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

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Capital One
Exhibit 1039
Capital One v. Wapp Tech
IPR2025-01325
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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the problems with the prior system than that, although the authorization to initiate inter partes reexaminations was repealed during President Obama's first term in office, as of today there are still 13 of these proceedings pending before the USPTO and the courts.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

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[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

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[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, Judge, 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 advertised[6] for patent cases and recruited plaintiffs[7] 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.

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[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. Alison & 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.

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[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. DataTern, 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(e) 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 discipling 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

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[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

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[17] *Arthrex, 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, if should be allowed to do so even if the patent owner settles with the original petitioner.

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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.