

Written Answers to Senators' Questions for the Record

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Questions Submitted by Senator Patrick Leahy

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

Answer:

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

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

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

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

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

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

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

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

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

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

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

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

Answer:

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

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

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

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

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

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

Answer:

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

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

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

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

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

Questions Submitted by Senator Thom Tillis

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

Answer:

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

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

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

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

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

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

Answer:

See my answer to Question #1, above.

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

Answer:

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

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

Answer:

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

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

Answer:

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

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

Answer:

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

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

Answer:

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

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

Answer:

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

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

Answer:

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

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

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

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

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

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

Answer:

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

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

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

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

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