

**Questions for Professor Jonas Anderson**  
**Submitted by Senator Patrick Leahy**  
**June 23, 2022**

1. For small-business and independent-inventor patent owners, facing a challenge to a patent at the PTAB can be expensive. Even though addressing patent validity in a district court would be even more expensive, we want these patent owners to have a full opportunity to defend their patents. If a petitioner challenges a small entity's patent rights, I want to make sure that the patent owner does not forfeit those rights due to financial constraints.

- a. **Does the PTAB Reform Act address this concern by providing funding for small businesses and individual inventor patent owners who have not already brought their patents' validity into play by asserting them?**

*Yes. The funding in the current bill will protect small and micro entities who have their patents challenged in the PTAB. In fact, the number of small and micro entities that have their patents challenged in the PTAB is very small, but this bill provides important financial incentives for those patent owners.*

- b. **Does the STRONGER Patents Act, introduced in prior Congresses and mentioned by Mr. Giles, address this concern?**

*Not to my knowledge.*

- c. **More petitions for PTAB review are filed by large businesses than small businesses. Does that mean we should ignore how useful the process can be for small inventors and small businesses?**

*No*

2. The Patent Act requires the Director of the U.S. Patent and Trademark Office to establish fees for filing PTAB proceedings. Those fees are currently set at at least \$40,000 for each petition. Small businesses that are threatened with litigation may not be able to afford the fee for a PTAB proceeding, even though the PTAB is ultimately a less expensive venue than district court.

- a. **Small and micro entities receive a substantial discount on fees paid to the PTO when applying for a patent. Should small entities receive a similar discount when seeking to challenge a patent?**

*Yes, and this bill would ensure that they are given the financial wherewithal to defend their patents.*

3. In passing the *Leahy-Smith America Invents Act*, I intended PTAB reviews to be a more cost-effective, faster alternative to determine patent validity than district court litigation. District court litigation can easily span years. In contrast, PTAB proceedings by statute must generally be decided within a year. Litigation puts a substantial financial and time burden on inventors, small businesses, and startups around the United States. Even the threat of litigation is enough to make small businesses settle with non-practicing entities who know that the small businesses cannot afford to go through a prolonged litigation.

**a. Does discretionary denial of PTAB proceedings due to pending court proceedings empower nonpracticing entities to seek larger settlements from defendants who are often startups and small businesses?**

*Yes. In fact, many nonpracticing entities select a district court because of the ability to avoid PTAB review. For example, litigation in the Waco Division of the Western District of Texas is scheduled to commence at an incredibly fast pace. Although these are more aspirational dates than hard and fast deadlines, the PTAB can deny review of the patent simply because the case is scheduled to be tried quickly. These discretionary denials fail to consider the actual date of trial: and 94% of these trial dates turn out to be wrong. Every attorney who has ever litigated understands that scheduled trial dates are, for the most part, moveable. The PTAB should not be considering these dates in their institution decisions.*

**b. Should district courts regularly stay their proceedings pending the outcome of PTAB proceedings? Why or why not, or under what circumstances?**

*It would be excellent to receive guidance from the Senate on this issue. If district court judges had some guideposts as to when stays are appropriate and when they are not, forum shopping plaintiffs would have less incentive to shop around. In my opinion, stays are entirely appropriate before claim construction or before discovery has been completed.*

**c. Would routine stays of district court proceedings reduce duplication between district courts and the PTAB, or curb gamesmanship in the filing of district court proceedings?**

*If the district courts had a uniform method of determining the appropriateness of stays, that would very much reduce the gamesmanship involved in forum shopping. Some district court judges advertise their courtrooms to patent plaintiffs and one way they do this is by consistently denying motions to stay and scheduling early trial dates (however illusory) to avoid PTAB review. If district courts all worked from the same playbook on granting of stays, that aspect of forum shopping would largely go away.*

4. 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?**

*There are many types of abuse in the litigation system, but I am assuming that this comment refers to non-parties challenging patents in the PTAB. I don't think that is a problem, per se, but I believe that some petitioners do have other entities file petitions on their behalf in an effort to avoid the AIA's estoppel provisions.*

**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?**

*I don't believe so.*

**c. Does the cancellation of invalid patent claims benefit or harm the public?**

*Ultimately it benefits the public.*

5. 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?**

*I believe the PTAB has been a great innovation for the patent system and society in general. The ability to challenge patents and invalidate invalid patents for a much lower cost than can be achieved thru litigation at the district courts has been a huge boon for society and true innovators. I believe that IPRs and PGRs are so important because they lower the cost of challenging and invalidating patents that should not have issued, and thus reduce the incentives to settle infringement claims on invalid patents.*

*But, I believe that more can be done to ensure that the process of adjudication at PTAB is always fair, dispassionate and even-handed.*

6. At the hearing, Mr. Giles referred to high rates of cancellation of claims of *instituted* post-grant proceedings. However, the official PTO statistics show that, last fiscal year (FY21), only 16% of patent claims subject to a petition were found unpatentable by the PTAB. Meanwhile, all the rest of the claims were confirmed (so not cancelled), were denied institution or dismissed (so not cancelled), settled (so not cancelled), or resulted in the patent owner requesting adverse judgment and disclaiming them (5% of claims, which were cancelled at the patent owner's request).

