

Written Testimony of
Timothy K. Wilson
SAS Institute Inc.

Good afternoon. I would like to thank Chairman Leahy, Ranking Member Tillis, and every other member of this subcommittee for the opportunity to speak to you today. And thank you for convening this hearing about this important topic.

My name is Tim Wilson. I lead the patent team at SAS Institute, a privately-held software company headquartered in Cary, North Carolina. SAS was founded in 1976 and has been at the forefront of analytics for decades. I also serve as an adjunct law professor in patent law at Southern University Law Center in Baton Rouge, Louisiana.

I have been at SAS for 24 years and have been involved with the prosecution of many patents for inventions created by SAS employees. SAS owns over 600 US patents as well as numerous patents in other jurisdictions. I have also been involved with litigation over patents, both as a plaintiff and as a defendant. For example, in 2018, SAS initiated a lawsuit against a foreign company that included four SAS patents, two of which were subject to IPR petitions from our opponent.

When the America Invents Act (“AIA”) was passed, I observed the many stakeholders that came together and struck a compromise. Two of the most important interests were (1) litigation reform to deal with the massive increase in patent litigation by nonpracticing entities and (2) the creation and scope of the Patent Trial and Appeal Board (“PTAB”). In the end, nearly all of the litigation reform provisions that SAS supported were forgone, but that significant compromise was made in order to preserve the post grant review provisions through the PTAB.

The PTAB process is very important process to SAS. SAS felt so strongly about the integrity of the PTAB and its ability to conduct meaningful reviews of challenged patents that it litigated a case to the U.S. Supreme Court to overturn a procedure the PTO had been using contrary to the text of the AIA.¹

From my experience on both sides of the litigation table, I hold a balanced view that considers the competing interests involved in patent policy discussions. However, I strongly believe that improving patent quality should be a top consideration of all aspects of the patent system. It is my opinion that the U.S. patent system is greatly improved through the operation of the PTAB as intended by the AIA.

Patent Quality

Patent quality is critical for a well-functioning patent system. But it is a difficult problem. The key issue is whether a patent that issues should not have issued because the supposed invention is not actually new. There are many barriers to the PTO issuing high quality, valid patents that are difficult to overcome:

- Examiners are tasked with finding relevant prior art in massive, nearly endless sets of materials.

¹ *SAS Institute, Inc. v. Iancu*, 138 S. Ct. 1348 (2018).

- Applicants can submit intentionally vague disclosures carefully crafted to avoid any narrowing interpretations in court.
- Examiners have very limited time to review each case.
- Examiners bear the burden of showing claims are not patentable, rather than applicants having to show that they are.
- Attorneys representing applicants have more time and resources to spend on each application.
- Technology is getting more and more complex, suggesting the burden on examiners will only increase with time.

Each year over 8000 examiners at the USPTO examine over 600,000 patent applications. As a result, numerous patents having invalid claims are inevitably issued each year.

If the patent office is issuing patents with invalid claims because it is not resourced to do a thorough review, there will be a temptation to “fix the problem at its root.” I am sympathetic to that view and agree that is one way to approach the problem. But I do not think it is the most realistic approach because the cost would be very high, with no evidence that the increased cost would eliminate invalid claims being issued. Moreover, only a small percentage of patents are ever asserted or challenged in any way. The more realistic approach, and the one taken by the AIA, was to provide a more robust post-grant review system that could focus on the small percentage of patents that do get asserted.

The need for predictable and reliable post-grant review

An adversarial system involving a dispute between private parties permits more thorough prior art searching and analysis than the USPTO can do, given resource and time constraints. As a result, private parties, having more time and resources, often discover prior art that the examiner did not find. When that happens, it is important that those parties can challenge the issued patent using the post-grant review process created the AIA.

