to that end.

But nothing substitutes for the discussions we have in between hearings. It's been about a year and a half since we've had a hearing on this subject matter. We've had a lot of discussions in the intervening time, and I hope all of those on either side of the issue, understand that my office is ready. We have a great working relationship with Senator Coons' staff to get this right, and we are committed to getting it right, but we're also committed to moving ahead. Thank you, Mr. Chair.

Chair COONS. Thank you, Senator Tillis. Welcome, Senator Hirono.

I'd now like to turn to introducing our witness panel. Today we welcome four witnesses to testify about the PREVAIL Act.

Our first witness is Lamar Smith, senior consultant at Akin Gump, and a former Member of Congress. Representative Smith was the lead Sponsor in the House of Representatives of the 2011 America Invents Act that created PTAB post-issuance reviews. Thank you, Congressman.

Next we have Joseph Matal—Matal? Thank you. Who is principal at Clear IP. Mr. Matal was a former acting director and acting solicitor at the USPTO and was Senate Judiciary counsel during the negotiations and debate that led up to the passage of the AIA. Thank you, Mr. Matal.

Next we have Joe Kiani, a founder, chairman, and CEO of Masimo Corp, a global medical technology company that has invented, developed, and produced innovative, wearable, and patient-monitoring technologies. Welcome Joe.

Finally, we will hear from Michelle Armond, founding partner of Armond Wilson. Ms. Armond is an IP trial attorney with 20 years of litigation experience who's been litigating post-issuance reviews at the PTAB since the AIA was enacted. Thank you, Michelle.

The mechanics for today's hearing are simple. After swearing in the witnesses, each will have 5 minutes to provide your opening statement. We'll proceed to questioning. Each Senator will have 5 minutes. We will likely do a second round of questioning, timing and attendance permitting.

So would all the witnesses please stand to be sworn in?

[Witnesses are sworn in.]

Chair COONS. Thank you. Representative Smith, you may now proceed with your opening statement.

STATEMENT OF HON. LAMAR SMITH, FORMER CHAIR OF THE HOUSE COMMITTEE ON THE JUDICIARY, CO-SPONSOR OF THE LEAHY-SMITH AMERICA INVENTS ACT, AND SENIOR CONSULTANT, AKIN GUMP STRAUSS HAUSER & FELD LLP, WASHINGTON, DC

Representative SMITH. Chairman Coons, Ranking Member Tillis, and Senator Hirono, it's good to be with you this afternoon. I've sat where you are a hundred times, and this is my first time behind the witness table on this side. I have to confess to you, I prefer to be the one asking questions. Nevertheless, I'll try to answer yours today.

I'm tempted to say I'll give it the old college try. That time was long ago and far away, though it reminds me of my freshman year. I planned to major in physics and so took the course taught by the chairman of the physics department. After the first semester, I realized I was sitting next to the future Einsteins of the world, and I was not one of them.

Today I readily acknowledge I'm in the company of real experts on patent law, and I don't pretend to be in their league.

Twelve years ago, I was in the good company of Senator Pat Leahy of Vermont when our joint effort, the Leahy-Smith America Invents Act became law. We had been working on the patent bill for 6 years, but had not been able to get it out of Committee.

Then we both became Chairs of our respective Judiciary Committees in the same Congress and prospects for the bill markedly improved. One of the centerpiece reforms of the AIA was the creation of the inter partes review system and the Patent Trial and Appeal Board to administer it.

Our intention was to provide a quicker, more cost-effective alternative to litigation. Inter partes review at the PTAB was never intended to operate as an addition to litigation, or as a tool for those challenging patents to raise the cost of inventors seeking to enforce their patents against infringers.

There are numerous statements to that effect at the time, including in the House and Senate Judiciary Committee reports on the AIA and during the markup of the bill in Committee. I won't repeat those statements here, but I've included some of them in my other written testimony.

Like all major pieces of legislation, the AIA has evolved since its passage as it has been subject to the test of practical application.

In particular, the inter partes review system has received numerous criticisms that has not operated as the quicker, less expensive alternative to litigation we intended.

Many critics claim, in fact, that it has been a vehicle for the very abuse that concerned us in 2011. I'm told that something close to 80 percent of PTAB challenges are brought in addition to district court litigation, that large companies routinely use PTAB challenges as a litigation tactic, and that almost one fourth of all PTAB challenges come from just 10 very large petitioners.

That is not how we wanted or expected the program to operate. If the goal of the PREVAIL Act is to respond to these criticisms, bring the inter partes review system more in line with our original intent, and prevent it from being used as a tool for litigation gamesmanship, I'm fully in support.

This would help ensure that startups and small businesses get a fair opportunity to enforce their patents, and don't get beaten down by their powerful competitors.

Also, I think there has been too much focus since the AIA on reducing the burden on patent defendants and nowhere near enough on what more we can do to support America's innovators.

Forgive me, but like the Texas Rangers and their World Series win, we should not take our eye off the ball. I believe strongly that our patent system is the key to our economy and that it will help us compete with China and other countries.

Any human system has inefficiencies, but if we lose sight of creating a system that truly rewards investment in innovation, we are really hurting ourselves in the long run.

Chairman Coons and Ranking Member Tillis, you have definitely never taken your eye off the ball. Thank you for your well-intentioned efforts on so many fronts to make the patent system more responsible and more predictable.

I hope Congress will support efforts like yours to make sure our patent system continues to encourage and protect inventors. They are the ones who help drive the economic growth of our Nation. I appreciate your inviting me to testify and look forward to your questions.

[The prepared statement of Representative Smith appears as a submission for the record.]

Chair COONS. Thank you very much, Congressman Smith. Mr. Matal.

**STATEMENT OF JOSEPH MATAL, PRINCIPAL,
CLEAR IP, LLC, WASHINGTON, DC**

Mr. MATAL. Chairman Coons, Ranking Member Tillis, Senator Hirono, it's been a dozen years since the America Invents Act was enacted. We now have a wealth of evidence with which to evaluate these proceedings. Over 15,000 PTAB petitions have been filed resulting in nearly 5,000 written decisions and over a thousand appeals to the Federal Circuit.

One thing that the data reveal is PTAB proceedings are working well. PTAB proceedings are producing reliable and technically accurate reviews of patent validity. You don't have to take my word for it.

A recent academic study that I cite in my written statement reviewed the results of 2 years' worth of appeals from PTAB decisions to the Federal Circuit, and compared them to the results of district court decisions.

The study found that the PTAB is affirmed notably more often than district courts when it reviews questions of patent validity. In fact, district courts are about two and a half times more likely to be reversed when they've decided a patentability issue. The study's ultimate finding was that, quote, "The most straightforward conclusion is that PTAB judges' technical expertise has aided decision-

making on the thorny scientific questions that are endemic to patent law.”

None of this should come as a surprise. In fact, it would be astounding if the results were otherwise—if having a technical education and a grounding in patent law were not an aid in making patentability decisions. The recent decade’s experience thus confirms the judgment of successive Congresses—that having a trier of fact with a technical background will aid—will produce higher quality patentability decisions.

Of course, even a good proceeding can be abused. It’s important to have limits on PTAB proceedings to ensure that they’re not used for harassment or some other improper purpose.

Unfortunately, many of the provisions in the PREVAIL Act go far beyond what’s necessary to prevent harassment or abuse. Some of these provisions would cut off what are necessary and legitimate patent challenges.

One provision in PREVAIL that I view as problematic is proposed Section 315(f). This provision would bar a party from, quote, “instituting or maintaining a PTAB proceeding if another review has been instituted.” PTAB petitions are limited to 14,000 words. A single petition is generally good enough to challenge about 20 to 25 patent claims.

There’s no limit, however, on how many claims an applicant can obtain in a patent. Although most patents have fewer than 20 claims, some will have a hundred claims, some patents have hundreds of claims. In addition, some patents have unusually complex claims or disputed priority dates, which also requires further analysis and more petition space. PREVAIL’s restrictions on petitions in this particular provision would make it impossible to effectively challenge some of these patents.

Another proposal in PREVAIL that I would counsel against is its adoption of a clear and convincing evidence standard. During the development of the America Invents Act, the interest that argued the most strenuously against using clear and convincing evidence was the USPTO itself.

As the agency pointed out, during a post-issuance review, it’s the same expert agency that it was during the initial review of the patent. There’s no reason to require the agency to defer to an earlier decision. That’s the product of less deliberation and analysis, and that often did not consider the most relevant prior art.

Another proposal in PREVAIL that could lead to mischief is the proposal to bar the PTAB’s consideration of any evidence that was, quote, “presented during examination.” This would allow an applicant to cite potentially thousands of references in an information disclosure statement during prosecution.

Given the time limits on examination, it’s unlikely the examiner would be able to meaningfully consider those references. Yet all those references would then be immunized against any consideration in PTAB review. The law shouldn’t encourage that kind of applicant behavior.

Another proposal in PREVAIL that I would counsel against is the proposed standing requirement. The standing requirement would cut off many beneficial patent challenges. It would prevent

a manufacturer from challenging a patent when its customers have been sued for using the manufacturer's own product.

It would bar parties from responding to vaguely worded demand letters that don't go as far as threatening suit. It would also cut off so-called clearance petitions in which a manufacturer wants to test a patent to see if it's allowed to develop a new product in that space.

PREVAIL's standing requirement, combined with its expansion of real parties and interest, would also cut off the operations of the petitioning organizations such as unified patents. These organizations play a valuable role in the patent system. Often, they're the only organizations that challenge a patent that's repeatedly abusively asserted for nuisance value.

In my written testimony, I described the litigation of activity of SportBrain Holdings. SportBrain filed 148 individual patent infringement lawsuits before all of its claims were canceled in a challenge that was brought by Unified Patents. If we had this kind of a standing and RPI restriction in the law at the time, it's likely that SportBrain would still be filing nuisance lawsuits against American businesses today.

I see that I'm nearing the end of my time. I'll conclude my statement here, and I look forward to answering the Committee's questions.

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

Chair COONS. Thank you very much. Mr. Kiani.

STATEMENT OF JOE KIANI, FOUNDER, CHAIRMAN, AND CHIEF EXECUTIVE OFFICER, THE MASIMO CORPORATION, IRVINE, CALIFORNIA

Mr. KIANI. Thank you. Thank you, Chairman Coons. The story, Senator Coons, you told about an inventor—I don't know if you meant the lady sitting behind me here, Molly Metz, but she's one inventor and entrepreneur that lost her patent at PTAB and lost her company to a much larger competitor. Unfortunately, it happens way too often.

Strong property rights lead to strong economies. And unfortunately, patents that have less than 20 years' life at best to them, are under attack. The PTAB, as designed, kills over 80 percent of the patents they review. And I personally know of U.S. inventors and entrepreneurs that have lost during PTAB and have lost their companies as a result.

When I first heard about their stories, I thought, well, maybe their patents were weak. Maybe they should have lost those patents. After all, I had been in two major litigations that lasted each about 7 years, and none of our patents got invalidated.

Well, it went to the jury, it went to the judge, it went to Federal Court of Appeals. They even challenged it in the older ways of challenging our patents at the Patent Office, where we had the chance to make changes to our claims to still keep our patents, but none of them were invalidated.

Then we sued Apple. Apple filed 33 IPRs against our patents, and we spent \$13 million defending them. They were able to kill 80 percent of my claims in one instance—that just shocked me.

Apple's attorneys stitched together five or six patents and they still didn't show the inventive portion of our patent that a 30-year veteran patent examiner had used to give us the claims.

And how did they invalidate it? Apple's expert said, "I would've thought of that."

That's all it took for this panel to invalidate our patents. So preponderance of evidence, that's the problem.

I learned later that PTAB—its biggest customer is Apple. Number one client is Apple.

And I had high confidence in Federal Court of Appeals because I'd been in front of them twice before. So I was hopeful that the Federal Court of Appeals would overturn the PTAB because how could they rely on an Apple expert to say, "I would've thought of that."

I was shocked that they didn't. They unfortunately, I learned, had no choice but to accept PTAB's decision because of preponderance of evidence.

This study that Mr. Matal has mentioned I think it missed the point. The Federal Circuit Court of Appeals is not rejecting PTAB's decision because of their low standards that the PTAB has, which is preponderance of evidence. Not because of their expert technologists.

The expert technologist was our patent examiner who'd been doing pulse oximetry patents for 30 years.

So the law really sets the whole system up, unfortunately, for Federal circuit to agree with PTAB. And unfortunately, I know many inventors they wish we could go back to the days where I started Masimo, where patents did have teeth, they were strong. I was able to raise money with it. I was able to employ eventually 10,000 people—monitor over 200 million patients a year.

But at minimum, the changes you are asking for will hopefully make some changes where the defenders aren't venue shopping. Right now, they're venue shopping with the PTAB. I know venue shopping is not allowed by plaintiffs, but defenders get to venue shop by going to PTAB, where they know they're going to get the result they're looking for.

So without strong property rights, the United States is simply going to lose its economic power to other nations because property rights are key to it. And I hope the PREVAIL Act is a first step we can take to fix this problem. I more than anything have benefited from our intellectual property, and I've given back by innovating further and further.

But unfortunately, this new system is changing it for so many people—that could be the people that will save ourselves from the problems that we have today. These entrepreneurs, these inventors do not have the same opportunity I had 35 years ago. Thank you for your time.

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

Chair COONS. Thank you, Mr. Kiani. Last, Ms. Armond.

**STATEMENT OF MICHELLE E. ARMOND, FOUNDING PARTNER,
ARMOND WILSON, LLP, NEWPORT BEACH, CALIFORNIA**

Ms. ARMOND. Chairman Coons, Ranking Member Tillis, Senator Hirono, and Members of the Committee, thank you so much for the invitation to speak today.

I am an intellectual property trial attorney, and I have a unique perspective because my law firm, we actually represent both sides at the PTAB, both patent owners and patent challengers. So we have seen kind of the whole system from a lot of different views.

So I thought the introduction you gave Senator Coons was really helpful. So let's talk a little bit about how we got here. So, as Mr. Kiani mentioned, about 20 years ago all patent validity challenges, for the most part, were decided in the district courts with infringement claims.

So when I left law school, I had the honor of clerking for the Honorable Richard Linn at the U.S. Court of Appeals for the Federal Circuit.

And when I left as a newly minted lawyer, that's where I went. I was in the district court litigating for plaintiffs and defendants.

So after I'd been in practice for about a decade, the AIA came into effect and the PTAB was created, and that dramatically changed my practice. So in addition to being now at the district court, now we're at the PTAB and we're at the PTAB all the time.

So the AIA has made the PTAB the busiest patent court in the Nation. And what happens at the PTAB does not stay at the PTAB—unlike Las Vegas.

Most patent disputes are either decided at the PTAB or they are fundamentally altered by the PTAB's decisions. So we've heard a lot about how things are going. Well, this is how I think it's going.

So I think—I think overall the PTAB is doing a pretty good job. They have teams and panels of specialist judges who are not only technically trained, but also trained in the law. So these are people that also clerked at the Federal Circuit or their pedigreed attorneys, and they are working hard to try to get the right result based on the system that we have.

But, you know, these are extremely complicated decisions. They're much more complicated than district court, because you have the technology and the judges understand the technology, and you also have the added layer of patent law put on top. So it's, you know, not for the faint of heart.

So when the PTAB first started and we were at the PTAB, they had a reputation for killing patents and there were lots of names. So, you know, it's been a decade. Things have kind of settled down. And so if you look at the statistics now, for patents that are actually litigated and defended by the patent owners, there's about a 59 percent chance as a patent owner that you're either going to achieve a denial of institution, which means the PTAB is not even going to take a second look, or one or more of your claims will survive the PTAB.

And of course, if you can get one claim through or more, that's a win for a patent owner. So, you know, more than half the time patent owners are winning if they fight.

So now that we're a decade in, I think it's a good time to do exactly what you're doing here on this Committee, which is, "Let's take a look and see what's working and what's not working."

You know, to be consistent with the AIA's purposes of having a faster, more efficient system, there are a few areas where I think you can make some tweaks and get a lot of value. And so I'll bring up a couple here in my comments today.

So one issue that I think everyone will agree on is the duplicative litigation. So when there is litigation in district court, there is usually an IPR or a PGR running in parallel. So what you effectively have are the same parties litigating the same issues at the same time in two different courts. And that's wonderful for the lawyers, but it's not really wonderful for everybody else.

So there's two thoughts right now. So what the district courts sometimes are doing, is they're staying the case to prevent that duplication.

And the PTAB has also adopted policies where they will discretionarily deny if they feel that the district court is going to hear the issue first, and a jury will decide validity.

But both of these approaches are not implemented systematically, and they've been very controversial. I mean, nobody's really happy with any of this.

So the proposed amendment in the bill to Section 315, which provides that if the IPR is instituted, a party can't maintain the same challenge in another proceeding, that would absolutely reduce that duplicative litigation cost.

And the second amendment, which I'll highlight, which we've already discussed, is the burden of proof. So right now, at the PTAB, which is an administrative agency, the burden of proof is clear and—or, a preponderance of the evidence, and the bill would change that to clear and convincing evidence, which is the standard that the jury is supposed to apply in the district court.

And this will solve the problem that the Supreme Court recognized in *Cuozzo*, which is that in this system, under the AIA, you have these two different standards. So you can have that PTAB and the district court, and they can reach different results on the same patent.

So I'd like to thank the Committee for carefully considering patent reform at this junction and I welcome any questions you may have.

[The prepared statement of Ms. Armond appears as a submission for the record.]

Chair COONS. Thank you so much to all of our four witnesses for your testimony. I appreciate the diverse perspectives you shared on how AIA reviews at the PTAB have, in some ways, fallen short of the AIA's intent, and how Congress might address those shortfalls.

I'll start my questioning by exploring expectations and goals of the AIA when enacted more than a decade ago, and how the PTAB was envisioned and then a second round to explore provisions of PREVAIL and solicit your continued feedback.

Congressman Smith, as you testified earlier today, the AIA established post-issuance reviews at the PTAB with the intent that those reviews would be an alternative path—quick, cost-effective

alternatives to litigation. Have the reviews under the AIA at the PTAB lived up to this intent? If not, why not?

Representative SMITH. Mr. Chairman, thank you for the question. You're exactly right. The original intent of PTAB was to be an alternative to litigation, not an add-on to litigation as it has become.

Going back to the intent, it was very simple. We aimed to make sure that valid patents could be approved more quickly. And we wanted to achieve a balance, if we could, between the lone inventor, the small business, the startup, and the large companies—and between the patent holder and the patent challenger.

And over the years that balance, I am afraid, has not always been achieved. And part of the reason, as you just said, has been PTAB.

And it has been used in ways we did not envision. And that's why I'm encouraged by your willingness to take a look to see how we might tweak the AIA to make sure that we can return to the original intent, and we can achieve that balance.

Oftentimes the PTAB and the multiple challenges that are filed are, to me it seems, to be almost in order to harass a company, rather than to achieve some good.

And I don't associate my—or, like to be associated with comments by Mr. Kiani. I read his testimony I heard what he said today. The situation he described is exactly the situation we wanted to avoid.

He, in my judgment, and I'm sure in his, was clearly harassed. He felt like he was being beaten down by a large company. They filed multiple petitions, cost him, I think I just heard, \$13 million or thereabouts. That was not what the original purpose of AIA was.

And to the extent that PREVAIL Act can correct that and can make sure that we get back to the original intent, I think it is a good piece of legislation, and I wish you well.

Chair COONS. Thank you, Congressman. In fact, if I understand correctly, one of the things you said during the effort to pass the AIA with our friend, Senator Leahy, was that the reviews were not to be used as tools for harassment.

Representative SMITH. Right.

Chair COONS. Something from that—

Representative SMITH. Right.

Chair COONS. What do you think of the fact that the most of the—the most frequent users of the PTAB are 10, large, well-established—

Representative SMITH. Yes.

Chair COONS [continuing]. Tech companies using it in addition to litigation?

Representative SMITH. That apparently, as I mentioned, the largest 10 petitioners account for something like 80 percent of the challenges that are filed.

And if I may, you started to quote from what we had as a statement or in—we put it in the record back in the days when we considered the AIA.

This is the Committee—House Committee Judiciary report: “That the PTAB was not to be used as a tool for harassment or means to prevent market entry through repeated litigation and ad-

ministrative attacks on the validity of a patent. Doing so would frustrate the purpose of providing quick and cost-effective alternatives to litigation. Further, such activity would divert resources from the research and development of invention.”

I can get into that a little bit more later on, but that’s simply to concur with what you said. And I think the PREVAIL Act will take us a long way to restoring the original intent and finding the balance that we aim for.

Chair COONS. Thank you, Congressman.

Ms. Armond, as you just testified, you have extensive experience as a patent litigator, both district court and PTAB.

You’ve got about a decade in when the AIA was enacted, and you’ve had the decade since.

What were your expectations, as the legislation was being debated and developed—and as it was passed, about how the reviews in front of the PTAB would work? And what aspects of those reviews have worked well, and what aspects have fallen short in your opinion?

Ms. ARMOND. So in terms of making litigation more efficient, the PTAB is very good for what it does, which is it’s supposed to be a very limited proceeding. They’re only looking at invalidity based on patents and printed publications for anticipation and obviousness, which were generally kind of the defenses you wouldn’t want to try to a jury anyway, because it’s really technical and kind of boring.

So they do well, and they’re very quick, you have an answer in 18 months, a lot of our clients really, really like it.

I think the one thing that is bothersome is a lot of clients on both sides are frustrated that they’re spending money in district court and on—at the PTAB at the same time, on the same defenses, because people need to press forward on both until they know which court is going to take control of the football on these defenses. So clarity would be helpful.

Chair COONS. So in your view, there’s a burden of duplicative litigation and having some clarity, not just discretionary stays, but a mandatory stay, would help?

Ms. ARMOND. Well, yes, and if you remember, in the original AIA, there was that covered business method review, which has now been sunsetted. There was an automatic stay that actually came with that.

So I think there’s different ways the Committee can consider addressing that. One is, you know, the current amendment, the other is potentially a stay. But I think everybody can agree that having lawyers doing the same thing twice in two places is not a great use of resources.

Chair COONS. Thank you. Senator Tillis.

Senator TILLIS. Thank you, Mr. Chairman. Thanks again, for all of you being here.

I don’t know if you all know there’s a Presidential debate tonight, so I’m kind of in a debate mood.

[Laughter.]

Senator TILLIS. And so, Mr. Matal, in particular, if you happen to want to take a counter view to any opinions expressed, if you’ll just raise your pencil or a piece of paper, we’ll give you equal time.

But I want to start with Mr. Kiani. The PREVAIL Act requires accused infringers to choose one form to pursue their—invalidate their challenges, PTAB or district court. Can you explain why it's so difficult when you have to fight on both fronts?

Mr. MATAL. Senator Tillis, yes. First of all—sorry.

Senator TILLIS. Red means on.

[Laughter.]

Mr. MATAL. Thank you, I apologize.

Yes, it's very challenging to be in both courts. However, I'm a big fan of the jury because it gets rid of bias. And the jury does a great job handling sophisticated patent cases, with the judge overseeing through Markman hearing the claim construction parts.

So yes, the problem we have is, I kind of alluded to it, Eastern District of Texas was a place that people that wanted to harass companies would go to file patents against them. And that—we have laws now against that. But unfortunately, PTAB, with an 80 percent kill rate, is kind of like the Eastern District of Texas for defenders.

So they always choose that. And then they ask a court to stay the trial till they get what they expect—which is kill your patents.

And if I may, since you're in debate mood, I take—I'd take a different stand where Ms. Armond said, you know, it's a good thing when we get one claim.

No, it's not. It depends what claim you get. One claim is not good for inventors. In fact, it's most of the time doing weaker stuff that, by the way, the defender is not worried about.

Senator TILLIS. Congressman, I hope I have an opportunity to ask you a question. But I love the fact that we have someone here so we can actually understand congressional intent. It's amazing how even with bills that are passed in the last Congress how people think I intended something different—I say, "Why don't you just call me up?" So I'm glad we were able to call you up, get clearer on what you had in mind when you were working with Senator Leahy.

Ms. Armond and Mr. Matal, I think this is probably one where you'd want to go, and we're talking about changing the standard from preponderance to clear and convincing. I think in your opening statement, you said you had a problem with that and you gave some history. So I'm going to give you a chance to repeat that.

But let's start with you, Ms. Armond. Why is that a good or a bad idea?

Ms. ARMOND. I think the question is, do we want consistency? So the administrative proceedings—the reason we had that originally is because it was an administrative proceeding. And that is the standard that the Patent Office applied. We have seen over time the Patent Office has harmonized more with district courts because these PTAB proceedings are like mini litigations.

So if we want both trials to be similar, having the same standard of proof, I think would be helpful. But also at the same time, you know, it's not going to matter necessarily, in every case. A lot of the patents that go up, they're either clearly invalid, or they're clearly not invalid. And so it's probably going to only make a difference at the margins.

But that consistency, it exists. The Supreme Court has recognized, and the question for the Committee is, you know, do we want to be the same or do we want to treat the PTAB more like an administrative agency?

Senator TILLIS. Mr. Matal.

Mr. MATAL. The reason courts apply a clear and convincing standard in district court is out of deference to the agency's expertise out of recognition that a generalist court just doesn't understand the technology. Well, if the Patent Office granted the patent, you know, you should trust the Patent Office, to an extent.

Again, when you're back at the agency, it's the same expert agency. In fact, they've had a lot more analysis of the same claims, and they're usually considering prior art that wasn't considered the first time.

An additional thing I'd note is that, when you're in the PTAB, you do get a measure of deference for the examiner's earlier findings for the prior art that was actually considered during prosecution.

There's a policy under section called—Section 325d, where, if it's clear that a reference was considered and the applicant overcame it, the PTAB won't institute on that proceeding, unless it's a very strong case. And I've frankly never seen that happen. This is a good thing. This policy encourages people to be more forthcoming during prosecution.

Frankly, if we really want to fix the quality of issued patents, we need to return to a system where it's more routine for people to conduct a search and a patentability analysis as part of prosecution. The current 325d policies encourage you to do that. You can bring the prior art, get it considered, and then it won't—it would be very hard for someone to use it in the PTAB proceeding.

If we give people clear and convincing deference automatically, even for prior art that was never considered, that whole incentive goes away. But again, most importantly, the clear and convincing standard is supposed to be about deferring to expertise. And the agency is frankly more expert when it's reviewing these claims for a second time.

Senator TILLIS. Thank you.

Chair COONS. Senator Hirono.

Senator HIRONO. Thank you, Mr. Chairman. So patent law is a very—it's a specialty area. And it can be very confusing, I'd say.

Ms. Armond, so I can understand what the various standards are, you talked about consistency. So at PTAB, the standard is—to overturn a patent is, you just need to show by a preponderance of the evidence. That's a pretty low standard.

And so you have a lot of patents that are being overturned. And yet, when that there is an appeal, then the district court will apply a clear and convincing standard to whether or not the patent should have been overturned?

Ms. ARMOND. So at the Federal Circuit, they review legal issues and claim construction, which is the scope of the patent under a de novo standard. So they have very broad discretion, but the actual factual findings that the agency makes, the PTAB makes, those are reviewed for substantial evidence. So that is a very—a very deferential standard for the—to the PTAB.

Senator HIRONO. So if PTAB applies a really low standard for overturning a patent, then that's going to be given deference?

Ms. ARMOND. So the way I think this will play out on appeal if the standard is changed—so right now, the Federal Circuit is looking for substantial evidence under that preponderance standard, that lower standard. So if you change it, it's still, I'm sure, going to be substantial evidence, but they're going to be looking for more evidence, more to support under that standard. They kind of review it through the lens of the appropriate, like, you know, evidentiary standard.

Senator HIRONO. The PREVAIL Act that we're talking about, that's going to change the standard for PTAB to go to a preponderance—I'm sorry, to a clear and convincing standard, before it will overturn a—toss out a patent?

Ms. ARMOND. Yes. So that—as I read the bill, the bill would change the standard of the PTAB, it would not affect the appellate review.

Senator HIRONO. So, I think, Mr.—I'm sorry—you spent 13 million trying to defend your patent, Mr. Kiani?

Mr. KIANI. Yes, Senator Hirono.

Senator HIRONO. So you prefer the provisions in the bill that creates a clear and convincing evidence—by clear and convincing—

Mr. KIANI. Absolutely.

Senator HIRONO [continuing]. For PTAB?

Mr. KIANI. Because that also then allows the Federal Court of Appeals to then take a harder look at the evidence that the lower PTAB court used.

Senator HIRONO. Ms. Armond, you mentioned a couple of suggestions that you had in your testimony. You didn't mention whether you thought a standing requirement would be also an improvement. Do you have any thoughts?

Ms. ARMOND. Yes, so I address that in my written testimony. So for that particular provision, what the interests are is you have some—so when there's litigation, there's often an IPR. But under the statute, anyone can file an IPR, even if you haven't been sued.

Senator HIRONO. Mm-hmm.

So there's a public interest in making sure that only quality patents issued from the Patent Office, and then you're balancing that against an interest in patent owners who don't want to have just anybody be able to challenge their patents, or they end up in litigation, and suddenly a lot more patents are getting challenged than the ones that are actually in the case.

Senator HIRONO. I have a chart that showed that the litigation without standing is really a lot of very Big Tech companies that are bringing all these suits. So if they were required to have standing, then that would maybe limit the number of these kinds of claims brought by Big Tech companies?

Ms. ARMOND. I actually don't think standing is going to fix that. The reason that you see the Big Tech companies filing so many, is because they are the biggest target for patent suits in our country. So those large companies are getting hit with lawsuits all the time—like daily.

And so the reason they're at the PTAB is because they're trying to defend all these cases. So I don't know that standing—

Senator HIRONO. Who's bringing all these lawsuits against the Big Tech companies?

Ms. ARMOND. Any—lots of people. Some are other competitors. Some are individual inventors. There are some people that are looking for nuisance settlements, like there's a lot of different players in the space.

Senator HIRONO. So a standing requirement is only going to have limited impact?

Ms. ARMOND. I think in some areas, it could have a big impact. But in terms of changing who's filing at the PTAB, I don't think so. Because if someone goes and sues a BIG TECH company for patent infringement, which does happen every day, sometimes many times a day, then they have standing, and they're just going to show up at the PTAB again. So standing isn't going to change that.

Senator HIRONO. So regardless of that, though, it seems to me that in every other court case, standing is a pretty fundamental issue to go to overcome. So it makes sense to me that we require that in this context. And Mr. Kiani, would you agree with that?

Mr. KIANI. Yes. Yes, Senator, I would. And the big companies, unlike mine, when we're about to launch a product, we look to see if we might infringe someone's patents. And if we do, we all launch the product. The big companies, I know one of them at least, doesn't do that. So that's why they get sued, because they just take——

Senator HIRONO. Mm-hmm.

Mr. KIANI [continuing]. People's IP.

Senator HIRONO. Thank you. Thank you, Mr. Chairman.

Chair COONS. Thank you, Senator Hirono. We'll start a second round of questions.

Mr. Kiani, I——

Senator TILLIS. [Voice off microphone.]

Chair COONS. Oh, I'm sorry.

[Laughter.]

Chair COONS. Sorry, Senator Blackburn.

Senator BLACKBURN. Well, thank you, Mr. Chairman. I appreciate that, before you go to your second round.

[Laughter.]

Senator BLACKBURN. You know, I'm just invisible up here so——

[Laughter.]

