

Session 2A

Emily C. & John E. Hansen Intellectual Property Institute

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**SESSION 2: PATENT LAW
2A. PTAB**

Moderator:

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Ropes & Gray LLP (Ret.), Silicon Valley

Speakers:

George E. Badenoch

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Standing, Privity and Estoppel in Inter Partes Review (IPR) Proceedings

Vanessa Bailey

Intel Corporation, Washington, D.C.

Fostering Innovation Through IPRs: The Corporate Perspective

Patricia A. Martone

Law Office of Patricia A. Martone, P.C., New York

Recent Changes to PTAB IPR Practice:

How Far Do They Go and Who Do They Help?

Brian P. Murphy

Haug Partners LLP, New York

***Dueling Banjos – When Does a PTAB Invalidity Decision Unwind a
District Court Infringement Judgment?***

Panelists:

Dustin F. Guzior

Sullivan & Cromwell LLP, New York

John Pegram

Fish & Richardson, P.C., New York

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MR. GOLDMAN: Welcome, everybody. I am Bob Goldman. I am a retired Partner from Ropes & Gray out in Palo Alto. Since I retired, I've been doing some writing and some teaching. I practiced in this area for a while and taught at Fordham back when the Conference was in single digits.

This session is titled "PTAB." For our friends from out of the jurisdiction, PTAB stands for the Patent Trial and Appeal Board. PTAB is a forum in the United States Patent and Trademark Office that hears, among other things, inter partes challenges to validity after a patent has been issued through the patent prosecution process, which in the United States is completely *ex parte*.

There are currently three types of post-issuance reviews in the PTAB:

- Inter partes review (IPR) is set out in 35 U.S.C. §§ 311–319. It alleges that one or more claims of an issued patent is invalid for anticipation or obviousness based on patents or printed publications, including things that may have already been before the patent examiner during prosecution.

- Post-grant review (PGR) is set out in 35 U.S.C. §§ 321–329. It allows the challenger to allege invalidity on prior art grounds as well as ineligible subject matter, insufficient disclosure, and indefinite claims. This kind of a challenge has to be brought within the first nine months after the patent issues.

- Covered business method review allows you to challenge all issues on patents where "the claims relate to a method or an apparatus for performing data processing or other operation used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions."

The Patent Office Regulations when they implemented the statute stated the goal of all these procedures was "to establish a more streamlined procedure to improve patent quality and limit unnecessary and counterproductive litigation and costs." In particular, they were looking to review the USPTO decision on validity in less time than would be typical for district court litigation — streamlined discovery, streamlined trial, time limits on when the hearing officer has to decide. The regime has been in operation since September of 2012.

This panel will address two questions. First, is the new system working — that is, is it giving us a better patent system, providing appropriate incentives to innovation and fairly rewarding inventors for their contributions to technology? Second, since the new proceedings have begun, have there been any procedural — *cul de sacs* I guess is the nicest way to say it — that the drafters may not have thought about as the PTAB proceedings interact with traditional federal court litigation both at first instance and on appeal?

Our first two speakers will address the first set of questions. Our first speaker is Vanessa Bailey, who is with Intel Corporation in Washington, D.C. We will start with Vanessa and then I will introduce Pat.

MS. BAILEY: Thank you very much. I would like to thank Fordham for inviting me to speak. Considering the audience is global, I am going to keep my comments high level. I am looking at basically fostering innovation through patent quality from the corporate perspective.

Why does patent quality matter to Intel? Intel is one of the world's largest chipset manufacturers but also has a substantial software business. We invest annually \$13+ billion in research and development. We have a worldwide portfolio of over 90,000 patent assets. We are perennially a top U.S. patent filer and recipient. We are frequently the target of

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nonpracticing entity (NPE) litigation, and thus a frequent filer of IPRs, ranked third in 2018.

Why is the PTAB important? As everyone knows from what has been in the news lately, the PTAB receives over half a million patent applications annually and issues more than 350,000 patents annually. The large number of applications and the limited time that an examiner can devote to any one means that many invalid patents issue, causing significant economic harm to American businesses. Patent examiners typically have only a dozen or so hours to find and review relevant prior art. Many important categories of prior art (like commercial products, industry and academic publications, and foreign language publications) are not readily accessible to the examiner. But the system is what it is. The USPTO¹, of course, is getting more resources, but inevitably there will be patents that slip through that shouldn't be issued.

Why is the PTAB important? The PTAB has a panel of three or more administrative patent judges with extensive technical and patent law experience and greater resources than ordinary examiners along with the benefit of prior art searching and advocacy by the parties.

[Slide] I know people talk about "bad" patents. I wanted to let people see two examples of what a bad patent actually looks like.

The one on the left is the '227 patent (issued April 9, 2002) "Method of Swinging on a Swing."² Disclosed but not claimed: "The user may even choose to produce a Tarzan-type yell while swinging in the manner described, which more accurately replicates swinging on vines in a dense jungle forest. Actual jungle forestry is not required. Licenses are available from the inventor upon request."

The one on the right is the animal toy '693 patent (March 26, 2002) "Animal Toy."³ I'll just summarize it: it's an animal toy that has a main section and at least one protrusion attached at one end, and it can float. Now we have a situation where if you have your lovely puppy and you throw a stick at him and it happens to go into the water and it floats, you are essentially now infringing this patent.

Both of these clearly get a "bad patent" stamp on them. But I think a lot of people don't really realize how egregious some of these patents actually might be.

Since I have limited time, I am going to talk about some myths vs. facts of IPRs.

Recently, the PTAB has been under attack. They are saying, "Oh well, there are invalidating too many patents," "there are too many institutions." As a corporate person and we have a lot of patents ourselves and we've often brought IPRs, we always say, "You shouldn't be afraid of IPRs. You should want better-quality patents. If your patent goes into an IPR, when it comes out it's so substantially stronger."

We have to look at quality, not necessarily quantity. No one is really going out and saying, "Oh, these IPRs are invalidating so many great patents." That's not the argument. I think the argument mainly is that the IPR system is invalidating too many patents. So I push back on that.