Inter partes review was created as a less expensive alternative to litigation, and the numbers bear that out. Litigation costs continue to climb. Litigation can cost a party \$3-4 million to get to a trial, while an IPR can go through a hearing for an order of magnitude less.² The USPTO’s PTAB can proceed at a much faster and more predictable schedule than prior reexamination alternatives. When a patent challenger identifies key prior art that the examiner missed and can put together a solid petition for review that calls the issuance of the patent into serious question, the PTAB should perform the review.

PTAB judges are perfectly positioned to evaluate these challenges. They are patent experts with technical backgrounds. In contrast, it would be a rare juror (much less jury) who would have that expertise. And unlike a jury which will give an up or down decision, the PTAB judges will craft a very thorough opinion detailing the reasons for the decision, making a clear record for appeal, and giving important guidance to the public and future parties dealing with similar issues. The PTAB is not operating without oversight either – appeals go to the patent-expert judges on the Federal Circuit. And the PTAB is performing well, with the Federal Circuit in 2021 affirming

² See AIPLA Report of the Economic Survey 2021, pp. 60-62.

80% of all IPR decisions, which compares favorably to the 75% rate at which the Federal Circuit fully upheld district court decisions.³ Additionally, in the years following the enactment of the AIA, there was a significant reduction in the total amount of patent litigation.⁴

Unfortunately, the PTAB started several years ago systematically denying petitions for reasons unrelated to the merits of the petition. Even though IPR was intended as a less-expensive alternative to litigation, the PTAB started forcing petitioners to resolve validity issues in litigation instead of at the PTAB. These so-called “discretionary denials” are often based on a decision by the PTAB called *Fintiv*. In the *Fintiv* case, the PTAB outlined six factors to consider in deciding whether to perform one of these “discretionary denials” when there is also pending civil litigation. For example, the PTAB will look at whether a court is likely to stay litigation, the expected trial date compared to the PTAB decision deadline, whether the court has substantively moved the case forward, whether the issues overlap between proceedings, and whether the parties are the same.

These factors are mentioned nowhere in the statute, and in my opinion, are inappropriately being used to analyze whether to institute a proceeding. Instead, in the text of the AIA itself, Congress included section 315, which outlines some of the bargains struck in enacting the AIA. It is entitled “Relation to other proceedings or actions” and addresses multiple different permutations of situations when an IPR and a civil action are pending at the same time.

Under section 315, a party cannot file a DJ action challenging a patent and subsequently file an IPR. Under section 315, when a party files an IPR and then a DJ action challenging the patent, the civil action is automatically stayed until certain conditions are met. And most importantly, under section 315, a patent challenger must file an IPR within one year of getting served with a complaint for patent infringement. Those carefully crafted compromises, made by Congress, are predictable and fair. Unlike the statute’s clear one-year time bar, *Fintiv*’s complex six-factor, fact-intensive balancing test introduces needless complexity, unpredictability, and high decisional costs for the PTAB.

The *Fintiv* factors approach the problem backwards. IPR is supposed to be a less expensive alternative to litigating where the patent’s validity is in serious question. But the *Fintiv* factors undermine that goal. *Fintiv*’s fourth factor about the overlap between the IPR and the civil case is illustrative: under that factor, the PTAB should disfavor institution of an IPR where the issues overlap. But that overlap is envisioned in the statute, and it is part of how efficiency is achieved. Specifically, section 315(e)’s provision on estoppel prevents challengers from raising in litigation validity defenses based on grounds raised during the IPR.

Making matters worse, the PTAB has often relied on incorrect assumptions about the litigation process in applying the *Fintiv* factors. In applying the second factor, which compares the expected trial date to the IPR decision deadline, the PTAB has routinely relied on inaccurate, overly aggressive, and unrealistic trial dates. One study found the dates the PTAB relied on were wrong

³ Dan Bagatell, Fed. Circ. Patent Decisions In 2021: An Empirical Review (January 6, 2022) (available at <https://www.law360.com/articles/1452355>).

