

United States Senate, Committee on the Judiciary

Subcommittee on Intellectual Property

“The Patent Trial and Appeal Board: Examining Proposals to Address Predictability, Certainty,
and Fairness”

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I. Introduction

Thank you for inviting me to testify on the predictability and fairness of proceedings at the patent trial and appeal board. I am a professor of law at American University Washington College of Law in Washington, D.C. My areas of expertise include patent law, the federal courts, and intellectual property. I have authored numerous articles and op-eds on the operation of the patent system generally, and specifically on ways to improve the fairness of patent adjudication proceedings. See, J. Jonas Anderson & Paul Gugliuzza, *Federal Judge Seeks Patent Cases*, 71 DUKE LAW JOURNAL 419 (2021); J. Jonas Anderson, *Court Capture*, 59 BOSTON COLLEGE LAW REVIEW 1543 (2018); J. Jonas Anderson, *Judge-Shopping in the Eastern District of Texas*, 48 LOYOLA CHICAGO LAW REVIEW 539 (2016); J. Jonas Anderson, *Court Competition for Patent Cases*, 163 UNIVERSITY OF PENNSYLVANIA LAW REVIEW 631 (2015).

One area of my scholarship has focused on federal district court judges who seek to attract patent cases for their courtrooms. This “court competition” for patent cases, I believe, is a threat to the judiciary’s legitimacy. It is with this concern in mind that I will focus my testimony today.

I will begin my testimony by briefly describing how the PTAB has improved the functioning of the patent system. Then I will turn to how federal district court judges who actively seek out patent cases are threatening judiciary’s legitimacy. Then I will move into areas in which Congress can improve the PTAB while simultaneously reducing the ability of district court judges to attract patent cases.

I. The Benefits of the PTAB for the Patent System.

The Federal District Courts have traditionally been the primary venue to raise validity challenges of already-issued patents. While the Patent and Trademark Office traditionally has had some role to play in invalidating incorrectly issued patents, the main avenue for patent challengers to contest a patent was via litigation in the courts. In 2011, Congress created the PTAB as an alternative means of challenging issued patents. It was hoped that the PTAB would provide a lower cost means of challenging already-issued patents. After all, the cost of litigation in district court averaged over \$3 million dollars in 2009, according to the American Intellectual Property Law Association.

Congress did not create the PTAB as a substitute for litigation, but rather as a quicker, less expensive alternative to district court litigation. Congress was aware that the proceedings in the PTAB would often be accompanied by parallel in the district court. Thus, Congress created a number of carefully crafted tradeoffs designed to lower the overall cost of challenging a patent’s validity, while simultaneously reducing the overall workload of district courts.

For example, one of these tradeoffs created by Congress were the estoppel provisions that accompanied PTAB review. These estoppel provisions limit the arguments that can be raised at trial once a review has been performed at the PTAB. The estoppel provisions for IPRs extend to arguments that “could have been raised” before the PTAB.¹ Thus, the PTAB is crafted in such a way that petitioners are the beneficiaries of a lower-cost, speedier way to challenge a patent, while the parallel district court litigation is reduced in scope.

¹ 35 U.S.C. §§ 315(e), 325(e).

The AIA also makes these carefully crafted balances around the one-year time bar for petitions. The AIA gives petitioners one year from the date litigation commences, in which to bring a petition for review.² That statutorily mandated “one-year time bar” gives petitioners an adequate time to prepare the most effective filing possible, while simultaneously shielding from review those patents that have been subject to substantial district court litigation. Furthermore, the PTAB review can potentially narrow the claims and/or perform claim construction, thereby reducing the amount of work required by the district judge.

This one-year time bar protects both patent holders and patent challengers, granting quick review to patent challengers while shielding from review patents that have had substantial judicial action. Importantly, it also protects the work of the federal district courts by only potentially reviewing those patents that have been in litigation for less than a year, and refusing to grant review to those patents that have been tied up in litigation for over a year. Throughout the AIA, this trade off between quick review at the PTAB and full litigation at district court is apparent.