Looking at myths vs. facts:

- Myth: IPR weakens property rights of patent holders. Fact: IPR is only targeted to invalid patents, which is weakening the patent system, not weakening property rights.
- Myth: IPR will discourage patent applications. Fact: The number of U.S. patent applications is up since AIA; there were 338,072 U.S. patents granted in 2018 alone.

¹ United States Patent and Trademark Office.

² U.S. Patent No. 6,368,227 B1 (issued Apr. 9, 2002).

³ U.S. Patent No. 6,360,693 B1 (issued Mar. 26, 2002).

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- Myth: IPR lack due process. Fact: A panel of expert patent lawyers at the PTO thoroughly reviews a patent's validity, and that decision can be appealed to the federal court.

- Myth: IPR discourages venture capital investment. I know that Chief Judge Michel earlier said that VC investment is down. I think that was in accordance with an Alliance of U.S. Startups and Inventors for Jobs (USIJ) report that binds semiconductors in a way that only those that manufacture but didn't design were involved. But actually it is quite the contrary: VC investments increased 175 percent since the America Invents Act (AIA).

- Myth: IPR is hurting research and development. Fact: R&D spending has increased 48 percent for the top R&D spenders since AIA.

- Myth: IPR is depressing startup investment. Fact: Start-up activity has accelerated 194 percent since AIA.

- Myth: IPR hurts the economy. Fact: U.S. GDP has increased by 16 percent since AIA. I see that myth and I wonder, *What's really being looked at?* I think it's the whole notion that when you have a patent, people just don't want it to go away. I understand that. But it does hurt innovation to have to fight against patents that could be invalidated by the IPR process, and that saves judicial resources and a lot of litigation expenses.

- Myth: IPR is being used abusively via multiple petitions. The fact is that a majority of patents only face one or two IPR petitions. When multiple petitions do occur, they are almost always necessitated by the actions of the patentee. When a patentee asserts a large number of long claims and delays taking a position on claim construction in concurrent litigation, a petitioner has no choice but to file multiple petitions to fully explain the validity challenge within the page and word limit.

The PTAB has broad authority. It can deny institution when similar arguments were raised previously or serial petitions are harassing. It can stay, consolidate, transfer or terminate proceedings.

When a patentee sues multiple defendants, each one must file a petition to protect its interest should the lead petitioner settle its case; or you might have had different reasons to have different prior art, meaning a different technology base and different expertise.

As I only have a couple seconds left, I will wrap up by talking about two linked cases.

In *POI Search Solutions LLC*⁴ an IPR was brought on behalf of independent Texas realtors who were sued by an NPE (an NPE based in Texas with a PPB⁵ in Marshall, Texas) regarding technology that pinpoints points of interest surrounding a house that is for sale. In response to the lawsuits, the realtors asked the Texas Association of Realtors and the National Association of Realtors for help in defending themselves. IPRs cost an average of \$100,000 just to file. The Texas Association of Realtors stepped in and filed an IPR and defeated the patents.

I think many people know the *MPHJ Technology Investments*⁶ case. MPHJ sent out more than 9,000 letters to small businesses, specifically targeting businesses with twenty to ninety-nine employees, that used a scanner with a scan-to-email feature, that said, "You need to pay us \$1,000 per employee for the use of our patent or sign a letter swearing you don't ever use scan-to-email with a penalty of \$1,000 per employee if you didn't tell

⁴ Texas Ass'n of Realtors v. Uber Tech., Inc., No. IPR2016-00615 (P.T.A.B. Aug. 4, 2017).

⁵ Principal place of business.

⁶ Vermont v. MPHJ Tech. Investments, LLC, 803 F.3d 635 (Fed. Cir. 2015).

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the truth.” Xerox, Ricoh, Lexmark, and HP stepped in and filed IPR petitions against MPHJ’s patents, which enabled the manufacturers to defend all the small businesses using their products with a single action. The PTAB agreed with them that MPHJ’s patents were invalid. When MPHJ appealed to the Federal Circuit, the Federal Circuit agreed with the PTAB that MPHJ was not the first to invent what their patents claimed. If IPR didn’t exist, all of the 9,000 recipients would have needed to either pay or fight an expensive lawsuit.

I am out of time. That’s my presentation. Thank you.

MR. GOLDMAN: Thanks, Vanessa.

Our second speaker is Patricia Martone currently from the Law Office of Patricia A. Martone.

MS. MARTONE: Thank you very much.

My talk today is about recent changes made to the PTAB IPR practice and their potential impact. I have a lengthy slide deck which I won’t go through, but you can find it on the Conference website. [See Appendix to this Session]. Basically, I’m going to talk about two changes that have been made.

When Andrei Iancu became the Director of the USPTO in April 2018, he stated that he would reverse the “yearlong onslaught “ against the patent system and called for replacing negative rhetoric about the patent system with speaking about its positive benefits.⁷ He said he would try to change the notion that the Patent Office is now “the place where patents go to die” by making the system more balanced and more predictable.

The first change I want to talk about was actually not made at his initiative but was required by the Supreme Court’s decision in *SAS Institute v. Iancu*.⁸ the Supreme Court held that because of the statute that authorizes IPRs and the estoppel provisions of that statute, the Patent Office could no longer grant petitions to institute an IPR on less than all claims that were referenced in the petition. It was either “all or nothing,” it’s either on all claims or no claims.

Interestingly, in adopting that requirement the USPTO added the additional requirement that an IPR has to be instituted not merely on all claims but on all patentability challenges appearing in the petition.

The impact of this stronger estoppel has now reached at least the district courts, which are now considering the part of the statute that says that “estoppel applies also to any ground that reasonably could have been raised in the IPR proceeding.” There is some case law I point to on that on page 15 of my slide deck.

The result of these definitive estoppel requirements will be that in many cases, all prior art challenges are going to be resolved in the Patent Office, and some of the challenged claims are going to be declared patentable. As a result of that, patent owners are going to want the court to accept into evidence the decision of the Patent Office and they are going to want to tell the jury about it.

Now, so far under the old law the courts have been unwilling to do this, but I predict that, at minimum, the courts are going to have to conclude that, if there is no other patentability challenge, the jury must be told that the claims are valid.” That is a real plus for patent owners when it comes time for the jury to determine infringement and damages. I think there is going to be more discussion about that.