⁴ RPX, What 15 Years of US Patent Litigation Data Reveal About the IP Market (January 25, 2021) (available at <https://insight.rpxcorp.com/news/65081-what-15-years-of-us-patent-litigation-data-reveal-about-the-ip-market>)

94% of the time.⁵ In practice, initially set trial dates often change significantly. I have been involved in litigation for over two decades. In my experience, very little actually happens on the schedule initially set out, let alone the trial itself. I would like to thank Ranking Member Tillis for the letter he sent to the USPTO on November 2, 2021, about this issue. A particularly interesting example is the *Fintiv* case itself, which has been rescheduled and postponed multiple times and still has not happened.⁶ The actual trial date, if a trial occurs, will be more than a year later than the March 2021 date that PTAB relied on for its original denial.

Importantly, the USPTO is funded by user fees. PTAB filing fees are substantial and are set by the USPTO to offset costs of conducting the reviews. A successful petition requires at least \$41,500 in USPTO fees.⁷ Because petitioners are paying the costs of these reviews, the USPTO should not deny petitions by relying on inaccurate trial dates because the concerns about duplication of efforts are highly speculative.

The proper starting point for the PTAB should be the merits of each petition. If a petition has merit, the review should take place. If a petition lacks merit, it should be denied on that basis, not based on unrelated discretionary factors Congress did not see fit to include in the statute.

Solutions

There are many possible ways to address the problems created by the *Fintiv* decision.

One option is to remove any discretion from the Director in the institution decision. Meritorious petitions get instituted and non-meritorious ones do not. I favor this approach.

Another option is to prohibit consideration of ongoing civil action in the context of an institution decision. This also appears workable to me.

In any case, it is important that private sector entities who are targeted with patent assertions retain the ability to use the IPR process as the AIA intended.

SAS is also a patent owner. I understand the concerns people and organizations have raised about the problems serial petitions could pose if pursued in an unfair manner. While I don't think it is a widespread problem today, I am open to thinking about ways that narrow problem could be addressed as part of a compromise solution here, as was done during the original AIA negotiations.

I want to also point out that the institution decision of an IPR is not the only tool (or even the most logical one) available to address actual improper practices. ABA Model Rule 3.1 says lawyers

⁵ Andrew T. Dufresne et al., How Reliable are Trial Dates Relied on by the PTAB in the *Fintiv* Analysis (October 29, 2021) (available at <https://www.1600ptab.com/2021/10/how-reliable-are-trial-dates-relied-on-by-the-ptab-in-the-fintiv-analysis/>).

⁶ Ryan Davis, *Fintiv's* Emergency Motion Delays Apple Patent Trial in WDTX (June 7, 2022) (available at <https://www.law360.com/articles/1500531/fintiv-s-emergency-motion-delays-apple-patent-trial-in-wdtx>).

⁷ Scott McKeown, PTAB Trial Fees Increase 25% in October (August 4, 2020) (available at <https://www.patentspostgrant.com/ptab-trial-fees-increase-25-in-october/>); see also USPTO fee schedule (Effective January 2, 2021) (available at <https://www.uspto.gov/learning-and-resources/fees-and-payment/uspto-fee-schedule#PTAB%20Fees>).

cannot bring a proceeding unless there is a basis in law and fact for doing so that is not frivolous. This rule is mirrored in the USPTO's rules of professional conduct. 37 CFR 42.11 and 37 CFR 11.18 also add to PTAB practice a rule similar to FRCP 11, including provisions about certifying that all papers presented are not being presented for any improper purpose, such as to harass, cause unnecessary delay, or increase costs. Violations of these rules or other improper practices could be addressed by sanctions by the PTAB or referral to the relevant state bar or the PTO's Office of Enrollment and Discipline.

In summary, I believe Congress could and should significantly improve the patent system by removing the ability for the USPTO to make discretionary denials of post-grant petitions, especially based on ongoing civil litigation, as the *Fintiv* framework has allowed. As a result, I support the bill that was introduced last week.

Thank you and I look forward to your questions.