Chairman Chuck Grassley
Questions for the Record

Hearing on "S. 1137, the "PATENT Act" – Finding Effective Solutions to Address Abusive Patent Practices"
United States Senate Committee on the Judiciary
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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. What do you believe is the most important issue that must be dealt with to make these proceedings more balanced for both patent holders and petitioners?*

Answer:

Unfortunately, many of the problems we see in IPR and PGR reviews today are a direct result of the PTO's implementation of IPR and PGR proceedings in a manner that deviated in several important aspects from the framework established by the AIA and sound patent policy. Congress created these AIA reviews as faster, less expensive alternatives to litigation to adjudicate patent validity, not as a means to invalidate patents that could not be invalidated in a court applying balanced and fair rules that afford due process to all participants. Contrary to Congressional intent when the AIA was enacted, patent owners have been put at a distinct disadvantage in these proceedings as compared to litigation, leading to high patent invalidation rates and the widespread belief that the playing field is tilted against patent owners.

In my view, therefore, the most important issue that must be dealt with to make these proceedings more balanced, for both patent holders and petitioners alike, is legislation requiring the PTO to apply the same standards as courts apply in adjudicating patent validity. The current dichotomy between how the validity of patent claims is adjudicated in courts and in the PTO is an invitation to gamesmanship and serial challenges to patent rights. Because the overwhelming majority of patents involved in IPR proceedings involve patents that are in concurrent district court litigation, applying

different standards to patents adjudicated in the different forums invites duplicative proceedings and inconsistent outcomes. Requiring the courts and the PTO to apply the same patent claim construction standard (the ordinary and customary meaning of the claim terms to one skilled in the art), burden of proof to invalidate patent claims (clear and convincing evidence), and presumption of validity (patent claims are presumed valid and the burden to prove invalidity always rests on the challenger) will achieve increased fairness, predictability, and uniformity among proceedings involving granted patents.

Legislation that imparts consistency among challenges to the validity of patent rights in courts and the PTO will remove the current questions and uncertainty that exist concerning the fairness of the procedures used in AIA review proceedings. By enacting such legislation, Congress will reassure the innovation community that patents can be relied upon to protect and support the investments in research, development, commercialization, technology transfer, and collaboration that are so essential to future innovation.

2. *How do we strike the right balance to ensure that IPR proceedings – which many see as valuable in terms of invalidating weak patents – are not rendered ineffective?*

Answer:

What was true when Congress enacted the AIA is still true today – IPR and PGR proceedings are important elements in the overall framework of a properly functioning patent system when they provide faster and less expensive alternatives to litigation to determine the validity of issued patents. But that is only true when those proceedings are conducted in a manner that is equitable and fair to all participants, not when they are so skewed against patent owners that they undermine public confidence and investments in patent rights, and invite gamesmanship and abuse, which regrettably is the case today.

The reforms I proposed in my testimony to the Committee will restore basic balance and fairness to AIA review proceedings, while retaining their vitality as alternatives to litigation to determine the validity of issued patents. Just as patent litigation reforms must be measured and balanced to ensure that they do not unduly undermine the rights of patent owners to assert their patents against infringers, so too must reforms to AIA review proceedings be measured and balanced to ensure that these reviews retain their intended purpose of providing viable alternatives to litigation for challengers to determine the

validity of issued patents. In my testimony, I proposed three areas of legislative changes to restore balance and fairness to AIA review proceedings while ensuring that the proceedings will continue to be effective to invalidate weak patents:

(1) Reforming the procedures used when the PTO is considering whether to institute an IPR or PGR proceeding, to provide a level playing field and basic fairness for all parties;

(2) Allowing patent owners to have the issues raised in newly-filed petitions first considered in reissue or reexamination proceedings, where they may make narrowing amendments to the claims prior to institution of any IPR or PGR (as they could in the initial examination) and where any such amended claims will be construed using BRI (as they would be in the initial examination); and

(3) Reviewing the validity of granted patent claims, and any narrower substitute claims containing only originally issued claim limitations, by applying the same standards in IPR and PGR proceedings as are applied in courts, including claim construction, burdens of proof, and presumptions.

These changes simply restore the proceedings to what Congress intended them to be – faster and less expensive alternatives to litigation in administrative reviews that are fair to both challengers and patent owners, applying balanced rules that afford due process to all participants. The changes I proposed will increase predictability and uniformity among patent validity challenges in the courts and the PTO, and will reduce duplicative and inconsistent outcomes. None of these changes would in any way undermine the ability of the PTO to invalidate “weak” patents.