The other change is about motions to amend. The statute provides for motions to amend claims, but it also requires that the decision of the PTAB be issued within a year of

⁷ Andrei Iancu, “Role of U.S. Patent Policy in Domestic Innovation and Potential Impacts on Investment,” U.S. Chamber of Commerce Patent Policy Conference (April 11, 2018).

⁸ *SAS Institute v. Iancu*, 138 S.Ct. 1348 (2018).

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the time that it decides to institute the petition. Those two requirements are clashing with each other. Under previous reexamination, perhaps 60 percent of reexaminations resulted in amended claims. So far in the IPR it has been 10 percent.

There have been a lot of complaints about that because, as Vanessa said, actually it would be good if you could come out of the Patent Office with a better patent. But since you effectively cannot amend your claims, that is not going to happen.

The Patent Office has now issued the notice of a pilot program concerning motions to amend. Basically, what they are trying to do is to find a way, creatively I think, to squeeze into this one-year period earlier consideration of amended claims.

I think it is still going to be very difficult. I have talked to people, including PTAB judges who have said, "Well, you are not really interested in amending your claims anyway because you can't get damages, etc."

I disagree with that because there is a group of patent owners who use their patents to protect their business. If you are a patent owner, in my experience having represented a lot of companies like this, your first priority is to preserve the validity of your patent. It doesn't matter if you have to reduce damages if you can get your patent to be amended so that it issues in such a way that you can use it to protect your business in the future.

I think the changes go about as far as they can, given the strict requirements of the statute.

The only thing I see that is surely favorable to patent owners is the estoppel provisions. I think the estoppel provisions also change favorably the efficiency and predictability of the patent dispute resolution procedure.

There is another change that was made to make the claim construction standard to be the same as that used in the district court. I think that makes a lot of sense.

For patent owners, as I said, I think it is just about the estoppel provisions. But really, basically what patent owners have to face is the clear advantages that patent challengers have in IPRs where they have a lower burden of proof. They only have to prove invalidity by a preponderance of the evidence, which enables them to sidestep the statutory presumption of validity in the United States, while in Court they need to prove invalidity by a higher burden.

Thank you.

MR. GOLDMAN: I would like to now throw open the issues that Vanessa and Pat raised for discussion. I will start by skipping down to the end of the table to our panelists.

Our first panelist is Dustin Guzior, who is a Partner at Sullivan & Cromwell. Dustin, do you want to weigh in on anything? Do you have questions for either of our speakers or something you would like to add to this?

MR. GUZIOR: I will weigh in on what Patricia said about estoppel post-*S.A.S.* I wish I could share the optimism that estoppel is going to become stronger post-*S.A.S.*, but I cannot.

I do agree with Patricia that district courts are starting to gel around the notion that estoppel applies to grounds that reasonably could have been included in the petition. But what I am confronting in district courts in cases that I am handling even today are highly creative arguments about how prior art gets into the case nonetheless.

Right now the most challenging of those arguments that I am facing is through the *Georgia-Pacific*⁹ factors in the damages analysis, where one factor in the analysis is the improvement the patented invention made over the technology as it existed before the

⁹ *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

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patent. I think there is a compelling argument being made that in the context of that analysis the alleged infringer still gets to bring prior art into the case in order to show the degree to which the patented invention actually made an improvement. That is an argument that is being advanced in district court right now by one of my adversaries, and I think that it is likely to prevail.

I think what that means is when people think about estoppel and what the patent owner gets out of IPR, there is this notion that it means prior art is out of the case and the jury is not going to hear about it. I think we are going to find that is not true and that the jury hears about the prior art nonetheless.

MR. MURPHY: Dustin, is that coming up in motions *in limine* pretrial?

MR. GUZIOR: Yes.

MR. MURPHY: Just give us an example. How does the argument go in front of the judge?

MR. GUZIOR: We filed a motion for summary judgment on IPR estoppel saying that grounds that were raised or reasonably could have been raised cannot be brought into the case. Actually, in our case invalidity contentions had been filed before the IPR petition was filed, so we are saying they are done.

MR. MURPHY: Right.

MR. GUZIOR: The mechanics of it now is that the defendant is continuing to pursue discovery in depositions about prior art, like in depositions of the inventors. We are saying, "Well, how is that relevant to the case?" They are saying, "Well, the damages analysis."

MR. MURPHY: So they are relying on *Georgia-Pacific* exclusively to try to get prior art in front of the jury?

MR. GUZIOR: Yes.

MR. MURPHY: Are they being precluded from making an invalidity argument based on the estoppel?

MR. GUZIOR: The judge has not ruled on the motion for summary judgment. But assuming that we are right about estoppel, I think it is sure that invalidity on the basis of prior art will not be in the jury verdict, but it doesn't mean the jury cannot consider the prior art when evaluating the amount of damages.

MR. MURPHY: That's an important distinction, I think, to make.

MR. GOLDMAN: I would like to turn now to our second panelist, John Pegram from Fish & Richardson.

MR. PEGRAM: I would like to raise two collateral issues and ask the panel and any others here to comment on two possible housekeeping amendments to the America Invents Act.

One is with respect to the IPR procedure. The *SAS* case changed our institution procedure. I am suggesting the possibility of a housekeeping amendment to reverse the *SAS* decision, which was simply a matter of statutory interpretation, and expressly permit institution of IPRs with respect to some or all claims and grounds asserted in the petition.

The other suggested amendment would be to change the post-grant review estoppel procedure because there was an error made basically by a staff member in Congress. At present the statute says that estoppel in a civil litigation is for "any issue which could have been raised in a PGR," whereas the congressional committees intended it to be limited only to "any issue actually raised in the IPR."

So the question is: are either or both of these proposals a good idea?

MR. GOLDMAN: We will start with Vanessa.

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MS. BAILEY: I can say I am not sure on the first proposal that there is an appetite for that right because making estoppel less certain would make that hard to do.

On the second point, I'm guessing that there is an assumption that people are not doing PGRs because of estoppel. My opinion is probably PGR is less used because of timing more than the uncertainty of estoppel. But those are just my thoughts on that.