II. Competition among Federal District Courts for Patent Cases

In his end of the year report on the federal judiciary, Chief Justice Roberts brought up three potential areas of concern for the federal courts.³ The third area was the “arcane” area of judge selection for patent cases. Justice Roberts was responding to the great numbers of patent cases that are filed in just a few courts before just a few judges. Various members of this subcommittee have also voiced similar concerns over this “extreme concentration” of patent cases.

For example, last year nearly 25% of all patent cases were heard before a single judge on the US District Court for the Western District of Texas. Because of how cases are assigned to judges in that district, plaintiffs are able to select an individual judge to hear their case.

Like a most other district courts, the Western Division of Texas is divided into divisions. Among those divisions is the division of Waco with only one active judge. Because cases are assigned to a judge within the division in which the case is filed, a plaintiff that files within the Waco Division is certain to get that particular judge. And the Western District of Texas is not an outlier in their assignment procedures; numerous district courts allow for this “judge shopping” through divisional assignment.⁴

Judge shopping—the practice of choosing one’s judge—is not a practice that the federal judiciary should condone or enable. My co-author Paul Gugliuzza and I have proposed simple remedies by which Congress could eliminate judge shopping, including simple venue tweaks and/or pushing courts assign cases randomly.⁵ But some district court judges take advantage of judge shopping to engage in the forum shopping game. We have highlighted the most recent example of this “court competition” for patent cases occurring in the Western District of Texas.

² 35 U.S.C. § 315(b) (barred if “filed more than one year after the date on which the petitioner ... is served with a complaint alleging infringement of the patent.”).

³ Justice John Roberts, *2021 Year End Report on the Federal Judiciary*, available at <https://www.supremecourt.gov/publicinfo/year-end/2021year-endreport.pdf>.

⁴ See Alex Botoman, *Divisional Judge-Shopping*, 49 COLUMBIA HUMAN RIGHTS LAW REVIEW 297, 317-318 (2018).

⁵ J. Jonas Anderson and Paul Gugliuzza, *Federal Judge Seeks Patent Cases*, 71 DUKE L.J. 419, 478-482 (2021).

There, one judge in Waco has actively solicited patent plaintiffs to file in his courtroom, continuously denied transfer motions for defendants seeking a more convenient forum, created plaintiff-friendly procedures, and refused to entertain early stage motions for alleging lack of patentable subject matter.

The Waco Division of the Western District of Texas has an aggressive default schedule that keeps patents litigated in West Texas, in most cases, immune from PTAB review. For instance, trial in Waco will usually be scheduled to begin before inter partes review would typically conclude. This quick trial schedule includes scheduling claim construction hearings six months after the case management conference, with trial roughly eighteen months after the conference. Inter partes review at the PTAB, by contrast, typically takes eighteen months to complete, plus the time the defendant needs to prepare and file its petition after being sued for infringement. Thus, the PTAB is generally inclined to deny review of a patent that is also being litigated in Western Texas because of the earlier scheduled trial date.

As a result of this and other plaintiff-friendly procedural aspects, Waco is now home to nearly 25% of the nation's patent cases, plaintiffs flock to Waco in an effort to get the plaintiff-friendly benefits of the division's procedures, and the judge has been forced to make extensive use of special masters because of the flood of patent cases in his courtroom.⁶ This is an area where the Supreme Court and Congress ought to work together to find a common sense solution to the problem of judge shopping. These solicitation efforts intended to entice patent owners to come to a judge's courtroom evoke an uneasy feeling of unfairness and back room dealing.

III. Congress should eliminate the *NHK-Fintiv* line of cases at the PTAB. As currently constituted, *NHK-Fintiv* forces petitioners to make unwanted concessions and allows federal district judges to influence forum-shopping plaintiffs.

As described above, the prospect of avoiding the PTAB entices plaintiffs to forum shop and for some judges to engage in competition for that litigation. If judges can offer a more arduous path to the PTAB, they can influence those patent holders who are especially wary of the PTAB to file in the judge's court.

