

**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.