MR. GOLDMAN: Pat?

MS. MARTONE: I'm sorry. I don't think I understood the first proposal.

MR. PEGRAM: The first is simply to reverse *SAS* and permit institution of IPRs with respect to some or all claims and grounds asserted in the petition, essentially the procedure that the PTAB was following before the *SAS* decision and which many people liked.

MS. MARTONE: I find it hard to see that that's beneficial to the system. I mean no estoppel means re-litigation. Not only is it unfair to the patent owner, but why do we want to spend our judicial resources and the resources in the Patent Office going over the same issue?

As to the other proposal, I think the statute is what the statute is. I really don't think that Congress is going to want to change this, particularly in this environment, so I don't see that as feasible. And also, that is not the traditional estoppel test. Under the traditional estoppel test you look at what could have been raised.

MS. BAILEY: On estoppel I'll push back on one notion. The people who use the IPR process a lot take it seriously. It is really expensive — not district court litigation expensive, but you are averaging 100K or upwards of that frankly. You do put your best prior art out there, and you do that because if you are not going to invalidate at the PTAB, you may be thinking that you are not going to get it invalidated at district court either. So I think you do put your best foot forward, you put your best prior art out there.

Estoppel has always been an issue. Even in *SAS*, I'm not sure that the practices that corporations or people who use IPR use have changed that much. If you are a good IPR petitioner, you do put your best prior art out there, you have always put that out there, and so you will always have that issue of estoppel anyway. Especially if you are in the Eastern District of Texas or some other very rigorous court, I think you are going to assume you are going to be estopped. So I'm not sure the processes are much different, frankly.

MR. GUZIOR: I think we are going to start seeing that people put their best art in but they also throw a bunch of junk into the petition, and then they rely on the word limits, and when the PTAB says, "No, we are not going to grant you an extension," they say, "Well, we reasonably could not have raised that art because the PTAB said no extension," and then they are going to try to litigate the garbage in district court.

MR. PEGRAM: I would suggest that it is just hard to get all the good prior art into one IPR.

MS. BAILEY: Yes, that's true.

MR. MURPHY: Yes. I don't see how that flies.

MR. GOLDMAN: I have one quick question for Pat and then one for Vanessa.

Pat, you represent smaller entities and smaller inventors these days. Isn't it good for a smaller inventor to be able to get the question of validity resolved at a lower cost in the USPTO, assuming you can get them to come out your way, and then go to court in litigation or to licensing with something that has the imprimatur of the PTAB?

MS. MARTONE: Actually I still represent large companies. But, having represented both large and small, I think it is really a problem for small companies because they have invested in a patent system which gives them a statutory presumption of validity,

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they have spent money on that, and someone is now going to be able to get rid of that patent without paying any attention to that. I think they are wondering why they are filing patents and paying the money to file patents instead of having a more European system where we don't have to have 8500 examiners and we do not have presumption of validity.

I think that actually this falls the hardest on patent owners who are smaller.

MR. GOLDMAN: I have one follow-up question for Vanessa. My question at the beginning of all this was whether this has affected innovation or affected investment in R&D. Is there anything you can tell us about that? The people who oppose the IPR system say it is going to chill innovation, chill investment, and chill patent filings, that sort of thing. What can you tell us about that?

MS. BAILEY: I can say from my standpoint obviously it hasn't. We are now investing more in research and development. Again, we have tons of patents and we file IPRs.

There has been a lot of innovation that has come since AIA. We've got blockchain and we've got a lot of artificial intelligence, a lot of very good technology innovation that still is getting churned out, and even more so I would argue. So no, I haven't seen that at all. I think that is a red herring.

On Patricia's point, you are not getting rid of valid patents. I don't think there are people saying that the PTAB doesn't know what they are doing and they are getting rid of all of these really good patents. They are getting rid of the low-hanging fruit, and that is why there are so many invalid patents coming out of the IPR process. I would proffer that's the entire point of it.

We deal a lot with smaller entities, with our Intel Capital Division, and drones, and all the different areas we are in, and all these people definitely support the IPR system because they do need a more efficient way of getting rid of clearly low-hanging fruit in the patent system.

MR. BADENOCH: Bob, can I make two real quick comments?

MR. GOLDMAN: Go ahead, George, because you're taking it from your own time. Keep going.

MR. BADENOCH: No, no.

MR. GOLDMAN: Go ahead.

MR. BADENOCH: First, I agree with John Pegram's second amendment, partly because I promised him to say that I agreed last night.

But also, the fact is that you very often do not know what the best prior art is until you see how claims are construed and how a patent is asserted and what it is asserted against, and it is often going to be the case that you do not know that within nine months. That is going to really limit the usefulness of that kind of procedure if you are forced to take one shot when you do not know what the prior art really is and then be bound afterwards.

Another quick comment to Dustin. I agree completely with the problem of *Georgia-Pacific*. I think it's almost as if these *Georgia-Pacific* factors were crafted to make absolutely anything relevant in a trial, and you can prove that almost anything is relevant to some *Georgia-Pacific* factor, and that is something that really does need to be reined in.

MR. GOLDMAN: Thank you, George.

MS. MARTONE: Can I make one comment about the *Georgia-Pacific* issue? I think that patent owners faced with that should insist that the decision of the PTAB holding these claims patentable should be introduced to undercut that argument.

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MR. GUZIOR: But often you do not want the jury to see the PTAB decision because it may seem like you squeaked out. Even if it was an important limitation on which you squeaked out, it gives the appearance that you have squeaked out.

MS. MARTONE: Okay.

MR. GOLDMAN: I want to turn now to the second set of issues: have the gears been grinding as the PTAB system interfaces with the rest of the litigation system?

To get ready to come here and talk, I asked one of my partners in Palo Alto, Gabrielle Higgins, who does a bunch of this work, whether there were any procedural shenanigans and infighting in the PTAB and among the PTAB bar. She gave me a twenty-nine-page single-spaced outline from some other presentation and a forty-two-slide deck, which I will not present today. So I am suggesting that perhaps we will not resolve this issue completely this afternoon.

Our second two speakers have each chosen one or two issues in which the gears are grinding, or may be grinding a little bit, and that is what I would like to turn to now.

