

United States Senate
Committee on the Judiciary

Questions for the Record

“S. 1137, the ‘PATENT ACT’ – Finding Effective
Solutions to Address Abusive Patent Practices”

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Answers to questions offered by Chairman Grassley

1. 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?

J. C. Penney does not perceive that either the Patent Trademark Office’s IPR or PGR proceedings, as administered under current law and rules, operate in an inequitable manner. I am familiar with the statistics that are cited in support of such claimed perceptions, but those statistics do not support the conclusions detractors would have this Committee draw for several reasons. First, the grounds on which a petitioner may rely to invalidate patent claims in these proceedings are limited to two of the most straightforward bases for invalidation – anticipation or obviousness proven by prior patents or printed publications. Patent validity issues litigated in district court cases include several other bases for challenging validity, some of which are more complicated to present. Second, due to the harsh collateral estoppel consequences of a failed challenge in an IPR or PGR proceeding, a petitioner typically only files an IPR or PGR petition if it has a very strong, straightforward case of invalidity under sections 102 or

103. To draw a basketball analogy, a party considering a post grant petition does not file an IPR or PGR unless it has a high percentage shot – such as an open shot under the basket. It is very unusual for a party to file an IPR or PGR petition if it has a low percentage shot – such as a shot taken when double teamed from the corner. Third, the administrative law judges in an IPR or PGR are singularly focused on the issue of validity. In district court proceedings, juries are most commonly asked to render judgment on combined issues of infringement, invalidity and damages. Finally, the rate of settlement of district court patent litigation is far higher than the settlement rate of IPR and PGR proceedings, so there are fewer reported determinations on the merits from district court litigation to evaluate as a percentage of the total number of district court patent cases. Logically, district court cases in which defendants have mustered strong invalidity defenses settle at a higher rate than other cases, further skewing the data. For these reasons, it should be expected that IPR and PGR proceedings would result in the cancellation of a greater number of patent claims than patent claims challenged in district court proceedings.

The latest reported statistics relating to IPRs published by the Office, show that as of April 30, 2015, IPR proceedings have been instituted on 65% of claims challenged, and that 38% of claims on which review was instituted were found unpatentable. Thus, only 25% of claims challenged have been found to be unpatentable though IPR proceedings. These statistics do not support the claims of inequitable treatment before the Office.¹ It is also important to note that while we have decades of data relating to district court patent litigation, IPR and PGR proceedings are still relatively new and there is far less data from which to draw conclusions.

In my opinion, the IPR and PGR proceedings are working as intended by the America Invents Act. IPRs and PGRs allow the Patent and Trademark Office (the “Office”) to improve patent quality in two important ways. First, they empower the Office’s most capable experts—dedicated administrative law judges with both legal and patent expertise—to review the Office’s original work and to correct any mistakes made during the application review process. And second, IPRs and PGRs enable the Office to reduce uncertainty about the validity of granted patents caused by changes in the law or the discovery of new prior art not previously considered by the Office. Congress recognized that granting the Office the authority to check its own work in this manner was essential to improving the quality of U.S. patents. The IPR and PGR processes create an opportunity for the U.S. public to assist the Office by raising questions about the patentability of specific patent claims and bringing undiscovered or unnoticed prior art to the Office’s attention. Once the public raises these issues through IPR or PGR petitions, the Office resolves them through the application of its experience and expertise. Although not yet three years old, the IPR and PGR processes have already proven to be

¹ See Office report of Inter Partes Review Petitions Terminated to Date.
http://www.uspto.gov/sites/default/files/documents/inter_partes_review_petitions_%2004%2030%202015_0.pdf

important tools for improving patent quality by authorizing the Office to determine when, in its expert view, patent claims should never have been granted by the Office in the first place. Congress should allow the Office to continue to evolve IPR and PGR proceedings without interference. The continued availability of these cost effective paths as alternatives to expensive district court litigation is critical to Main Street businesses like J. C. Penney.

Like any new process, there has been a learning curve – both for the Office and for practitioners. The Office has done an admirable job of monitoring the progress of proceedings, soliciting comments and feedback from patent owners and practitioners, and hosting informational webinars and presentations at various locations around the country. The Office has already made one round of rule changes to address concerns about certain aspects of the IPR process and has provided a road map of future rule changes under consideration. The Office has demonstrated diligent stewardship of the innovative solution that Congress enacted in the America Invents Act. The Office, as the expert administrators of the U.S. patent system, should be allowed to adjust its rules and improve its procedures in a thoughtful and deliberate manner to address isolated concerns so that the promise of the America Invents Act will be fully realized. To make significant changes to the original legislative scheme at this juncture would be disruptive and derail the important progress made to date toward improving patent quality.