Senator BLACKBURN. Congressman Smith, always good to see you. And I know your long history on these issues. I loved working with you in the House as we addressed many of these—and our innovators and songwriters and entertainers in Nashville, you were always so good to them. And I appreciate that.

I want to ask you, I want to start with you, looking at PERA and looking at PREVAIL. When you look at PERA and you see the four categories that would be deleted. And then we look at the advent and the utilization of algorithms, and especially in some of our healthcare technologies in those fields.

With PERA, what changes would you make on that? And then with PREVAIL, when you look at the requirement of challengers having to have been sued or threatened with a suit before they can

move forward with PTAB? I want to get your take on these two bills and these two provisions——

Representative SMITH. Okay, Senator. Let me try—but let me first concur with your comments.

I enjoyed our overlap in the House for 10 years and we did work on copyright issues frequently——

Senator BLACKBURN. Yes.

Representative SMITH [continuing]. Particularly in regard to music. I wish we had collaborated more on IP issues, I'm sure we would have agreed on those too.

Let me start with, I think the legitimate aim of the AIA and the PREVAIL Act is to make sure that the small-time inventor, maybe the single innovator, the small business, the entrepreneur, the startup company, gets cleared title to their patents.

Now, that helps the case that you were talking about. If they get clear title, they can use that patent in ways that, whether it be healthcare or other types of patents, in ways that benefit the American people.

But so often PTAB is abused in ways that were not intended by, oftentimes, large companies, and the small——

Senator BLACKBURN. The patent trolls.

Representative SMITH. The patent trolls—and I'll get to that, you're right. And the result of that is because the process is abused, the small-time, small patent holder oftentimes is disadvantaged, and can't produce the patents, can't produce the technology that they should be able to. And you're right about patent trolls, and I'll make a confession here.

When we were writing and passing the AIA, I was really consumed with patent trolls. I was seeing a lot of stories and reading a lot about patent trolls. And I won't say we over focused on patent trolls, but I'll say we may be under focused on that small-time innovator, and how the PTAB might be abused. We never intended for that abuse to occur.

And I think that's one reason—or one thing that the PREVAIL Act can do to—is to correct that situation, bring more of a balance back——

Senator BLACKBURN. Got it.

Representative SMITH [continuing]. To the equation.

So yes, patent trolls are still a problem, but we need to make sure that we're trying to give as much advantage to the small patent holder as we do anyone else. And if we do that, we will have succeeded.

Senator BLACKBURN. Okay. Thank you for that.

Mr. Kiani, I want to come to you. I have had some concerns, as I looked at your background, and I note that you are a very prolific Biden donor.

Mr. KIANI. Yes.

Senator BLACKBURN. Giving money in the millions to the Inaugural Committee, a Super PAC—and that you've received about \$3 million in Government contracts after he went in. I know you also received some contracts previously, going back into the Obama administration.

But can you guarantee this Committee that those donations didn't play any role in the Government contracts you've received since January of 2021?

Mr. KIANI. I'm actually glad you asked me——

Senator BLACKBURN. Yes.

Mr. KIANI [continuing]. Because no one asked me when they published those false things.

Senator BLACKBURN. Okay.

Mr. KIANI. We sell medical——

Senator BLACKBURN. Well, that's why we do our research——

Mr. KIANI. Thank you.

Senator BLACKBURN [continuing]. We ask these questions. It's always good to get the input.

Mr. KIANI. Yes. So let me first of all, we sell medical products to hospitals, including VA hospital, and military hospitals.

Senator BLACKBURN. Okay.

Mr. KIANI. We've been doing it since 1998. And it happens that during Trump's time, we got more business from the VA and military hospitals than we have during Biden's period—or even Obama's period.

So that's just stuff that's just totally false. It has nothing to do with it. We don't go for Government contract, we just sell pulse oximeters to hospitals. That's all.

Senator BLACKBURN. All right. I've got a couple of other questions on that issue, but my time is expired. So I will submit those for the record.

And thank you, all, for being here with us. Thank you, Mr. Chairman.

Chair COONS. Thank you, Senator Blackburn.

Mr. Kiani, if I might, I welcome your perspective as a patent holder, as an inventor—you've had an extensive legal battle with Apple. I think we can agree that no independent inventor could afford that cost at a startup stage of their company. What would it mean for inventors if they only had to defend their patents in a single forum, either the district court or the PTAB?

Mr. KIANI. Well, frankly, if they had to do with PTAB, it would be horrible. I think, really, the forum should be the court. And if we're going to have PTAB continue, they should use the same standards as courts. And they should also allow you—like Patent Offices used to, to change your claim so that it still can be a valid patent, instead of just taking the whole patent away from you.

Chair COONS. Mr. Matal, you've got extensive experience at the Patent and Trademark Office. One of the provisions of the PREVAIL Act, I hope we could agree, is a valuable one, would eliminate the practice of PTO fee diversion—something that I think led to an underfunding of patent examination over many years.

In your view, what challenges did the Office previously face as a result of significant fee diversion, and would ending fee diversion free up funds to allow the Office to make the investments necessary to improve patent examination procedures?

Mr. MATAL. Fee diversion was incredibly damaging to the USPTO in the late 90s, early aughts. It stopped technology upgrades, it prevented the agency from hiring enough examiners.

You—at one point you had art units where people were regularly getting 8 years of PTAB because there was such a delay in even initially examining applications.

The AIA, when it first passed the Senate, did have a revolving fund that would have permanently prohibited all fee diversion. That ran into the ancient power of Appropriators in the House of Representatives and got stripped out.

But the Appropriators did make a commitment, at the time, that they would no longer divert PTO fees, and they've stuck to that commitment since then.

The only unfortunate incident we've had since then is when the sequester was done, in the beginning of the second Obama term, it was interpreted by OMB in a way that seemed designed to make it as painful as possible. And that took money out of PTO's hide and it forced cancellation of contracts to upgrade the IT.

It probably delayed the USPTO's next gen IT upgrade by about 2 years. So definitely don't want that to happen again.

Everyone should be able to agree that we want the PTO to be able to keep its money and do as high-quality work as possible.

Chair COONS. You testified PREVAIL's standing requirements unfair because it would prevent business in the public from challenging low-quality patents, if I understood you correctly.

Just to make sure we're on the same page, we understand each other, PREVAIL Act, on the standing requirement, would apply to IPRs—to inter partes reviews, not post-grant reviews.

And if AIA reviews are really about the ability to challenge low-quality patents, but why is an alternative having Congress requiring those challenges to be filed early in a patent's lifespan during the 9-month window for PGRs?

Mr. MATAL. You know, the 9-month window—you have to file a PGR within 9 months of when the patent is issued. IPRs are overwhelmingly used because of patents that are being asserted in litigation. And by the time someone even learns about a potential patent, the 9-month window is long expired.

PGRs are great, but, you know, they're often just simply unavailable for the cases that actually rise up.

There's also a problem that in the final drafting of the AIA in the House, they provided a really—they changed the estoppel, and made it a—they could have raised estoppel, which means if you raise any one issue in a PGR, you're estopped from all validity issues, some of which, you know, may require discovery or other issues. I think that's also deterred people from using PGR, something that would be nice if it finally got fixed, at some point.

Chair COONS. Last question. Your testimony states juries don't accurately assess patent validity and are not an adequate substitute for PTAB review. Just broadly speaking, American juries have been deciding very complex civil cases.

The Sam Bankman-Fried cryptocurrency fraud case is one I'll just point to—very technically complicated.

For hundreds of years, and the jury system is foundational to our Constitution—what makes patent validity so different from other complex litigation issues decided by juries?

Mr. MATAL. I'd probably also argue that juries don't always do the best work in antitrust cases either.

But juries are really good at certain things. They're good at telling when people are lying. You know, they can sniff out dishonesty. There are good barometers of what's socially reasonable conduct.

But jurors very rarely have any kind of a technical background. And when validity does come up in an infringement trial, it's just one of several issues thrown at the jury.

Juries are often resistant to doing a patents in printed publications obviousness analysis. I think I noted in my testimony, one of the most dispiriting things you'll see is watching very skilled trial lawyers prepare for a jury trial. There's tremendous focus on themes and painting one side or the other as the little guy or getting damaging internal communications.

The last thing they focus on is the nature of the claims and whether they are read on by the prior art. Juries, just juries in general as courts, just aren't set up to do a precise patent validity determination.

That's why Congress, you know, starting in 1980, created ex parte reexamine—has kept refining that system out of recognition that you're going to get a much higher quality decision when you have the technical experts at the PTAB assessing these questions.

Chair COONS. Thank you, Mr. Matal. Senator Tillis.

Senator TILLIS. Thanks again, Mr. Chair. Just a couple of quick questions. We'll submit some questions for the record as well, but I do know that there have been some who say that the PREVAIL Act is one sided, that it's primarily benefiting patent owners.

So for any of you, Mr. Matal and Ms. Armond, but for any of you—but what, if you could, write into this any provisions that you think address some of the concerns of the petitioners, what would they be?

Mr. Matal, I think in advance—I don't think you're going to be showing up at a pep rally any anytime soon for the PREVAIL winning in its current form.

So this is an opportunity to talk about other things that we should be doing to actually address legitimate concerns, which is what I've asked from the stakeholders as late as this week. So it's an earnest question, I'm looking for feedstock.

Mr. MATAL. You know, if there's something that I think the Congresses that worked on the AIA didn't expect, it's the issue of PTAB independence. For a long time, it was just accepted the PTAB operates, you know, independently. And actually, when I first started at the agency, James Smith was the chief judge and had a very firm standard on you can't talk to the judges about anything.

And unfortunately, the recent report from the Government Accountability Office has revealed that, that standard has fallen to the wayside and that there have been substantial efforts at back-room influencing of PTAB decisions.

Before 1975, PTAB judges they were then called examiners-in-chief, were required to be appointed by the President and confirmed by the Senate, just like any military officer above the level of Captain.

And that's one change I would recommend going back to. These judges, they're deciding important cases where sometimes billions of dollars—the parties, both sides have a lot at stake. You want a

truly independent adjudicator deciding whether to institute a review, and to decide the final case. And we're going back to the Constitution system of ensuring that independence, Presidential appointment, and Senate confirmation, I think, recommends it to the role that PTAB now plays.

Senator TILLIS. Ms. Armond.

Ms. ARMOND. So what I hear a lot from inventors and innovators is two things.

One, is a concern that if I go to the Patent Office and spend money to get a patent, what if I lose it in an IPR and I suddenly have to deal with that. And so I think the standing limitation is—or amendment is aimed at that. But the reality is, is IPRs are actually very expensive to file at the Patent Office, like more than \$50,000 usually, just for filing fees, not even legal fees.

So most of the patents that are being challenged are involved or they're kind of periphery to litigation. So the independent inventor can take some comfort that someone is not probably going to be around saying, "I'm just going to spend lots of money to hit this one individual person's patent." It's really only patents that are being asserted and trying to be monetized in the marketplace that are seeing these things. So—so I want that message to be clear.

And the other message is what I brought up in my testimony, there's, you know, a perception that the PTAB is just there killing patents. And if you actually look at the numbers, it's actually a pretty balanced resolution. Because, again, you can either get out without a trial, or if you go to trial, it is more challenging. Claims do get canceled.

But if you look at it, there's like a 59 percent win rate for patent owners. And I think that's really good news.

Senator TILLIS. Congressman Smith, any words of advice for somebody who's been down this road a lot longer than us as we proceed with the PREVAIL Act?

Representative SMITH. Gosh, Senator, you have the experience and the expertise, and I've been a little bit out of touch for the last few years. And so all I can say is that from what I know about the PREVAIL Act and what you intend to do with it, I think tweaks are necessary for the AIA. I think you can improve this system.

Right now, in my judgment, the PTAB system is being abused. It's being used to harass and if I may mention one other adverse consequence on the small-time innovator or inventor that I haven't mentioned so far.

This goes back to the op-ed piece that appeared in The Hill last month. And the title is, "Can the U.S. compete with China? Not without strong patent rights."

Frankly, China is our competitor. Russia used to be a distant second, I'm not sure they're a distant second anymore. But the article mentions a statistic that I had not seen before.

Let me mention it to you real quickly. It talks about weakening of patent rights that "disincentivizes innovation and private sector funding ... our share of global venture capital funding has fallen from 82 percent in 2004 to 49 percent in 2021." That's a third drop.

And when the inventors don't get quiet title—clear title to a patent, they're not going to be able to attract investment, they're not going to be able to invest the resources, funds that they need to

bring that patent to fruition if they're just simply beat down all the time.

So in order for us to compete with China in all areas, but particularly in IP, particularly in patents, we're just going to have to do a good job of giving quiet title to the small patent owners.

Senator TILLIS. Thank you all, again, for coming and the time you spent in preparation. I yield back, Mr. Chair.

Chair COONS. Thank you, Senator Tillis. Senator Welch.

Senator WELCH. Thank you very much. I want to thank the Chairman and Ranking Member for working together on this. Also, it's wonderful to see Congressman Smith, and I know that you and Senator Leahy worked very hard.

Number one, I just want to say I support your effort to promote innovation here.

Number two, any time we can streamline and make the process fair, is a good thing. So I really admire the leadership both of you are providing.

One of the concerns I've always had is about the pharmaceutical pricing and the patent system there. So I just want to ask a few questions about that.

I know what we're talking about, by and large, addresses the impediments that folks like Mr. Kiani have had to contend with in the technology space. And, you know, God bless you for working your way through it and accomplishing as much as you did.

But I wanted to just, if it's okay, to ask Mr. Matal, you know, one of the things on the standing requirement, and, again, this is different in the pharma industry than the technology space.

But patient groups have and on occasion been successful in challenging patents that have kept less expensive generics off the market. And I'm just wondering if the way the—whether there's any potential for unintended consequences with respect to a legitimate challenge from an advocacy group whose goal is to have access to a cheaper generic that is going to be affordable and effective.

Mr. MATAL. There definitely are advocacy groups that bring PTAB challenges even though they haven't been sued. And I believe some—there are definitely been PTAB proceedings that have canceled some pharmaceutical patents. I believe some of those may have been brought by advocacy groups.

The problems with patent quality are actually a lot less severe with life sciences patents, for historical reasons. Examination's always been more rigorous in that area. But, you know, invalid patents do sometimes issue and, you know, you pay a lot more money for the same drug when someone has a right to a patent exclusivity for it. It does affect consumers.

Senator WELCH. Yes. I mean, it's not the subject of this legislation exactly. But the patent thickets has been a maneuver that has been used by pharmaceutical companies, essentially to stifle innovation in the space of health sciences. And is there anything in this proposed legislation that would help us deal with that problem on the pharma side?

Mr. MATAL. I mean, not really this—this is a bill about kind of reining in PTAB proceedings to the extent that invalid patents are improperly blocking competition. This obviously wouldn't help that. The problem with thickets deals more with kind of the way—the

unique way claims and continuations practices evolved in the United States.

That's an issue Congress could address. It's frankly an issue that USPTO itself could address.

The USPTO had an initiative about a year ago to improve robustness and reliability of patent rights that started to look at some of these issues, should there be, you know, a right to bring in and seek an unlimited number of continuation patents——

Senator WELCH. Right.

Mr. MATAL [continuing]. From just one patent.

Senator WELCH. Right. Thank you. I know one of the parts of this legislation is about the fee diversions. And I guess from 1990 to 2016, more than a billion in collected user fees were diverted out of the Patent Office. And my understanding is the authors here would have that—you'd end diversion. Right?

Chair COONS. Yes, it would.

Senator WELCH. Pretty good idea?

Mr. MATAL. Yes, fantastic.

Senator WELCH. Okay.

Mr. MATAL. I just hope you can talk the Appropriators into it.

Senator WELCH. So——

Chair COONS. I am one. I think I can talk myself into it.

[Laughter.]

Senator WELCH. Well, I think I would support that. So essentially, this has been a catch-all cashbox, for other purposes.

I'll ask you, Mr. Kiani, because it's extraordinary what you've accomplished, and it was bone chilling to me to hear that you have spent, what is it, \$13 million——

Mr. KIANI. Yes, sir.

Senator WELCH [continuing]. In fighting Apple. And what was the beef Apple had with what you did? You were going to be a competitor?

Mr. KIANI. Well, the story is this. In 2013, they called me they said, "You're the platinum of non-invasive monitoring. Please come visit. We'll sign your NDA. Tell us everything." And I did.

Instead of working with me, they hired 25 of my people, my engineers and then they released a—released a competing product that has my trade secrets and my patented inventions.

So then when we went to sue them for patent infringement, they filed 33 IPRs on my patents—6 on just one of them.

You know, Chairman Coons, Ranking Member Tillis asked a question, "Are they going too far with this legislation?" And I have inventors here behind me that says they're not going far enough.

Lawyers always say bad facts make bad laws.

Well, I know the trolls and some issues that was happening around the time of AIA created PTAB. PTAB is not good.

A lot of people wish PTAB would go away. The ex parte reexam process worked. And unfortunately, now you have a system that is getting rid of our properties. We can't rely on them.

Senator WELCH. Mm-hmm.

Mr. KIANI. Companies I invested in, an MIT graduate that had this incredible idea how to make AR glasses was ahead of everybody. Fearful of IPRs against his patents, they had to fold shop be-

cause they were afraid the big companies were just going to run them out. That's how bad it's become, sir.

Senator WELCH. Yes. Well, thank you. That's an amazing story. But thanks for hanging in.

Thank you, all——

Mr. KIANI. Thank you——

Senator WELCH [continuing]. And thank you, Mr. Chairman.

Mr. KIANI [continuing]. Thank you, Senator.

Chair COONS. Thank you, Senator Welch.

I'd like to thank Senator Tillis, again, for being a great partner on this hearing. I think this was overall an important hearing to sort of air out concerns about the PTAB and the ways in which it's working, not working, working in ways other than the Co-Sponsors, the lead Sponsors of the bill intended.

I also think this reinforced why the PREVAIL Act's needed to promote fair treatment for inventors and improve efficiency and ensure the PTO has the resources it needs to effectively administer a patent system that actually advances innovation in the middle of our global competition.

We've received a number of letters from stakeholders including from AIPLA, C4IP, the Alliance of US Startups and Inventors for Jobs, Unified Patents, Beyond Inc, Dr. Josh Makower, and a coalition of associations including inventors, patent owners, large companies, small companies, and academic institutions. Without objection, I'll submit all those letters to the record.

[The information appears as submissions for the record.]

Members of this Committee can submit questions for the record for the witnesses, which are due by 5 p.m., 1 week from today, November 15th.

With that, I'd like to thank all of our witnesses today for your preparation, your participation, and your contributions. And with that, today's hearing is adjourned.

[Whereupon, at 3:51 p.m., the hearing was adjourned.]

[Additional material submitted for the record follows.]

A P P E N D I X

Submitted by Chair Coons:

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**U.S. Senate Committee on the Judiciary
Subcommittee on Intellectual Property
November 8, 2023**

The PREVAIL Act

**Written Testimony of
Ms. Michelle E. Armond
Armond Wilson LLP**

Chairman Coons, Ranking Member Tillis, and Members of the Committee:

Thank you for inviting me to appear before you today. My name is Michelle Armond, and I am the co-founder of Armond Wilson LLP, an IP litigation law firm based in Newport Beach, California and Austin, Texas.

After I graduated from Caltech with a degree in electrical engineering, I headed straight to law school with the dream of becoming a patent lawyer. For the last 20 years, my law practice has been focused on intellectual property litigation, particularly cases that are legally and technically complex.

I started my legal career after the clerkship at the U.S. Court of Appeals for the Federal Circuit, almost a decade before enactment of the America Invents Act. At that time, patent infringement and validity were essentially decided in the district courts, usually by lay juries. My first case after my clerkship was a trial in the Eastern District of Texas. Since then, I've litigated cases in Massachusetts, Delaware, Florida, Alabama, Illinois, Texas, Ohio, Washington, Arizona, and of course my home state of California.

As a litigator, I still handle district court cases and Federal Circuit appeals. Now, after the AIA, a significant part of my practice are PTAB post-grant proceedings at the Patent Office. PTAB post-grant proceedings are in many ways distinct from litigating validity in the district courts. I got involved with post-grant proceedings in the early days, and have watched the PTAB grow and a body of caselaw rapidly develop at both the PTAB and the Federal Circuit. It's been an exciting time seeing so many changes occur so quickly, and I've had firsthand experience as it plays out on the ground at the PTAB.

At my firm, we represent both plaintiffs and defendants, patent challengers and patent owners. For our country to continue its trajectory of technological excellence, it's important to have a balanced patent system that supports research and development and protects innovation, yet provides

guardrails to defend large and small businesses from weak patent claims. The current bill provides opportunities to do exactly that.¹

I. Introduction

It's been a little over a decade since the Leahy-Smith America Invents Act ("AIA") was enacted in 2011. The AIA made sweeping revisions to the patent system, including creating three post-grant proceedings: *inter partes* review ("IPR"), post-grant review ("PGR"), and covered business method review which was phased out in 2020. These post-grant proceedings transformed U.S. patent litigation.

The AIA changed the Patent Office's longstanding internal administrative court, the Board of Patent Appeals and Interferences, into the Patent Trial and Appeal Board ("PTAB" or "Board"). The PTAB was given jurisdiction over the AIA's new post-grant proceedings and quickly became the busiest patent court in the nation. The popularity of these post-grant proceedings is reflected by the large proportion of PTAB appeals before the Federal Circuit, which hears all patent appeals. For example, as of September 2023, appeals from the Patent Office constituted 42% of currently pending Federal Circuit appeals.² Before the AIA in 2011, Patent Office appeals made up just 9% of the Federal Circuit's caseload.³

What happens before the PTAB does not stay there. Most IPRs are litigated in parallel with patent infringement disputes in federal district court or trade investigations before the International Trade Commission ("ITC"). PTAB decisions on patent invalidity directly impact these parallel proceedings, sometimes very significantly.

In just ten years, a large volume of Federal Circuit caselaw has developed around these post-grant proceedings. Since the PTAB issued its first final written decision in 2013, the Federal Circuit has issued hundreds of decisions on PTAB appeals.⁴

¹ My testimony to the Committee reflects my own personal opinions and not those of my law firm or its clients. I appreciate the support of Monica M. Arnold, Douglas R. Wilson, and Bridget Smith in preparing my testimony.

² U.S. Court of Appeals for the Federal Circuit, Year-to-Date Activity and Status of Pending Appeals (Sept. 2023), <https://cafc.uscourts.gov/wp-content/uploads/reports-stats/FY2023/FY2023YTDActivity12.pdf> (showing 694 of 1651 appeals originated from the Patent & Trademark Office).

³ U.S. Court of Appeals for the Federal Circuit, Appeals Filed by Category, FY2011, https://cafc.uscourts.gov/wp-content/uploads/reports-stats/caseload-by-category/Caseload_by_Category_FY2011.pdf.

⁴ <https://cafc.uscourts.gov/home/case-information/opinions-orders/>.

II. About The AIA's Post-Grant Proceedings

A. Purpose of The AIA

The AIA was enacted to modernize the U.S. patent system to strengthen, promote, and protect U.S. technology and innovation in a global economy.⁵ Changes to the U.S. patent system should promote public confidence in the U.S. patent system and support domestic innovation. Indeed, in reference to patent reform and the AIA, Representative Smith recognized that “[i]f the United States is to maintain its competitive edge in the global economy, it needs a system that will support and reward all innovators with high quality patents.”⁶

The AIA was “designed to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.”⁷ Almost anyone can file an IPR or PGR post-grant proceeding.⁸ IPRs and PGRs were intended to be both faster and less expensive than district court litigation.⁹

B. IPRs vs. PGRs

Two of the main differences between IPRs and PGRs are timing and scope.

Timing. PGRs must be filed within the first 9 months after a patent is granted.¹⁰ IPRs can generally be filed both after the first 9 months and within one year of being served with a complaint for patent infringement in district court.¹¹

Scope. IPRs are limited to anticipation and obviousness challenges (i.e., 35 U.S.C. §§ 102, 103) based on only prior art patents or printed publications.¹² PGRs are much broader, allowing invalidity arguments related to patentable subject matter, novelty, obviousness, written description, and enablement (i.e.,

⁵ David Kappos, Presentation about the Global Impacts of the AIA: *The America Invents Act, State of Patent Law in the US and Europe*, United States Patent and Trademark Office, https://www.uspto.gov/sites/default/files/aia_implementation/aia_global_impact-kappos.pdf.

⁶ H.R. Rep. No. 112-98, pt. 1, at 40 (2011), <https://www.govinfo.gov/content/pkg/CRPT-112hrpt98/pdf/CRPT-112hrpt98-pt1.pdf>.

⁷ *Id.*

⁸ 35 U.S.C. §§ 311(a), 321(a).

⁹ H.R. Rep. No. 112-98, pt. 1, at 39-40 (2011).

¹⁰ 35 U.S.C. § 321(c).

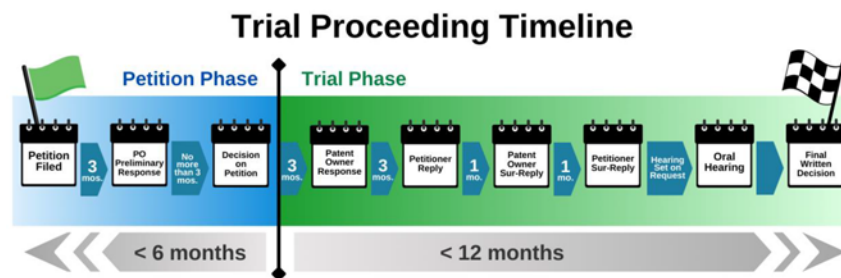
¹¹ 35 U.S.C. § 311(c).

¹² 35 U.S.C. § 311(b).

35 U.S.C. §§ 101, 102, 103, and 112), and are not limited to prior art patents and printed publications.¹³

C. PTAB Post-grant Trials vs. District Court Trials

Both post-grant proceedings (IPRs and PGRs) follow the same statutory timeline:¹⁴



After a petition for review challenging the patentability of certain patent claims is filed, the patent owner can file a preliminary response brief before the PTAB issues its decision on whether to institute review.¹⁵ The PTAB must decide on institution within six months after the petition is filed.¹⁶ If the PTAB decides not to institute, the proceeding is done.¹⁷ If the PTAB decides to institute, then trial commences with additional briefing and depositions, and the PTAB will issue its final written decision on the patentability of the challenged claims within 12 months of institution.¹⁸ Thus, the entire process takes about 18 months from the filing of the petition to final written decision. In 2019, the estimated median costs associated with these post-grant proceedings to a final written decision ranged from \$350,000 to \$600,000.¹⁹

By contrast, district court litigation takes far longer and is more expensive. For example, the median time to trial in a patent infringement case in the top three busiest federal district courts (Western District of Texas, Eastern District of Texas, and District of Delaware) ranges from about two to

¹³ 35 U.S.C. § 321(b).

¹⁴ See <https://www.uspto.gov/patents/ptab/trials/aia-trial-types>.

¹⁵ 35 U.S.C. § 313.

¹⁶ 35 U.S.C. § 314(b).

¹⁷ 35 U.S.C. § 314(d).

¹⁸ 35 U.S.C. § 316(a)(11).

¹⁹ American Intellectual Property Law Association, *2023 Report of the Economic Survey* at 63.

two and a half years,²⁰ and the cost through trial can range anywhere from \$1 to \$3.625 million.²¹

Post-grant proceedings are often part of a broader patent infringement defense strategy. According to a recent study, about 79% of patents challenged in IPR are also simultaneously litigated in the federal district courts.²² As a result, post-grant proceedings frequently run in parallel with federal district court litigation.

D. IPR and PGR Outcomes

The Patent Office closely tracks outcomes for post-grant proceedings. Setting aside procedural dispositions, settlements, and disclaimed patents, the major outcomes for FY23 according to the Patent Office's 2023 End of Year Outcome Round Up for IPRs and PGRs were:²³

- **Institution denied** (no post-grant proceeding).
 - Patent owner wins – 39%
- **Institution granted** (post-grant proceeding ordered).
 - All claims canceled. Patent challenger wins – 41%
 - Some claims confirmed/some canceled. Mixed outcome – 10%
 - All claims found patentable. Patent owner wins – 10%

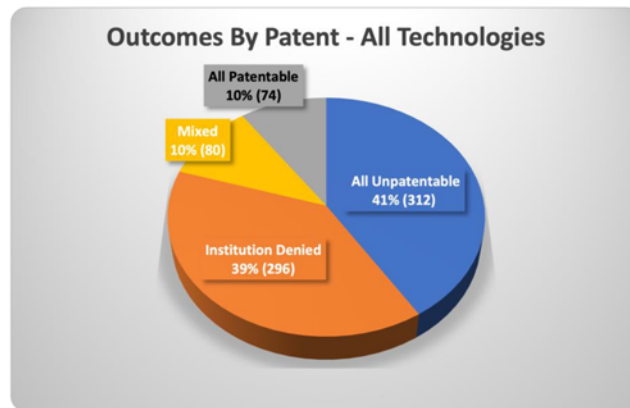
²⁰ Angela Morris, *How Top US Patent Courts Compare on Median Time-To-Trial Statistics*, <https://brochure.docketnavigator.com/how-top-us-patent-courts-compare-on-median-time-to-trial-statistics/>.

²¹ American Intellectual Property Law Association, *2023 Report of the Economic Survey* at 61.

²² RPX Corp., *The Overlap Between Patents Asserted in District Court and Challenged at the PTAB* (June 1, 2023), <https://www.rpxcorp.com/data-byte/the-overlap-between-patents-asserted-in-district-court-and-challenged-at-the-ptab/>.

²³ See USPTO, *PTAB Trial Statistics, FY23 End of Year Outcome Roundup IPR, PGR*, https://www.uspto.gov/sites/default/files/documents/ptab_aia_fy2023__roundup.pdf.

These outcomes are visualized in the following graphic. The net result is that patent owners emerge from IPR with one or more claims confirmed in 59% of IPR proceedings.



E. Reexamination

Ex parte reexamination is another post-grant proceeding predating the AIA. Any person at any time during a patent's period of enforceability can request the Patent Office reexamine any claim of a patent, including the patent owner herself.²⁴ Unlike IPRs, these reexaminations are not contested proceedings after the original request is made, and there is no statutory deadline for completing reexamination.²⁵ The scope of the challenge is limited to either prior art patents or printed publications (like in an IPR), or statements made by the patent owner filed in a federal court or Patent Office proceeding where the patent owner took a position related to claim scope.²⁶

According to one source, about one-third of *ex parte* reexamination requests were made following a post-grant proceeding on the same patent.²⁷

²⁴ 35 U.S.C. § 302; 37 C.F.R. § 1.510.

²⁵ 35 U.S.C. § 305.

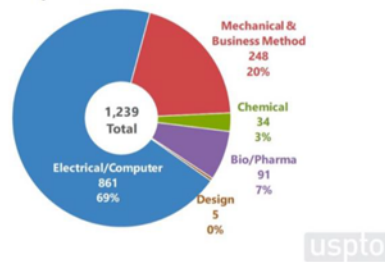
²⁶ 35 U.S.C. § 301.

²⁷ Jason Eisenberg, et al., *The Resurgence and Perils of Ex Parte Reexaminations* (June 2022), <https://www.sterneckessler.com/news-insights/publications/resurgence-and-perils-ex-parte-reexaminations-0>.