The statute mandates that IPR institution be based upon whether the petitioner is "reasonably likel[y]" to prevail on "at least 1 of the claims challenged in the petition," and whether the "one-year time bar" has been met.⁷ Despite this, in 2018, in *NHK Spring v. Intri-Plex Technologies*, the PTAB considered whether pending district court litigation would resolve the issues presented more quickly than the PTAB.⁸ The PTAB determined that because the court (in this case, the Northern District of California) was likely to issue a final decision before the PTAB, that PTAB review would be inefficient and would not "provide an effective and efficient alternative to district court litigation."⁹ Thus, under *NHK*, the PTAB could consider the advanced state of litigation when making its unreviewable institution decision.

⁶ <https://www.law.com/texaslawyer/2021/08/26/how-a-former-law-clerk-earned-700k-this-year-as-a-court-appointed-technical-adviser/>

⁷ 35 U.S.C. §§ 314(a); 315(b).

⁸ *NHK Spring Co. v. Intri-Plex Techs., Inc.*, No. IPR2018-752, slip op. at 20 (PTAB Sept. 12, 2018).

⁹ *Id.*

In 2020 the PTAB issued an order in *Apple v. Fintiv* that went further than *NHK*.¹⁰ (The order was later denominated as a precedential order by the Commissioner of the PTO). In *Fintiv*, the PTAB listed the following six factors it would consider in exercising its discretion to deny institution based on parallel district court litigation:

1. whether the court granted a stay or evidence exists that one may be granted if a proceeding is instituted;
 2. proximity of the court's trial date to the Board's projected statutory deadline for a final written decision;
 3. investment in the parallel proceeding by the court and the parties;
 4. overlap between issues raised in the petition and in the parallel proceeding;
 5. whether the petitioner and the defendant in the parallel proceeding are the same party; and
 6. other circumstances that impact the Board's exercise of discretion, including the merits.
- Id.*

While these factors are enumerated as distinct considerations, the PTAB generally takes "a holistic view of whether efficiency and integrity of the system are best served by denying or instituting review."¹¹

The six *Fintiv* factors are not found in the statute. The statute only allows the PTAB to consider whether the likelihood of success of the petition, the one-year time bar, and whether the same arguments were presented to the Board previously.¹² *Fintiv*, on the other hand, converts one of those statutorily mandated requirements into one factor (out of six) and includes the catch-all term "other circumstances that impact the Board's exercise of discretion." This non-statutory, six factor *Fintiv* test should be reversed by the PTO, or better yet, statutorily clarified as the current proposed bill does.

A. The NHK-Fintiv line of cases has been exploited by district courts seeking to attract patent cases.

Fintiv was designed to give the PTAB more discretion over where it spent its resources: in theory, the PTAB could choose to devote its administrative patent judges' time to those cases that were less likely to have duplicative issues decided at the district courts. But in actuality the *NHK-Fintiv* line of cases has been an avenue for judges interested in attracting forum shopping plaintiffs to their courtrooms. This judge-centered forum shopping is contrary to the very notions of fairness from which the judiciary derives its authority.

Furthermore, the six factor test elevates decisions within the control of the district court above and beyond what Congress has stated are the grounds for instituting (or not) PTAB review. For example, factor one (whether the court granted a stay or evidence exists that one may be granted if a proceeding is instituted) concerns a practice that varies widely between different district courts. Some district courts are extremely likely to grant stays pending PTAB review, while

¹⁰ *Apple Inc. v. Fintiv, Inc.*, No. IPR2020-19 (PTAB May, 5, 2020).

¹¹ *Id.*

¹² 35 U.S.C. §§ 314(a); 315(b); 325(d).

others are much less likely to do so. Patent-heavy districts like the District of Delaware and the Western District of Texas have been reluctant to grant stays, meaning that patent holders who file in those districts are more likely to avoid PTAB review of their patents under *Fintiv*.

Similarly, the second factor (proximity of trial date) is used by certain district courts in an effort to avoid PTAB review. A recent study by Andrew Dufresne, Nathan Kelly, and Lori Gordon shows that the trial dates relied on in *Fintiv* denials turn out to be wrong in 94% of cases.¹³ Using estimated trial dates to deny review of a patent when these dates turn out to be delayed in 94% of the cases is a terrible way to make discretionary judgements.