- a. **Of the 16% of challenged claims that are found unpatentable, some are appealed to the Federal Circuit. Of those claims that are found unpatentable and subject to a Federal Circuit appeal, what percentage of the PTAB's decisions are affirmed by the Federal Circuit?**

*I believe that the 83% affirmance rate below is accurate.*

- b. **I understand that, when a PTAB decision is appealed to the Federal Circuit, the Federal Circuit has affirmed decisions invalidating patent claims (83% affirmance rate) much more often than it has affirmed decisions upholding patent claims (62% affirmance rate). The Federal Circuit applies the same standards to appeals from PTAB post-grant proceedings, regardless of who won at the PTAB. While no one is affirmed 100% of the time, and the PTAB has a good record on appeal, don't these numbers mean that if anything the PTAB is overly friendly to patent owners, more often wrongly confirming claims than wrongly invalidating claims?**

*I am not sure that you can read that much into the affirmance rates. Yes it is nice to see that the PTAB is generally affirmed on appeal, that affirmance rate has to be considered within the context of selection affects: the rate of affirmance also reflects the rates at which cases are appealed from the PTAB and what sorts of cases are appealed. In general, the hardest, closest cases will be appealed. Also, the most valuable patents will be appealed. Thus it is hard to say that the PTAB is overly friendly to patentees or petitioners based on affirmance rates.*

*That being said, the affirmance numbers are within an expected range.*

- c. **With the limited time and resources given to patent examiners to search for prior art, what would you estimate the rate of invalid patent grants to be? Do the challengers requesting PTAB proceedings have more time or better resources to find prior art than the initial examiner?**

*Patent examiners have one of the most difficult positions in the patent system: they have to evaluate a patent application and the novelty and nonobviousness of a patent application in fast moving, cutting edge fields of technology. And they do so with very limited time per patent.*

*The PTAB provides a much more thorough review than an examiner could possibly hope to. At the PTAB (as opposed to examination), administrative law judges also have the benefit of a motivated opposing party that in most cases has much more time and incentive to find invalidating prior art. Because of this, it is to be expected that numerous invalid patents will slip through the examination process. We have traditionally relied on*

*Article III judges to invalidate those invalid patents, but doing so is costly, time-consuming, and judges often are rarely skilled in the art. Thus, the PTAB provides a great alternative to having to go to district court to prove invalidity.*

7. In a June 23, 2022, House of Representatives hearing on the PTAB, Joseph Matal testified that the preponderance of evidence standard in PTAB post-grant proceedings was intentional, because it would make no sense for the PTO defer to itself when reconsidering its own decision, particularly when the PTAB is likely to consider additional evidence that was not properly assessed during examination.

**a. Do you agree that this standard is appropriate when an agency is evaluating its own, prior actions?**

*While it is true that it is generally not preferred to have an agency defer to its own decisions, the PTAB occupies a unique place in the patent ecosystem. In over 80% of PTAB cases, the PTAB is asked to review a patent that is being used in the real world against another party: through a patent infringement action. Because of the parallel nature of so many PTAB cases, I would be in favor of having a single standard by which district courts and the PTAB judge the validity of the patent.*

**b. Is it commonplace for agencies to be required by statute to defer to their own previous determinations or are they typically allowed to correct prior mistakes when brought to their attention?**

*Agencies typically have authority to reverse their previous decisions.*

8. Third-party litigation financing has become a multi-billion-dollar industry over the last few years. This growth has raised important issues regarding transparency and ethics in federal patent litigation. Most federal courts do not require any disclosure of third-party litigation funders. It is difficult, if not impossible, to find out who the funders are and where they are located. The presence of unknown third parties in litigation can interfere with the ordinary practice of discovery, settlement negotiation, and application of remedies, including causing a conflict of interest between the party and the funder. Sovereign wealth funds and other government entities can use the lack of transparency as a vehicle for damaging the competitiveness of U.S. innovative industries.