F. Most Popular Technologies Litigated in IPRs

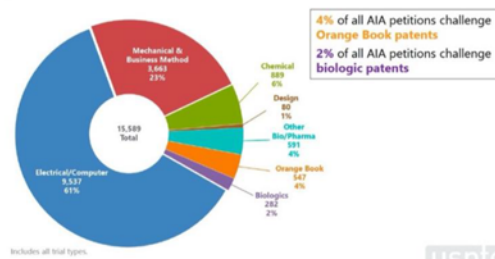
Post-grant proceedings are very popular, particularly for electrical, computer, mechanical, and business method patents. Patent Office data for FY23 categorizing the number of IPR petitions filed by technology area shows this graphically:²⁸

Petitions filed by technology
(FY23: Oct. 1, 2022 to Sept. 30, 2023)



As you can see below, the prevalence of IPRs in these technical areas has been fairly consistent since the AIA was enacted in 2012. Looking at the data for all IPRs shows the proportion of electrical, computer, mechanical, and business method patents challenged over the past decade has remained relatively stable:²⁹

AIA Petitions filed by technology
(Sept. 16, 2012 to Mar. 31, 2023)



²⁸ USPTO, *PTAB Trial Statistics, FY23 End of Year Outcome Roundup IPR, PGR*, https://www.uspto.gov/sites/default/files/documents/ptab_aia_fy2023__roundup.pdf.

²⁹ USPTO, *PTAB Orange Book patent/biologics study, FY23 Q2 Update (through March 2023)*, https://www.uspto.gov/sites/default/files/documents/orange_book_biologics_study_update_t_hru_march__2023_.pdf

III. The Current Bill

Now that we've participated in about a decade of AIA post-grant proceedings, Congress is in a strong position to assess what is working and what aspects could be adjusted. The following discusses parts of the Promoting and Respecting Economically Vital American Innovation Leadership Act (The "PREVAIL Act") and its impact on post-grant proceedings in their current form.

Two of the original policy goals of the AIA were to streamline resolution of patent validity disputes and provide certainty in the patent system.³⁰ Below I discuss the impact of provisions of the PREVAIL Act in achieving these goals.

A. Limiting Multiple Proceedings: Requiring Forum Choice Earlier

The AIA does not always streamline resolution of patent validity disputes. Instead, district court litigation and post grant proceedings typically run in parallel,³¹ often with the same prior art and invalidity arguments being litigated in both courts simultaneously if the district court litigation is not stayed.

Some district courts have tried to reduce the incidence of parallel litigation cases by staying federal patent litigation while the IPR proceedings are underway at the PTAB. But different district courts have adopted different approaches to staying patent litigation.³² And even those stay rates have varied over time, as shown in the below data through December 31, 2021 comparing stay rates in different courts before and after April 2018:³³

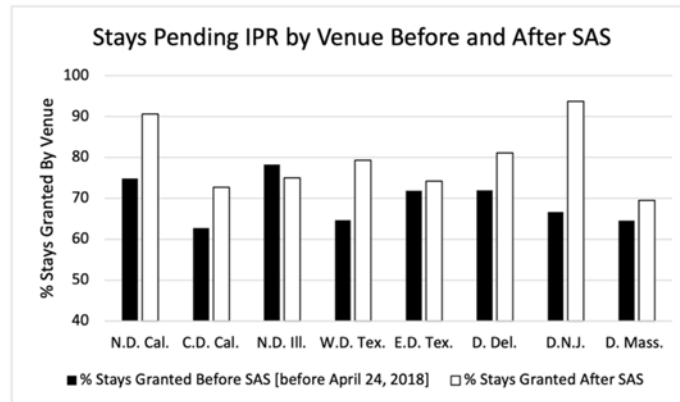
³⁰ H.R. Rep. No. 112-98, pt. 1, at 40 (2011); David Kappos, Presentation about the Global Impacts of the AIA: *The America Invents Act, State of Patent Law in the US and Europe*, United States Patent and Trademark Office,

https://www.uspto.gov/sites/default/files/aia_implementation/aia_global_impact-kappos.pdf.

³¹ RPX Corp., *The Overlap Between Patents Asserted in District Court and Challenged at the PTAB* (June 1, 2023), <https://www.rpxcorp.com/data-byte/the-overlap-between-patents-asserted-in-district-court-and-challenged-at>.

³² Forrest McClellan, Douglas Wilson, and Michelle Armond, *How Increased Stays Pending IPR May Affect Venue Choice*, Law360 (Nov. 15, 2019), <https://www.law360.com/articles/1220066/how-increased-stays-pending-ipr-may-affect-venue-choice> (Nov. 15, 2019).

³³ Amy Han, Forrest McClellan and Michelle Armond, *What The Latest Case Data Reveals About Stays Pending IPR*, Law360 (Mar. 7, 2022), <https://www.law360.com/articles/1470979>.



To make things even more complicated, the PTAB also attempted to reduce duplicative litigation through a different approach. In March 2020, the PTAB issued a precedential decision in *Apple v. Fintiv*, providing a list of six nonexclusive factors for judges to consider in deciding whether to exercise their discretion to proceed with an IPR trial if district court litigation was also underway.³⁴ The factors are:

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.

The PTAB's *Fintiv* decision was controversial from the start and has introduced uncertainty into PTAB litigation.³⁵ In the wake of *Fintiv*, the number

³⁴ *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11 at 6 (P.T.A.B. Mar. 20, 2020) (precedential).

³⁵ Michelle Armond and Amy Han, *Patent Litigation Reset*, Daily Journal (June 30, 2022), <https://www.dailyjournal.com/articles/368188-patent-litigation-reset>.

of discretionary denials surged. A June 2022 analysis noted there were 121 *Fintiv* denials in 2021 alone.³⁶

In June 2022, Patent Office Director Vidal issued additional guidance specifying that the PTAB will not deny petitions based on *Fintiv* if: (1) the petition presents “compelling evidence of unpatentability,” (2) the patent challenger provides a stipulation agreeing that it will not raise in a district court proceeding the same challenge, or any challenge it reasonably could have raised, in the petition, or (3) the request for denial under *Fintiv* is based on a parallel International Trade Commission proceeding.³⁷

After the June 2022 guidance, *Fintiv* discretionary denials immediately took a nosedive. Only four IPRs were discretionarily denied in the second half of 2022.³⁸ There was some resurgence in early 2023, but not approaching 2021 levels.³⁹

The PREVAIL Act amends 35 U.S.C. § 315 to provide that if an IPR is instituted, that “the petitioner, a real party in interest, or a privy of the petitioner may not file or maintain... a claim, a counterclaim, or an affirmative defense challenging the validity of any claim of the patent on any ground described in section 311(b)” in a district court litigation or ITC investigation.⁴⁰

This amendment will adjust current post-grant practice and more closely align it with the policy goal of streamlining patent invalidity litigation and avoiding lengthy duplicate invalidity disputes proceeding in parallel at the Patent Office and in federal district court. This would provide more certainty to both patent owners and patent challengers, and probably largely eliminate *Fintiv* discretionary denials.

³⁶ Josepher Li and Michelle Armond, *Fintiv Discretionary Denials Seem To Be Back At PTAB*, Law360 (June 14, 2023), <https://www.law360.com/articles/1687921/fintiv-discretionary-denials-seem-to-be-back-at-ptab>.

³⁷ Director Memorandum, Interim Procedure For Discretionary Denials in AIA Post-Grant Proceedings With Parallel District Court Litigation (June 21, 2022), https://www.uspto.gov/sites/default/files/documents/interim_proc_discretionary_denials_aia_parallel_district_court_litigation_memo_20220621.pdf.

³⁸ Josepher Li and Michelle Armond, *Fintiv Discretionary Denials Seem To Be Back At PTAB*, Law360 (June 14, 2023), <https://www.law360.com/articles/1687921/fintiv-discretionary-denials-seem-to-be-back-at-ptab>.

³⁹ *Id.*

⁴⁰ Proposed 35 U.S.C. § 315(c)(1).

B. Aligning The Evidentiary Standard Across Forums

In district court, patent challengers must establish invalidity by clear and convincing evidence.⁴¹ Currently, at the PTAB, patent challengers have a lower burden of proof, and must only establish invalidity by a preponderance of the evidence.⁴² The Supreme Court observed that the AIA currently allows that a “district court may find a patent claim to be valid, and the [Patent Office] agency may later cancel that claim in its own review.... As we have explained above, inter partes review imposes a different burden of proof on the challenger. These different evidentiary burdens mean that the possibility of inconsistent results is inherent to Congress’ regulatory design.”⁴³

The PREVAIL Act amends 35 U.S.C. § 316(e) to require a patent challenger to prove invalidity by clear and convincing evidence,⁴⁴ which is the same standard applied in the district court. This amendment would promote consistency by harmonizing standards between the PTAB and district court.

C. Providing More Certainty: Who May Petition For Review

Another original policy goal of the AIA was to strengthen, promote, and protect U.S. technology and innovation in a global economy.⁴⁵ Some U.S. innovators and inventors have concerns about defending against PTAB proceedings, and this may deter them from pursuing patent rights in the first place.⁴⁶ Patent challengers could use more certainty in standards for assessing whether they may be considered a real-party-in-interest in a specific post-grant proceeding. The following sections address the PREVAIL Act amendments on these issues.

Standing Requirement. The PREVAIL Act amends 35 U.S.C. § 311 to add the same standing requirement to file an IPR petition that is required to file a declaratory judgment action in federal court. Specifically, a person must have either been sued for or charged with patent infringement to file an IPR.⁴⁷ The Federal Circuit also requires Article III standing to bring an appeal from an IPR

⁴¹ 35 U.S.C. § 282; *Microsoft Corp. v. i4i Ltd. P’ship*, 564 U.S. 91, 95 (2011).

⁴² 35 U.S.C. § 316(e).

⁴³ *Cuozzo Speed Techs., LLC v. Lee*, 579 U.S. 261, 282–83 (2016).

⁴⁴ Proposed 35 U.S.C. § 316(e)(2)(A).

⁴⁵ David Kappos, Presentation about the Global Impacts of the AIA: *The America Invents Act, State of Patent Law in the US and Europe*, United States Patent and Trademark Office, https://www.uspto.gov/sites/default/files/aia_implementation/aia_global_impact-kappos.pdf.

⁴⁶ Alliance of U.S. Startups & Inventors for Jobs, *The Prevail Act Provides Much-Needed Reforms to Reduce Harassment of Startups and Inventors*, <https://www.usij.org/s/USIJ-Executive-Overview-PREVAIL-Act-2gwa.pdf>.

⁴⁷ Proposed 35 U.S.C. § 311(d).

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proceeding.⁴⁸ As the Federal Circuit observed, “the universe of permissible IPR petitioners seeking to challenge patent claims is significantly larger than the universe of plaintiffs who would have Article III standing to bring a declaratory judgment action challenging the validity of a patent in federal court.”⁴⁹

Currently, there is no standing requirement and thus anyone who is not the patent owner may file an IPR petition.⁵⁰ This amendment provides reassurance to independent and small business patent owners that their patents will only be challenged if they assert them, and addresses their apprehension about seeking patent protection in the first place for fear of being unable to defend an IPR.

Clarifying Who Is A Real-Party-In-Interest. The PREVAIL Act amends 35 U.S.C. § 311 to define a real-party-in-interest as a party, either directly or indirectly, that financially contributes to the preparation or conduct of the IPR.⁵¹

Currently, a real-party-in-interest is not defined by statute.⁵² Instead, it is left to the courts to apply common law to determine who is a real-party-in-interest, which is highly factually specific.⁵³ This amendment provides some certainty to patent challengers about whether they may be considered a real-party-in-interest (a) which could block them from future IPR challenges based on a prior patent litigation, or (b) subject them to estoppel.⁵⁴ There has been significant litigation in both the PTAB and the Federal Circuit over the real-party-in-interest issue.⁵⁵ Statutory amendment could provide some needed clarity.

IV. Conclusion

Thank you to the Committee for carefully considering improvements to our nation's patent system, and for the opportunity to provide my input.

⁴⁸ *Phigenix, Inc. v. Immunogen, Inc.*, 845 F.3d 1168, 1172–73 (Fed. Cir. 2017).

⁴⁹ *Applications in Internet Time, LLC v. RPX Corp.*, 897 F.3d 1336, 1348 (Fed. Cir. 2018).

⁵⁰ 35 U.S.C. § 311(a).

⁵¹ Proposed 35 U.S.C. § 311(e).

⁵² 35 U.S.C. § 312(a)(2).

⁵³ See *Applications in Internet Time*, 897 F.3d at 1351; *RPX Corp. v. Applications in Internet Time, LLC*, IPR2015-01750, Paper 128 (P.T.A.B. Oct. 2, 2020) (precedential).

⁵⁴ 35 U.S.C. § 315(b), (e)(2).

⁵⁵ See, e.g., *Uniloc 2017 LLC v. Facebook Inc.*, 989 F.3d 1018 (Fed. Cir. 2021); *Unified Pats. Inc. v. Am. Pats. LLC*, No. IPR2019-00482, 2022 WL 3138192 (P.T.A.B. Aug. 3, 2022).

**Questions from Senator Tillis
for Michelle Armond
Witness for the Senate Committee on the Judiciary
Subcommittee on Intellectual Property Hearing
“Reforming the Patent Trial and Appeal Board – The PREVAIL Act
and Proposals to Promote U.S. Innovation Leadership”**

November 28, 2023

1. What do you think that the USPTO should be doing (or doing better) to ensure that invalid patents are not granted? How specifically can the USPTO improve their examination procedures to increase the quality of issued patents?

Ending fee diversion would help to ensure that the USPTO has the funding¹ to operate according to its mission and fulfill its goal of patent examination and ensure that high-quality patents are issued. This will improve the overall efficiency of our patent system and would be consistent with a policy goal of the AIA to provide certainty in the patent system.²

2. What is one thing that you would suggest including in the PREVAIL Act that would address the concerns of petitioners?

Today post-grant proceedings are often part of a broader patent infringement defense strategy. According to a recent study, about 79% of patents challenged in IPR are also simultaneously litigated in the federal district courts.³

Some petitioners are not in favor of the PREVAIL Act amendments to 35 U.S.C. § 311 to add a standing requirement, or to 35 U.S.C. § 315 to provide that if an IPR is instituted, that “the petitioner, a real party in interest, or a privy of the petitioner may not file or maintain... a claim, a counterclaim, or an affirmative defense challenging the validity of any claim of the patent on any ground described

¹ See PREVAIL Act proposed 35 U.S.C. § 42(d).

² USPTO, Letter from Louis J. Foreman, Chairman, USPTO Patent Public Advisory Committee to President Obama, November 4, 2013, www.uspto.gov/sites/default/files/documents/PPAC_2013_AnnualReport.pdf.

³ RPX Corp., *The Overlap Between Patents Asserted in District Court and Challenged at the PTAB* (June 1, 2023), <https://www.rpxcorp.com/data-byte/the-overlap-between-patents-asserted-in-district-court-and-challenged-at-the-ptab/>.

in section 311(b) " in a district court litigation or ITC investigation. If Congress wishes to address these concerns, these amendments could be removed from the bill.

3. Congress created the PTAB to establish a less costly and more efficient patent dispute resolution mechanism. However, certain patent holders – especially those who are inventors – are having their patents abused through serial petitions filed against them at the PTAB. Earlier this year, the USPTO released its update to its annual PTAB Multiple Petitions Study which, among other things, confirms that we continue to see serial petitions.

- a. Wouldn't you agree that serial petitions undermine the reliability of patentholders' rights and, therefore, harm incentives to innovate?

Most IPRs are litigated in parallel with patent infringement disputes in federal district court or trade investigations before the ITC. According to a recent study, about 79% of patents challenged in IPR are also simultaneously litigated in the federal district courts.⁴ As a result, post-grant proceedings frequently run in parallel with federal district court litigation.

A precedential PTAB decision in General Plastic Industrial Co., Ltd. v. Canon Kabushiki Kaisha, disfavors filing of serial petitions by the same patent challenger.⁵ According to Patent Office data, since General Plastics, the percentage of serial petition filings by the same patent challenger has dropped to 1.7% of all petition filings, and only 0.3% of instituted IPRs in FY2022 (3 proceedings) arose from serial petitions filed by the same patent challenger.⁶ Currently, it is a very rare situation that a patent owner will have to defend against serial petitions by the same patent challenger.

⁴ RPX Corp., *The Overlap Between Patents Asserted in District Court and Challenged at the PTAB* (June 1, 2023), <https://www.rpxcorp.com/data-byte/the-overlap-between-patents-asserted-in-district-court-and-challenged-at-the-ptab/>.

⁵ IPR2016-01357, Paper 19 at 17-18 (P.T.A.B. Sept. 6, 2017) (precedential).

⁶ USPTO, *Patent Trial and Appeal Board Multiple Petitions Study* (July 2023), https://www.uspto.gov/sites/default/files/documents/ptab_multiple_petitions_study_fy2021-2022_update.pdf.

- b. Wouldn't you agree that serial petitions are out of step with Congressional intent when it established the PTAB to create a less costly and more efficient dispute resolution process?

See response to question 3(a).

4. In PTAB proceedings the patent owner is subject to a duty of candor and full disclosure. There are currently no rules placing petitioners under the same obligations.
 - a. Do you think that the duty of candor and full disclosure now imposed on patent owners in these proceedings should apply to petitioners as well?

Under current PTO regulations, petitioners and patent owners owe duties of candor to the Patent Office. Specifically:

- *37 C.F.R. § 42.11(a) provides "[p]arties and individuals involved in the proceeding have a duty of candor and good faith to the Office during the course of a proceeding" before the Patent Trial & Appeal Board.⁷*
- *37 C.F.R. § 42.51(b)(1)(iii) recognizes that parties in IPR proceedings "must serve relevant information that is inconsistent with a position advanced by the party during the proceeding concurrent with the filing of the documents or things that contains the inconsistency" unless previously served.*

- b. Would such provisions improve the PREVAIL Act?

See response to question 4(a).

⁷ 37 C.F.R. §§ 42.1, 42.11(a); USPTO, Patent Trial and Appeal Board Consolidated Trial Practice Guide at 72 (Nov. 2019), www.uspto.gov/TrialPracticeGuideConsolidated.

5. Critics of the PREVAIL Act complain that they want parties who do not have judicial standing to still be able to petition for IPR institution. They argue that competitors need to be able challenge patents in the PTAB to clear the way for their own development activities. Patent owners counter that they should enjoy the rights and benefits of patents that they haven't asserted. Do you think that the PREVAIL Act strikes the right balance between these competing interests?

The PREVAIL Act amends 35 U.S.C. § 311 to add the same standing requirement to file an IPR petition that is required to file a declaratory judgment action in federal court. Specifically, a person must have either been sued for or charged with patent infringement to file an IPR.⁸ The Federal Circuit also requires Article III standing to bring an appeal from an IPR proceeding.⁹ As the Federal Circuit observed, "the universe of permissible IPR petitioners seeking to challenge patent claims is significantly larger than the universe of plaintiffs who would have Article III standing to bring a declaratory judgment action challenging the validity of a patent in federal court."¹⁰

Currently, there is no standing requirement and thus anyone who is not the patent owner may file an IPR petition.¹¹ This amendment provides reassurance to independent and small business patent owners that their patents will only be challenged if they assert them, and addresses their apprehension about seeking patent protection in the first place for fear of being unable to defend an IPR.

6. The PREVAIL Act would align the burden of proof for proving invalidity at the PTAB with that used by district courts – "clear and convincing evidence" instead of the "preponderance of the evidence" standard that the PTAB uses now.

- a. In your view, is there a meaningful difference between these standards?

In district court, patent challengers must establish invalidity by clear and convincing evidence.¹² Currently, at the PTAB, patent challengers have a lower burden of proof, and must only establish invalidity by a preponderance of the evidence.¹³ The

⁸ Proposed 35 U.S.C. § 311(d).

⁹ *Phigenix, Inc. v. Immunogen, Inc.*, 845 F.3d 1168, 1172–73 (Fed. Cir. 2017).

¹⁰ *Applications in Internet Time, LLC v. RPX Corp.*, 897 F.3d 1336, 1348 (Fed. Cir. 2018).

¹¹ 35 U.S.C. § 311(a).

¹² 35 U.S.C. § 282; *Microsoft Corp. v. i4i Ltd. P'ship*, 564 U.S. 91, 95 (2011).

¹³ 35 U.S.C. § 316(e).

Supreme Court observed that the AIA currently allows that a “district court may find a patent claim to be valid, and the [Patent Office] agency may later cancel that claim in its own review. ... As we have explained above, inter partes review imposes a different burden of proof on the challenger. These different evidentiary burdens mean that the possibility of inconsistent results is inherent to Congress’ regulatory design.”¹⁴

The PREVAIL Act amends 35 U.S.C. § 316(e) to require a patent challenger to prove invalidity by clear and convincing evidence,¹⁵ which is the same standard applied in the district court. This amendment would promote consistency by harmonizing standards between the PTAB and district court.

b. What impact would you expect this change to have?

The Supreme Court observed that the AIA currently allows that a “district court may find a patent claim to be valid, and the [Patent Office] agency may later cancel that claim in its own review. ... As we have explained above, inter partes review imposes a different burden of proof on the challenger. These different evidentiary burdens mean that the possibility of inconsistent results is inherent to Congress’ regulatory design.”¹⁶ Aligning the standards of review would likely have an impact on the outcome of some validity disputes, but certainly not all.

7. The PREVAIL Act would have petitioners who are engaged in parallel litigation decide whether to proceed in PTAB or that parallel case on invalidity challenges, if the PTAB decides to institute.

In your view, is this a workable system? Do you think it would help eliminate duplication?

See response to question 2.

¹⁴ *Cuozzo Speed Techs., LLC v. Lee*, 579 U.S. 261, 282–83 (2016).

¹⁵ Proposed 35 U.S.C. § 316(e)(2)(A).

¹⁶ *Cuozzo*, 579 U.S. at 282–83.

8. The majority of PTAB petitions are filed by large, multinational technology companies. Several Chinese companies are extensive filers of IPRs as well.
- a. Can you discuss the characteristics of these petitions in terms of who they target and why?

*Currently large, multinational technology companies file a large number of PTAB proceedings. This is not surprising, because these same companies are among the largest targets for patent infringement suits and demand letters. These large companies utilize the PTAB as part of their litigation defense strategy, as is reflected by the observation that about 79% of patents being challenged at the PTAB are also being asserted in district court litigation.*¹⁷

- b. Is there some sort of consistent rationale as to why large tech companies each file dozens of IPRs a year?

See response to question 8(a).

¹⁷ RPX Corp., *The Overlap Between Patents Asserted in District Court and Challenged at the PTAB* (June 1, 2023), <https://www.rpxcorp.com/data-byte/the-overlap-between-patents-asserted-in-district-court-and-challenged-at-the-ptab/>.

STATEMENT OF JOE KIANI
Founder, Chairman, and CEO of Masimo Corp
BEFORE THE SUBCOMMITTEE ON INTELLECTUAL PROPERTY
COMMITTEE ON THE JUDICIARY UNITED STATES SENATE
“Reforming the Patent Trial and Appeal Board –
The PREVAIL Act and Proposals to Promote U.S. Innovation Leadership”
November 8, 2023

Introduction

Chairman Coons, Ranking Member Tillis, Chairman Durbin, Ranking Member Graham, and Members of the Subcommittee: Thank you for this opportunity to testify.

It is great to be back before the Judiciary Committee. Twenty years ago, I testified before the Senate Judiciary Committee Antitrust Subcommittee in support of Congressional oversight and competition in the marketplace to ensure that patients and caregivers have access to the innovative medical technologies they deserve.

My message is unchanged; innovation saves lives. The very foundation of sustained innovation lies in strong and predictable intellectual property (IP) rights. Life-saving technologies can reach consumers only if innovators can protect their IP rights through a reliable patent system.

There’s no monopoly on who can be inventive. It’s just a matter of throwing yourself at the problem, working on it and then all of a sudden one day you feel like gods are speaking to you, they’re putting some idea in your head, and there you go. There’s your invention.

I will explain why this is true through the story of my own company, Masimo.

Masimo Story:

In 1989, I started Masimo when I was 24. I had a small condo and took out a loan against it to start Masimo out of my garage. Money was tight and I still remember giving a friend many shares in Masimo, just to use his desktop publishing computer to write out my business plan. My partner Mohamed and I worked day and night and my sister helped with research and everyday business.

At the time, pulse oximetry was known as a “fair weather friend.” It failed just when you needed it most and was shockingly unreliable. It falsely alarmed so much on very fragile babies that the alarms created a “crying wolf” syndrome where the caretaker simply ignored them. Another consequence of the prior technology was that the caretakers would increase the supplement oxygen to the baby because conventional pulse oximeters would give a falsely low measurement. This increase in oxygen is actually toxic, and for babies, causes retinopathy of prematurity. This was the leading cause of blindness.

We set out to solve what others in the industry had concluded was unsolvable: making pulse oximetry work on the patients who need it most, including patients who are moving or have a weak pulse, such as the most vulnerable babies in the NICU.¹ We developed a pulse oximeter that enabled accurate measurement despite motion and low blood flow. We didn’t stop there; we invented rainbow Pulse CO-Oximetry. Our Pulse CO-Oximeter shined not just 2 wavelengths as with pulse oximetry, but 12 wavelengths of light through tissue using advanced signal processing, very tiny signals are pulled out in

order to determine hemoglobin levels (the amount of protein in red blood cells that transports oxygen from the lungs), and other variables such as the level of carbon monoxide in the blood. Today most firefighters use our technology, not only to identify fire victims that need to be treated for carboxyhemoglobin poisoning, but their own testing to make sure they can go back into the fire without disorientation that is caused by CO poisoning. Also, our hemoglobin monitor has dramatically reduced unnecessary blood transfusions and identified those who need it sooner.

Our technology was groundbreaking. It was revolutionary. Unfortunately, our technology was so innovative that other companies decided to steal it.

Patent Infringement and Litigation – The First Round:

When we started Masimo in 1989, patents were revered. The strength of our patents, consistency of court's enforcing those patents, and the uniqueness of our ideas allowed us to raise absolutely critical funding.

By 1991, we started meeting with venture capitalists. These venture capitalists hired lawyers to look at our patent applications, which had not yet published or issued, to see if we were likely to be able to protect our innovation from others and therefore have a chance at breaking into the market. Over time, I had to raise nearly \$100 million from private investors. In each round of financing, the investors moved forward only after concluding that we could protect our innovations with patents.

However, that did not stop the infringers. When Nellcor, a huge med-tech company that had about 90% market share learned about our technology and recognized it was orders of magnitude better than its own, they met with us. We were excited to tell them about what we had developed. We were so proud that our hard work had gotten the attention of such a powerful company. However, our excitement was short lived. We soon learned that this company systematically copied our technology. In fact, the leadership of that company told me they would “squash” Masimo “like a bug.”

After more than 5 years of litigation, including appeals, that the well-funded infringer made as expensive as possible, we were able to enforce our patents and obtain an order that the infringing technology would be enjoined.²

In another litigation against Philips, a large multinational, the District Court, after a full jury trial stated, “the undisputed damages evidence was that an entire industry—other than Philips and one Chinese company—took licenses from Masimo for innovative technology that saved thousands of lives and billions of dollars in healthcare costs.”³

No patent was held invalid by the courts or the patent office even after the extremely rigorous review throughout the process. None.

This was before the PTAB.

Patent Infringement and Litigation – Apple:

I never planned on competing with Apple. They seemed focused on making gadgets for our everyday lives. But Apple called me in 2013. They had researched my company and concluded that Masimo was the “platinum” in noninvasive monitoring. Apple asked to “dig deep” into our technology and asked how

we saw the future of healthcare involving Apple's devices. They asked how we could integrate Masimo technology into Apple products.

I, some might say naively, provided this information to Apple. I was thrilled that the world's largest company had taken an interest in healthcare, and particularly in our revolutionary medical grade pulse oximetry technology. I saw this as a path to improve healthcare on a very large scale, by bringing medical monitoring directly to consumers. This was something I had planned and developed for over 25 years.

Unfortunately, instead of working with us, Apple decided to hire Masimo's Chief Medical Officer and the Chief Technical Officer from a Masimo spin-off. They then decided to and did hire what Apple called "the next level down" of Masimo employees. They ultimately hired over 20 of our team members, despite Masimo paying its team members at the top of the market. A company working closely with Apple then hired most of another team from our spin-off.

Indeed, Steve Jobs is famously known to have quoted Picasso as follows: "Good artists copy. Great artists steal. And we have always been shameless about stealing great ideas." More recently, the head of engineering at Apple reaffirmed that statement, trying to spin it as a positive practice at Apple.

Masimo now has litigation against Apple in three different forums. We started litigation in California and asked the International Trade Commission (ITC) to investigate, which they did. Apple then retaliated by bringing suit against us in Delaware.

After two years, in October, the ITC issued a decision in our favor.

I will not get into the details of the litigation but note that numerous articles and reports have written about our story. Those articles include at least the following: (1) the Wall Street Journal, "When Apple Comes Calling, 'It's the Kiss of Death,'"⁴ (2) the L.A. Times: "An Orange County entrepreneur's \$60-million legal battle to stop Apple from steamrolling startups,"⁵ (3) The Heritage Foundation Report: "Big Tech's Abuse of Patent Owners in the PTAB Must End,"⁶ (4) The Hill: "Apple's anti-competitive tactics must be stopped,"⁷ and "Big Tech's 'patent troll' attacks are a smokescreen — don't let them fool you,"⁸ (5) New York Times: "The Patent Fight That Could Take Apple Watches Off the Market,"⁹ (6) LA Times: "A Big Victory for an Orange County Entrepreneur in his legal fight against Apple,"¹⁰ (7) Forbes: "International Trade Commission Issues Ruling Potentially Banning Apple Watches From Being Imported To U.S.,"¹¹ and "Some Apple Watches Are About To Be Banned In The U.S. What Happens Next?"¹²

Enter The PTAB:

Prior to the PTAB, Masimo patents withstood every challenge in Court and the USPTO. Those challenges were extensive, by well-funded large companies such as Nellcor, now part of Medtronic, and Philips Medical. Thus, Masimo's patents were subjected to intense scrutiny from millions of dollars of attacks by very competent, well-paid lawyers. Yet, Masimo's patents survived **all** of those attacks.

Compare that with what happened at the PTAB with Apple. Apple filed 33 inter-partes review (IPR) petitions on 22 Masimo patents. Apple challenged 473 claims, of which 343 were held invalid by the PTAB. The judges that invalidated hundreds of property rights previously granted by the U.S. Government had no particular background in pulse oximetry. Yet they decided that the primary examiner with almost 3 decades of expertise in the field of the invention and the pre-existing technology, had

gotten it wrong about 80% of the time. This is the same examiner that issued other Masimo patents that withstood rigorous legal challenges in Federal Courts.

We spent over \$13 million defending our patents in these IPRs filed by Apple. How many companies could afford such an expense?

We have no doubt that these patents struck down by the PTAB would have been upheld before an Article III judge and jury and normal patent validity challenges at the patent office, just as all Masimo patents in the past.

But we were not in a Federal Court before an Article III judge vetted by Congress. We were at the PTAB before Administrative Patent Judges with a track record of invalidating patents that the USPTO's experienced examiners issued.

This surely was not the intent when the America Invents Act (AIA) was passed. The intent was to offer companies that wanted to challenge the validity of patents a more efficient alternative to the court system. The intent was to give inventors quiet title – a period of time where the patent could have a second look, but after that second look everyone would know where they stood. Then the inventors could go back to doing what they do best: working hard in the lab to develop the next life-saving technology.