Some district courts, eager to hear patent cases, have used the *Fintiv* factors to attract plaintiffs that do not want to have their patents reviewed by the PTAB. The U.S District Court for Western District of Texas currently receives around 25% of the patent cases nationally. Almost all of these cases are heard in the district's Waco Division.

The lone judge in the Waco Division employs an aggressive default schedule that, in most cases, results in the *Fintiv* factors cutting in favor of denying institution. As discussed, Judge Albright schedules *Markman* hearings six months after the case management conference, with trial roughly eighteen months after the conference. Inter partes review at the PTAB, by contrast, typically takes eighteen months—plus the time the defendant needs to prepare and file its petition after being sued for infringement. This practice means that the second factor of the *Fintiv* test usually favors denial of institution at the PTAB.

For example, in one PTAB decision involving a parallel case in the Western District of Texas, the PTAB denied institution of an inter partes review *solely* because of the Western District's speedy timeline.¹⁴ The PTAB found that all the *Fintiv* factors for exercising discretion favored institution—except the district court's timeline for trial.¹⁵ Senator Tillis has objected to this very practice, stating “Based on the facts currently available to me, it is difficult to imagine any plausible justification for the continued reliance on the demonstrably inaccurate trial dates set by the Waco Division.”¹⁶

The other *Fintiv* factors can also be manipulated by a judge interested in avoiding PTAB review for the plaintiffs in his courtroom. For instance, factor one (pending stays in the district court) are completely within the discretion of the district court judge. Some judges are notoriously reluctant to issue stays pending IPR. For example, the Waco Division of Western Texas' lone judge has stated publically that he is unlikely to grant a stay absent special circumstances. See *e.g.*, Britain Eakin, *Amid Scrutiny, Albright Focuses on Keeping Cases on Track*, LAW360 (Feb. 16, 2022). So, the practice of not granting stays ensures that the first factor favors denial of

¹³ Andrew T. Dufresne, Nathan K. Kelley & Lori Gordon, *How reliable are trial dates relied on by the PTAB in the Fintiv analysis?* 1600 PTAB & Beyond (October 29, 2021); <https://www.1600ptab.com/2021/10/how-reliable-are-trial-dates-relied-on-by-the-ptab-in-the-fintiv-analysis/>.

¹⁴ Sand Revolutions II, LLC v. Continental Intermodal Group – Trucking, LLC, IPR2019-01393, slip op. at 18 (PTAB Feb. 5, 2020).

¹⁵ *Id.*

¹⁶ Letter from Senator Tillis to Acting Director of the PTO, Nov. 2, 2021.

institution at the PTAB. Setting a case schedule that essentially eliminates the prospect of PTAB review undermines the system Congress set up in the AIA to weed out low quality patents.

B. *NHK-Fintiv* Has Not Eliminated Duplicative Judgements

Furthermore, the *NHK-Fintiv* framework has not succeeded in eliminating expensive, duplicative judgements at the PTAB and the district courts. Recently, a trial in the Western District of Texas between VLSI and Intel resulted in over \$2 billion dollar judgement for VLSI. Prior to the judgement, Intel had petitioned the PTAB for review of some of the patents at issue. But because of *Fintiv* and the Western District of Texas' early trial dates, the PTAB denied institution, finding that the court was likely to reach a conclusion before the PTAB.

Recently, OpenSkys (a non-party to the district court litigation) seeks to review those same patents at the PTAB. Because they are not in the Western District of Texas (or any other court for that matter) they are not subject to the same *Fintiv* factors. The PTAB granted the institution of the IPR of VLSI's patents, and could possibly undo the jury trial verdict awarding \$2 billion dollars. What is more, the petition filed by OpenSkies is a near exact replica of the previous unsuccessful petition filed by Intel. Thus, *Fintiv* resulted in more gamesmanship and cost in this case and may result in the work of the district court and the jury being wasted. This is not the efficient, lower cost result that Congress intended by creating the PTAB.

