Hearing on "S. 1137, the "PATENT Act" – Finding Effective Solutions to Address Abusive Patent Practices"

Responses to Questions for the Record from Julie Samuels

We have heard about perceived inequities with the Patent and Trademark Office's IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. Do you share these concerns? In your opinion, are the proceedings working as intended by the America Invents Act?

We do not share the view that the Patent Office's (PTO) IPR and PGR proceedings are flawed or unfair. We believe that they are functioning well and in the manner intended by the America Invents Act. The claims that IPR, in particular, has been implemented in a manner that is unfair to patent holders is simply not supported by the evidence.

First, the assertion that the Patent Trial and Appeals Board's (PTAB or Board) invalidation rates have been "overly high" is not borne out by the PTO's own public statistics. The facts are as follows: just over 600 petitions (encompassing an aggregate 20,000 or so claims) have been concluded to date. The Board has instituted proceedings against 68 percent of claims challenged, and declined to institute them against 32 percent. The Board has invalidated 36 percent of these claims. The invalidation rate of *total* claims challenged, encompassing all claims that challengers have sought to invalidate in an IPR, is even lower—24 percent.[1]

Moreover, the critics of IPR fail to acknowledge that these proceedings were carefully designed to deter challenges to high-quality patents. The Board only institutes IPR proceedings if it has first determined that there is a "reasonable likelihood" that the challenge will be successful. Given this high bar, a high percentage of invalidated claims should not be surprising. In fact, it should be expected. If invalidation rates were low, that would indicate a real problem: it would reflect poorly on the Board's decisions to institute proceedings, and would mean that too many good patents were being targeted for challenge.

It is also important to note that these proceedings have an estoppel provision which discourages the filing of weak challenges. Once an IPR is instituted, the challenger is barred from seeking judicial review of any matter that was—or could have been—raised in the IPR. Filing an IPR without strong grounds will result in having the petition denied, which effectively "gold plates" the challenged patent and renders it very hard to attack in the future. In addition, the proceedings were designed to be costly and front-loaded. This hinders bad faith petitioners who would file anything and everything as a means of intimidation—instead, they

[1] "Inter Partes Review Petitions Terminated to Date, As of 1/15/2015." United States Patent and Trademark Office. Available at: http://www.uspto.gov/sites/default/files/documents/inter_partes_review_petitions_terminated_to_date%2001%2015%202015.pdf.

must think strategically about which patents to challenge. In fact, the invalidation rates as reported by the PTO have been relatively modest, and the PTAB has "gold plated" many more claims than it has invalidated.

Those who want to upend the IPR proceedings point to challenges filed by Kyle Bass, who is using the IPR program with the intention of manipulating the stock market. He challenges the validity of pharmaceutical patents at the PTAB in order to drive the patent holder's stock down and then strategically buy competitor's stock that would, in turn, increase in value. While we are troubled by those exploiting any aspect of the patent system (such as, of course, patent trolls), the act of finding ways to short a company's stock is something that should be addressed by the Securities and Exchange Commission, not patent law. To be clear: the problem with Mr. Bass' "business model" is that he is manipulating markets, not that he is challenging patents. Moveover, we note that it does not appear that the PTAB has agreed to institute any proceedings relating to Bass challenges to date.

If the IPR program is up for debate, we should strive to ensure that it is truly serving in the purpose it was intended to serve (an affordable way to challenge questionable patents in light of patentability changes and rising costs of litigation). To that extent, we would make the following recommendations, as set out by a letter we sent the Committee on 21 May 2015:[2]

1. **Lower petition fees for small and micro entities** for which IPR is still an unaffordable tool.
2. **Allow petitioners to file replies** in light of the ability for patent owners to raise new, unexpected arguments when they initially respond to the petitioner's challenges.
3. **Allow petitioners the right to appeal PTAB decisions** at the Federal Circuit just as patent holders can.
4. **Allow petitioners to raise challenges under 35 USC §§ 101 (abstractness) and 112 (indefiniteness)** in light of the Supreme Court's *Alice* and *Nautilus* decisions made post-AIA, which have the effect of invalidating many issued patents if challenged.

Thank you again for allowing me the opportunity to testify before the Senate Judiciary Committee. We looking forward to working with you and the rest of the Committee to improve the IPR process to ensure that it incentivizes good quality patent challenges while avoiding substantial changes in the law.

[2] Available at: http://engine.is/wp-content/uploads/IPRDemandsLetterEnginePKEFFRSt.pdf.