Our next speaker is George Badenoch. George is Of Counsel at Hunton Andrews & Kurth LLP in New York.

MR. BADENOCH: Thank you, Bob.

I want to discuss generally standing, privity, and estoppel in IPRs; and, more specifically, should there be a standing requirement for IPRs?

I point out, for example, that in trademark oppositions there's a standing requirement: to oppose a trademark you have to show that you reasonably believe you'll be damaged by the registration. In covered business method review there's a standing requirement: you or a related party has to be sued for or at least charged with infringement.

But when we come to IPRs, which is the most general procedure for challenging patent validity, there's no standing requirement at all. Anyone, as long as you're not the owner, can challenge validity of a patent.

[Slide 2] There are some provisions that relate to naming and binding related parties that balances this a little bit. For example, you do have to name all real parties in interest. [Slide 3] Also, the time limit for petitioners to file an IPR if they have been sued also applies to real parties in interest and privities of the petitioner. [Slide 4]

And, perhaps more importantly, the estoppel provisions that prevent re-litigation apply to real parties in interest and privities of the petitioner. [Slide 5]

But the question is whether this is enough to protect patent owners from successive petitions and vexatious litigation.

I would submit that there have been some unforeseen consequences and business models that have arisen since the statute was passed that probably were not thought about by Congress when they passed it.

First — not really a big problem but it is a very strange anomaly — anyone, like a public-interest-type petitioner, can challenge the validity of a patent. But if he loses, he can't appeal. When you get to the Federal Circuit there's a standing requirement because the Federal Circuit is an Article III court. So he can challenge but he can't appeal.

Second, there are companies that have started up that basically are in the business of threatening and filing IPRs not because they're in the business, but they do it for stock manipulation purposes. For example, there's an outfit called Coalition for Affordable Drug Prices that basically looks for pharma companies that are highly dependent for revenue on a single patent and then they threaten an IPR, meanwhile taking a short position in the stock, knowing that simply filing the IPR will really knock down the stock price. This has

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been upheld specifically because there is no standing requirement in the statute. But I doubt that this is what Congress was thinking about when they enacted the procedure.

There are also companies — particularly I want to talk about RPX Corporation and United Patent Corporation (UPC) — that have a business model where they basically are offering so-called “patent risk solutions.” First of all, they will form industry groups, their customers; they will collect fees or dues from these groups based on their general revenue; and then they will basically offer to file IPRs in their own name or buy up the patents that are asserted against these customers.

They have a business model where their documents are specifically drafted to avoid their members being named real parties in interest or their being found in privity, so that basically they do this and then the company on whose behalf it’s really filed is in fact not bound by the result.

This has been challenged, and most of the time before the Board they have prevailed in establishing that they’re not in privity, their member company is not a real party in interest and they’re not bound.

There is one Federal Circuit case on this and it’s still pending. The facts are somewhat extreme. It is *Applications in Internet Time (AIT) v. RPX Corporation*.¹⁰ [Slide 7]

What happened here is that AIT sued a company called Salesforce.com for infringement of two business method type software patents. Salesforce was a member of RPX. Salesforce then partly responded to the suit by filing petitions for covered business method review. Those petitions were denied. Meanwhile, however, one year elapsed, so now they’re out of time. Then RPX filed IPRs in RPX’s name on the two patents in suit. And so, of course, AIT said, in effect, “Look, you can’t do this. Salesforce is the real party in interest. Your time is up.”

RPX said, “No. We filed for our own interests. We want to show we’re a tough negotiator for buying up patents and so on. Therefore, Salesforce is not a real party in interest, the time is not up.” The Board agreed with this, and so in fact they went ahead and invalidated the patents.

Then AIT appealed. The Federal Circuit looked at this and they said, in effect, “Wait a minute. We need to look at what’s really going on here. Who is really benefiting from invalidating these patents? It’s Salesforce. And look at all the other circumstances: Salesforce was the only company sued for infringement; and Salesforce made a substantial dues payment shortly before the IPRs were filed by RPX; and, even if RPX has some interest of its own, that doesn’t mean Salesforce is not also a real party in interest.”

So they basically remanded and told the Board to reconsider this. The Board is doing this now. It has been fully briefed.

Interestingly enough, the oral hearing in this case is today. I always like not having to worry about a decision coming out before I speak that will show me to be wrong. I think this decision is partly under wraps. But it will be interesting to see what the Board does with this, and for that matter, what the Federal Circuit does with this if it’s appealed again.

MR. GOLDMAN: Thank you, George.

Anything from Dustin or John about George’s presentation?

MR. PEGRAM: I would just say very briefly that I’m a believer that bad patents should be struck down, but I certainly have a lot of sympathy over some of these manipulative cases where people are attacking patents, for example to affect stock prices.

¹⁰ *Apps. in Internet Time, LLC v. RPX Corp.*, 897 F.3d 1336 (Fed. Cir. 2018).

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MR. GOLDMAN: Anybody else on the panel? Vanessa?

MS. BAILEY: I can say that I think the Coalition for Affordable Drug Pricing was at the very beginning of AIA. I really think they're not practicing anymore. I'm not quite sure of the situation.

But one thing I can say is the AIA could have had a standing requirement, but they didn't. So I think you've got to look at potentially why. As a component manufacturer, you have to consider that every time your clients are sued, do you have to file an IPR immediately as a matter of course? There are tons of different technologies in any one, say, cellphone, server, desktop, laptop.

So I think it's kind of unfeasible, or at least bad policy, to make it such that if you're a component manufacturer, all of a sudden you have to file an IPR just as a matter of course because you might be time-barred later on.

I think there are a lot of policy considerations going into the lack of standing requirement. That's my thought on that at least.

MR. MURPHY: Bob, I just wanted to comment briefly on the real party in interest issue.

MR. GOLDMAN: Good.

MR. MURPHY: My experience at the Board was that the judges take a pretty careful look, at least when I was there. The issue was: is somebody playing games; are they trying to avoid the estoppel effect by hiding behind the petitioner? If there was evidence that that was the case, then there was a problem. But in most cases that isn't the case; at least in my experience that wasn't the case.