**a. In April 2022, Chief Judge Colm Connolly of the U.S. District Court for the District of Delaware issued a new standing order regarding transparency in cases supported by third-party litigation funding. The order requires the disclosure of the identity of the funder, whether funder approval is necessary for settlement, the nature of the financial interest, and potentially the terms of the arrangement. The order applies to both plaintiffs and defendants, and to pending litigation. Because of the high number of innovative companies**

**incorporated in Delaware, this district court is a preferred venue for patent litigation, which now totals 40% of the overall cases. Do you support full transparency regarding the involvement of third-party litigation funding in patent cases?**

*Yes.*

**b. How does the involvement of a third-party litigation funder affect patent litigation, particularly if it is not disclosed?**

*On the one hand, it allows small entities to finance expensive litigation to enforce their patents: that is a good thing. If we did away with third-party litigation financing only big companies could afford the expense.*

*On the other hand, it hides the fact that many patents that are brought in litigation and end up at the PTAB are separated from their inventors: that is, the inventor or the inventing company has long since parted with the patent. And it is often hedge funds or other financial entities that now own the controlling share in the patent. This is not necessarily a bad thing for society: inventors can know that their inventions can be monetized for value, thus providing a necessary incentive to invent. But oftentimes the incentive to invent is so attenuated that there is no incentive provided for future inventors, but there is just an incentive to acquire patents for their financial value as tax on other innovators.*

*Simply, third party litigation is a good thing with valid patents: the funder provides a valuable service to small entities that otherwise cannot afford to enforce their patents. But third party litigation is a bad thing with invalid patents; such invalid patents can be used as financial vehicles to tax innocent companies.*

**c. What are the potential national security risks of undisclosed third-party litigation funding?**

*This is not my field, so I will defer on this question.*

## Questions from Senator Tillis for Jonas Anderson

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

There is a lot to like in the bill. Primarily, the changes to the PTAB's *Fintiv* standard are necessary. *Fintiv* grants the PTAB the right to refuse cases not based on the validity of the patent, but rather on a host of other, often illusory, factors.

Additionally, the codification of the *Phillips* standard for claim construction and the provisions that shift the burden for small entities and individual filers.

On things that I would like to see in the bill, I would want more assurances that the composition of PTAB panels is truly random, and not chosen by an administrator that is overly pro or anti-patent. Additionally, I would like to see *fintiv* completely overturned. The PTO should simply follow the statute as to whether they can institute review.

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.

See answer to #1, above.

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

Assuring that cases are heard by random panels of three judges. There are good changes in this regard in the current bill, but the bill could increase the protections for patent owners.

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

See above.

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

No changes necessary. This is a common sense approach to codifying a policy that aligns PTAB practice with district court practice. Codifying it now, at a time when the PTAB is in agreement with the district court, ensures that the PTAB's and district court's claim constructions are judged under the same standard.



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?

The changes are good. The amount of small and micro entities that are litigating patents is vanishingly small, and the amount that are litigating at the PTAB is even smaller still. However, protections such as those introduced in this bill will protect small and micro entities that find themselves litigating in the PTAB and that is beneficial for the patent system. I think most large companies would be happy to support these small entities.

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?

These changes are needed, but they could go further. A chief pillar of our judicial system is the opportunity to be heard by dispassionate judges. This pillar crumbles when the judges hearing a case are hand selected by the USPTO Director. I would like to see even more protections in the PTAB from over-eager administrators.

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?

Gamesmanship is a tough thing to root out in any litigation enterprise and the PTAB is not immune from the challenges either. I think the changes that this bill introduces are for the most part advantageous to the patent system, but they will not end litigants trying to gain an advantage from the system.

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

I am not opposed to introducing a presumption of validity in IPRs. Just as the claim construction standard in this bill would mirror that of the district courts, it would be beneficial to have both systems (district court and the PTAB) working from similar starting points on validity. This question turns on how you view that PTAB process, whether it is a continuation of the examination process or whether it is an offshoot of litigation. I tend to view the PTAB proceeding as an offshoot of litigation, thus my view of the need to synthesize the standards used by both tribunals.

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

I am against a standing requirement in PTAB review. If the Senate is concerned with patentees having to defend their patent from parties that do not have a vested interest in the outcome, but rather are paid to challenge patents by other interested parties, they ought to adopt a more rigorous standard than currently employed, something like an interested-party standard. But I believe a rigorous standing requirement is not beneficial to society and invites potential litigants to play games with the standing requirements.

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

Some clarity on district courts and stays pending PTAB review would be welcome. Currently, each district court judge makes decisions on whether or not to grant stays based on what point the litigation has reached and what the timeline for the case is going forward. If the Senate were to provide guidance on the circumstances where staying a case is appropriate and not appropriate, the playing field would be leveled regarding this important matter. Litigants forum shop for judges in patent cases and one of the most divergent ways that judges handle patent cases is their stay practices. Moving towards conformity of judicial approach to this issue would be a welcome change.