However, the PTAB has not lived up to the stated goal. Defendants reflexively file an IPR, and often numerous IPRs, against each patent in the litigation. This has enabled opportunistic large corporations to use the PTAB to attack, often invalidate their property rights, and at times eliminate, smaller competitors. Apple is the largest customer of the PTAB.

The Need for PTAB Reform

I say with great confidence that Masimo would not be here today if the current PTAB had been in place 30 years ago. Masimo would have lost important property rights upon which the company was built and investors had trusted, and would not have had the financial resources to defend itself. Because Masimo would not exist, neither would countless innovations that have saved so many thousands or millions of lives, saved billions of dollars, and improved health outcomes.

Hernando de Soto, a famous economist, has long been credited for his understanding that strong protection of property rights drives economic growth. However, the PTAB kills over 80% of property rights once an IPR is instituted. Smaller innovators then learn that a valuable property right granted by the U.S. Government and on which they relied is now worthless, and the company built on that property right might also be worthless. This is like the government confirming you own a piece of land, your building a home on that land, then the government taking it away because someone found the land grant invalid based on the opinions of a highly paid “expert” hired by your neighbor who wants to live in your house. The standard applied at the PTAB is low, and the review standard at the appellate court is high, resulting in the massive loss of property rights upon which companies were built. I personally know of companies that this has put them out of business. This is the opposite effect that what is desired for economies to flourish.

Large well-established entities, such as Big Tech companies, flood the PTAB with duplicative filings. The fact that defendants that have been sued for patent infringement reflexively file IPRs, in spite of the

estoppel effect, shows that the PTAB is known to be a one-sided forum, not the efficient and equitable system that Big Tech argued it would become.

In the words of Judge Paul Michel:¹³

The PTAB has proved extraordinarily useful to patent challengers. The board has invalidated as many as 84% of the patents, partially or entirely, that it has fully adjudicated. That figure suggests that either the USPTO is really bad at its job of deciding whether to issue a patent in the first place—spoiler alert: it isn't—or there's a thumb on the scale.

That thumb belongs to Big Tech.

Support for the PREVAIL Act:

We need to support strong and predictable property rights in innovation. In the new world of AI everywhere, rewarding creativity and inventiveness will continue to be a key to progress. The PREVAIL Act takes a good step in reforming this broken system. It recalibrates and makes the PTAB process better, and I thank Senators Coons and Tillis for their leadership.

The PREVAIL Act's clear and convincing evidence standard promotes a better system that should move in the right direction to helping incentivize innovation. It should reduce the extensive abuse of large companies with market power and should enable U.S. innovators and their investors to have more certainty in which to invest.

Conclusion:

Today, Masimo technology monitors over 200 million patients around the world each year.¹⁴ We have approximately 10,000 employees and we continue to innovate.

Our many inventions revolutionized the industry, and our technology has saved countless lives around the world. With our innovation and commitment to improving outcomes for even the youngest and most fragile of patients, Masimo technology has helped virtually eliminate blindness in the NICU due to severe retinopathy of prematurity.¹⁵ It has also been proven to reduce deaths on the general care floor¹⁶ and reduce mortality after surgery.¹⁷

We are excited about the new innovations and devices that we have developed and continue to develop. Masimo's new advanced technologies will increase patient safety, improve life all while saving money, by automating hospitals, protecting people at home from the dangers of opioids, enabling parents to monitor their baby's wellness and room conditions, bringing groundbreaking personalized hearables to consumers, and helping doctors continuously monitor their patients in their homes.

The future of innovation and economic prosperity are dependent on strong patent protections. To protect our global leadership in innovation and continue to save lives with breakthrough medical technologies, we must stop the ability of companies with tremendous market power to so easily wipe away property rights granted by the U.S. Government, and guaranteed by the Constitution, and upon which an entire company may have been built in reliance.

We need to take the long view when it comes to IP, we should err on the side of protecting innovation. Without strong intellectual property protections and a fair arbiter of those rights, the United States will continue to cede technological supremacy to China.

I want to again thank Senators Coons and Tillis for their leadership in PTAB reform and thank Committee members and staff for your efforts to protect innovation and intellectual property rights.

I look forward to working with you in support of this important legislation and answering your questions.

- ¹ <https://www.masimostork.com/en-us/our-masimo-story.html>.
- ² *Mallinckrodt, Inc. v. Masimo Corp.*, 147 Fed. App'x 158, 176-77 (Fed. Cir. 2005).
- ³ *Masimo Corp. v. Philips Elec. N. Am. Corp.*, 2015 WL 2379485, at *19 (D. Del. May 18, 2015).
- ⁴ Tilley, Aaron, "When Apple Comes Calling, It's the Kiss of Death," *Wall Street Journal*; April 20, 2023 <https://www.wsj.com/articles/apple-watch-patents-5b52cda0>.
- ⁵ Merchant, Brian, "An Orange County entrepreneur's \$60-million legal battle to stop Apple from steamrolling startups," *Los Angeles Times*, October 5, 2023. <https://www.latimes.com/business/technology/story/2023-10-05/column-joe-kiani-masimo-apple-watch-pulse-oximeter-lawsuit>.
- ⁶ Mossoff, Adam, "Big Tech's Abuse of Patent Owners in the PTAB Must End," *The Heritage Foundation Edwin Meese III Center for Legal & Judicial Studies Legal Memorandum No. 336*, June 29, 2023. <https://www.heritage.org/sites/default/files/2023-06/LM336.pdf>.
- ⁷ Cooper, Mark, Opinion Contributor, "Apple's anti-competitive tactics must be stopped," *The Hill*, 08/19/23. <https://thehill.com/opinion/technology/4158989-apples-anti-competitive-tactics-must-be-stopped/>.
- ⁸ Mossoff, Adam, Opinion Contributor, "Big Tech's 'patent troll' attacks are a smokescreen — don't let them fool you," *The Hill*, 08/18/23. <https://thehill.com/opinion/technology/4157340-big-techs-patent-troll-attacks-are-a-smokescreen-dont-let-them-fool-you/>.
- ⁹ <https://www.nytimes.com/2023/10/30/opinion/apple-watch-masimo.html>.
- ¹⁰ [latimes.com/business/technology/story/2023-10-27/apple-watches-violate-patents-held-by-orange-county-tech-company-us-international-trade-commission-finds](https://www.latimes.com/business/technology/story/2023-10-27/apple-watches-violate-patents-held-by-orange-county-tech-company-us-international-trade-commission-finds)
- ¹¹ [forbes.com/sites/mollybohannon/2023/10/26/international-trade-commission-issues-ruling-potentially-banning-apple-watches-from-being-imported-to-us/?sh=Ad1279b45dde](https://www.forbes.com/sites/mollybohannon/2023/10/26/international-trade-commission-issues-ruling-potentially-banning-apple-watches-from-being-imported-to-us/?sh=Ad1279b45dde)
- ¹² [forbes.com/sites/katiejennings/2023/10/31/some-apple-watches-are-about-to-be-banned-in-the-us-what-happens-next/?sh=16f61537d1cc](https://www.forbes.com/sites/katiejennings/2023/10/31/some-apple-watches-are-about-to-be-banned-in-the-us-what-happens-next/?sh=16f61537d1cc)
- ¹³ Michel, Paul R., Chief Judge, Ret., Federal Circuit and Chris Israel, "Don't Let Big Tech Sabotage U.S. Innovators' Protections," *Bloomberg Law*; April 22, 2022. <https://news.bloomberglaw.com/ip-law/dont-let-big-tech-sabotage-u-s-innovators-protections>.
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- ¹⁵ Castillo A et al. Prevention of Retinopathy of Prematurity in Preterm Infants through Changes in Clinical Practice and SpO2 Technology. *Acta Paediatr*. 2011 Feb;100(2):188-92. ROP caused by over oxygenation in NICU babies. <https://www.masimostork.com/en-us/our-masimo-story.html>.
- ¹⁶ McGrath SP, McGovern KM, Perreard IM, Huang V, Moss LB, Blake GT. Inpatient Respiratory Arrest Associated With Sedative and Analgesic Medications: Impact of Continuous Monitoring on Patient Mortality and Severe Morbidity. *J Patient Saf*. 2021 Dec 1;17(8):557-561. doi: 10.1097/PTS.0000000000000696. PMID: 32175965; PMCID: PMC8612899.
- ¹⁷ Cros et al. *J Clin Monit Comput* 2019. DOI:10.1007/s10877-019-00367-z Study Type: Quality Improvement Study.

SUBCOMMITTEE ON INTELLECTUAL PROPERTY
 COMMITTEE ON THE JUDICIARY UNITED STATES SENATE
*"Reforming the Patent Trial and Appeal Board –
 The PREVAIL Act and Proposals to Promote U.S. Innovation Leadership"*
 November 8, 2023

Questions for the Record from Senator Tillis
 Responses of Joe Kiani

1.

- a. **What do you think that the USPTO should be doing (or doing better) to ensure that invalid patents are not granted?**

Response: Frankly, we believe that the patent examiners are doing a very good job. The examiners review patent applications in the Examiner's particular technical field. That is the most appropriate reviewer. The PTAB judges adjudicate claims against patents that have been reviewed by its own experts, and we believe those PTAB judges should have at least the same level of expertise as those patent examiners. Those that argue that a defendant has much greater resources, so the PTAB judges have better prior art facing the claims, are ignoring litigation statistics.

Prior to the PTAB, Masimo's patents withstood every challenge in Court and the USPTO. Those challenges were extensive, by very well-funded large companies such as Nellcor, now part of Medtronic, and Philips Medical. The very capable lawyers for those companies spent years searching for prior art, with basically an unlimited budget. Thus, Masimo's patents were subjected to intense scrutiny from tens of millions of dollars of attacks by very competent, well-paid lawyers. Yet, Masimo's patents *survived all of those attacks*.

Compare that with what happened at the PTAB with Apple. Apple filed 33 inter partes review (IPR) petitions on 22 Masimo patents. Apple challenged 473 claims, of which 343 were held invalid by the PTAB. The judges that invalidated hundreds of property rights previously granted by the U.S. Government had no particular background in pulse oximetry. The examiner that was largely responsible to issue these claims had about three decades of expertise in the field of the invention and the pre-existing technology. Yet, according to the PTAB, he had it wrong about 80% of the time. This is the same examiner that issued other Masimo patents that withstood intense unbounded legal challenges in Federal Courts.

We have no doubt that these patents struck down by the PTAB would have been upheld before an Article III judge and jury and normal patent validity challenges at the patent office, just as all Masimo patents in the past. Moreover, quiet title to the invention, even if it ultimately should not have issued, provides certainty on which companies are built. Thus, we should worry a lot less about the close calls going to the defendants, and make sure to emphasize the importance of certainty in spurring investment in future innovation.

- b. **How specifically can the USPTO improve their examination procedures to increase the quality of issued patents?**

Response: This question assumes a premise with which I disagree. I am not aware of any rigorous analysis showing that the quality of patents is not good. That has been a narrative of big tech, but without credible supporting data. In our experience, the patent examiners that review Masimo's patents are very capable, and provide a rigorous, high-quality examination. As I mentioned before, despite being subject to extremely well-funded attacks in court, no Masimo patent was ever held

invalid over other prior art turned up by the Defendant in any of those court disputes. That informs our belief that the patent examiners are actually doing a very good job.

2. **What is one thing that you would suggest including in the PREVAIL Act that would address the concerns of petitioners?**

Response: The PREVAIL Act improves the opportunity to make a Motion to Amend, however, we believe PREVAIL could do more by making amending a right of the patentee and by requiring the PTAB to review and rule on the patentability of the adjusted claims regardless of any showing by the applicant of a need to amend the claims. This is the procedure in Opposition Proceedings in Europe, where patentees may amend the claims freely, and the panel must consider and rule on the amendments separately from the original claims.

In the United States, because Motions to Amend are rarely granted, expanding the pilot program may have little to no impact. Patent owners should have a right to amend without bringing a motion, and the PTAB should be required to consider and rule on those amendments in a full-day session as a working group with the judges and patent owner, in a recursive process.

3. **Congress created the PTAB to establish a less costly and more efficient patent dispute resolution mechanism. However, certain patent holders – especially those who are inventors – are having their patents abused through serial petitions filed against them at the PTAB. Earlier this year, the USPTO released its update to its annual PTAB Multiple Petitions Study which, among other things, confirms that we continue to see serial petitions.**

a. **Wouldn't you agree that serial petitions undermine the reliability of patentholders' rights and, therefore, harm incentives to innovate?**

Response: Yes. The ability of large well-funded entities, such as Big Tech companies, to flood the PTAB with duplicative filing greatly diminishes the predictability of patent rights. Serial petitions should not be allowed. We need quiet title on patents in order to know to invest in the commercialization of the resulting products. Without that predictable protection, investment reduces. As former Representative Lamar Smith pointed out in his testimony, the U.S. portion of venture capital has cut in almost half since the institution of the PTAB. This shocking statistic informs that we focused too much on caging non-practicing entities at the expense of protecting innovation.

When I started Masimo in 1989, the strength of our patents, the consistency of the court's enforcing those patents, and the uniqueness of our ideas allowed us to raise critical funding. Over time, we had to raise nearly \$100 million from private investors. In each round of financing, the investors moved forward only after concluding that we could protect our innovations with patents. Without a strong and predictable patent system, investors will not take a chance on innovation. In turn, new innovations that make patients safer will never make it to those patients, and the resulting reduction in innovation will harm patients, the economy, and global competition.

Since the AIA was enacted, large Big Tech companies have used the PTAB to file thousands of duplicative filings after cases have been brought in federal court. Big Tech companies dominate the list of top-twenty users of the PTAB. For example, Apple tops the list of PTAB users and filed 904 petitions between 2012 and 2022.¹

¹ Source: <https://innovationalliance.net/from-the-alliance/infographic-big-tech-companies-are-biggest-users-of-ptab-2012-2022/>.

This abuse of the PTAB forces under-resourced small businesses and inventors to defend their inventions in multiple expensive proceedings. Defending a patent in an IPR typically costs from \$500,000 to \$1,000,000. That expense alone prevents start-up companies from raising new rounds of financing, because they can't afford to defend their patents, even though they have not sued anyone yet. This abusive practice also erodes the predictability of the patent portfolio, and harms the ability of innovators to get the investment funding they need to stay competitive. As one venture capitalist commented,

We recognize, as does any sophisticated investor in medical devices, without a strong intellectual property portfolio, larger companies will copy innovative products, and use the greater resources and market power to snatch the opportunity from the innovator. For this reason, as part of our standard due diligence we perform on any investment we consider the strength of company's intellectual property portfolio. This is especially important when investing in medical devices because it almost always takes years of costly research and development to develop the necessary clinical validation and receive the required regulatory clearances to commercialize the product. We are not investing in consumer toys or entertainment-oriented smart phone apps that can be pushed to market prior to "getting it right." When a device will be used to treat a patient who is somebody's mother or brother, it needs to be proven to be safe and effective. This is an arduous and expensive process, but ultimately one that yields rewards for both investors and the public welfare.

-Ryan Drant, Questa Capital

- b. **Wouldn't you agree that serial petitions are out of step with Congressional intent when it established the PTAB to create a less costly and more efficient dispute resolution process?**

Response: Yes. The intent of Congress was to offer companies that wanted to challenge the validity of patents a more efficient alternative to the court system. The intent was to give inventors quiet title – a period of time where the patent could have a second look, but after that second look everyone would know where they stood. Then the inventors could go back to doing what they do best: working hard to develop their companies and develop the next life-saving technology.

The fact that defendants that have been sued for patent infringement reflexively file IPRs, often many IPRs on the same patent, in spite of the estoppel effect, shows that the PTAB is known to be a very favorable forum for patent challengers, not the efficient and equitable system that Big Tech argued it would become. This has enabled opportunistic large corporations to use the PTAB to attack, often invalidate their property rights, and at times eliminate, smaller competitors. If, indeed, PTAB proceedings were more efficient, then patent owners should want it too. However, they are very expensive, and due to the high kill rate, no patent owner would seek to be in front of the PTAB. I believe legislators should change the PTAB rules to allow patent owners (other than non-practicing entities) to decide whether they want to be in front of PTAB, or in the courts. This would provide aligned incentives to all parties, including the PTAB.

4. **In PTAB proceedings the patent owner is subject to a duty of candor and full disclosure. There are currently no rules placing petitioners under the same obligations.**

- a. **Do you think that the duty of candor and full disclosure now imposed on patent owners in these proceedings should apply to petitioners as well?**

Response: Yes. It is only fair to have the petitioners have the same duty of candor as patent owners. Also, we believe legislators should consider requiring a duty of disclosure and candor to the PTAB judges. Any initiatives that would increase transparency in the system would be

beneficial. A recent GAO Analysis² recommended increased transparency in the oversight of PTAB decision making, but we need to go further.

b. Would such provisions improve the PREVAIL Act?

Response: Absolutely. Transparency is the best disinfectant. Measures that increase the transparency of how precedential decisions are determined, how judge panels are selected, including the level of judges' expertise in a specific area of technology, explanations to inform parties why judge panels are changed, and disclosure of real parties in interest should improve transparency, predictability and reliability at the PTAB.

5. **Critics of the PREVAIL Act complain that they want parties who do not have judicial standing to still be able to petition for IPR institution. They argue that competitors need to be able challenge patents in the PTAB to clear the way for their own development activities. Patent owners counter that they should enjoy the rights and benefits of patents that they haven't asserted.**

Do you think that the PREVAIL Act strikes the right balance between these competing interests?

Response: Yes. The current system harms patent owners, especially small inventors, because anyone can challenge a patent in the PTAB, even if they are not faced with litigation or the threat of litigation. I personally know of a very important technology that was put on the shelf after tens of millions of dollars of investment because investors believe their excellent patent portfolio would attract PTAB proceedings that the investors did not want to have to fund. The PREVAIL Act would require challengers to have been sued or threatened with a patent infringement lawsuit before filing a PTAB challenge. We also support the provisions of the bill that limit multiple PTAB challenges against the same patent by prohibiting any entity financially contributing to a PTAB challenge from bringing its own challenge. Of course, whether the balance is correct will only be known with time. As former Representative Lamar Smith explained in his testimony, the way the PTAB usage has played out was not at all aligned with the expectations and intent in the AIA implementing legislation. They intended the PTAB to help small inventors, and it has done the opposite.

6. **The PREVAIL Act requires accused infringers to choose one forum to pursue their invalidity challenges – PTAB or district court, or PTAB or the ITC, but not both.**

Can you explain why it can be so difficult for patent owners to fight simultaneously on two fronts? Do you think this part of the PREVAIL Act will be helpful?

Response: The cost, resource and time burdens on parties that are forced to fight multiple challenges in different venues discourage small inventors from fighting for their Constitutional property rights. In our case, we went through the entire ITC Investigation, with Apple fighting validity on hundreds of alleged grounds. Apple failed to prove its invalidity challenges in the ITC, so then turned to the PTAB to repeat the challenges a second time. This cost many millions of dollars in duplicative litigation, and exposes how the PTAB is not bringing increased efficiency, but duplicative multi-million dollar proceedings, with sometime very different outcomes. Startups and small businesses that do not have the significant resources required to fight large well-funded entities either go out of business or settle for pennies on the dollar. This threatens longstanding U.S. technological leadership in the global innovation economy.

² GAO "PATENT TRIAL AND APPEAL BOARD - Increased Transparency Needed in Oversight of Judicial Decision-Making," December 2022. <https://www.gao.gov/assets/gao-23-105336.pdf>.

7. In your view, as the PTAB currently operates, is it negatively impacting the ability of innovative small businesses to prosper?

Response: Yes. I know of many inventors and entrepreneurs who had a successful invention, only to see a dominant company copy them and challenge their patents in PTAB. Many then lost their patents and whole companies. As the data has proven, the U.S. share of venture capital investment has been cut in nearly half since the introduction of the PTAB. It takes years of costly research and development to develop the necessary clinical validation and receive the required regulatory clearances to commercialize a medical device.

Currently, even after a patent is granted by an experienced PTO patent examiner with technical skill in the specific area, the PTAB then invalidates over 80% of property rights once an IPR is instituted. Smaller innovators then learn that a valuable property right granted by the U.S. Government and guaranteed in the Constitution, and on which they relied to build a company, is now worthless, and the company built on that property right might also be worthless. This is like the government confirming you own a piece of land, your building a home on that land, then the government taking the land and house away because someone found the land grant invalid based on the opinions of a highly paid “expert” hired by your neighbor who wants to use your house and land.

One particular story is illustrative. Molly Metz, five-time world champion rope jumper, saw a problem and invented a solution: an innovative jump rope handle. Molly began working on the new jump rope design in 2007 after a car accident left her with a broken ankle and a bad injury. She had to borrow money from her mother to file for patents after spending a year designing her revolutionary jump rope.

USPTO patent examiners granted her patents in 2010 and 2012, however Molly discovered that Rogue Fitness, a global fitness company, stole her patented technology. She sued, but Rogue Fitness successfully fought her at the PTAB to invalidate the patents. Metz’s patents were cancelled by the PTAB in 2020.

Molly appealed the ruling to the U.S. Court of Appeals for the Federal Circuit, which affirmed the PTAB’s decision in October 2021 without comment. On February 27, 2023, the U.S. Supreme Court rejected Molly’s petition asking the Court to overturn precedent from the U.S. Federal Circuit Court of Appeals that prevents plaintiffs from asserting patents in district court after the Patent Trial and Appeal Board has found them invalid.

Molly and her husband Dirk spent over \$500,000 fighting Rogue at the PTAB alone. At its peak, her business thrived and had purchase orders for 5,000 ropes a month – all manufactured in the United States.

Unfortunately, Molly’s case is not unique. The standard established in the AIA to be applied at the PTAB is too low, and the review standard at the appellate court based on the Administrative Procedures Act is high, resulting in the massive loss of property rights upon which companies were built. Data shows that the Federal Circuit affirms between 75% and 100% of PTAB decisions.³ I disagree with the claim that this means the PTAB is getting it right more than District Court judges. The standards applied in each forum are wildly different. PTAB’s standard is preponderance of evidence and the District Courts’ require clear and convincing evidence proofs. This standard of proof disconnect causes the difference in Federal Circuit affirmance rates. Thus, affirmance rates from the PTAB tells us nothing about whether the right result was obtained.

³ <https://www.finnegan.com/en/insights/blogs/at-the-ptab-blog/federal-circuit-ptab-appeal-statistics-for-january-2023.html>;
<https://www.finnegan.com/en/firm/news/fed-circ-affirms-over-73-of-ptab-decisions.html>.

I personally know of companies that this has put out of business. This is the opposite effect that what is desired for economies to flourish.

8.

- a. **Can you please give us some idea of what your company has spent to enforce its IP property and how that compares with the capacity of others whose patents are infringed by multi-billion dollar technology incumbents?**

Response: In our case, Apple filed 33 IPRs on a just over 20 patents, with serial IPRs running the cost up to over \$13 million defending our patents at the PTAB.

Big Tech and other well-funded companies use the PTAB to overwhelm their smaller competitors through the vast amount of cash that they have, not considering their moral obligations to the future of our society and country. If these massive companies are able to continue to infringe and file multiple petitions at the PTAB, small innovative companies will see little benefit from taking on cost prohibitive patent fights. It will also lead to venture capitalists shifting their investments away from American business ventures.

The negative long-term impact of patent infringement on our economy cannot be understated. Hernando de Soto, a famous economist, has long been credited for his understanding that strong protection of property rights drives economic growth. Masimo would not be here today if the current AIA law governing the standards of PTAB review had been in place 30 years ago. I simply believe I would not have been able to raise the necessary capital from investors, and certainly would not have had sufficient funds to fight a massive PTAB challenge.

Because Masimo would not exist, neither would countless innovations that have saved thousands or millions of lives, saved billions of dollars in healthcare costs, and improved health outcomes. Because we have allowed property rights to be taken through dominant companies' abuse of the PTAB, our economy is performing less well, and will continue to suffer.

- b. **What are the long-term consequences for our nation's innovation economy if we do not take steps to rein in the problem of efficient infringement?**

Response: Without strong and knowable property rights, our economy will continue to struggle to innovate, because people will be reluctant to invest in these risky ventures. I think the term efficient infringement is chosen to give infringement a positive spin. It should be an illegal activity, and it should more aptly be labelled predatory infringement. Whatever the label, large and powerful Big Tech companies, some that manufacture in China, have turned their focus to commercialization of ideas from others rather than innovation and doing what is right for our country. They have such an abundance of resources that they can afford to litigate patent cases endlessly, allowing them to dominate new markets in the meantime. To these large platforms, even a damages award of billions of dollars amounts to a "speeding ticket." These enormous companies find it more cost effective to infringe competitors' IP rights and then litigate feverishly, than spend money on research and development or to license or acquire the IP of the innovative companies they want to copy.

Even if a patent survives multiple attacks, other developments in the law have made the fundamental right granted under a patent difficult to obtain. Historically, courts applied a presumption of an injunction when infringement of a patent is found. The Patent Statute specifically enumerates injunctive relief. However, subsequent court decisions added requirements on the patent owner to prove irreparable harm without an injunction and a balancing test between the patent owner and infringer.

The new heightened bar to injunctive relief means that dominant platforms generally continue selling infringing products and maintain market share, even if there is an eventual verdict. After spending millions in litigation costs to fight for their IP, a patent owner typically gets no more than what the infringer should have paid before using the technology. Since the probable worst case scenario for the infringer is paying what it should have paid to begin with, the incentive is clearly to fight the case to the end. If the plaintiff climbs all the steps required to prevail, the infringer simply has to do what it should have done initially. This is a marked contrast to other areas of law, such as antitrust law for example, where the damages are automatically trebled and the defendant must pay the attorneys' fees for the plaintiff. This creates an incentive to the violator to simply litigate through completion, and pay the "speeding ticket."

Thus, eliminating the rebuttable presumption of injunctive relief has incentivized predatory infringement.

Life-saving technologies can reach consumers only if innovators can protect their IP rights through a reliable patent system. The future of innovation and economic prosperity are dependent on strong property rights. To protect our global leadership in innovation and continue to save lives with breakthrough medical technologies, we must stop the ability of companies with tremendous market power and endless cash to pay lawyers to so easily wipe away property rights granted by the U.S. Government, and guaranteed by the Constitution, and upon which an entire company may have been built in reliance.

Statement of Joseph Matal
Clear IP, LLC

*Reforming the Patent Trial and Appeal Board—The PREVAIL Act and Proposals to
Promote U.S. Innovation Leadership*

Hearing Before the Subcommittee on Intellectual Property
U.S. Senate Committee on the Judiciary

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Dear Chairman Coons, Ranking Member Tillis, and Members of the Subcommittee:

It has been 12 years since the American Invents Act was enacted and 11 years since Patent Trial and Appeal Board proceedings were inaugurated. We now have a wealth of data with which to evaluate these proceedings. Through the end of fiscal year 2023, 15,135 petitions for inter partes review have been filed, challenging 10,363 patents and resulting in thousands of final written decisions and appeals to the U.S. Court of Appeals for the Federal Circuit.

PTAB validity review is working well

One thing that is apparent from the data is that the PTAB is doing a good job.

First, AIA trials overwhelmingly are completed within their one-year deadline, allowing them to serve as a timely substitute for district court litigation. This is no small matter. The system of post-issuance review that PTAB proceedings replaced, inter partes reexamination, was plagued with delays. Because that system was required to follow examination rules, either side could delay the proceeding at will and examiners lacked the tools to manage cases.

Perhaps no fact better illustrates the problems with the prior system than that, although the authorization to initiate inter partes reexaminations was repealed during President Obama's first term in office, as of today there are still 13 of these proceedings pending before the USPTO and the courts. Regardless of the accuracy of its results, a system that takes this long to decide a case is not helpful—either to patent owners seeking an affirmation of their patent's validity or to accused infringers seeking to cancel invalid claims.

In addition, AIA proceedings have also proven cost effective—their price, on average, is about one-ninth of that of district court litigation. Although the proceedings are still expensive, costs are measured in the hundreds of thousands of dollars rather than the millions.

Finally, and most importantly, AIA trials produce accurate and reliable results. The Board's final written decisions are thoroughly reasoned and demonstrate a firm command of both the relevant technology and patent law.

You need not take my word for it. A recent academic study that comprehensively analyzed the results of appellate review of PTAB patentability determinations has reached the same conclusion. Professor Matthew Sipe compiled and examined the results of all

patent appeals that were docketed at the Federal Circuit in fiscal years 2015 and 2016.¹ He then compared the results for patent validity determinations made by PTAB panels to those made by district courts.

The study's conclusion was emphatic: it found that "the PTAB is affirmed notably more often than district courts on [patent] validity issues." Indeed, according to the data, district courts are almost two and a half times more likely to be reversed on appeal when deciding patent validity issues than is the PTAB.

The study ultimately determined that "the most straightforward conclusion" is that PTAB judges' technical expertise has "aided decision-making on the thorny scientific questions endemic to patent law."

Notably, Professor Sipe's study also found that when the Board *is* reversed on appeal, it is more frequently overturned for *failing* to find that a claim is unpatentable than for holding that a claim is unpatentable. This would hardly be surprising to those familiar with the USPTO and its culture. People who work at the agency generally like patents and want to give inventors the benefit of the doubt.

It also bears emphasis that, unlike a jury, the PTAB is subject to the Administrative Procedure Act. Thus, unlike a jury, the Board cannot hand in a verdict form that looks like an [a la carte menu](#). The PTAB is required to analyze the evidence before it and explain its reasoning in a way that can be reviewed on appeal. (I should know—as an agency lawyer, I [lost](#) cases on appeal when the Board was less than clear in explaining its findings).

Yet despite the Board's decisions effectively being subject to more exacting review, the PTAB's patentability findings are *more* likely to be upheld on appeal. The evidence is overwhelming that the PTAB is producing rigorous and technically sound patentability decisions.

This result would be unsurprising to the Congress that enacted the America Invents Act. PTAB reviews are conducted by administrative patents judges, who are required by law to be "persons of competent legal knowledge and scientific ability."² In compliance with this mandate, the agency requires that all its APJs have at least an undergraduate education in a technical field. Many PTAB judges also have master's degrees or doctorates in science or engineering. And all of them have extensive patent legal experience prior to their appointment as APJs—many have even served as patent examiners.

Congress has long appreciated the importance of having patentability determinations made by persons who understand the claimed invention. Since the 1836 Patent Act, patent examiners have been required to have a technical background. And every congressionally

¹ Matthew G. Sipe, [Experts, Generalists, Laypeople—and the Federal Circuit](#), 32 Harv. J.L. & Tech. 576, 591 (2019).

² 35 U.S.C. § 6(a).

enacted system of post-issuance review, going back to *ex partes* reexamination in 1980, has been premised on the notion that more accurate results will be produced by a system that refers validity questions “to an agency with expertise in both patent law and technology.”³

During the last decade, in my time at the USPTO and since, I have closely followed the public debate over PTAB proceedings. I have yet to hear anyone make a serious argument that the PTAB is reaching substantively wrong results—that its validity findings are somehow less accurate than those made in civil litigation. There is no reasonable dispute that PTAB review is a higher quality, timely, and less expensive alternative to district court litigation.