I thought the Board by and large — although I agree with George, the *AIT v. RPX* case was somewhat unusual and the Federal Circuit took a pretty hard line on the Board's findings, which is not typical.

MR. GOLDMAN: Before we move to our last speaker, I have a question on the procedural back-and-forths of all this. It relates to stays. The notion was that if you bring an IPR proceeding, you may be able to get a stay of district court litigation as a way of conserving the resources of the court. That was the purpose. Indeed, one of the factors that the statute says courts are to look at is: will it conserve the resources of the court if we stay the litigation?

My understanding is that what most courts are doing is they will wait until there is a decision on institution to stay. What happens is the petition is filed; if somebody gets sued and they decide they're going to file an IPR, they prepare it; ninety days to respond to it and then ninety days for the Board to decide whether or not they are going to respond; so 180 days go by before there is a decision on institution.

During that time the litigation goes forward, as I understand it. You can get a lot done in Eastern Texas in 180 days, and even in slower jurisdictions a lot of time and resources can be spent.

So my question for the panel, just generally, is: is the IPR regime delivering the cost savings vis-à-vis litigation that were promised or that people had anticipated? Does anybody have a view about that?

MS. MARTONE: Yes, I do. That has always been the rule that I understand. But what has happened is initially there was a very high institution rate and institution almost always meant unpatentability. Once the IPR was instituted and you were the patent owner, you were going down.

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The last statistic I saw on institution rates was about 63 percent. Once the institution rate gets to that level, I would think courts would not necessarily automatically want to grant a stay until they found out it was really going to happen.

MR. GOLDMAN: That's certainly the practice in Texas. I don't know what it's like in other jurisdictions, but I know that's the practice in Eastern Texas.

Has anybody run into this? Are courts now more recently reluctant to grant stays? Brian?

MR. MURPHY: Bob, I was just going to say, particularly in the Northern and Central Districts of California they're more likely to grant stays and they're more likely to consider them earlier, pre-institution even. I think that's directly because of what Pat said, it's post-*S.A.S. Institute*.

In other words, because estoppel has more teeth on all the issues, I think district judges are more willing to consider a stay.

MR. GOLDMAN: So, at least in that sense, the IPR process is delivering on what it said it was going to do, including the stay statute, the provision for stays.

MR. MURPHY: Yes.

MR. GOLDMAN: Okay, good.

Now I would like to move to our fourth speaker who has been participating even though I haven't told you who he is.

Brian Murphy is a Partner at Haug Partners LLP in New York. For a piece of his career he took some time off for public service and was a patent law judge in PTAB proceedings.

Brian, what have you got to say?

MR. MURPHY: Thanks, Bob.

My topic is "Dueling Banjos: When Does the PTAB Invalidation Decision Unwind a District Court Judgment?"

I ask the question because the architecture of the America Invents Act,¹¹ the architecture of the reexamination statute, sows the seeds for inconsistent decisions on the patent validity issue depending on whether you're in district court or at the PTAB. Pat has already alluded to this, and I'm just going to kind of reinforce it.

The point is you very much can have inconsistent decisions even on the same evidence of prior art as to whether the same patent claims are valid or invalid depending on which jurisdiction you're in.

That, in turn, then leads to the question that I really want to talk about, the finality of judgments. What does it mean, and when is a PTAB invalidity decision final so it precludes or unwinds the district court judgment; and, vice versa, when is a district court judgment sufficiently final so that it cannot be unwound by a later PTAB invalidity decision?

A couple of slides just on the basics.

[Slide] In the statute, when we're in a district court we have a presumption of validity. That leads to a higher burden of proof for the challenger, a clear and convincing evidence standard to overcome the presumption of validity. That's in district court. It has always been that way.

Interestingly, when you're in front of the PTAB, which is part of the Patent Office that issued the claims in the first place after examination, there is no presumption of validity; so the standard of proof is lower to prove a patent invalid: it's by a simple

¹¹ America Invents Act, Pub. L. No. 112-29.

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preponderance. I can tell you from my days at the Board that in close cases that matters, it absolutely matters.

Even on appeal, when you go up to the Federal Circuit from district court, review of the district court's fact findings is for clear error. PTAB fact findings are given the more deferential standard, the lower standard of support by substantial evidence.

So on all three counts it's "easier" to invalidate a claim in front of the PTAB than it is at district court, even on the same evidence.

[Slide] That's exactly what happened in this case. Just briefly, *Novartis v. Noven*¹² was a generic drug case. Two district courts found the patent claims not invalid. One of them went up to the Federal Circuit, affirmed; the patent claims are not invalid.

Exactly the same record in front of the PTAB later on, patent claims are invalid. Goes up to the Federal Circuit, affirmed; there wasn't even a whole lot of discussion about it, even though it was the same evidence.

And the Federal Circuit wasn't going out on a limb. They quoted the Supreme Court, which pointed to the inconsistent results which are inherent in the statutory scheme.

So that's the potential for inconsistent judgments, and that leads to a potential conflict over the finality of judgments and the preclusive effect that one gives either a final district court judgment or a final PTAB judgment.

[Slide] I've cited a couple of cases, but I want to focus on *Fresenius v. Baxter*.¹³ The situation was there was a district court infringement judgment: the patent's not invalid, the patent is infringed; damages awarded.

It went up on appeal. It was affirmed on almost every issue, but there was a limited remand. The Federal Circuit said: "Yes, affirmed the patent is not invalid; yes, affirmed infringement; yes, affirmed pre-verdict damages; but, district court, we remand to reconsider the post-verdict damages." So that's the issue that's not final. Okay.

It goes back to the district court; the PTAB invalidates the claims. It goes up to the Federal Circuit; they affirm the claims are invalid. The district court enters the judgment after remand applying the post-verdict damages it was remanded and told to consider; the Federal Circuit vacates the decision and dismisses the case because the claims are invalid. Why? Because the district court judgment wasn't "final" because the majority rule when you consider that question is you've got to knock all the pins down, all the issues have to be decided so that nothing is left but to execute the judgment.

So even a remand such as you got in *Fresenius*, where all the liability issues and the damages were finally decided after remand, but because there was an issue hanging out there, it wasn't considered "final," so it didn't preclude the parties in any way, and so the defendant didn't have to pay the damages award from that judgment.