Another example of *Fintiv* thwarting the aims of the AIA can be seen in the case of *Fintiv v. Apple*. *Fintiv* (the entity) for which the *Fintiv* rule was created is still not at trial. The trial in that case has been scheduled for around half a dozen different dates. The date relied on by the PTAB in denying institution was March 3, 2021, whereas the PTAB anticipated coming to a conclusion at a later date in 2021. Fifteen months after that date, and months after the PTAB would have been statutorily mandated to finalize their decision, the trial still has not commenced. In fact, it was scheduled to go to trial this week, but was delayed yet again.¹⁷ Today, over a year past the original trial date, the case has still not reached trial.

The trial dates set by district courts and relied on by the PTAB for *Fintiv* factor two should not be used in evaluating whether to institute review or not. *Fintiv* results in wasted attorney hours arguing about the progress made in district court, rather than the merits of the petition for review. It has resulted in numerous, high profile cases being unnecessarily extended and *increasing* the cost and time of patent litigation.

C. *NHK-Fintiv* Results in Petitioners Filing Hurried Petitions and Forces Those Petitioners Who Are Litigating in Certain Jurisdictions to Make Unfair Concessions.

In recent months, practitioners have adjusted to the *Fintiv* factors. Petitioners know that because of *Fintiv* they must file any petition as soon as possible. They often hurriedly fire off a petition as quickly as possible in an effort to avoid the pitfalls of *Fintiv*. This practice also puts a strain on the patent office. Around 50% of institution requests involve detailed analysis of the *Fintiv* factors. Doing away with *Fintiv* would free the Patent Office of the burden of tracking the status of any parallel district court litigation and free the parties from having to pay money to litigate the issue.

¹⁷ Ryan Davis, *Fintiv's Emergency Motion Delays Apple Patent Trial In WDTX*, Law360 (June 7, 2022); <https://www.law360.com/articles/1500531/fintiv-s-emergency-motion-delays-apple-patent-trial-in-wdtx>.

Attorneys have also begun making concessions in their petitions for review in an effort to influence the outcome of factor number four (the issues are similar to those in litigation). In short, these concessions amount to a promise not to pursue certain arguments for invalidity in litigation. For defendants to patent infringement, these concessions can be seen as the price they must pay to avail themselves of the PTAB. But the frequency of these concessions varies greatly by the district court in which the litigation arises.¹⁸ Having to concede potentially important aspects of your defense is never a thing that litigants want to have to do; less so when those concessions are largely determined by which district court the plaintiff chose to file.

IV. Conclusion

The judiciary's reputation is essential to its legitimacy. The public's willingness to obey judicial decisions is in large part dependent on the court's legitimacy. The public's perception of the judiciary's independence and integrity is the primary source of its legitimacy, and ultimately its power. That legitimacy is threatened with rampant judge shopping in patent litigation. Judge shopping has the potential to spill into other areas of the law, since the practice is enabled by single division judge assignments. Congress should work with the Supreme Court to stop predictable judge assignment procedures.

Furthermore, Congress should undo the damage wrought by the *NHK-Fintiv* line of cases. *NHK-Fintiv* has resulted in increased judge shopping, with certain district court judges leveraging the *Fintiv* factors to entice patent plaintiffs to their courtrooms. Additionally, *Fintiv* has not resulted in increased efficiency for litigants litigating simultaneously in the PTAB and at federal district court. *Fintiv* has also resulted in forcing petitioners to file before they are prepared as well as making unwanted concessions. For all these reasons, Congress should undo *Fintiv*.

¹⁸ See Richard M Bembem & Steven M. Pappas, *Fintiv Continues to Take Center Stage: The Effect of Parallel Litigation at the PTAB in 2021*, <https://www.sterneckessler.com/news-insights/publications/fintiv-continues-take-center-stage-effect-parallel-litigation-ptab-2021> ("We found for parallel proceedings in the Western District of Texas, the petitioner filed a broad stipulation in approximately 44% the cases, either stipulating to full estoppel, as in *Sotera*, or not to use the same art in the parallel litigation. By contrast, for parallel proceedings in the Eastern District, the petitioner filed such broad stipulations only about 30% of the time.").