Jury trials are not an adequate substitute for PTAB review

The last four decades of the development of post-issuance proceedings at the USPTO have also coincided with a shift in how the courts resolve patent cases. As recently as 1978, judges decided over 90% of these cases, but as changes in Seventh Amendment jurisprudence have been absorbed by the plaintiff’s bar, three quarters of patent cases now go before a jury.⁴

Although district judges’ patent validity decisions have proven less accurate than those made by the PTAB, jury verdicts present even more difficulties. As compared to judges, juries are more likely to favor particular types of parties, more likely to favor the party that initiates the suit rather than the defendant (regardless of whether it is the patent owner or a declaratory judgment plaintiff), and more likely to decide all issues in favor of one party or another rather than distinguishing among the different questions before them.⁵

Lay juries often find complex technologies inaccessible, and they are notoriously resistant to engaging in an obvious analysis that combines patents and printed publications. Patent validity is just one of several issues before the jury—in addition to infringement, willfulness, and damages—and it is easy to simply defer to the USPTO’s initial examination of the patent. Rather than scrutinize the teachings of the prior art, juries tend to focus on stories about the invention and the parties.

Few things are more dispiriting from a patent policy perspective than watching how skilled trial lawyers prepare for a patent jury trial. There is an enormous focus on narratives and themes, on trying to present one’s own side as the “little guy,” and on uncovering internal communications that can be presented in a bad light and thereby taint the jury’s view

³ See [H.R. Rep. No. 107-120](#), at 3 (2001).

⁴ See Mark A. Lemley, *Why Do Juries Decide If Patents Are Valid?*, 99 Va. L. Rev. 1673, 1706 (Dec. 2013); Mark A. Lemley, Jamie Kendall, Clint Martin, *Rush to Judgment? Trial Length and Outcomes in Patent Cases*, 41 AIPLA Q.J. 169, 174 (Spring 2013).

⁵ See The Honorable Kimberly A. Moore, *Populism and Patents*, 82 N.Y.U. L. Rev. 69, 98-99, 102-03 (2007); see also The Hon. Kimberly A. Moore, *Juries, and Patent Cases—An Empirical Peek Inside the Black Box*, 99 Mich. L. Rev. 365, 403-06 (2000).

of all the issues. What is often missing is an analysis of the limitations of the claims and how they are met by the prior art.

Another unfortunate development in patent litigation in recent decades is the rise of the patent magnet jurisdictions. Judges in these courts have actively advertised⁶ for patent cases and recruited plaintiffs⁷ to file before them. In their efforts to make themselves an attractive venue for patent plaintiffs, they have also allowed the presentation of jury instructions and arguments that tend to depress the jury's sense of responsibility to assess patent validity. This, in combination with a routine disregard for Rule 702, has made it possible to seek outsized awards for invalid patents.⁸

This is an absurd way to run an intellectual-property system, particularly when critical technologies are at stake. In many cases, a PTAB trial is not simply a less expensive or more technically accurate form of validity review—it is the *only* meaningful form of review.

It is also important to consider the character of much of the patent litigation in America today. A majority of infringement lawsuits are filed by parties that do not practice the invention, and the bulk of this litigation is brought by so-called patent assertion entities. These entities purchase their patents on the secondary market and often receive financial backing from hedge funds and other litigation financiers.⁹ Some of the largest investment funds are foreign owned and rely on investors from foreign countries, including undemocratic ones.

One might think that such a plaintiff—a foreign non-practicing entity suing an American manufacturer—would cut an unsympathetic figure before a U.S. jury. In some districts, however, patent assertion entities have been allowed to exclude evidence of their identity from the jury.¹⁰ This effectively allows them to invoke the jury's sympathy by falsely implying that they are an independent inventor or an American start-up company.

⁶ See Jonas Anderson and Paul R. Gugliuzza, [Federal Judge Seeks Patent Cases](#), 71 Duke L.J. 419 (2021).

⁷ See [Senators' Letter to the Chief Justice of the United States](#), Nov. 2, 2021.

⁸ Unfortunately, a substantial portion of the patents that are asserted in civil litigation are ultimately determined to be invalid. See John R. Allison, Mark A. Lemley and David L. Schwartz, *Our Divided Patent System*, 82 U. Chi. L. Rev. 1073, 1099 (2015) (noting that of all patent infringement lawsuits that were filed in 2008 and 2009, “roughly 43.0 percent of patents that went to a final judgment on validity were invalidated”); Mark A. Lemley, *Ignoring Patents*, 2008 Mich. St. L. Rev. 19, 27 n.32 (2008) (noting that “[f]orty-six percent of patents litigated to judgement are invalid”) (citing John R. Allison & Mark A. Lemley, *Empirical Evidence of the Validity of Litigated Patents*, 26 IPLA Q.J. 185, 205 (1998)).

⁹ See *Pride in Patent Ownership: The Value of Knowing Who Owns a Patent: Hearing Before the Subcomm. on Intellectual Prop. of the S. Comm. on the Judiciary*, 117th Cong. (2021) ([statement of Allon Stabinsky](#), Chief Deputy General Counsel, Intel Corp.).

¹⁰ See *id.*

One can hardly criticize a district judge for excluding this type of evidence. Patents are transferrable property, and the identity of the parties is irrelevant to whether the patent is valid. Except that in a jury case, we all know that this evidence *does* matter.

I am not here today to condemn our current system of litigation finance or to second guess whether foreign NPEs should be allowed to sue American companies. I simply to note that given that our system *does* operate this way—that a majority patent lawsuits are brought by entities that contribute very little to the U.S. economy—it is imperative that we provide American manufacturers with an accurate and reliable system for testing the validity of asserted patents.

Unfortunately, recent events have further highlighted the importance of preserving access to PTAB review. In March 2020, the USPTO adopted the so-called *Fintiv*¹¹ policy, which cut off access to PTAB review if a district court scheduled a trial to occur before the PTAB would issue a final written decision. *Fintiv* was premised on the notion—contrary to congressional policy—that an opportunity to challenge a patent in a jury trial is a perfectly adequate substitute for PTAB validity review.

Fintiv was applied to block consideration of the merits of scores of PTAB petitions—in many cases retroactively to petitions that were filed before *Fintiv* was announced. A dozen *Fintiv* denials were applied to petitions challenging patents that had been asserted against Intel Corp. by VLSI, the litigation arm of a foreign-owned hedge fund. After it received these *Fintiv* denials, VLSI went on to secure multi-billion-dollar damages awards against Intel.¹²

A year later, however, these same patents were challenged at the PTAB by other entities that had not been sued and thus were not subject to a *Fintiv* bar. These entities largely copied the petitions that Intel had filed in 2020 but that had been dismissed under *Fintiv*. The USPTO ultimately concluded that all the challenged claims of the asserted patents are invalid.¹³

Needless to say, if our system allows patents as weak as VLSI's to command billion-dollar damages awards, we eventually will not have much of a semiconductor industry left in the United States. It would be hard to think of a policy that would be more damaging to the interests of the United States.

¹¹ See [Apple Inc. v. Fintiv, Inc.](#), IPR2020-00019 (Mar. 20, 2020).

¹² See “[Intel loses U.S. patent trial, ordered to pay \\$2.18 billion to VLSI Tech.](#),” Reuters, Mar. 2, 2021; Britain Eakin, “[Intel Hit With \\$949M Verdict In Latest VLSI Patent Fight.](#),” Law360, Nov. 5, 2022.

¹³ See [OpenSky Indus., LLC v. VLSI Tech. LLC](#), IPR2021-01064 (May 12, 2023); [Patent Quality Assurance, LLC v. VLSI Tech. LLC](#), IPR2021-01229 (Jun. 13, 2023).

The American economy needs the technically sound patent validity review that only the PTAB system reliably provides.

The PREVAIL Act's restrictions on PTAB review are contrary to the public interest

The PREVAIL Act, S. 2220, would impose several new limits on PTAB review. Recent experience counsels against such restrictions.

1. PREVAIL's single-petition rule would prevent effective review of many patents

PREVAIL proposes to add a subsection (f) to 35 U.S.C. § 315 that would bar a petitioner that has previously requested an inter partes review from “requesting or maintaining” any other USPTO proceeding with respect to the patent unless the patent owner has asserted additional claims in litigation. In effect, a petitioner’s challenge to a patent would be required to be confined to a single petition.

Current PTAB practices do limit so-called “parallel petitions”—separate petitions filed by a party that simultaneously challenge claims of the same patent. But the PTAB’s policies also recognize that in some cases, it is necessary to file more than one petition to effectively challenge the claims of a patent.

Because of the USPTO’s word limits on petitions, it is typically only feasible to challenge about 20 to 25 claims in a single petition. The petitioner has the burden of presenting a complete invalidity case for each challenged claim—it must present evidence that every limitation in the claim was known or would have been obvious in view of prior art. Opportunities for a petitioner to offer additional prior art with respect to a claim limitation are extremely limited after the petition phase of the proceeding.

There is no limit, however, on how many claims an applicant can obtain in a single patent. Although most patents have no more than 15 to 20 claims, some patents issue with over one hundred claims—or even several hundred claims. In addition, if a claim is particularly complex and contains many limitations, it will require additional evidence and analysis to challenge the claim. Another circumstance that routinely requires additional petition space is when the patent’s priority date is disputed. This will often necessitate presenting different sets of prior art that pre- and post-date the potential priority date.

If PREVAIL were enacted, it would be impossible to effectively challenge patents with large or complex claim sets or those that have disputed priority dates.

2. The PTAB should not be required to defer to the previous allowance of a claim over prior art that was never actually considered by the USPTO

PREVAIL would amend § 316(e) of title 35 to provide that the original claims of a patent are subject to a presumption of validity that can only be overcome by clear and

convincing evidence. In addition, PREVAIL would enact a new § 315(e)(2) that would mandate that the USPTO reject any PTAB petition that “presents” prior art that is the same or substantially the same as prior art that was previously “presented” to an examiner.

The principal rationale for requiring clear and convincing evidence of invalidity in civil litigation—deference to the expert agency that issued the patent—does not apply when a patent is being reconsidered by the same expert agency. The USPTO remains just as expert, if not more so, on the second evaluation of a patent. There is no reason for the agency to defer to an earlier decision that is the product of less deliberation and that considered less evidence.

The USPTO itself highlighted this point in the [Microsoft v. i4i](#) case, which reaffirmed the use of an across-the-board clear and convincing standard in civil litigation. As the agency’s brief stated:

the clear-and-convincing-evidence standard reflects deference to the agency’s authority and expertise by ensuring that, when the factual questions on which validity turns are doubtful, the decision of the Patent Office must control.

[USPTO Brief](#), p. 26.

It thus makes “particular sense” to use a clear and convincing standard when patent validity is being evaluated by “lay juries who lack technical expertise and specialized knowledge of the relevant fields.” *Id.* at pp. 26-27.

By contrast, there is no reason to require a PTAB panel to defer to an earlier decision by an examiner. That earlier decision is almost always the product of much less deliberation and analysis—and often did not consider the most relevant prior art.

It bears emphasis that a patent owner in an AIA proceeding *does* receive deference to the USPTO’s patentability determinations when the prior art was previously considered by the USPTO. The PTAB effectively applies such deference pursuant to its discretion under 35 U.S.C. § 325(d) to decline review when prior art or arguments previously were presented to the agency.

The PTAB has now issued precedential decisions that create a basic framework for applying § 325(d), see [Advanced Bionics, LLC v. MED-EL Elektromedizinische Geräte GmbH](#), IPR2019-01469 (Feb. 13, 2020), and that address subsidiary issues such as when new prior art is cumulative to that which was previously considered by the USPTO. See [Oticon Medical AB v. Cochlear Ltd.](#), PR2019-00975 (Oct. 16, 2019).

Under the Board’s caselaw, § 325(d) has been distilled into a test that weighs how strong a reference is against whether it was actually considered by the agency. For example, if the record shows that the examiner analyzed a reference with respect to the disputed

limitation, the PTAB requires a heightened showing of examiner error to institute on the basis that reference. See, e.g., *Dropworks, Inc. v. U. of Chicago*, IPR2021-00100 (May 14, 2021). On the other hand, if a reference was cited in an Information Disclosure Statement but not actually applied in a rejection, review will be allowed if the reference appears to disclose the disputed limitation. See, e.g., *Spinal Elements, Inc. v. Spectrum Spine IP Holdings, LLC*, PGR2021-00050 (Aug. 23, 2021); *Commscope Techs. LLC v. Dali Wireless Inc.*, IPR2020-01473 (Mar. 12, 2021).

Not only does § 325(d) provide patent owners with a level of immunity against prior art that was already considered; it also creates an incentive for patent applicants to conduct their own prior art search and to present relevant prior art to the examiner.

By contrast, the across-the-board deference that PREVAIL would require would mean that the PTAB would have to defer to the allowance of claims with respect to prior art that the examiner did *not* actually consider. Such a rule would give the benefit of deference to patent owners who made no effort to apprise the examiner of prior art, undercutting § 325(d)'s incentive to help identify relevant art during prosecution.

a. Immunizing prior art that was presented to but never considered by the USPTO would encourage abusive prosecution practices

PREVAIL's new § 315(e)(2) of title 35 would mandate that a petition be rejected if it presents any prior art that was previously presented to the USPTO. This would effect an unwelcome change to the PTAB's § 325(d) deference policies: it would encourage applicants to cite an overwhelming number of references during prosecution in order to launder prior art.

As noted previously, the PTAB does apply deference under § 325(d) to the examiner's patentability determinations with respect to prior art that was actually considered by the examiner. In addition, the PTAB applies this deference only with respect to the prior art that was *overcome* during prosecution.

When a patent is granted, an examiner will usually find that some limitations were disclosed in the prior art. Often, the applicant does not contest these findings and instead relies on other claim limitations to overcome a rejection. Under current PTAB practices, there is no § 325(d) prohibition on citing prior art that was uncontestedly determined to disclose a claim limitation.

The Board has been able to develop these sensible and nuanced policies because the current statute grants the USPTO discretion—the agency “may” take into account the fact that prior art was previously “presented” and reject the petition on that basis, but it is not required to do so. PREVAIL would eliminate this discretion and mandate that a petition be rejected if it relies on any prior art that was previously “presented.” This would include prior art that was never actually considered by the examiner. It would also include prior art that

was conclusively determined to disclose a claim limitation—such art could not be cited in a PTAB petition to disclose the same claim limitations that the examiner found it to disclose.

The inevitable result of PREVAIL's changes would be that some applicants would cite hundreds or even thousands of prior art references in Information Disclosure Statements during prosecution to launder that prior art. Examiners usually have only about 20 hours to examine an application. If the applicant cites a sufficiently high number of prior art references, it is likely that the examiner will not be able to meaningfully consider them. PREVAIL would reward this kind of behavior by immunizing the patent against any of those “presented” references. And given PREVAIL's wording and mandatory nature, this immunity would extend even to those references that the examiner found to disclose relevant claim limitations. There is no reason for the law to enable and encourage this kind of behavior.

3. PREVAIL's standing requirement would prevent beneficial patent challenges

PREVAIL would add a subsection (d) to § 311 of title 35 that would bar the filing of a PTAB petition unless the petitioner has been sued for infringement or accused of infringement in a way that creates a “real and substantial controversy” that is sufficient to create Article III standing. The latter provision appears to revive the type of standing that courts required before the Supreme Court clarified declaratory-judgment jurisdiction in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007). Under the now-defunct pre-*MedImmune* test, a patent owner could send a demand letter that would trigger potential liability for treble damages for its recipient but would not be sufficient to give the recipient standing to challenge the patent in court.

Much of the PTAB petitioning that PREVAIL's standing requirement would prohibit is beneficial to the U.S. economy and helps curb abusive litigation.

A substantial number of PTAB petitions are “clearance petitions.” They are filed by businesses that want to develop and introduce a new product but have discovered that an issued patent would be infringed by the product—and they believe that the patent is invalid. A PTAB petition provides such a business with an inexpensive and technically reliable way to “clear the field”—to determine if the patent is invalid and the business can move forward with its product.

In the absence of PTAB review, many such businesses would not develop and commercialize the planned product. Article III standing requirements have calcified in recent years such that even market participants whose product design and development plans clearly are affected by a competitor's patent nevertheless may lack standing to challenge the patent. See, e.g., *General Electric v. United Technologies*, 928 F.3d 1349 (Fed. Cir. 2019). And even when standing is present, a declaratory judgment action can be expensive and unpredictable.

When a business is deterred by an invalid patent from introducing a new product, consumers' choices are reduced and prices likely are increased. Indeed, in many such cases, the patent owner does not practice the claimed technology. Barring the potential manufacturer from filing a clearance petition thus means that no product at all will be made available to the public.

PREVAIL's standing requirements also would prevent manufacturers from defending their customers when those customers are sued for using the manufacturer's product. Courts have held that the manufacture lacks standing in such a situation unless it had previously agreed to indemnify the customer. Absent such a pre-existing agreement, there is no standing even if the customer asks for indemnification. See *Microsoft Corp. v. DataTerm, Inc.*, 755 F.3d 899, 904 (Fed. Cir. 2014); *Proofpoint, Inc. v. InNova Patent Licensing, LLC*, No. 5:11-CV-02288-LHK, at *5 (N.D. Cal. Oct. 17, 2011). Courts also have held that there is no standing to bring suit in such a situation even if the manufacturer agrees to indemnify the customer after it has been sued. See *Ours Tech., Inc. v. Data Drive Thru, Inc.*, 645 F. Supp. 2d 830, 840 (N.D. Cal. 2009); *Shuffle Tech Int'l, LLC v. Sci. Games Corp.*, Case No. 15 C 3702, at *8 (N.D. Ill. Oct. 12, 2015).

PREVAIL's standing requirements would also prevent American companies from resolving patent disputes when infringement accusations are levied by a foreign company or a sovereign patent fund. Such entities may have no presence in the United States. As a result, when such entities send letters to U.S. businesses accusing them of infringing patents and accruing damages, there may be no personal jurisdiction to bring a declaratory judgment action to address the allegations. See *Autogenomics, Inc. v. Oxford Gene Tech, Ltd.*, 566 F.3d 1012, 1021 (Fed. Cir. 2009).

Finally, PREVAIL's standing requirement, in combination with its proposed § 311(c) expanding the definition of real party in interest, would effectively terminate the operations of the legal advocacy associations that file PTAB challenges. No operating company will contribute money to these organization if doing so will make it a "real party in interest" and thus estop it from challenging patents on which it is sued.

Eliminating these petitioning organizations would be a loss to the patent system. These organizations play a unique role in protecting the hygiene of the system. There is a class of patent owners who file serial lawsuits against small businesses, retailers, and end users but who never go to trial. Instead, these patent owners always settle cases for an amount that is far below the cost of mounting a defense—and if any party persists with a defense, they will dismiss the case.

These nuisance-settlement plaintiffs create a collective action problem. The costs that they impose on the economy and the damage that they do to the reputation of the patent system are substantial, but no individual defendant has an incentive to complete a PTAB challenge to their patents.

The petitioning organizations overcome this collective action problem by pooling contributions from a large number of operating companies. With the resources to file petitions and a mission to challenge invalid patents, these organizations have succeeded in ending abusive assertion campaigns that no other party had the incentive to fight.

We need not speculate as to the role that these organizations play. We now have 11 years of experience under the AIA. We know that in many cases the petitioning organizations have been the only party to finally stop the abusive assertion of an invalid patent that was the subject of scores of lawsuits. Consider, for example, some of the patents that have been challenged in recent years by just one of these organization, Unified Patents:

- *Oceana Innovations*. Over a three-year period, Oceana filed 19 district court infringement suits against different parties, all of which settled. Oceana's patent claimed a particular shape for a plug at the end of a USB cable. Two defendants filed PTAB petitions, but Oceana settled with those parties before it was required to file a preliminary response to the petitions. In 2020, Unified Patents finally ended Ocean's assertion campaign by filing a PTAB petition that succeeded in having all claims of the patent cancelled. See [*Unified Patents v. Oceana Innovations LLC*](#), IPR2020-01463 (Feb. 14, 2022).
- *Rothschild Connected Devices*. Over a two-year period, Rothschild filed 67 lawsuits against different businesses. In each, it asserted a patent that claimed the concept of using a computer to keep track of a consumer's product preferences. Despite the apparent invalidity of the claims, no defendant ever filed a PTAB petition—Rothschild quickly settled each case for nuisance amounts. Rothschild's assertion campaign was terminated only after Unified Patents filed a PTAB petition and Rothschild agreed to grant a broad, royalty-free license to the patent. See [*Unified Patents v. Rothschild Connected Devices Innovations, LLC*](#), IPR2016-00535 (Feb. 3, 2016).
- *SportBrain Holdings*. SportBrain filed 148 infringement lawsuits, many of them against small businesses. Its patent claimed the idea of using an electronic device to track a person's health data. No defendant ever filed a PTAB challenge—most cases settled within a few months. SportBrain's assertion campaign finally was stopped when Unified Patents brought a PTAB challenge that resulted in the cancellation of all the patent's claims. See [*Unified Patents v. SportBrain Holdings LLC*](#), IPR2016-01464 (Feb. 6, 2018).

In these and similar cases, no defendant has the incentive to litigate a validity challenge to completion. The plaintiff always offers to settle for an amount that is much less than the cost of such a challenge. Absent the actions of a patent challenge organization such as Unified, it is unlikely that anyone would stop these entities from repeatedly filing nuisance lawsuits asserting invalid patents.

If PREVAIL's standing and RPI requirements had been included in the America Invents Act, it is likely that SportBrain, Oceana, and Rothschild would still be filing infringement lawsuits today—as would many other nuisance-settlement plaintiffs.

There has been little in the way of explanation why the petitioning organizations should be prevented from operating. Nor has any alternative mechanism been proposed for controlling nuisance patent assertion campaigns.

At the very least, before the Committee advances legislation targeting the petitioning organizations, it should gather and analyze data about their activities. To the extent that the Committee is concerned that these organizations are serving as proxies for their members or allowing those members to evade statutory bars, it should seek evidence that this is actually happening. The Committee should also consider rules that narrowly target such behavior, rather than terminating the organizations' operations across the board. Again, these organization play a unique role in remedying a serious problem that no other mechanism addresses.

4. Barring prior-art defenses in court before PTAB review is conducted would distort civil litigation and undermine the Hatch-Waxman framework

PREVAIL would amend § 315(c) of title 35 to provide that once an inter partes review is instituted, the petitioner may not assert a patents-or-printed-publications validity defense in district court or at the ITC. This is similar to the estoppel under current § 315(e), except that current law applies this estoppel only after PTAB review results in a final written decision. PREVAIL would apply this estoppel upon institution, before the PTAB validity trial is conducted.

Imposing an institution-triggered estoppel would be damaging to parties that have been sued on an invalid patent. Although most district courts will stay a pending infringement suit when a PTAB proceeding has been instituted, a subset of district courts generally refuses to stay such cases. These courts will proceed with a full infringement trial that runs concurrently with the PTAB review—despite the fact that, once the threshold invalidity showing has been made and review has been instituted, some or all of the patent's claims are likely to be cancelled. *See* Saurabh Vishnubhakat, [Patent Inconsistency](#), 97 Ind. L.J. 59, 72 (2022) (noting that the rates at which courts stay an infringement case vary from 72% and 64% in the Northern and Central Districts of California, respectively, to 11% in the Eastern District of Texas).

For the defendants who are sued in districts that refuse to stay cases after PTAB review is instituted, barring them from presenting prior-art defenses in court substantially distorts the litigation.

First, barring consideration of prior art can skew a jury's award of damages. Many claimed inventions are incremental—they are a minor improvement over things that were

previously developed by others. When a defendant presents prior art in a validity challenge, doing so can apprise the jury that much of what is claimed in the patent was already known in the art. The prior art shows the jury that the patent owner did not invent everything recited in the claims but only an incremental improvement. However, if the petitioner is barred from presenting patents-and-printed-publications prior art (often the only prior art that is available), a jury is more likely to be misled into believing that an incremental patent is for a pioneering invention. Such a misimpression can readily lead to a substantially larger damages award.

In addition, barring consideration of prior art can distort claim construction. A patent owner who will not be confronted with any prior art challenges is free to argue for a broad interpretation of its claims—one that would otherwise read on available prior art. Prohibiting the presentation of such defense would eliminate the disciplining effect of prior art on claim constructions.

Finally, PREVAIL's proposed estoppel is inconsistent with the intended functioning of the Hatch-Waxman system. Under that system, the 30-month stay of approval of an abbreviated new drug application is terminated if the patent is determined to be invalid—but only if “the *district court* decides that the patent is invalid.” 21 U.S.C. § 355(j)(5)(B)(iii)(I) (emphasis added).

Under PREVAIL, however, once a PTAB review of the patent is instituted, the district court would be precluded from considering patents-and-printed-publications prior art defenses. Even if the PTAB found that the challenged claims are invalid, the 30-month stay would remain in place. For the other reasons given here, I believe that imposing an estoppel at institution is not good policy. If the committee does proceed with such legislation, it should also amend the Hatch-Waxman Act to provide that a PTAB finding of patent invalidity terminates the 30-month stay of FDA approval of an ANDA.

a. Concerns about overlap between PTAB and district court proceedings should be addressed by requiring a stay of litigation pending PTAB review

PREVAIL's accelerated estoppel appears to be motivated by concern that PTAB review can result in duplication of efforts between district courts and the PTAB. Such duplication can occur if a district court refuses to stay litigation and allows an infringement trial to run concurrently with PTAB review. To address such concerns, Congress should enact legislation requiring a stay of litigation if PTAB validity review has been instituted for the asserted claims.

Once the USPTO has found that claims in a patent are reasonably likely to be invalid and has instituted review, there is a high likelihood that some or all the asserted claims will be found unpatentable. Going forward with a trial thus imposes millions of dollars in costs on the parties on account of patent claims that are likely to be cancelled.

Frankly, I cannot imagine any justification for going forward with a trial in such circumstances, absent some contravening statutory provision that requires or is premised on the trial going forward, such as the 30-month stay of FDA approval of an ANDA. *See* 21 U.S.C. §§ 355(c)(3)(C), (j)(5)(B)(iii).

A district court's desire to make itself an attractive venue for plaintiff's litigation or its rejection of the Supreme Court's Seventh Amendment jurisprudence is not an appropriate justification for declining to grant a stay.

This issue deserves congressional attention. As noted previously, different courts vary widely in their policies for granting a stay pending PTAB review. Most courts will grant a stay about two-thirds of the time, but some of the patent magnet jurisdictions deny almost 90% of all stay requests. *See Vishnubhakat, supra*.

The United States has one patent system, with one Court of Appeals that was specifically created to ensure uniformity in the interpretation and enforcement of patent law. Different district courts should not be allowed to create their own fiefdoms in which they apply fundamentally different rules to issues that are important to a patent case.

The Federal Circuit has recognized that the All Writs Act gives it jurisdiction to ensure proper judicial administration and supervision of district courts and to resolve unsettled legal questions that cannot be addressed on appeal of a final judgment. *See In re Micron Technology, Inc.*, 875 F.3d 1091, 1095 (Fed. Cir. 2017); *In re Cray Inc.*, 871 F.3d 1355, 1358-59 (Fed. Cir. 2017). If the Court of Appeals continues to decline to employ this authority to set uniform national standards for granting a stay pending USPTO review of a patent, Congress should step in and enact such standards.

5. PREVAIL's bar on ex parte contacts with PTAB judges is too limited and fails to address recent abuses

PREVAIL would enact a § 6(d) of title 35 that would prohibit personnel with supervisory authority over administrative patent judges from communicating with an APJ with respect to a "merits decision." It is well and good to insulate PTAB merits decisions from behind-the-scenes influence by political appointees and management. Such a proposal, however, does not address the problems that have actually occurred at the USPTO in recent years.

In 2021, the Chairman and Ranking Member of the House IP Subcommittee asked the Government Accountability Office to investigate allegations of political interference in PTAB decision making.¹⁴ The GAO has since issued its report.¹⁵

The GAO's report makes clear that recent practices at the USPTO substantially undermined the independence of PTAB adjudications. Among the report's findings:

- three quarters of the judges surveyed stated that the "Management Review" process interfered with their independence;
- a majority of judges indicated that "they have felt pressure to change or modify an aspect of their decision in an AIA proceeding;" and
- some judges reported that Management Review had created a "preemptive chilling effect" in which potential interference was "at least a factor in all panel deliberations and is sometimes the dominant factor."

Unfortunately, PREVAIL's bar on ex parte contacts would do nothing to prevent the recurrence of these particular abuses: almost all the misconduct that GAO uncovered involved decisions whether to institute a proceeding, not final merits decisions.

There is no reason to exclude institution decisions or other procedural decisions from the protections of a bar on ex parte contacts. Whether a PTAB review is conducted should not depend on behind-the-scenes dealings or a party's political influence with agency leadership. Yet by pointedly excluding procedural decisions from its protections, PREVAIL implicitly validates the abuses of the recent past.

Political interference in PTAB post-issuance reviews raises substantial due process concerns. While the Supreme Court has never directly ruled on the issue, it has made clear that it expects that agency adjudications will be "structured so as to assure that the hearing examiner exercises his independent judgment on the evidence before him, free from pressures by the parties or other officials within the agency."¹⁶ The Court also has placed emphasis on the Administrative Procedure Act's guarantee that agency judges are "assigned to cases in rotation so far as is practicable."

The parties to PTAB cases frequently have much at stake in the proceedings. They are entitled to have their cases decided in a fair and transparent manner.

In the past, the Board did have statutorily guaranteed structural independence. As the Federal Circuit noted in its initial *Arthrex* decision, "prior to the 1975 amendment to

¹⁴ [Congressmen Johnson, Issa Call on GAO to Investigate PTAB Decision-Making Practices](#), June 2, 2021.

¹⁵ See United States Government Accountability Office, [Patent Trial and Appeal Board: Preliminary Observations on Oversight of Judicial Decision-Making](#), July 21, 2022.

¹⁶ *Butz v. Economou*, 428 U.S. 478 (1978).

Title 35, ‘Examiners-in-Chief’—the former title of the current APJs—were subject to nomination by the President and confirmation by the Senate.”¹⁷ And to this day, all officers in the U.S. military about the level of captain are required to be appointed by the President and confirmed by the Senate.¹⁸

To protect due process in PTAB proceedings and prevent a recurrence of recent abuses, Congress should restore the requirement that PTAB judges be appointed by the President and confirmed by the Senate. Such structural independence would ensure that each PTAB judge exercises his or her “independent judgment on the evidence,” “free from pressures by other officials within the agency.”

6. Other proposals in PREVAIL lack merit

PREVAIL’s proposed § 6(d)(3) of title 35 would bar the PTAB panel that decided to institute a proceeding from hearing the trial phase of the case. In effect, after institution the proceeding would be required to be assigned to a different panel of judges.

Such a requirement would be unnecessary and wasteful. Deciding whether to institute a review requires a detailed analysis of the prior art and the patent—the Board must find a “reasonable likelihood” that the petitioner will prevail with a complete invalidity defense. Reassigning a case to a different panel after the institution decision would require the second panel to duplicate the very substantial work done by the first panel in learning the case.

There is no reason to impose such a requirement. In district court litigation, the same judge hears the merits of a patent case after considering motions to dismiss, motions for summary judgment, and a request for an injunction. PTAB judges, just like district judges, are perfectly capable of considering additional evidence and deciding the merits of a case after addressing preliminary motions.

PREVAIL would also add a subsection (g) to § 315 that would make a district judge’s or the ITC’s rejection of a patents-and-printed-publications validity defense preclusive of PTAB review. Even an ongoing PTAB review would be required to be terminated if a district judge rejects a prior art defense. This would reimpose a bar to review that the America Invents Act repealed. Prior to the AIA, former § 317(b) of title 35 required termination of an inter partes reexamination if a district court’s rejection of a prior-art defense became final.