Now, that's a remarkable thing, at least to my way of thinking, and Judge Newman — good old Judge Newman, "The Lion Roars in Judge Newman's Dissents,"¹⁴ and she's got many of them on this issue — said: "What are we doing here? Issue preclusion is a doctrine of finality and it doesn't require that a judgment be final for all purposes except for execution." She chastises the majority approach: "[The majority's] doctrinaire approach has been rejected throughout the federal system."

But I think her real concern is that these types of judgments, inconsistent judgments like this, undermine the judicial process and the validity or the deference or the

¹² *Norvatis AG v. Noven Pharm. Inc.*, 853 F.3d 1289 (Fed. Cir. 2017).

¹³ *Fresenius USA Inc. v. Baxter Int'l, Inc.*, 583 F.3d 1288 (Fed. Cir. 2009).

¹⁴ *See Fresenius*, 721 F.3d at 1354–61 (Newman, J., dissenting); *ePlus v. Lawson Software*, 790 F.3d 1307, 1309 (Fed. Cir. 2015) (Newman, J., dissenting).

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respect due to a final district court judgment after it has been affirmed on appeal. That's really what she's driving at, and I think she makes a valid point.

Now, she takes the argument a little further, and I think she's on shakier ground when she says, "An affirmed district court judgment wouldn't apply only retrospectively and bind the parties; it should apply prospectively and preclude the PTAB from later invalidating claims." I'm not so sure that's going to fly because the Supreme Court has been pretty clear that that's constitutional and the PTAB can do it.

But I do think it's legitimate to say: if a judgment is final, as in the *Fresenius* case, the parties need to be bound by it, even if there are some issues hanging out there that need to be cleaned up, so to speak.

That comes down to the mandate. When the mandate issues after a Federal Circuit appeal, that's when it takes effect. That's the finality of the decision.

The majority said: "Look, the mandate didn't end the case. It wasn't final."

Judge Newman says: "What are you talking about? The mandate ended the case for all intents and purposes except for the single issue of post-verdict damages."

So is that an accident of timing?

[Slide] I'm going to leave you quickly with one case, the timeline on the right, *Virnetx v. Apple*.¹⁵ I don't have time for it.

In 2016–2017 there were two jury verdicts. Virnetx was the plaintiff. Apple was the defendant. The two verdicts totaled over \$1 billion.

In between those two verdicts the PTAB invalidated the patent claims. It all went up on appeal. Arguments were heard in January. Two or three days later there was a single affirmance under Rule 36 affirming a \$440 million judgment without opinion.

The mandate hasn't issued because there is a request for a rehearing. The other two cases are pending, including the invalidity judgment of the PTAB.

So I leave you with the question: is it going to be an accident of timing of when the mandates issue as to whether Apple has to pay a \$1 billion judgment?

MR. GOLDMAN: Thanks, Brian.

Let me throw it open. Anybody on the panel want to comment on the problems that Brian has raised?

MR. GUZIOR: Brian, just a question for you. Starting with Virnetx, there was *Virnetx v. Apple* and *Virnetx v. Cisco*.¹⁶ No liability in *Cisco* on the basis of noninfringement, but very nearly, from having been close to that case, also a judgment of invalidity. So you have the potential for inconsistent judgments even in district court.

Do you view the problem as materially worse in the context of IPR?

MR. MURPHY: Materially? It's worse. You know, the problem is I think it doesn't occur all that frequently, but when it does, it usually makes a lot of news and it's usually because it's worth a lot of money.

I do share Judge Newman's concern at least on the issue of finality and respect of district court judgments. The burdens of proof are in the statute; only Congress is going to be able to change that. Fine.

Vanessa makes the case — you know, I was at the PTAB, and I think it works reasonably well. I think you have sophisticated enough judges who don't throw out the baby with the bathwater.

¹⁵ *VirnetX, Inc v. Apple Inc.*, No. 14-MC-80013 RS (NC), 2014 WL 6979427 (N.D. Cal. 2014).

¹⁶ *VirnetX, Inc. v. Cisco Sys. Inc.*, 767 F.3d 1308 (Fed. Cir. 2014).

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But the fact is you will continue to have inconsistent judgments, even with the new claim construction standard being aligned, and I think it's problematic where you have essentially the same prior art and the same evidence being considered by two different jurisdictions coming to different conclusions. Even the Federal Circuit has said that's really not a good result, but it's possible, and nobody's bound by the other jurisdiction's results.

MS. BAILEY: I would say there is a policy argument to be made there that possibly courts should allow the PTAB to do its job first and save judicial resources, save litigation cost. And maybe there's an argument there for deference and just let the PTAB do their job because they are well-equipped to handle the issues in front of them.

MR. BADENOCH: There is the question then, though: do you wait for the appeal of the PTAB decision? It can get pretty long for some plaintiffs if you do that.

I basically don't disagree with anything that Brian said. But I will make sort of a collateral point that one reason for the one-year time limit for people charged with a suit for infringement to file their IPR is that's important so that they can't game the system by waiting to see what the district court does and take advantage of this inconsistency.

I'll just add it's also important that that one-year time limit apply to all related parties. So the question of RPX — this is a trick argument; I'm coming back to standing — so that the RPXs and UPCs who are actually filing it on behalf of a member would also be bound by the one-year time limit. You can take the cases like *Salesforce*, where it's going to be clear, and you can take the situation where they're clearly appointed as an agent to file an IPR on one patent, and then there's no question they will be bound.

But if you start expanding that to say, "Okay, they won't just be filing an IPR on a single patent; they'll be doing it on any patents of interest to their members — in effect, their members will say, 'We trust you to decide what patent to challenge; you know how to look at the dockets in Virginia and Delaware and East Texas, and you'll do the right thing' — or if you get it up to several people collectively doing that; or if the grant of authority is even broader and you say, 'You can either file an IPR if there's a patent of concern to us or you can settle it by buying up licensing rights for us, either way' — but at some point when you have like 200 companies in a technology zone, like UPC does, and the deal is that they might file an IPR on a patent that may be of concern to only some of them, at that point it becomes really difficult to stretch the concepts of real party in interest and privity and say that all those 200 members are in privity every time there is an IPR filed."