3. *In its last term, the Supreme Court handed down two decisions, Octane Fitness and Highmark, which provide district courts with greater authority to award attorney fees. As the Chief Intellectual Property Counsel of a company that enforces patents against infringement and also defends against infringement claims, do you believe that the PATENT Act's fee shifting provision will act as a more effective mechanism to prevent abusive patent litigation?*

Answer:

Yes. I have long viewed more frequent fee-shifting in patent cases as the single most effective measure that Congress could enact to address abusive behavior in patent litigation. Applied in a balanced, principled manner, targeting unreasonable positions or conduct on the part of any litigant, more frequent fee-shifting can encourage meritorious litigation behavior, and can discourage the filing of unfounded cases and litigation misconduct.

Although the Supreme Court, during its last term, handed down two unanimous decisions, in *Octane Fitness v. ICON Health & Fitness* and *Highmark v. Allcare Health Management System*,[1] which provided district courts with greater authority and discretion to award attorney's fees, the clarity that the Court could provide to a company like 3M, which enforces patents against infringement and also defends against infringement claims, was limited by the fact that the Court was interpreting the current "exceptional cases" language of 35 U.S.C. § 285. The Court defined an "exceptional case" for purposes of Section 285 as follows:

> We hold, then, that an "exceptional" case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.[2]

I believe that all litigants would benefit from clarity beyond what this definition of "exceptional case" can provide. Trying to decide whether a case "stands out from others" leaves too much room for interpretation and variability among judges and courts. The

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[1] *Octane Fitness LLC v. ICON Health & Fitness Inc*., 134 S. Ct. 1749 (2014) and *Highmark Inc. v. Allcare Health Mgmt. Sys. Inc*., 134 S. Ct. 1744 (2014).

[2] *Octane Fitness*, 134 S. Ct. at 1756.

standard for defining which cases warrant fee shifting does need to afford discretion and flexibility to district court judges, who are in the best position to assess the positions and conduct of the litigants, but the standard needs more clarity and certainty than "exceptional cases" can provide, even after the Supreme Court rulings. Thus, legislation is still needed to provide clearer and more consistent standards for patent owners and accused infringers alike regarding when fee-shifting is appropriate in patent infringement cases.

In enacting such legislation, two fundamental principles should be met. First, fee-shifting should be applied in a balanced fashion, seeking to curtail abusive litigation behavior whether it comes from a plaintiff or a defendant. Such behavior should be targeted regardless of the party that engages in it, and any litigant asserting unreasonable litigation positions or who engages in misconduct should face the prospect of financial penalties. Second, to avoid unduly chilling the ability of patent owners to bring and pursue objectively reasonable claims for infringement of their rights, and to ensure that defendants can assert and litigate objectively reasonable defenses, it is important not to adopt an automatic "loser pays" regime for patent cases. Rather, fee shifting should be premised on objectively unreasonable positions or misconduct of the losing party, which will target abusive behavior while not making litigation to assert well-founded claims of patent infringement, or the assertion of defenses to infringement, too financially risky.

Section 7 of the PATENT ACT adheres to each of these two principles. It applies equally to plaintiffs and defendants. And it does not impose automatic fee shifting. Rather, it provides that reasonable attorney fees will be awarded if a court determines the position or conduct of the non-prevailing party was not objectively reasonable, unless special circumstances make an award unjust.

I also note that those concerned with the impact of fee shifting on the ability of smaller patent owners to enforce their rights against infringement should view Section 7 of the PATENT ACT as an improvement over existing law. As compared to the interpretation of existing Section 285 by the Supreme Court, Section 7 makes clear that fees may be awarded only if the court makes a determination and finding that the "position of the non-prevailing party was not objectively reasonable in fact or law or that the conduct of the nonprevailing party was not objectively reasonable." Moreover, even after making such a finding, the court has the discretion to decline to award fees if "special circumstances would make an award unjust," which presumably would take into account the financial impact on a litigant of a fee award. All of this language provides safeguards beyond the current language of Section 285 to litigants who assert or defend patent cases in good faith.

Thus, I believe that the amendments Section 7 make to Section 285 represent an improvement over current fee-shifting law in patent cases and will provide a more effective deterrent to litigation misconduct.