The Congress that enacted the AIA concluded that district court validity decisions are insufficiently reliable to serve as the final word on patent validity. Recent experience confirms the soundness of the 112th Congress’s judgment. The *VLSI v. Intel* litigation, in

¹⁷ *Arthur, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (2019).

¹⁸ See 10 U.S.C. § 531.

particular, has demonstrated that some district courts are capable of awarding billions of dollars in damages based on patents that are invalid. To prevent such miscarriages of justice, Congress should preserve access to PTAB review and reject arbitrary restrictions on the proceedings.

Finally, PREVAIL would amend § 315(d) of title 35 to provide that a joinder petitioner who relies on § 315(c)'s exception to the § 315(b) time bar cannot maintain a PTAB proceeding if the original petitioner settles with the patent owner and leaves the case. Such a rule would substantially defeat the purpose of allowing joinder in the first place. If a petitioner joins a PTAB review and has an interest in contesting the patent's validity, it should be allowed to do so even if the patent owner settles with the original petitioner.

* * * *

The PREVAIL Act would make PTAB proceedings more difficult to use and would bar legitimate challenges to patents in a wide variety of circumstances. Particularly when a defendant is being sued on a patent that the USPTO should not have issued in the first place, there is no reason to impose such burdens on defendants.

Reforming the Patent Trial and Appeal Board—The PREVAIL Act and Proposals to Promote U.S. Innovation Leadership
Hearing Before the Senate Committee on the Judiciary,
Subcommittee on Intellectual Property
118th Congress, November 8, 2023
Questions for the Record—Responses of Joseph Matal

Questions for the Record from Senator Tillis

- 1. What do you think that the USPTO should be doing (or doing better) to ensure that invalid patents are not granted? How specifically can the USPTO improve their examination procedures to increase the quality of issued patents?**

Answer: U.S. patent examining procedure should be made more rigorous. Two changes that I would recommend would be to require that the final decision to grant a patent be made by three examiners (as it is in Europe), and to limit Requests for Continued Examination and continuations practice.

Under current USPTO regulations, there is literally no limit to how many times an applicant can return to an examiner and reargue the same application or seek further claim amendments. Relatedly, there is no limit to how many patents the applicant can request or obtain based on an original specification.

The result is that an applicant can spend the entire 20-year term of a patent rearguing the same application or seeking additional patents based on the original application. An examiner has no power to bring to conclusion the examination of an application that he or she determines does not warrant a patent. The examiner cannot even compel the applicant to appeal a final rejection internally to the USPTO's Patent Trial and Appeal Board. The only way that an examiner can bring an end to the examination of an application pursued by a persistent applicant is to grant the patent. Under the USPTO's "count" system, the examiner even receives less work credit for the later rejections of the application.

The inevitable result of such a system is a decline in the quality of issued patents. On many occasions when I have reviewed the file of a patent that had claims cancelled in an AIA proceeding, I have found that the examiner *did* find the relevant prior art and initially rejected the claims. However, after renewed arguments and additional claim amendments, the examiner allowed the patent to issue. In many

Questions for the Record—Responses of Joseph Matal

cases, these final, successful claim amendments were insubstantial and were unrelated to what the patent specification described as the invention's advance over the prior art.

The impression created by such a record is not of an examiner who was persuaded on the merits but rather one who was simply worn down by the process. Conversations that I have had with individual examiners have confirmed that this is in fact what happens in many cases. Others have noted the same phenomenon. See Mark A. Lemley and Kimberly A. Moore, [Ending Abuse of Patent Continuations](#), 84 B.U. L. Rev. 63, 74-75 (2003).

This system appears to be designed, *not* to determine if claims are patentable, but rather to compel the applicant to exhaust a certain amount of process before claims will issue.

The U.S. patent system should not operate this way. In particular, the system should not make it so difficult for an examiner to stand by his or her judgment that claims are unpatentable. By allowing the system to operate this way, we allow the issuance of weak patents that will not survive subsequent scrutiny in PTAB proceedings.

The quality of U.S. patents would improve, and fewer claims would be cancelled in PTAB trials, if the USPTO adopted more rigorous patent examining procedures. In particular, the USPTO should limit the number of requests for continued examination and claim amendments that an applicant can pursue (and also limit continuations, which effectively allow an applicant to reargue an application).

In addition, the USPTO should require that the final decision to grant a patent be made by a panel of three examiners. This would help ensure that the final decision to grant the patent is the examining corps' judgment on the merits rather than the product of applicant tenacity and examiner fatigue.

A three-examiner final-decision system would not be unworkable or even unusual. The European Patent Office employs such a system. Under [Article 18](#) of the European Patent Convention, responsibility for examining an application is assigned to an "examining division" that "consists of three technically qualified examiners."

"[A]s a general rule," one member of the examining division will "be entrusted to carry out all the work up to the point of a decision to grant a patent or refuse the application." Guidelines for Examination in the European Patent Office, [C.VIII.1](#).

The final decision to grant or refuse the application, however, is made by all three members of the examining division:

[A] point will be reached when it becomes appropriate for the examiner to refer the case formally to the other members of the examining division. This will arise if the examiner considers the case is in order to proceed to grant or, alternatively, where there seems no possibility of amendment which would overcome his or her objections or where the applicant has not overcome these objections, and the examiner considers the case is in order to proceed to refusal.

Id.

Thus if the primary examiner decides that the application should be rejected, he or she prepares a brief explanation of their decision and refers the application to the examining division:

When referring to the examining division an application which is not in order for grant of a patent, the examiner should confer with the other members of the division, bringing to their attention the points at issue, summarising the case history to the extent necessary to enable the other members to obtain a quick grasp of the essential facts, and recommending the action to be taken, e.g. refusal, or grant conditional upon certain further amendments. As the other members will need to study the case themselves, there is no need for a detailed exposition.

Id. [C.VIII.3.](#)

On the other hand, if the primary examiner decides that the application should be granted, he or she also provides an explanation of the decision to the examining division, which makes the final decision:

If examiner[] considers that the application satisfies the requirements of the EPC and is thus in order to proceed to grant, they should make a brief written report (the 'votum'). As a general rule, it will be appropriate in this report for the examiner to give the reasons why, in their opinion, the subject-matter as claimed in the application is not obvious having regard to the state of the art. They should normally comment on the document reflecting the nearest prior art and the features of the claimed invention which make it patentable, although

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there may be exceptional circumstances where this is not necessary, e.g. where patentability is based on a surprising effect. They should also indicate how any apparently obscure but important points have ultimately been clarified, and if there are any borderline questions which the examiner has resolved in favour of the applicant, they should draw attention specifically to these.

Id. [C.VIII.2.](#)

Adopting a similar system would serve the United States well. It would result in the issuance of fewer patents whose claims will later be cancelled in PTAB proceedings.

In conjunction with such changes, the USPTO should expand the number of judges who hear ex parte appeals and accelerate the proceedings, so that appeals can timely resolve disagreements between applicants and the examining corps.

Finally, I should note that the USPTO has ample authority to adopt such rules—including limits on RCEs and continuations. Section 2(b)(2) of title 35 authorizes the USPTO to “establish regulations, not inconsistent with law, which shall govern the conduct of proceedings in the Office,” and § 2(b)(2)(C) empowers the Office to promulgate regulations to “facilitate and expedite the processing of patent applications.”

The question of the USPTO’s regulatory authority arose when the USPTO recently requested comment on proposals to improve the examination process. *See* USPTO, [Initiatives to Ensure the Robustness and Reliability of Patent Rights](#), 87 Fed. Reg. 60130, Oct. 4, 2022. Some commenters argued that the USPTO lacks the authority to limit the number of continuing applications that an applicant may file, citing 35 U.S.C. § 120 and the Federal Circuit’s vacated opinion in [Tafas v. Doll](#), 559 F.3d 1345 (2009). *See, e.g.,* [Comment from Ron Katznelson](#).

Other commenters analyzed the text and history of § 120 and concluded that the USPTO may limit the number of continuing applications that an applicant may file. *See* [Comments from Askeladden L.L.C.](#); [Comments from US*MADE](#).

In my view, the latter interpretation is correct. Section 120 only sets conditions on when a later application that the applicant has been permitted to file may *claim the benefit* of the filing date of an earlier application: it defines when “an application for

patent . . . shall have the same effects . . . as though filed on the date of [a] prior application.” 35 U.S.C. § 120.

Section 120 says nothing, however, about whether or under what conditions the applicant is entitled file the later application—*i.e.*, one that repeats the subject matter of and reargues the earlier application. If the USPTO *does* permit the applicant to file the later application, § 120 sets the conditions under which the applicant may also claim the benefit of the earlier application. But § 120 does not create an entitlement to file the later application.

This interpretation is confirmed by the history of § 120, which was adopted as part of the 1952 Patent Act. Courts have recognized that § 120 was intended to “express in the statute certain matters which exist in the law today but which had not before been written into the statute,” *In re Henriksen*, 399 F.2d 253, 258 (CCPA 1968) (quoting H.R. Rep. No. 1923, 82d Cong., 2d Sess. (1952))—and that “the practice prior to the 1952 Act is thus pertinent [to the meaning of § 120].” *Id.*

An important feature of pre-1952 Patent Office practice is the U.S. Supreme Court’s decision in *Overland Motor Co. v. Packard Motor Car Co.*, 274 U.S. 417 (1927). *Overland Motor* held that “it is not incumbent upon the office as a duty to entertain” a “second application for a patent after the first application has been rejected,” and that “if [the office] refuses to entertain [such a second application], it has a perfect legal right so to do.” *Id.* at 421 (quoting *In Re Barratt’s Appeal*, 14 App. D.C. 255 (1899)). With respect to the continuing application that was before the court, *Overland Motor* held that “the Commissioner of Patents might have refused to consider” it after rejecting the initial application because “a claim rejected as this was constitutes res judicata in favor of the Government and against the applicant.” *Id.* at 420.

The vacated *Tafas* opinion did not address *Overland Motor*—the decision was not even cited in any of the briefs before the court. Until the Federal Circuit considers the U.S. Supreme Court’s precedents and finds to the contrary, I would be hesitant to conclude that Congress has chosen to enact a statute that prohibits the USPTO from placing any limits on the number of times that a patent applicant can reargue the same patent application.

2. What is one thing that you would suggest including in the PREVAIL Act that would address the concerns of petitioners?

Answer: I would recommend expanding the grounds on which a patent can be challenged in an inter partes review to include indefiniteness under 35 U.S.C. § 112(b).

Under current law, the Board is sometimes forced to turn away an obviousness challenge because a claim's language is impossible to understand and the Board cannot know whether the asserted prior art reads on the claim. *See, e.g., Apple Inc. v. Immersion Corp.*, IPR2016-01372, Paper 7 (January 11, 2017) (because we cannot “determine the scope and meaning of claims 12-18,” we “cannot conduct the necessary factual inquiry for determining obviousness with respect to these claims, such as ascertaining differences between the claimed subject matter and the prior art.”).

Similarly, when a means-plus-function claim fails to recite corresponding structure, it too becomes indefinite and is effectively immune from challenge under the current statutory framework. *See Intel Corp. v. Alacritech, Inc.*, 817 F. App'x 1014, 1019 (Fed. Cir. 2020); *see also In re Donaldson Co., Inc.*, 16 F.3d 1189, 1195 (Fed. Cir. 1994).

Indefiniteness is an issue that can almost always be decided by reviewing the patent's claims and its specification—it can easily be resolved in an administrative proceeding. When the Board is forced to conclude that a claim cannot be tested against prior art because it is indefinite, it should also be permitted to cancel the claim as indefinite.

3. Congress created the PTAB to establish a less costly and more efficient patent dispute resolution mechanism. However, certain patent holders—especially those who are inventors—are having their patents abused through serial petitions filed against them at the PTAB. Earlier this year, the USPTO released its update to its annual PTAB Multiple Petitions Study which, among other things, confirms that we continue to see serial petitions.

- a. Wouldn't you agree that serial petitions undermine the reliability of patentholders' rights and, therefore, harm incentives to innovate?**

b. Wouldn't you agree that serial petitions are out of step with Congressional intent when it established the PTAB to create a less costly and more efficient dispute resolution process?

Answer: Serial petitions certainly *can* be abusive. The USPTO, however, has already effectively addressed the problem of abusive serial petitions via the policy that it adopted in [*General Plastic Industrial Co., Ltd. v. Canon Kabushiki Kaisha*](#), IPR2016-01357 (Sep. 6, 2017).

General Plastic sets forth seven factors that a PTAB panel must consider before allowing a “serial” petition to be pursued by a party. A serial petition is a second or subsequent petition that is filed by the same party after the patent owner has already responded to the prior petition (*i.e.*, at least three months after the prior petition was filed). The gist of *General Plastic* is that the petitioner must have a persuasive reason for filing the later petition, such as that the patent owner asserted additional claims of the patent in litigation after the first petition was filed.

As the study that you cite notes, serial petitions—which never made up more than a few percent of all instituted petitions—dropped sharply after *General Plastic* was adopted: only 0.6% of instituted AIA challenges have resulted from serial petitions since *General Plastic* issued. See USPTO, [Patent Trial and Appeal Board Multiple Petitions Study: Fiscal Years 2021-2022 Update](#), at 9 (Jul. 2023). In 2022, for example, serial petitions resulted in only three instituted proceedings out of the 1,367 petitions that were filed.

As the USPTO study further notes, when serial petitions *are* instituted, it is generally for good reasons, such as that the patent owner asserted new claims in court after the initial petition was filed or the initial petition was dismissed for “procedural” reasons that no longer apply. See *id.* at 8.

As to the question of congressional intent: the America Invents Act addresses many PTAB procedural issues. The AIA regulates, for example, the relationship between district-court litigation and inter partes reviews, providing that a petition must be filed within one year of the date when the petitioner is served with an infringement complaint. See 35 U.S.C. § 315(b). The AIA also determines when one party is bound by another party’s PTAB petitioning activity. See 35 U.S.C. § 315(e) (applying estoppel to real parties in interest and parties in privity).

Nothing in the AIA, however, regulates serial petitions. This leaves it to the USPTO to address the issue. Unlike the former inter partes reexamination statute, the AIA does give the USPTO power to manage the proceedings and prohibit abusive behavior. See 35 U.S.C. § 316(a)(4), (6).

While other recent discretionary-denial rules, such as *Apple v. Fintiv* and *Valve Corp. v. Electronic Scripting Prods.*, conflict with the statute and are illegal, I believe that *General Plastic* is within the USPTO's authority. The piecemeal, serial filings that *General Plastic* prohibits arguably qualify as "harass[ment]" or "abuse," 35 U.S.C. § 316(a)(6), and no other provision of the statute regulates serial filings. It is thus consistent with congressional intent that the USPTO adopt rules limiting serial petitions (although it ought to do so via regulations rather than "precedential decisions," see 35 U.S.C. § 316(a)).

4. **In PTAB proceedings the patent owner is subject to a duty of candor and full disclosure. There are currently no rules placing petitioners under the same obligations.**
 - a. **Do you think that the duty of candor and full disclosure now imposed on patent owners in these proceedings should apply to petitioners as well?**
 - b. **Would such provisions improve the PREVAIL Act?**

Answer: A duty of *candor* does apply to all parties—both patent owners and petitioners—in contested PTAB proceedings. Section 42.11 of the regulations governing PTAB proceedings provides:

§ 42.11 Duty of candor; signing papers; representations to the Board; sanctions.

(a) *Duty of candor.* Parties and individuals involved in the proceeding have a duty of candor and good faith to the Office during the course of a proceeding.

(b) *Signature.* Every petition, response, written motion, and other paper filed in a proceeding must comply with the signature requirements set forth in § 11.18(a) of this chapter. The Board may expunge any unsigned submission unless the omission is promptly corrected after being called to the counsel's or party's attention.

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(c) *Representations to the Board.* By presenting to the Board a petition, response, written motion, or other paper—whether by signing, filing, submitting, or later advocating it—an attorney, registered practitioner, or unrepresented party attests to compliance with the certification requirements under § 11.18(b)(2) of this chapter.

(d) *Sanctions*—(1) *In general.* If, after notice and a reasonable opportunity to respond, the Board determines that paragraph (c) of this section has been violated, the Board may impose an appropriate sanction on any attorney, registered practitioner, or party that violated the rule or is responsible for the violation.

(2) *Motion for sanctions.* A motion for sanctions must be made separately from any other motion and must describe the specific conduct that allegedly violates paragraph (c) of this section. The motion must be authorized by the Board under § 42.20 prior to filing the motion. At least 21 days prior to seeking authorization to file a motion for sanctions, the moving party must serve the other party with the proposed motion. A motion for sanctions must not be filed or be presented to the Board if the challenged paper, claim, defense, contention, or denial is withdrawn or appropriately corrected within 21 days after service of such motion or within another time the Board sets. If warranted, the Board may award to the prevailing party the reasonable expenses, including attorney's fees, incurred for the motion.

(3) *On the Board's initiative.* On its own, the Board may order an attorney, registered practitioner, or party to show cause why conduct specifically described in the order has not violated paragraph (c) of this section and why a specific sanction authorized by the Board should not be imposed.

(4) *Nature of a sanction.* A sanction imposed under this rule must be limited to what suffices to deter repetition of the conduct or comparable conduct by others similarly situated and should be consistent with § 42.12.

(5) *Requirements for an order.* An order imposing a sanction must describe the sanctioned conduct and explain the basis for the sanction.

37 C.F.R. § 42.11.

In ex parte proceedings—those involving only the patent applicant or owner—the USPTO also imposes an additional duty “to *disclose* to the Office all information known to that individual to be material to patentability.” 37 C.F.R. §§ 1.56; 1.555 (emphasis added).

As the regulations explain, “[t]he public interest is best served, and the most effective patent examination occurs when, at the time an application is being examined, the Office is aware of and evaluates the teachings of all information material to patentability.” 37 C.F.R. §§ 1.56(a); 1.555(a); *see also* MPEP § 2001.04 (noting that imposing a duty to disclose material information “may result in enhanced patent quality”).

I do not recommend extending the duty of disclosure to inter partes PTAB proceedings. The duty of disclosure appears to be a creature of the ex parte nature of examination and reexamination, in which only one side participates and opposing interests are not represented. Because of the nature of these proceedings, a duty is imposed on participants to disclose material information that is adverse to their interests and of which they are aware. In an inter partes or post-grant review, by contrast, both sides are represented and can be expected to search for and discover information that advances their interests.

For all these reasons—because a duty of candor and good faith already applies to both petitioners and patent owners in PTAB trials, and because it would not make sense to extend the duty of disclosure to inter partes proceedings—I do not recommend addressing these issues in the PREVAIL Act.

- 5. Critics of the PREVAIL Act complain that they want parties who do not have judicial standing to still be able to petition for IPR institution. They argue that competitors need to be able challenge patents in the PTAB to clear the way for their own development activities. Patent owners counter that they should enjoy the rights and benefits of patents that they haven’t asserted.**

Do you think that the PREVAIL Act strikes the right balance between these competing interests?

Answer: No. The PREVAIL Act would add a subsection (d) to § 311 of title 35 that would bar the filing of a PTAB petition unless the petitioner has been sued for

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infringement or accused of infringing in a way that creates a “real and substantial controversy” that is sufficient to create Article III standing.

The latter provision—requiring a “substantial controversy”—appears to impose the type of standing requirement that the Federal Circuit applied before the U.S. Supreme Court clarified declaratory-judgment jurisdiction in [*MedImmune, Inc. v. Genentech, Inc.*](#), 549 U.S. 118 (2007).

Under the now-defunct pre-*MedImmune* test, parties adverse to a patent who had not been sued for infringement were required to show that they had a “reasonable apprehension” that they were about to be sued. Other concrete harms—such as potential liability for developing and launching an infringing product—were not sufficient to confer standing. As the pre-*MedImmune* test was applied in the lower courts, patent owners could even send a demand letter that triggered potential liability for treble damages without giving the recipient of the letter standing to challenge the patent in court.

Like the pre-*MedImmune* test, PREVAIL’s standing requirement would effectively prohibit “clearance petitions.” These are petitions that are filed by a business that wants to develop and introduce a new product but has discovered that an issued patent would be infringed by the product—and the business believes that the patent is invalid. A PTAB petition provides such a business with an inexpensive and technically reliable way to “clear the field”—to determine if the patent is invalid and the business can move forward with its product.

In the absence of PTAB review, many such businesses would not develop and commercialize the planned product. Despite the *MedImmune* decision, Article III standing requirements have calcified in the lower courts in recent years such that even market participants whose product design and development plans clearly are affected by a competitor’s patent nevertheless may lack standing to challenge the patent. See, e.g., [*General Electric v. United Technologies*](#), 928 F.3d 1349 (Fed. Cir. 2019). And even when Article III standing is present, a declaratory judgment action can be expensive and unpredictable.

When a business is deterred by an invalid patent from introducing a new product, consumers’ choices are reduced and prices likely are increased. Indeed, in many such cases, the patent owner does not practice the claimed technology. Barring the potential manufacturer from filing a clearance petition thus means that no product at all will be made available to the public.

6.
 - a. After over a decade's worth of experience with PTAB, isn't it clear that it's operating as an alternative to district court litigation, which employs this standard, rather than a "double check" on the original examination?
 - b. Why shouldn't the PTAB give the same deference as district courts to the original examination of a patent through use of the clear and convincing evidence standard?

Answer: PTAB proceedings serve *both* as an alternative to litigation and as a double check on the original examination.

The principal rationale for requiring clear and convincing evidence of invalidity in civil litigation—deference to the expert agency that issued the patent—does not apply when a patent is being reconsidered by the same expert agency. The USPTO remains just as expert, if not more so, on the second evaluation of a patent. There is no reason for the agency to defer to an earlier decision that is the product of less deliberation and that considered less evidence.

The USPTO itself highlighted this point in the [Microsoft v. i4i](#) case, which reaffirmed the use of an across-the-board clear and convincing standard in civil litigation. As the agency's brief stated:

the clear-and-convincing-evidence standard reflects deference to the agency's authority and expertise by ensuring that, when the factual questions on which validity turns are doubtful, the decision of the Patent Office must control.

[USPTO Brief](#), p. 26.

It thus makes "particular sense" to use a clear and convincing standard when patent validity is being evaluated by "lay juries who lack technical expertise and specialized knowledge of the relevant fields." *Id.* at pp. 26-27.

By contrast, there is no reason to require a PTAB panel to defer to an earlier decision by an examiner. That earlier decision is almost always the product of much less deliberation and analysis—and often did not consider the most relevant prior art.

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In addition, it bears emphasis that a patent owner in an AIA proceeding *does* receive the benefit of deference to the USPTO's earlier patentability determinations if the prior art was actually considered during examination. The PTAB effectively applies such deference pursuant to its discretion under 35 U.S.C. § 325(d) to decline review when prior art or arguments that were previously presented to the agency.

The PTAB has now issued precedential decisions that create a basic framework for applying § 325(d), see [*Advanced Bionics, LLC v. MED-EL Elektromedizinische Geräte GmbH*](#), IPR2019-01469 (Feb. 13, 2020), and that address subsidiary issues such as when new prior art is cumulative to that which was previously considered by the USPTO. See [*Oticon Medical AB v. Cochlear Ltd.*](#), PR2019-00975 (Oct. 16, 2019).

Under the Board's caselaw, § 325(d) has been distilled into a test that weighs how strong a reference is against whether it was actually considered by the agency. For example, if the record shows that the examiner analyzed a reference with respect to the disputed limitation, the PTAB requires a heightened showing of examiner error to institute on the basis that reference. See, e.g., [*Dropworks, Inc. v. U. of Chicago*](#), IPR2021-00100 (May 14, 2021). On the other hand, if a reference was cited in an Information Disclosure Statement but not actually applied in a rejection, review will be allowed if the reference appears to disclose the disputed limitation. See, e.g., [*Spinal Elements, Inc. v. Spectrum Spine IP Holdings, LLC*](#), PGR2021-00050 (Aug. 23, 2021); [*Commscope Techs. LLC v. Dali Wireless Inc.*](#), IPR2020-01473 (Mar. 12, 2021).

Not only does § 325(d) provide patent owners with a level of immunity against prior art that was already considered by the USPTO; it also creates an incentive for patent applicants to conduct their own prior art search and to present relevant prior art to the examiner.

By contrast, the across-the-board deference that PREVAIL would require would mean that the PTAB would have to defer to the allowance of claims with respect to prior art that the examiner did *not* actually consider. Such a rule would give the benefit of deference to patent owners who made no effort to apprise the examiner of relevant prior art during prosecution, undercutting § 325(d)'s incentive for applicants to help identify prior art.

Statement of Lamar Smith
Former Chairman of the House Committee on the Judiciary,
Cosponsor of the Leahy-Smith America Invents Act,
and Senior Consultant, Akin Gump Strauss Hauer & Feld LLP

Before the Subcommittee on Intellectual Property
Committee on the Judiciary
United States Senate

Hearing on
Reforming the Patent Trial and Appeal Board –
The PREVAIL Act and Proposals to Promote U.S. Innovation Leadership
November 8, 2023

Chairman Coons, Ranking Member Tillis, and Members of the Committee, it's good to be with you this afternoon. I've sat where you are a hundred times but never on this side of the witness table. I think I prefer to be the one asking questions.

I'm tempted to say I'll give it the old college try. That time was long ago and far away though it reminds me of my freshman year. I planned to major in physics and so took the course taught by the chairman of the physics department. After the first semester I realized I was sitting next to the future Einsteins of the world, and I was not one of them. Today I readily acknowledge I'm in the company of real experts on patent law, and I don't pretend to be in their league.

Twelve years ago I was in the good company of Senator Patrick Leahy of Vermont when our joint effort – the Leahy-Smith America Invents Act – became law. We had been working on a patent bill for years but had not been able to get it out of committee. Then we both became chairs of our Judiciary Committees in the same Congress, and prospects for the bill markedly improved.

In the summer of 2011, the America Invents Act passed both the House and Senate by overwhelming margins. On September 16 of that year, President Obama signed it at the Thomas Jefferson High School for Science and Technology in Alexandria, Virginia. At the time, it was called the most significant reform of the patent system in nearly 60 years.

One of the centerpiece reforms of the AIA was the creation of the inter partes review system and the Patent Trial and Appeal Board to administer it. Our intention was to provide a quicker, more cost-effective alternative to litigation. The idea was to knock out patents that should not have been issued quickly and efficiently so that inventors could enjoy quiet title to their inventions. Inter partes review at the PTAB was never intended to operate as an addition to litigation or as a tool for those challenging patents to raise the cost for inventors seeking to enforce their patents against infringers. I knew we were creating a program that had the potential to be abused, but I trusted the AIA would be implemented in such a way to prevent any abuse.

The House Judiciary Committee Report on the AIA is illustrative on this point:

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.¹

Similarly, during the markup of the AIA in the House Judiciary Committee, I opposed an amendment to change a deadline in inter partes review that I thought would run counter to our central purpose of creating a quicker, cheaper alternative to challenge bad patents:

The inter partes proceeding in H.R. 1249 has been carefully written to balance the need to encourage its use while at same time preventing the serial harassment of patent holders. This bill represents a delicate balance, and making such a core change to the deadline may turn the inter partes program into a tool for litigation gamesmanship rather than a meaningful and less expensive alternative to litigation.²

Like all major pieces of legislation, the AIA has evolved since its passage as it has been subject to the tests of practical application. In particular, the inter partes review system has received numerous criticisms that it has not operated as the quicker, less expensive alternative to litigation we intended. Many critics claim, in fact, that it has been a vehicle for the very abuse that concerned me in 2011. I am told that something close to 80 percent of PTAB challenges are brought in addition to district court litigation, that large companies routinely use PTAB challenges as a litigation tactic, and that almost one-fourth of all PTAB challenges come from just 10 very large petitioners. That is not how we wanted or expected the program to operate.

If the goal of the PREVAIL Act is to respond to these criticisms, bring the inter partes review system more in line with our original intent, and prevent it from being used as a tool for litigation gamesmanship, I am fully in support. This would help ensure that start-ups and small businesses get a fair opportunity to enforce their patents and don't get beaten down by their powerful competitors.

¹ H.R. Rept. 112-98 (June 1, 2011), at 48, available at <https://www.congress.gov/112/crpt/hrpt98/CRPT-112hrpt98.pdf>. See also S. Rep. No. 110-259, at 20, available at <https://www.congress.gov/110/crpt/srpt259/CRPT-110srpt259.pdf> (the "post-grant review system . . . will give third parties a quick, inexpensive, and reliable alternative to district court litigation to resolve questions of patent validity").

² Markup of H.R. 1249, the America Invents Act, House of Representatives Committee on the Judiciary (Apr. 14, 2011), at 72, available at <https://web.archive.org/web/20110505040032/http://judiciary.house.gov/hearings/pdf/04142011MarkupTranscript.pdf>.

I would like to make one more point. I think there has been too much focus since the AIA on reducing the burden on patent defendants and nowhere near enough on what more we can do to support America's innovators. Like the Texas Rangers in their World Series win, we should not take our eye off the ball.

I believe strongly that our patent system is the key to our economy, and that it will help us compete with China and other countries. Any human system has inefficiencies. But if we lose sight of creating a system that truly rewards investment in innovation, we are really hurting ourselves in the long run.

Chairman Coons and Ranking Member Tillis, you have definitely never taken your eye off the ball. Thank you for your well-intentioned efforts on so many fronts to make the patent system more responsive and more predictable. I hope Congress will support efforts like yours to make sure our patent system continues to encourage and protect inventors. They are the ones who help drive the economic growth of our nation.

I appreciate your inviting me to testify.

Questions from Senator Tillis
for Honorable Lamar Smith
Witness for the Senate Committee on the Judiciary
Subcommittee on Intellectual Property Hearing
“Reforming the Patent Trial and Appeal Board –
The PREVAIL Act and Proposals to Promote U.S.
Innovation Leadership”

1. What do you think that the USPTO should be doing (or doing better) to ensure that invalid patents are not granted? How specifically can the USPTO improve their examination procedures to increase the quality of issued patents?

As I mentioned during my testimony, I am not an expert on the practice of patent law. But what I can say is that I think the goal of the USPTO should be to administer a system that supports innovation and entrepreneurship in the United States. If that goal can be furthered through changes to the examination process, it would make sense to me for Congress to consider those changes.

2. What is one thing that you would suggest including in the PREVAIL Act that would address the concerns of petitioners?

While I believe Congress should pass measures to ensure inter partes review at the PTAB is not used as a tool of litigation gamesmanship, I continue to think it's important for petitioners to have a quicker, more cost-effective alternative to litigation to challenge patents they believe should not have been granted.

3. Congress created the PTAB to establish a less costly and more efficient patent dispute resolution mechanism. However, certain patent holders – especially those who are inventors – are having their patents abused through serial petitions filed against them at the PTAB. Earlier this year, the USPTO released its update to its annual PTAB Multiple Petitions Study which, among other things, confirms that we continue to see serial petitions.

a. Wouldn't you agree that serial petitions undermine the reliability of patentholders' rights and, therefore, harm incentives to innovate?

It's important for patent owners to be able to enjoy quiet title to their patents so they can attract the investment they need to develop their inventions into something useful that can contribute to the U.S. economy.

b. Wouldn't you agree that serial petitions are out of step with Congressional intent when it established the PTAB to create a less costly and more efficient dispute resolution process?

Inter partes review at the PTAB was never intended to operate as an addition to litigation or as a tool for those challenging patents to raise the cost for inventors seeking to enforce their patents against infringers. The hope was to develop a fair mechanism for petitioners to be able to challenge patents they believe should not have been granted quickly and efficiently so that inventors could enjoy quiet title to their inventions.

4. In PTAB proceedings the patent owner is subject to a duty of candor and full disclosure. There are currently no rules placing petitioners under the same obligations.

a. Do you think that the duty of candor and full disclosure now imposed on patent owners in these proceedings should apply to petitioners as well?

I see no reason not to require a duty of candor to apply to any party appearing before the PTAB.

b. Would such provisions improve the PREVAIL Act?

I see no reason not to require a duty of candor to apply to any party appearing before the PTAB.

5. Critics of the PREVAIL Act complain that they want parties who do not have judicial standing to still be able to petition for IPR institution. They argue that competitors need to be able challenge patents in the PTAB to clear the way for their own development activities. Patent owners counter that they should enjoy the rights and benefits of patents that they haven't asserted.

Do you think that the PREVAIL Act strikes the right balance between these competing interests?

Legislation is often a matter of making the best possible choice among competing interests. For inter partes review, there are the competing interests of allowing challenges to patents while at the same time not allowing such unfettered ability to challenge patents that the patent owner is never able to enjoy quiet title. On balance, I believe inter partes review offers sufficient opportunity to petitioners to challenge patents they believe should not have been granted and that the lack of a standing requirement has allowed some gamesmanship in inter partes review.

6. Your work on the passing the America Invents Act made significant improvements to the U.S. patent system. The goal of the PTAB was to create a faster, less expensive alternative to challenging patent validity in court. Unfortunately, the PTAB has hurt small businesses, especially ones trying to compete with substantially larger companies.

What were you were intending to accomplish with the creation of the PTAB and do you believe that legislation such as the PREVAIL Act is a necessary step at this time?

Our intention in the creation of the inter partes review system and the Patent Trial and Appeal Board to administer it was to provide a quicker, more cost-effective alternative to litigation. The idea was to knock out patents that should not have been issued quickly and efficiently so that inventors could enjoy quiet title to their inventions. Inter partes review at the PTAB was never intended to operate as an addition to litigation or as a tool for those challenging patents to raise the cost for inventors seeking to enforce their patents against infringers. I knew we were creating a program that had the potential to be abused, but I trusted the AIA would be implemented in such a way to prevent any abuse.

Like all major pieces of legislation, however, the AIA has evolved since its passage as it has been subject to the tests of practical application. In particular, the inter partes review system has received numerous criticisms that it has not operated as the quicker, less expensive alternative to litigation we intended. Many critics claim, in fact, that it has been a vehicle for the very abuse that concerned me in 2011. I am told that something close to 80 percent of PTAB challenges are

brought in addition to district court litigation, that large companies routinely use PTAB challenges as a litigation tactic, and that almost one-fourth of all PTAB challenges come from just 10 very large petitioners. That is not how we wanted or expected the program to operate.

If the goal of the PREVAIL Act is to respond to these criticisms, bring the inter partes review system more in line with our original intent, and prevent it from being used as a tool for litigation gamesmanship, I am fully in support. This would help ensure that start-ups and small businesses get a fair opportunity to enforce their patents and don't get beaten down by their powerful competitors.

7. The legislative history in the House Report accompanying the AIA makes clear that the PTAB was not intended to be a source of harassment for patent owners. Yet we see patent owners fighting simultaneously on two fronts – in the PTAB and district court or the PTAB and the ITC. The PREVAIL Act would fix this by requiring an accused infringer to choose one forum or the other to make its invalidity case.

Do you agree that this is more in keeping with the spirit of the AIA?

Inter partes review at the PTAB was never intended to operate as an addition to litigation or as a tool for those challenging patents to raise the cost for inventors seeking to enforce their patents against infringers. We were very conscious when crafting the AIA about the need to provide quiet title to inventors to allow them to attract the investment they need to develop their inventions into something useful that can contribute to the U.S. economy. Preventing challenges to the same patent in multiple forums would be in keeping with the spirit of the AIA.

8. During the March 2011 debates regarding the AIA, Senator Kyl stated that § 325(d) of the bill “allows the Patent Office to reject any request for a

proceeding, including a request for ex parte reexamination, if the same or substantially the same prior art or arguments previously were presented to the Office with respect to that patent.” Despite Sen. Kyl’s stressing this intent and the clear language of the AIA encouraging serial IPRs to be rejected, we have seen numerous examples of the same patent being challenged multiple times on the same grounds.

The PREVAIL Act requires the USPTO to reject a PTAB challenge or a request to reexamine a patent where the challenge or request includes arguments that were previously considered by the USPTO, absent exceptional circumstances.

Would you not agree that this provision is consistent with the legislative intent of the AIA – the one-bite at the apple and that it would get us back to the framework that Sen Kyl laid out in 2011?

Inter partes review at the PTAB was never intended to operate as an addition to litigation or as a tool for those challenging patents to raise the cost for inventors seeking to enforce their patents against infringers. We were very conscious when crafting the AIA about the need to provide quiet title to inventors to allow them to attract the investment they need to develop their inventions into something useful that can contribute to the U.S. economy. Allowing multiple bites at the apple would run counter to our intent to create a quicker, more cost-effective alternative to litigation while at the same time allowing inventors to enjoy some measure of quiet title.

9. The AIA, among other things, revised and expanded post-grant opposition procedures. The goal of these reforms was to weed out bad or overly broad patents via low-cost alternatives to court litigation.

a. Do you believe the AIA has fulfilled this objective?

The AIA certainly made the PTAB a forum for petitioners to challenge patents they believe should not have been granted, and it is a lower-cost alternative to court litigation, but I fear that we may not have struck the right balance between allowing challenges to patents and allowing patent owners to enjoy some measure of quiet title. I am concerned that the PTAB has also become a vehicle for the very abuse that concerned me in 2011. I am told that something close to 80 percent of PTAB challenges are brought in addition to district court litigation, that large companies routinely use PTAB challenges as a litigation tactic, and that almost one-fourth of all PTAB challenges come from just 10 very large petitioners. That is not how we wanted or expected the program to operate.

If the goal of the PREVAIL Act is to respond to these criticisms, bring the inter partes review system more in line with our original intent, and prevent it from being used as a tool for litigation gamesmanship, I am fully in support. This would help ensure that start-ups and small businesses get a fair opportunity to enforce their patents and don't get beaten down by their powerful competitors.

b. Are there areas of the AIA where – through implementation or application – that the AIA may have gone too far?

The AIA certainly made the PTAB a forum for petitioners to challenge patents they believe should not have been granted, and it is a lower-cost alternative to court litigation, but I fear that we may not have struck the balance right between allowing challenges to patents and allowing patent owners to enjoy some measure of quiet title. I am concerned that the PTAB has also become a vehicle for the very abuse that concerned me in 2011. I am told that something close to 80 percent of PTAB challenges are brought in addition to district court litigation, that large companies routinely use PTAB challenges as a litigation tactic, and that almost one-fourth of all

PTAB challenges come from just 10 very large petitioners. That is not how we wanted or expected the program to operate.

If the goal of the PREVAIL Act is to respond to these criticisms, bring the inter partes review system more in line with our original intent, and prevent it from being used as a tool for litigation gamesmanship, I am fully in support. This would help ensure that start-ups and small businesses get a fair opportunity to enforce their patents and don't get beaten down by their powerful competitors.



Statement for the Record of

The Alliance of Startups and Investors for Jobs

U.S. Senate Committee on the Judiciary

Subcommittee on Intellectual Property

Hearing on *"Reforming the Patent Trial and Appeal Board – the PREVAIL Act and Proposals to Promote U.S. Innovation Leadership"*

November 8, 2023

The Alliance of U.S. Startups and Investors for Jobs ("USIJ") writes in strong support for enactment of S.2220, the "Promoting and Respecting Economically Vital American Innovation Leadership Act," also known as the "PREVAIL Act." USIJ is a coalition of 23 companies – startups, entrepreneurs, inventors and investors – all of which depend on stable and reliable patent protection as a foundational prerequisite for making long term investments of capital and time commitments to high-risk businesses developing new technologies. USIJ was formed in 2012 and is committed to promoting a strong intellectual property system that supports innovation, investment, and breakthrough technologies that change our world. Our mission is to ensure that this system continues to thrive for the benefit of American startups and inventors, and most importantly, American leadership in science and technology. USIJ collaborates with several other associations that are similarly concerned with the declining availability of U.S. patents essential to protect our country's most important inventions that will define the future of technology.

The PREVAIL Act addresses several shortcomings in the American Invents Act ("AIA"), the comprehensive revision to the Title 35 of the U.S. Code enacted into law in 2011. Twelve years of experience with the AIA, and particularly the post-issuance challenge procedures to the validity of previously issued patents, the Inter Partes Reviews and Post Grant Reviews set forth in 35 U.S.C. §§ 315 *et seq.* and 325 *et seq.*, respectively, have enabled large incumbents to render the patent system essentially unavailable to innovative and brilliant inventors, startups, small companies and their investors, all of whom require stable, predictable and reliable patents to justify the risks inherent in investing time and resources in new technologies and new products.

There is little question that abuse of the property rights of these individuals and small companies began with implementation of the AIA and continues to this day to be one of the most salient features of post-grant reviews – particularly IPRs – from the viewpoint of entrepreneurs, startups and their investors – to the point that many have simply withdrawn from trying to invent anything that requires reliable U.S. patents to justify the risk. Harassment, opportunistic petitions, and flat refusals to respect the property rights of inventors and small companies were clearly not what Congress had in mind when it enacted the AIA. Unfortunately, however, a few very large companies, over the 12 years since enactment of the AIA, have developed highly sophisticated tactics for using IPRs to squelch competition and to beat down innovation by smaller companies. Exemplary is the filing of serial petitions by the same petitioner attacking the validity of the **very same patent** owned by a smaller company. This became a common practice used by many corporate giants to harass patent owners, contrary to what Congress expressly sought to avoid.¹ The IPR process was well-intentioned, to be sure, but despite the congressional intent to **reduce** the cost of litigation, IPR petitions are often filed by the world's wealthiest and most profitable digital technology companies, both domestic and foreign, for the specific purpose of **increasing** the cost of litigation to small companies with limited resources. Restoring balance to this procedure is essential if the objectives of the patent system intended by Congress are ever to be realized.

USIJ strongly supports the PREVAIL Act in its entirety, and in particular several of the corrective amendments to the AIA provided in the PREVAIL Act that are of direct concern to this cohort, including (i) the imposition of a standing requirement and the efforts to determine with certainty the real parties in interest in situations involving surreptitious deals between large petitioners and their surrogates that perform as “stalking horses;” (ii) limiting abuse of the joinder provisions that currently allow time-barred challengers to avoid the bar by joining some other petition; (iii) limiting the ability of defendants to complicate litigation by maintaining parallel challenges to the validity of the same patent in both the IPR process and district court litigation involving the same parties; (iv) refusals to entertain petitions that rely on prior art the PTO has previously considered barring “exceptional circumstances;”² (v) raising the legal standard for invalidating an issued patent by requiring clear and convincing evidence of invalidity instead of a preponderance of the evidence as is currently the case; (vi) prohibiting further challenges following a final decision by the PTAB or a district court judge that a patent is not invalid, thus making better use of the concepts of *res judicata* and collateral estoppel to achieve finality, and (vii) addressing the issues raised by serial and parallel petitions and proceedings.

¹ See, e.g., USIJ Research Paper, “How One Bite at the Apple Became Serial Attacks on High Quality Patents,” <https://www.usij.org/research/2018/serial-attacks>.

² It is not entirely clear what the legislation contemplates by way of “exceptional circumstances,” but we do believe that language should be more carefully defined, lest the exception swallow the basic rule protecting patent owners from having to fight the same battle on multiple occasions.

USIJ's comments reflect several fundamental truths we believe to be incontrovertible. First, individual inventors, startups and the investors who fund them have for decades been primarily responsible for breakthrough innovation in many of our country's most important strategic technologies. This is the cohort of stakeholders that relies most heavily on a functional and reliable regime of intellectual property protection, particularly patents. It is also the cohort that has been most severely damaged by abusive practices that have been a prominent feature of post-grant procedures since the outset. We do not deny that large, well-established and successful companies can contribute to innovation in their own way, but R&D in that environment is much more likely to be low-risk work focused on improving already established products and services rather than disruptive new technologies that make old products obsolete and move an entire technology forward.³ Further, when large companies do add innovative products and features to their existing product lines, close examination often reveals that these were conceived and proven by an individual inventor or a small company and either purchased or copied by the larger company.

Second, without reliably enforceable patents, few if any startups can survive in head-to-head competition with large incumbents that copy their new technology. Once a new technology is proven to be feasible, incumbents enjoy tremendous advantages of scale and the benefit of established engineering, distribution and marketing infrastructure already in place, whereas most smaller companies need to build these things from scratch or form joint ventures and partnerships to advance their technology from a proof-of-concept stage to a deliverable product. Only patents that are respected by the community prevent incumbents from running roughshod over a startup. Even the negotiations essential to forming joint arrangements become far more precarious and riskier without enforceable patents, and this inhibits the most effective way for a small company to bring products to market.

More troublesome than the inherent economic disparity that startups suffer is an intentional effort by some of the largest digital technology companies to neutralize patents altogether, a business strategy euphemistically called "efficient infringement." This is a strategy that is effective in major part because the PTAB procedures encourage or at least allow it. The strategy comes in several flavors, one being to invite a startup to engage in potential licensing discussions, get a good look at its new technology, then assign a few engineers to copy what they have learned about the new technology. Another is to copy new technology without regard to whether or not it is patented and refuse to take a license. Still another is to entice away the most knowledgeable technical people from an innovative startup, using salaries and stock options that startups cannot match. Most of the time there is no reprisal in these situations, but even if sued for infringement, the infringer predictably will hire the very best lawyers and litigate aggressively until the case goes

³ Numerous academic studies link a strong patent system with widely diversified innovation by inventors and entrepreneurs. *E.g.*, Barnett, *INNOVATION, FIRMS AND MARKETS: THE ORGANIZATIONAL LOGIC OF INTELLECTUAL PROPERTY* (Oxford University Press 2021); Stephen Haber, "Patents and the Wealth of Nations," *Geo. Mason L. Rev.*, 23:4, pp. 811 *et. seq.*

away or can be settled for a tiny fraction of its value. The PTAB provides opportunities for driving up litigation costs and delaying final resolution of almost any case. These strategies are a direct outgrowth of the declining enforceability of U.S. patents, particularly the loss of injunctive relief, the propensity of the Federal Circuit to cut back or reverse large damage awards, and the undeniable vulnerability of critical patents to IPRs. This type of predation has become an all too frequent phenomena, as can be seen in Apple's misappropriation of the medical device technologies of Masimo and AliveCor,⁴ Google's misappropriation of Sonos' internet audio technology,⁵ Samsung's misappropriation of Netlist's memory technology,⁶ Cisco's misappropriation of Centripetal's network security technology,⁷ etc.

Third, patent litigation has become prohibitively expensive for most startups and small companies. The cash reserves available to large infringers allows them intentionally to make litigation so expensive that few startups can even consider litigation to stop infringement of their patents, let alone obtain the resources needed to initiate litigation or even licensing discussions. A patent infringement case from start to finish can cost the plaintiff tens of millions of dollars and can tie up most of the management team of a small company for years, as the case works its way through the courts. Startups funded by venture capital may be able to raise large amounts of capital, but typically are not allocated more than they need for hiring people and conducting the R&D needed to get a product to market and achieve profitability. Few investors are willing to support litigation by increasing their investments, because the outcomes are extremely unpredictable and returns are seldom worth the risk. The creation of post-grant procedures may have been envisioned by Congress as a way to reduce these costs of litigation for all parties, but in reality, these may have made litigation less costly for large corporate entities that comprise the primary users of IPR procedures, but they have made it **vastly more expensive**, risky and difficult for startups and small companies.

Finally, the extraordinary rate of cancellation of the patents that the same agency examined and issued a few months or years earlier, the absence of a standing requirement for an IPR petition, the emergence of bounty hunters such as Unified Patents, the gamesmanship involved when both an IPR proceeding and district court litigation co-exist, the lack of finality as to patent validity – all of these factors have created a nightmarish scenario for the startup cohort that is going to be difficult to overcome. The PREVAIL Act is a major step toward restoration of a patent system that inventors, startups and their investors want to use. Patents only perform their intended purpose

⁴ <https://www.medtechdive.com/news/apple-masimo-itc-patent-vote-AAPL-MASI/650511>

⁵ <https://www.reuters.com/legal/us-jury-says-google-owes-sonos-325-million-smart-speaker-patent-case-2023-05-26>

⁶ <https://www.reuters.com/legal/samsung-hit-with-303-mln-jury-verdict-computer-memory-patent-lawsuit-2023-04-21>

⁷ <https://money.usnews.com/investing/news/articles/2022-12-05/u-s-supreme-court-rejects-centripetal-appeal-in-cisco-patent-fight>

of incentivizing innovation when they are **perceived** by those who must commit time, money and other resources to the task of developing new technologies and products as providing genuine protection from infringers, predatory or otherwise. This perception arises in major part from “outcomes,” *i.e.*, whether patent owners win or lose, not the minutia as to how that came about. The regular and frequent cancellation of patents that play a central role in the business model of a small company echoes loudly throughout the entire cohort and is a major factor in the growing irrelevance of patents to this community. From the earliest days of the PTAB, startups and their investors have paid close attention to the cancellation statistics, which have been extremely troublesome. At the moment, U.S. patents are no longer perceived by a strong and growing majority of this community as a reliable way to protect new technology.

Faced with the foregoing, many entrepreneurs and investors have stopped considering their patents as a key part of their business strategy, which in many cases means that fewer and fewer of our most talented scientists and inventors are pursuing the types of innovation that America needs most, as investment dollars move to other countries or to enterprises that do not need patents – such as fashion, social platform apps, recreation and the like. There also has been a shift toward technologies and business models that rely on trade secrets and subscription models to defeat the public disclosure incentive of patents, precisely the opposite effect of why Congress wants patents in the first place. Put succinctly, U.S. patents are increasingly irrelevant to the investment of time and resources in new and unproven technologies, and that is a long-term disaster for this country.⁸ The U.S. has led the world for more than two centuries in the development of science and technology. Allowing patent protection to become irrelevant to innovation has enormous and ominous implications for this country and should be a grave concern to everyone. The PREVAIL Act is a good step in the right direction and USIJ strongly supports it.

⁸ See, Mark Schultz, “The Importance of an Effective and Reliable Patent System to Investment in Critical Technologies,” USIJ Research Paper (2020) <https://www.usij.org/research/2020/8/3/usij-releases-report-on-the-importance-of-an-effective-and-reliable-patent-system-to-critical-technologies>. Professor Schultz demonstrates the shift in venture capital away from patent essential technologies and toward less risky investments such as fashion, smartphone apps, hotels and the like.

APPENDIX A – USIJ White Paper “THE PREVAIL ACT PROVIDES MUCH-NEEDED REFORMS TO REDUCE HARASSMENT OF STARTUPS AND INVENTORS”

THE PREVAIL ACT PROVIDES MUCH-NEEDED REFORMS TO REDUCE HARASSMENT OF STARTUPS AND INVENTORS

The Importance of Reliable Patent Rights: Patents are the lifeblood of innovative startups, particularly those with significant research and development costs. Robust and enforceable intellectual property protections attract capital and ensure a seat at the table across from much larger, highly resourced, and heavily entrenched competitors. But patent rights have been under assault in recent years, and much of the resulting uncertainty can be traced to abuses of the *Inter Partes* Review (IPR) and Post Grant Review (PGR) proceedings for challenging the validity of issued patents at the Patent Trial and Appeal Board (PTAB), an administrative tribunal within the United States Patent and Trademark Office (USPTO).

The Problems Facing Inventors and Startups: When Congress created these proceedings as part of the *America Invents Act (AIA)* in 2011, it recognized the potential for abuse and harassment of patent owners.⁹ But it could not have envisioned the extent of the predatory infringement strategies, extortion and stock-market manipulation schemes, tactics designed to secure leverage in unrelated disputes, and duplicative litigation loopholes exploited by opportunistic parties and clever attorneys.¹⁰ As a result, the PTAB has become an *additional* litigation tool for mercenaries, Big Tech, and Chinese competitors to impose costs on inventors and small businesses seeking to enforce their patent rights¹¹ rather than the “quick and cost-effective *alternatives* to litigation” envisioned by Congress.¹² Moreover, the AIA included structural flaws that subjected patent owners to lower invalidation standards, permitted anyone to file petitions, and omitted sufficient ethical safeguards, among other shortcomings. Rather than curbing unnecessary litigation, the PTAB has multiplied proceedings and costs for all involved.

The Legislative Solution: *The Promoting and Respecting Economically Vital American Innovation Leadership Act (PREVAIL) Act* represents a much-needed course correction that would restore confidence in our patent system and reinvigorate entrepreneurs to invest in the research and development necessary to realize the full scope of critical, next-generation technologies and drive our innovation economy. It would do so by, among other things, providing a standing requirement for filing petitions, applying the same standards as district courts, prohibiting parallel litigation in multiple forums, limiting serial and duplicative petitions, recognizing district court validity adjudications, closing a loophole

⁹ See H.R. Rep. No. 112-98, pt. 1, at 48 (2011) (recognizing “the importance of quiet title to patent owners to ensure continued investment resources,” and warning that AIA trial proceedings should not “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”).

¹⁰ See, e.g., Lamar Smith, *Don’t Weaken the Leahy-Smith America Invents Act*, Bloomberg Law (March 30, 2022), <https://news.bloomberglaw.com/ip-law/dont-weaken-the-leahy-smith-america-invents-act> (“In the decade since the AIA took effect, the wording in the law to prevent that harassment has proved unequal to the task, and entire industries have emerged to perpetuate these abuses.”).

¹¹ See Innovation Alliance, *Infographic: Big Tech Companies Are Biggest Users of PTAB, 2012-2022* (Jan. 31, 2023), <https://innovationalliance.net/from-the-alliance/infographic-big-tech-companies-are-biggest-users-of-ptab-2012-2022/>.

¹² H.R. Rep. No. 112-19, part 1, at 48 (emphasis added).

permitting time-barred petitioners to join subsequent proceedings, providing transparency, and requiring the establishment of a PTAB code of conduct.

Case Studies: The following real-life examples are but a small sample of the harassment and abuses suffered by patent owners, demonstrating the need for the PREVAIL Act and its potential impact:

1. Intel Corp., OpenSky Industries LLC, and Patent Quality Assurance LLC v. VLSI Technology LLC

Perhaps the most controversial IPR proceedings in recent memory involve petitioners OpenSky and PQA, which were formed *solely* to challenge two VLSI patents that a jury had recently found Intel to have infringed to the tune of over \$2 billion in damages. The USPTO Director personally sanctioned both entities for filing abusive petitions, but perplexingly permitted the IPRs to continue. Despite the fact that Intel had already had its own petitions denied at the PTAB, and despite the fact that Intel was statutorily barred from filing additional petitions due to the now-concluded jury trial in which it had the opportunity to litigate validity, Intel itself was joined to the proceedings initiated by OpenSky and PQA and was permitted to stand in their shoes for purposes of maintaining the challenges to the validity of VLSI's patents.¹³ Despite the pending appeal from the district court judgment, the PTAB has now issued decisions finding VLSI's claims unpatentable.¹⁴

If the PREVAIL Act had been enacted: None of these shenanigans would have been possible under the PREVAIL Act. For example, neither OpenSky nor PQA could have satisfied the standing requirement to file petitions in the first place, which in turn would foreclose Intel from seeking joinder or further review. Intel's petitions would also have been rejected in view of the prior district-court adjudication, and Intel would have been subject to a rebuttable presumption against joinder in view of its otherwise time-barred status. Moreover, had Intel nonetheless succeeded in securing review at the PTAB, it would have been required to abandon its invalidity defenses in the district court litigation and appeal. The final outcome of the IPRs may also have been different in view of the presumption of validity and the heightened clear-and-convincing-evidence burden of proof, which mirror the standards applied in district court.

2. Cisco Systems, Inc. and Palo Alto Networks, Inc. v. Centripetal Networks, Inc.

Centripetal is an American network security company that has fought to vindicate its intellectual property rights against large, incumbent technology companies. Like VLSI, Centripetal prevailed in district court against a Big Tech giant, Cisco, securing a damages award of well over \$2 billion based on the judge's determination that Cisco had willfully infringed Centripetal's patents. Palo Alto Networks then filed a petition challenging one of those patents, despite not having been accused of infringing it, and Cisco was permitted to join that proceeding despite the fact that—like Intel—it was statutorily time-barred from filing its own petition challenging that patent. As a further twist, the district court judge's infringement and damages decision was vacated on appeal due to his wife's purchase of a few thousand dollars of Cisco stock, but when Centripetal discovered that one of the PTAB judges adjudicating its patents held a similar amount of Cisco stock, the IPR was permitted to

¹³ See, e.g., Riddhi Setty, *VLSI Challenges Draw Sanctions from Patent Office Director*, Bloomberg Law (Dec. 22, 2022), <https://news.bloomberglaw.com/ip-law/patent-office-director-issues-sanctions-in-vlsi-challenges>.

¹⁴ See *OpenSky Indus., LLC v. VLSI Tech. LLC*, IPR2021-01064, Paper 135 (PTAB May 12, 2023); *Patent Quality Assurance, LLC v. VLSI Tech. LLC*, IPR2021-01229, Paper 129 (PTAB June 13, 2023).

proceed.¹⁵ Despite the pending remand of the infringement case, the PTAB has now issued a decision finding Centripetal's claims unpatentable.¹⁶

If the PREVAIL Act had been enacted: This case would likewise have proceeded very differently under the provisions of the PREVAIL Act. For example, the standing requirement likely would have foreclosed Palo Alto Networks' petition altogether because it had not been accused of infringing the relevant patent, and at minimum Cisco's joinder petition would have been barred due to the prior, final judgment of validity in the district court litigation. Cisco would be barred from pursuing invalidity in the district court remand proceedings upon securing institution of an IPR, but Cisco—who was otherwise time-barred—would have been subject to a rebuttable presumption against joinder with the Palo Alto Networks proceeding. Additional PREVAIL Act provisions that may have altered the outcome here include the presumption of validity and the heightened clear-and-convincing-evidence burden of proof for establishing unpatentability, both of which mirror the district-court standards. Additionally, the code of conduct requirement likely would have precluded the PTAB judge holding Cisco stock from sitting on the panel adjudicating the challenge to Centripetal's patents that would directly benefit Cisco and to which Cisco had been joined as a party.

3. Code200, UAB et al. v. Bright Data Ltd.

While this IPR proceeding may not have benefited from the media profile of the VLSI or Centripetal matters, it also reflects many of the harms that the PREVAIL Act seeks to remedy. The patent owner, Bright Data, prevailed in front of a jury against a validity challenge brought by some of the petitioners who subsequently sought review at the PTAB. Code200, one of the petitioners, had previously filed an unsuccessful IPR petition on the same patent. All of the petitioners were statutorily time-barred from filing their own petitions, so they sought to join a proceeding initiated by NetNut Ltd., which had already been terminated from the proceeding after settling with the patent owner. Despite the statutory bar, the “zombie” nature of the NetNut proceeding, and the prior district court decision, the PTAB permitted this challenge to proceed against Bright Data.¹⁷

If the PREVAIL Act had been enacted: Here again, the patent owner would have been spared significant harassment had the PREVAIL Act been enacted. For example, the PTAB would have been required to recognize the prior district court adjudication of validity, and the petitioners involved in that litigation would have been required to choose whether to litigate validity at the PTAB or in the district court. Additionally, the new joinder provisions likely would have precluded otherwise time-barred Code200 from joining NetNut's proceeding, particularly because that proceeding no longer included an active petitioner following NetNut's settlement and termination. Bright Data may also have benefited from the PREVAIL Act's limitations on serial and duplicative petitions, as well as the presumption of validity and heightened burdens noted above.

¹⁵ See, e.g., Kelcee Griffis, *Patent Probe Can Proceed Despite Judge's Cisco Stock Ownership*, Bloomberg Law (May 16, 2023), <https://news.bloomberglaw.com/ip-law/patent-probe-can-proceed-despite-judges-cisco-stock-ownership>.

¹⁶ See *Palo Alto Networks, Inc. v. Centripetal Networks, Inc.*, IPR2022-00182, Paper 67 (PTAB May 23, 2023).

¹⁷ See *Code200, UAB v. Bright Data Ltd.*, IPR2022-00861, Paper 19 (PTAB Oct. 19, 2022).

November 6, 2023

The Honorable Chris Coons
Chairman
Committee on the Judiciary
Subcommittee on Intellectual Property
United States Senate
Washington, D.C. 20510

The Honorable Darrell Issa
Chairman
Judiciary Committee
Subcommittee on Courts, IP, and the Internet
United States House of Representatives
Washington, D.C. 20515

The Honorable Thom Tillis
Ranking Member
Committee on the Judiciary
Subcommittee on Intellectual Property
United States Senate
Washington, D.C. 20510

The Honorable Hank Johnson
Ranking Member
Judiciary Committee
Subcommittee on Courts, IP, and the Internet
United States House of Representatives
Washington, D.C. 20515

Dear Chairman Coons, Chairman Issa, Ranking Member Tillis, and Ranking Member Johnson:

We represent a broad coalition of associations whose members include inventors, patent owners, small businesses, large companies, and academic institutions across the United States. We believe that the strength of the U.S. economy and the ability of the nation to compete globally depend on a reliable patent system that drives research and development (“R&D”) and commercialization of emerging technologies. We strongly support the bipartisan, bicameral Promoting and Respecting Economically Vital American Innovation Leadership (PREVAIL) Act ([S.2220/H.R.4370](#)) introduced by Senators Coons and Tillis and Representatives Buck and Ross, which would advance these goals. **We urge you to pass the PREVAIL Act to reform the Patent Trial and Appeal Board (PTAB) and promote U.S. global technology leadership.**

A fair and reliable patent system is crucial to maintaining our competitive edge in global innovation. Grounded in the Constitution’s intellectual property clause, the U.S. patent system grants inventors defined property rights in their inventions for a limited time in exchange for publicly disclosing these inventions to promote future innovation and commercial activity.

However, abuse of the PTAB has caused inventors to lose confidence that the U.S. patent system will protect their ideas. The America Invents Act established the PTAB in 2011 to provide a cost-effective alternative to federal court litigation for resolving disputes over patent validity.¹ More than a decade later, the PTAB has proven to be an additional forum for patent litigation, and one that has invalidated patents at an alarming rate and forced patent holders to defend their inventions repeatedly in both federal district court and the PTAB.

These changes have diminished incentives to innovate and enabled foreign competitors to overtake the

¹ H.R. Rept. 112-98 (June 1, 2011), at 48 (“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.”).

position of the United States as the global leader in innovation. According to a 2023 study funded by the U.S. State Department and the Special Competitive Studies Project, China now leads in 37 out of 44 key technologies critical and emerging technologies in a range of fields, including defense, space, robotics, energy, biotechnology, AI, and advanced materials.² The study ranked the United States first in only 7 of the 44 technology areas. To compete with China and other countries that seek to take our place as a global technology superpower, the United States must ensure inventors can reliably and effectively enforce their patent rights.

The PREVAIL Act would promote fair treatment of inventors, improve efficiency, and ensure that the USPTO has the resources it needs to effectively administer a patent system that incentivizes American innovation and enables U.S. inventors to compete. By limiting burdensome legal challenges and restoring the predictability of patent rights, the PREVAIL Act allows U.S. inventors to focus their resources on continued innovation.

We thank Senators Coons and Tillis and Representatives Buck and Ross for introducing this important bill, and we look forward to continuing to work with the Congress and the USPTO toward our shared goal of reinforcing the strength and reliability of the U.S. patent system.

Sincerely,

Alliance of U.S. Startups & Inventors for Jobs (USIJ)
 Association of American Universities (AAU)
 AUTM
 Biocom California
 Innovation Alliance
 Licensing Executives Society (USA and Canada), Inc.
 Medical Device Manufacturers Association (MDMA)

cc: Members of the U.S. Senate Committee on the Judiciary
 Members of the U.S. House Committee on the Judiciary

² Jamie Gaida, Jennifer Wong Leung, Stephan Robin & Danielle Cave, *ASPI's Critical Technology Tracker: The global race for future power*, AUSTRALIAN STRATEGIC POL'Y INST. (March 2023), https://ad-aspi.s3.ap-southeast-2.amazonaws.com/2023-03/ASPIs%20Critical%20Technology%20Tracker_0.pdf?VersionId=ndm5v4DRMfplvu.x69Bl_VUdMVLp07lw.



American Intellectual Property Law Association

November 7, 2023

The Honorable Chris Coons
Chair
Committee on the Judiciary
Subcommittee on Intellectual Property
United States Senate
218 Russell Senate Office Building
Washington, DC 20510

The Honorable Thom Tillis
Ranking Member
Committee on the Judiciary
Subcommittee on Intellectual Property
United States Senate
113 Dirksen Senate Office Building
Washington, DC 20510

**RE: Support for S. 2220, the Promoting and Respecting Economically
Vital American Innovation Leadership Act**

Dear Chair Coons and Ranking Member Tillis:

The American Intellectual Property Law Association (AIPLA) is pleased to support, in principle, S. 2220, the “Promoting and Respecting Economically Vital American Innovation Leadership Act” (PREVAIL Act), as introduced in the 118th Congress. The PREVAIL Act would implement reforms to the Patent Trial and Appeal Board (PTAB) to improve efficiency in patent litigation and promote fair treatment for inventors whose patents are challenged at the PTAB. In AIPLA’s view, the PREVAIL Act as introduced in both the Senate and the House of Representatives will help to ensure that post grant proceedings before the USPTO operate as intended—as an efficient alternative to district court challenges that balance the interests of patent owners, accused infringers, and the public, and that avoid abuses of judicial and agency resources.

Founded in 1897, AIPLA is a national bar association of approximately 7,000 members, who include professionals engaged in private or corporate practice, in government service, and in the academic community. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. Our mission includes helping establish and maintain fair and effective laws and policies that stimulate and reward invention while balancing the public’s interest in healthy competition, reasonable costs, and basic fairness.

The PREVAIL Act includes changes that AIPLA has long supported, to afford procedural protections in proceedings at the Patent Trial and Appeal Board that are akin to those afforded to parties in district court litigation, including applying a presumption of validity for patents challenged in AIA trial proceedings and changing the burden of proof for petitioners challenging issued claims in AIA trial proceedings to the clear and convincing evidence standard.

1400 Crystal Drive • Suite 600 • Arlington, Virginia 22202

AIPLA Support for S. 2220, the PREVAIL Act
 November 7, 2023
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While AIPLA supports this legislative effort to improve the implementation of the America Invents Act of 2011 (AIA), we also note a few areas in which the Committees should consider amending the PREVAIL Act as the legislation moves forward. The following are exemplary:

- Section 4(a), Standing in *Inter Partes* Review Proceedings: AIPLA supports a standing requirement for inter partes review (IPR) proceedings but believes that the PREVAIL Act could benefit from further clarification in this section, including stating that the petitioner has the burden of proving standing and clarifying that standing to bring a declaratory judgment action is coextensive with Article III standing.
- Section 4(c)(1)(C) and 5(c)(2), Single Forum: AIPLA favors, in principle, requiring patent challengers to choose and proceed in a single forum for validity challenges described in section 311(b) or 321(b) upon institution of an IPR proceeding or post-grant review (PGR) proceeding, respectively. That said, some further clarifications should be considered. First, the PREVAIL Act addresses whether inter partes review proceedings may proceed in relation to civil actions arising in whole or in part under section 1338 of title 28, but does not reference proceedings in the Court of Federal Claims (CFC) filed pursuant to 28 U.S.C. § 1498. Second, the PREVAIL Act references proceeding before the International Trade Commission (ITC) under section 337 of the Tariff Act of 1930 (19 U.S.C. 1337). AIPLA notes that ITC findings on validity do not carry any preclusive effect in other venues under current Federal Circuit precedent. Because the ITC cannot adjudicate validity per se and its decisions do not have preclusive effect, AIPLA recommends excluding ITC actions from new subsections 315(c) and 325(c).
- Section 4(c)(1)(F) and 5(c)(4), Estoppel: AIPLA favors, in principle, reducing the likelihood of serial patent challenges at the USPTO, through *inter partes* or *ex parte* proceedings, while protecting accused infringers from patent owner gamesmanship that would otherwise impede cost-effective and efficient validity challenges before the USPTO. The PREVAIL Act provides a clear rule and should prevent petitioners from getting an unfair “second bite at the apple.” We note that in certain instances, e.g., where a patent has numerous claims, it may be necessary for a petitioner to simultaneously file two or more parallel petitions challenging a single patent. Although parallel petitions are generally disfavored, current Office rules and guidance allow for this practice if the petitioner demonstrates necessity through a filing at the PTAB. The PREVAIL Act, however, may preclude this practice, preventing petitions filed by petitioners, real parties in interest, or privies who have “previously requested an inter partes review” or who has “previously requested a post-grant review.” Similar temporal language appears throughout the amendments to subsections 315(f) and 325(f). The language “previously requested” could be replaced with “at least one day earlier requested,” to clarify that the PREVAIL Act is not intended to eliminate parallel petition practice.
- Sections 4(c)(1)(G) and 5(c)(5), Federal Court and International Trade Commission Validity Determinations: AIPLA favors, in principle, precluding a petitioner, real party in interest of the petitioner, or privy of the petitioner to an AIA trial proceeding from instituting or maintaining an AIA trial proceeding against a patent, once a district court or the Court of Federal Claims has issued a final decision or determination on validity of claims of the same patent in an action involving the petitioner, real party in interest of the petitioner, or privy of the petitioner. AIPLA notes that the language of sections 315(g) and 325(h) proposed in the PREVAIL Act is silent with respect to final decisions of the Court of Federal Claims (CFC). AIPLA further notes that the phrase “final judgment” used in the new sections 315(g) and 325(h) may require greater specificity

AIPLA Support for S. 2220, the PREVAIL Act
November 7, 2023
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in the context of district court litigation and may be inapplicable for ITC cases. AIPLA suggests amending the PREVAIL Act to replace “final judgment” in subsections 315(g) and 325(h) with “final decision or final determination.” Notwithstanding the above, to conform existing caselaw that forestalls any preclusive effect of ITC findings on validity, AIPLA prefers an amendment to the PREVAIL Act to remove ITC decisions from new subsections 315(g) and 325(h).

AIPLA appreciates the substantial effort undertaken on these important matters and we urge the Committees to move forward with the legislation. We look forward to working with the Members of the Committees and staff as the process moves forward.

Sincerely,

A handwritten signature in blue ink that reads "Ann M. Mueting". The signature is written in a cursive, flowing style.

Ann M. Mueting
President
American Intellectual Property Law Association



799 West Coliseum Way
Midvale, UT 84047

801.947.3100 Phone
801.944.5376 Fax

November 3, 2023

United States Senate Committee
on the Judiciary
Dirksen Senate Office Building Room 226
Washington, DC 20515
Attn: The Honorable Chris Coons, Chair

Dear Chair Coons and Esteemed Senators:

I have been fortunate to work for a successful American business for years. Bed Bath & Beyond, formerly known as Overstock, employs thousands across the country. As an online retailer from the earliest days of e-commerce, we have made it our mission to help customers create their dream homes. And as a tech-driven business, we have always wanted to make sure our customers could take advantage of the latest developments so that their shopping experience was seamless. Unfortunately, this kind of success also makes a company a target for abusive patent litigation by non-practicing entities.

Non-practicing entities (often called patent trolls) are the single most significant problem in patent law and an unnecessary added cost to doing business. In addition to the trolls themselves, there is now a network of third-party litigation companies who fund the trolls and take a cut of the recovery or settlement. This system is rife with abuse like forum shopping, most famously in the Eastern District of Texas, and more recently, with a single judge in Waco handling 25% of the nation's patent cases. Like many companies, we have experienced more than our share of such abuses.

Thankfully, Congress recognized this issue and passed the America Invents Act in 2011. And in 2012, after a year of putting in place the framework, the Patent Trial and Appeal Board got started, with the important role of assessing the validity of the kind of patents that were getting used to shake down U.S. business. This meant that when fifty Main Street businesses were sued for using technology that they purchased from a technology company, the provider of that product or service could have the Patent Office evaluate the validity of the patent instead of defending fifty different litigation matters.

Under the PTAB, abusive patent litigation campaigns could be stopped in their tracks when the agency addressed its mistake in granting a patent in the first place. On average, defending a patent case through trial costs \$3-\$6M, with much of the cost incurred in wide-ranging and abusive discovery. Between 2014 and 2019, AIA and PTAB reforms produced approximately \$2.644 billion in industry savings by reducing the number of patent cases running through PTAB and lowering costs per case.

The PREVAIL Act, as currently drafted, seems to focus away from that recognized abuse to make it more difficult for companies to challenge invalid patents, and by so doing, would peripherally protect the abusers. For example, the PREVAIL Act proposes several changes to make the PTAB operate more like a court. One reason the PTAB is effective is precisely because it doesn't operate by the same rules as a court.

The PREVAIL Act would also make it harder for any challenge to be successful, requiring a higher standard with the justification that the PTAB should defer to the work done by a single patent examiner to grant the patent. This hurdle is neither deserved nor merited. The Patent Office makes mistakes, just like every business. Making it harder to have the agency correct mistakes means more money coming out of business coffers and into the hands of patent trolls. While I recognize inventors need protection, their inventions will have little to no value if companies have

to risk costly and needless patent troll litigation just to use them.

On top of all of this, American businesses are starting to leverage AI technology for the benefit of their customers. Patent litigation has the potential to shut down this beneficial usage before it even gets off the ground. The PTAB needs to be able to address issues with AI patents that should not have been granted, just as it did with invalid software patents for years. The PREVAIL Act, as drafted, would impair that effort.

I urge Congress to revise the PREVAIL Act with greater attention to the widely acknowledged problems in the patent system like excluding non-practicing entities and their financing partners from litigation. Please focus on preventing the most significant abuses of our patent system. In spite of its name, the PREVAIL Act should not prevail.

Sincerely,



E. Glen Nickle
Chief Legal Officer and Corporate Secretary
Beyond, Inc. (formerly Overstock.com, Inc.)



November 7, 2023

The Honorable Chris Coons
218 Russell Senate Office Building
Washington, D.C. 20510

The Honorable Thom Tillis
113 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Coons and Ranking Member Tillis,

The Council for Innovation Promotion is a bipartisan coalition dedicated to promoting strong and effective intellectual property rights that drive innovation, boost economic competitiveness, and improve lives everywhere.

We write to express our strong support for the PREVAIL Act and to applaud the subcommittee's commitment to this legislation with its holding of a hearing on the bill.

As explained in more detail below, C4IP supports this bill because of the sensible corrections it makes to the Patent Trial and Appeal Board's (PTAB's) reviews of issued patents based on over a decade's worth of experience with the proceedings following their creation with the passage of the Leahy-Smith America Invents Act of 2011 (AIA). In particular, while the PTAB was intended to make patent litigation more efficient and less expensive, it has become clear that, too often, it has instead forced invalidity challenges on two fronts, under different standards, and often defended against multiple attacks at the PTAB. It does not benefit the public to have governmental resources used in this duplicative way. The PTAB was intended to be a less costly alternative to district court litigation, not an expensive and redundant addition.

Overall, these dynamics have shifted the patent system decisively against startups and other innovative companies, who are often facing infringement by very well-resourced large companies that can afford to mount relentless invalidity challenges to a patent in multiple venues. This goes to the core of the patent system by making patents less reliable as collateral to back investments in research and development, which hurts small businesses, in particular, who need patents to stand up to bigger companies that might try to copy their successful products.

The PREVAIL Act would restore balance to the PTAB review proceedings by



requiring accused infringers to choose only one forum in which to pursue their invalidity challenges instead of having two bites at the apple, thereby ensuring the efficiency promised by the AIA. It also would align PTAB and district court standards, enabling the PTAB to play its originally intended role as an alternative to district court litigation and not a duplication of district court litigation. Finally, the bill includes a number of good government provisions, such as ensuring transparency in Director reviews of PTAB decisions, that should be firmly established through codification.

To explain further, we address each of these points in turn:

1. By Eliminating Needless Duplication, the PREVAIL Act Promotes Efficiency and Fairness

Several provisions of the PREVAIL Act address sources of duplication that were not intended by the AIA but which have become a drain on resources. This includes duplication between the district court and PTAB and within the PTAB itself.

This multiplicity imposes a significant burden on the patent owner, who often needs to litigate cases before both courts and the PTAB at the same time (under different standards, discussed below), in addition to potentially fielding multiple challenges at the PTAB. And all of this can happen before the patent owner gets any relief on his or her claims of intellectual property theft.

It is also not a good use of governmental resources to decide the same issues repeatedly. The possibility of inconsistent results between these different proceedings serves to undermine public confidence in the patent system overall -- confidence that is needed to drive investment into innovation in the first place. A weakened patent system means that we all lose from innovations that will never be made and new startups that will never be founded.

The PREVAIL Act addresses these issues by:

- **Ensuring that only a single forum hears a challenge** -- if a petition is instituted at the PTAB, the petitioner (or their real party in interest or privy) may not maintain the same challenges in the district court or International



Trade Commission. This provision directly ensures that only one forum -- and that of the petitioner's choice, not the patent owner's -- hears a validity dispute;

- **Providing that a petitioner may only challenge a patent at PTAB once unless the petitioner is subject to additional infringement allegations on the same patent** -- this provision makes a petitioner bring its best challenges at once and only once. But it is also balanced by ensuring that if a patent owner further challenges the petitioner on the same patent, the petitioner has another chance to go to the PTAB on those new challenges;
- **Providing that, if a district court or the ITC has ruled on a patent's validity, an accused infringer in that case (or its RPIs or privies) cannot go to the PTAB to try to get a re-do** -- after one forum has decided on a patent's validity, it is a poor use of resources to have another forum do so. The parties in the original case have appellate review rights for the very reason of ensuring that the initial decision was made correctly;
- **Reforming the joinder process to guard against an unfair pile-on of additional petitioners** -- additional parties are allowed to join a filed petition, but there is a process to ensure that a petitioner who could not bring a challenge on their own because of filing too late cannot circumvent that existing statutory limitation. This helps protect patent owners from the additional challenges that the AIA intended to prevent;
- **Clarifying that real-party-in-interest limitations extend to membership groups filing challenges on behalf of their members** -- right now, certain membership groups file challenges on patents that may be, or are, asserted against their members. These groups claim to have no coordination about which challenges they assert, thereby allowing their members to file their own challenges if they choose. This change would end this practice, ensuring that parties do not effectively get two bites at the apple to challenge validity at the PTAB;
- **Adjusting the scope of mandatory discovery to avoid gamesmanship** -- to ensure that the AIA's (and this bill's) limitations on



real-parties-in-interest and privies are enforced, patent owners would automatically be entitled to discovery on this issue. The current lack of automatic discovery puts patent owners at a disadvantage if they suspect that these provisions are being violated because they may not have access to evidence to prove it.

All of these changes align with the AIA's original intent to balance the petitioner's right to challenge a patent at the USPTO with the patent owner's need for quiet title. As the House Report associated with the AIA stated: "The Committee recognizes the importance of quiet title to patent owners to ensure continued investment resources. . . . [T]he changes made by [the AIA] 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."

2. The PREVAIL Act Aligns PTAB and District Court Standards, Creating a More Rational and Equitable System

The original intent of the PTAB as an alternative to district court litigation calls for the standards between the two proceedings to be aligned, which also helps to prevent gamesmanship.

The PREVAIL Act takes several steps to align PTAB standards with those of a district court, including:

- **Requiring the same standard of proof for invalidation, reflecting that the patent has already undergone an examination process** -- this is the appropriate standard for post-grant proceedings because some deference should be due to the initial examination regardless of what forum takes a second look at the patent. This standard also helps guard against hindsight bias, making it fairer to patent owners. The objective validity of an issued patent should not depend on which tribunal might happen to analyze it in the first instance;
- **Encourages early challenges through PGRs while creating a standing requirement for IPRs to better respect reliance interests in a granted patent** -- under the bill, PGRs (available for the first nine months



after a patent issue) will continue to have no standing requirement to encourage early challenges to a patent before substantial investment in it has occurred. This will encourage interested parties, especially well-resourced ones, to be vigilant and mount early challenges to issued patents. For IPRs (available after the first nine months of a patent's issuance), the bill establishes a standing requirement to better respect the reliance a patent owner may develop on a patent over time by limiting challenges to those who have a direct stake in the patent's invalidity. This will help reduce the gamesmanship that has occurred by hedge-fund managers and others who want to make quick money by challenging a patent to short the patent owner's stock, for example. Virtually all adversarial proceedings have long required standing precisely to eliminate abuse by parties that have no direct stake in the dispute. Given the already extremely high overlap between district court and PTAB litigation, this change also would not significantly impact the current pattern of filers;

- **Codifying current Office practice on how the scope of patents is interpreted** -- the Office has implemented through regulation the use of the district court claim construction standard after initially implementing an alternative practice. The Office recognized that aligning these standards promotes efficiency between district courts and the PTAB by not requiring parties to make different arguments in different proceedings on the same topic. It would also enable each forum to use the decisions of the other, furthering the intent of having PTAB be an alternative, rather than a duplication, of district court litigation. Codifying this claim construction practice would ensure no further change at the PTAB, helping to promote certainty in the patent system.

3. The PREVAIL Act Establishes a Number of "Good Government" Provisions

Experience with the PTAB has shown some inadvertent gaps that could benefit from statutory guidance and regularization. The same is true for certain important court decisions.

To that end, the PREVAIL Act:

- **Codifies the Director Review process, requiring transparency** -- following the Supreme Court's decision in *U.S. v. Arthrex*, the Director now



has the power to revisit PTAB decisions. The PREVAIL Act would codify this process and require the Office to put all such decisions in writing and on the record;

- **Requires the Director to create a code of conduct for PTAB judges similar to federal courts** -- right now, PTAB judges only follow the ethics rules of the Department of Commerce. This means the PTAB judges are out of step with federal court judges, for example, on whether they can hear cases when they own stock in the parties appearing before them. Given the enormous implication of PTAB decisions -- akin to that of district courts' -- it is appropriate for the ethical standards to be similar too;
- **Establishes practices for PTAB panels that are more transparent** -- if there are changes to the members of a PTAB panel hearing a given case, they must be made public. This will help guard against making personnel changes to alter case outcomes;
- **Codifies the current claim amendment process** -- patent owners are guaranteed to have a chance to amend their claims during post-grant proceedings by statute, but initially, almost no claim amendments were allowed. Subsequent case law and rule changes now allow for patent owners to receive feedback on an initial round of proposed substitute claims and then submit revised ones. While the number of allowed amendments is still low, the numbers have increased significantly. This process is more in keeping with the intent of the AIA to ensure that patent owners have a meaningful chance to correct defects in their patents;
- **Requires the Director to decide how multiple challenges against the same patent will be handled** -- right now, the Director has discretionary authority to do this. Making it mandatory should help ensure that there is consideration of whether there can be a better consolidation of proceedings or if one of the proceedings should be stayed;
- **Requires that officers and supervisors may not direct or influence PTAB merits decisions** -- consistent with due process, this provision ensures that parties know that the judges appearing before them are the only ones deciding their case without other ex parte communications within the Office.



* * *

In sum, the PREVAIL Act provides for significant improvements to the PTAB review proceedings, promoting efficiency and fairness, and ultimately helping to promote U.S. innovation. C4IP again applauds the committee for holding a hearing on this important topic and hopes the subcommittee and committee will continue to move forward on this critical bill. C4IP stands ready to assist in any way that it can.

Sincerely,

A handwritten signature in black ink, which appears to read "Frank Cullen".

Frank Cullen

cc:

Sen. Alex Padilla, Member, Senate Judiciary Subcommittee on Intellectual Property
Sen. John Cornyn, Member, Senate Judiciary Subcommittee on Intellectual Property
Sen. Jon Ossoff, Member, Senate Judiciary Subcommittee on Intellectual Property
Sen. Marsha Blackburn, Member, Senate Judiciary Subcommittee on Intellectual Property
Sen. Mazie Hirono, Member, Senate Judiciary Subcommittee on Intellectual Property
Sen. Peter Welch, Member, Senate Judiciary Subcommittee on Intellectual Property
Sen. Tom Cotton, Member, Senate Judiciary Subcommittee on Intellectual Property

Statement for the Record of

Josh Makower, MD
Founder & Chairman, ExploraMed

U.S. Senate Committee on the Judiciary

Subcommittee on Intellectual Property

Hearing on *"Reforming the Patent Trial and Appeal Board – the PREVAIL Act and Proposals to Promote U.S. Innovation Leadership"*

November 8, 2023

I write as an academic, inventor, entrepreneur and venture investor with several decades of experience working to advance breakthroughs in medicine and engineering.

I am currently the Yock Family Professor and Professor of Medicine & Bioengineering at Stanford University and the Director & Co-Founder of the Stanford Byers Center for Biodesign. The views expressed in this letter are my own.

Based on my experience as a start-up company creator, I can say with certainty that the strength of our patent system is absolutely essential for the invention, development and commercialization of breakthrough technologies in the U.S. I commend Chairman Coons, Ranking Member Tillis and other members of the Senate Judiciary committee for their commitment to the integrity of our patent system and for the introduction of S.2220, the Promoting and Respecting Economically Vital American Innovation Leadership Act, (PREVAIL Act)"

While the original design of the Patent Trial and Appeal Board as part of the America Invents Act had the laudable intention of creating a more efficient and cost-effective mechanism for assessing the validity of U.S. patents that were deemed to be of "low quality," the reality is that PTAB is now most commonly used as a venue to challenge the most commercially viable patents and undermining innovations brought to market by disruptive competitors.

The provisions of the PREVAIL Act would make important reforms that would be felt by inventors, entrepreneurs, and investors almost immediately. This would lead to increased dynamism and activity in the startup environments that I am most familiar with and I am confident this would be repeated across many technology sectors and outside innovation "hotbeds" like Silicon Valley.

The key provisions of the PREVAIL Act are much needed and I hope will also seem necessary and intuitive to your Senate colleagues.

Improvements to the PTAB process such as a standing requirement, limiting abuse of the joinder provisions, limiting duplicative challenges to the same patent at PTAB and in district court, raising the legal standard for invalidating an issued patent by requiring clear and convincing evidence of invalidity, and ending serial challenges of the same patent will restore balance to the process and confidence to inventors and startups who need to rely on strong patents to build their business.

I wish you a productive hearing and would welcome the opportunity to further support your efforts to pass the PREVAIL Act.

Best,

A handwritten signature in black ink, appearing to read 'J. Makower', with a long horizontal flourish extending to the right.

Josh Makower, MD



Unified Patents, LLC
1.650.999.0889

4445 Willard Avenue
Suite 600
Chevy Chase, MD 20815
United States

November 7, 2023

The Honorable Chris Coons
Chairman, Subcommittee on Intellectual
Property
218 Russell Senate Office Building
Washington, DC 20510

The Honorable Thom Tillis
Ranking Member, Subcommittee on
Intellectual Property
113 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Coons and Ranking Member Tillis,

Thank you for holding this hearing on the Patent Trial and Appeal Board ("PTAB") at the U.S. Patent and Trademark Office ("USPTO"). Unified Patents ("Unified") appreciates Congress's attention to ensuring that the PTAB remains the robust forum it has been for the USPTO to correct its mistakes; Congress should continue to celebrate the success of the America Invents Act ("AIA") and the boon it has been to the U.S. economy and public participation in the patent system.

A central premise of the AIA and our patent system has been that the public has an interest in ensuring that all patents issued by its government were appropriately granted and cannot be used to unduly extract rents from the public. It is not meant as a walled garden usable only by well-heeled insider stakeholders, but as a system open to the public and any who would oppose unnecessary government monopolies.

Unfortunately, the policies proposed in the PREVAIL Act (S. 2220)—in particular, those portions that require "standing" to file post-grant review procedures—would dramatically undermine those worthy goals, are deeply unpopular and widely opposed, and should be rejected for the reasons explained below. They seem to be championed only by a small minority of stakeholders who stand to benefit from the rollback of these democratizing reforms.

Critically, as Chairman Coons and others have noted, the PREVAIL Act's "standing" provision is "closely tied" to standing provisions proposed in the recent Advance Notice of Proposed Rulemaking ("ANPRM"). That effort received more than 14,000 comments, the most on record (by far) for any patent-related rule or call for comment in the agency's long history. The USPTO and you both asked for widespread public feedback and input on these provisions, and a wide range of industries, individuals, and stakeholders delivered, resoundingly opposing the proposals.

They must not be ignored. Unified Patents has conducted the only systematic analysis of all 14,000+ public comments in relation to the recent ANPRM. We found that the public and stakeholders overwhelmingly—as in, more than 95% of comments—oppose these proposals. While special interests advocating for restricting access to the PTAB seek to downplay, mischaracterize, or ignore those comments, or will suggest to you that there is still broad stakeholder support for these policies, there is not. The public and the vast majority of both interested and disinterested stakeholders oppose

these policies, as they would restrict widespread access to the USPTO, work to keep objectively bad patents in force, and *reduce* certainty and error-correction.

This isn't just narrative—plentiful economic data supports that these reforms would hurt the U.S. economy. These provisions—particularly those related to standing—would result in a net *decrease* of \$482.1 million in gross product, a net *decrease* of \$230.4 million in personal income, a net *decrease* of 2,000 job-years of employment, and \$202.9 million in *additional costs* to the federal government—between lost tax receipts and higher procurement costs. Meanwhile, no credible economic data suggests these reforms would benefit the U.S. economy—just the opposite. Standing requirements for administrative error-correction mechanisms are, quite simply, bad policy.

Who We Are.

Unified is a broad-based membership organization that counts more than 300 members of all shapes and sizes, representing dozens of industry and development verticals and swaths of the interested public, including tiny companies (like CD Universe and DoctorsPartner), open-source developers, regional cable companies, trade organizations, and multinational corporations (e.g., Ford, Disney, American Express, Philips, Wells Fargo, American Standard, Infineon, Bridgestone, Reddit, Redhat). Members span industries and swaths of the American public and collectively represent many of the largest and smallest patentholders in America.

Our ongoing mission is to improve patent quality and deter unsubstantiated, abusive patent assertions worldwide. We do this through, among many other things, reviews of invalid patents in all available fora. We are the best source for industry information about non-practicing entities (“NPEs”), litigation funding, and abusive behavior. Unified monitors limited technology zones for NPE activity using all available public sources and then acts to deter assertion of invalid patents in those specific technology areas.

And we have had a modest but significant effect. We have shown repeatedly that patents asserted abusively against hundreds of companies should never have issued; we have helped to expose fraud and abuse in widespread assertion through large patent assertion entities who have worked to hide their involvement in hundreds of subsidiaries; and we do so by relying on public legal arguments anyone may use. Without our efforts, these improperly issued patents would have remained on the books, and NPEs would today be asserting those patents unjustly. With more than 10,000 patents asserted and hundreds of thousands granted annually, we work diligently and focus on those relatively few that never should have been granted.

Restricting Public Access to the USPTO.

Several provisions in the PREVAIL Act have the cumulative effect of limiting access to the PTAB and making it more difficult for the USPTO to correct its mistakes. For this letter, however, we focus on those provisions that directly attack the role that Unified plays in protecting the public interest and negating improperly issued patents. Specifically, the bill would functionally repeal a key feature of the AIA—the public's right to file challenges to bad patents—and establish a standing requirement for petitioners in the PTAB for post-grant reviews such as *inter partes* and *ex parte* review of patents.

A standing requirement was considered and rejected a decade ago and is entirely at odds with the policy principles embedded in the AIA. A patent, once issued, gives the applicant rights as against all members of the American public, and it is in the public interest that improperly issued patents are removed and canceled as quickly as possible. Improperly-issued patents are not only contrary to the law, but they have the practical effect of distorting capital flows away from otherwise viable areas of innovation.

Independent entities like Unified are essential to the proper functioning of the patent system because we often challenge widely asserted patents that no one else can afford to challenge. Small and medium-sized enterprises (“SMEs”) typically lack the resources or expertise to navigate the complexities of the patent system—and the USPTO continues to raise fees on such challenges—so that, when faced with a demand letter from an NPE seeking to “hold up” those SMEs via the threat of litigation, settlement is, unfortunately, the economically rational response.

Unified never pays NPEs. It cannot be bought off. The NPEs have routinely tried; they have also sought to be paid millions by Unified to avoid adverse decisions, on the mistaken assumption that Unified acts on behalf of its member companies. We always refuse. If Unified settles, it does so only in exchange for a zero-dollar license, demonstrating the objective value of the assertion. And Unified is very successful in doing so; most of its challenges result in the USPTO objectively invalidating the claims challenged (*e.g.*, greater than 90 percent success rate in 2022), making Unified an important check on patent validity.

Allowing any third-party member of the public to seek review has been a basic premise of this country’s long-standing history of validity review. The legislative history is replete with record statements from Congress about the value of third-party entities in assisting the USPTO in examination and review, providing an essential validity check and effectively outsourcing some of the important work the USPTO has before it. The right to challenge validity is one of the only checks on the system. It prevents the over-patenting of things that were already in the public domain and that interfere with the free market and economic growth. As the Supreme Court has noted, the “public’s . . . paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope” favors the “authoritative testing of patent validity . . . [and] removal of restrictions on those who would challenge . . . patents.” *Blonder-Tongue Labs., Inc. v. Univ. of Illinois Found.*, 402 U.S. 313, 344–45 (1971).

It is important to consider the breadth of the damage that a standing requirement would do to the patent system. The PREVAIL Act would limit PTAB review only to companies that have been sued or threatened with a suit, which means that an SME that receives a letter demanding royalties for a widely adopted technology could not seek review if the letter was sufficiently vague and did not threaten suit, and it certainly could not work with Unified or any other third party to file an IPR. Public interest groups could not challenge a drug patent that prevents generic entry and therefore keeps the price of drugs intolerably high. Nor could a trade association file an IPR to protect its members against an abusively asserted patent. Simply put, a “standing” requirement would make it far easier for improperly-issued patents to evade review and to be asserted against innocent parties.

PTAB Standing is, Simply Put, Bad Policy.

The public and the majority of industry roundly opposes PTAB standing requirements. We urge you to look to the data and the overwhelming majority of public opinion, and to resist the efforts of well-heeled special interests to convince you to support in any way this unpopular step back.

Thank you for your attention to this important issue. We do appreciate any effort to improve the patent system, and regret that we cannot support this particular bill. We look forward to working with Congress to ensure a strong patent system that rewards innovators, holds bad actors accountable, and drives our entire economy forward.

Respectfully submitted,

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