So I come back to the idea that maybe there's a standing requirement that takes care of it and only related parties can actually file, though they will then be bound by the one-year time limit.

MR. PEGRAM: I'd like to pick up on something Vanessa said and point out that there is a difference between invalidity in the district court and cancellation as a result of the PTAB proceeding.

Invalidity is a defense and the court, if you sustain the defense, holds that it's not shown to be invalid. That is before a lay judge in almost every case and a lay jury, and there is a presumption of validity.

If you go back in the history, in spite of a few things that have been said in opinions, the presumption of validity was originally merely a starting point, and an appropriate starting point, before a lay court where a patent has been examined.

Now look at the other side of it with a cancellation by a government agency and people who presumably have some relevant experience.

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In my view, bad patents should be canceled and the difference between these procedures should be recognized.

MR. GUZIOR: But I think there's an assumption that the patent is bad. When the statement is made "Why don't we let the Patent Office do its job?" I think how you feel about that depends a lot on who you are as the patent owner.

Having represented a small startup company that owns a patent, they are in a very different financial position than someone who can wait. If they have a really good, valid patent and they are going up against Goliath, the year and a half or two years it takes to let the Patent Office do its job and then go through an appeal may be the difference between collecting royalties on a valid patent and financial collapse.

MR. GOLDMAN: We have a question from the audience.

QUESTION: My name is Hans van Walderveen. I'm a Senior Judge at the District Court of The Hague in the Netherlands.

Just to make it clear for me as a European, can we see these PTAB proceedings as opposition proceedings against a decision of the USPTO to grant a patent or not?

MS. MARTONE: May I answer that?

MR. GOLDMAN: Let me take one stab at it and then yes.

The difference is that if the patent has issued already, while the IPR is going on the patent owner has rights, and they may be rights at risk but they are still rights that are existing, as opposed to an opposition where, as I understand it, the rights have not yet vested.

QUESTIONER [Judge van Walderveen]: But there's no time limit between the decision of the USPTO and filing a petition with the PTAB?

MS. MARTONE: That's right.

QUESTIONER [Judge van Walderveen]: Okay.

Another question just to get it clear. Let's assume that infringement proceedings are going on at a certain district court and that the district court stays the proceedings because of a petition made at the PTAB.

Let's assume then that the PTAB invalidates the patent. As I understand it, the patent holder then directly has to appeal to the Federal Circuit.

MS. MARTONE: Yes.

QUESTIONER [Judge van Walderveen]: What happens with the infringement proceedings going on at the district court?

MS. MARTONE: There is no harmony really in that now. They can go up at different times. At least now that we have the same claim construction approach, that may be easier. It would be good if our appellate court could try to find a way to hear both of them at the same time, but I don't see that as feasible.

The one other difference between your system and our system is that once our patents issue, because we have a full examination by a patent office that's probably more than what's available in other countries, our patents issue with a statutory presumption of validity. That's the concern of our situation.

MR. PEGRAM: Let me just comment that in Europe, for example in Germany, you can go to Düsseldorf and get an infringement decision and meanwhile a revocation action is pending and decided later. You can even get an injunction based on that infringement decision. Ultimately, the rug may get pulled from under you. So the situation we're discussing in the United States is somewhat the reverse of what's happening in Germany.

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QUESTION [Judge Edger Brinkman, District Court of the Hague]: May I just make one correction?

MR. GOLDMAN: Yes, and then there's a question in the back.

QUESTIONER [Judge Brinkman]: You mentioned that in opposition proceedings the patent is not yet granted by the EPO.¹⁷ That's not correct. It is first granted and then you have an opposition period like you mentioned for nine months.

Second, I think maybe Klaus here is better to comment on the German position. But in Holland we have the similar problem during this opposition period where the patent is granted already but under review. Then one can also instigate proceedings at the district court. It depends on the case. We can stay the proceedings depending on how we view it, or we can also say, "We will go ahead and decide ourselves."

MR. GOLDMAN: Judge Grabinski, I didn't call on you, but do you want to answer?

PARTICIPANT [Judge Klaus Grabinski, Federal Court of Justice, Karlsruhe]: In Germany — I think the same is true in the rest of Europe — we have the presumption of validity. So the starting point in a nullity action is the presumption of validity. It is for the claimant to prove or to show that the patent is invalid. That is the approach.

What puzzles me a bit is that you have different standards before different courts, even though I know the PTAB is considered to be a special kind of court.

However, coming back to the situation in which there was a final decision on patent infringement and award of damages and the defendant paid damages to the claimant. Then later, maybe in an opposition proceeding before the EPO, maybe in a nullity proceeding, the EPO board of appeal or the nullity court revokes the patent.

Now, at least in Germany, the defendant in the infringement and damages case has one month's time to institute a retrial of the case which is called a "Restitutionsklage", and possibly can ask for reimbursement of the damage paid.

I think the same is true in the United Kingdom; at least I am aware of a decision of the U.K. Supreme Court (*Virgin Atlantic vs. Zodiac*¹⁸). And it is different in France. So there is a split on whether you can come back when the court decided to revoke the patent after the final decision was made on damages.

MR. GOLDMAN: Is there a question in the back?

QUESTION [William McNichol, Rutgers Law School]: People have mentioned that we should let the Patent Office do its job and that patents issued by the United States Patent and Trademark Office are entitled to a statutory presumption of validity.

But perhaps the Emperor is naked. We've all seen targeting a lot of "Tarzan" patents, patents on "methods of keeping decapitated heads alive." Patent quality is not what it should be. Is the right way to deal with that to construct a very large, very complex, and frankly expensive procedure, that is not working as well as it was hoped it would work? Or is it to invest more in patent quality in the first place, so that instead of issuing 325,000 patents a year we issue fewer patents that don't require us to monitor the system to invalidate patents that should never have been granted in first place?

MS. BAILEY: That's a good point. We have talked to Director Iancu about that quite a bit.

¹⁷ European Patent Office.

¹⁸ *Virgin Atlantic Airways Ltd v Zodiac Seats UK Ltd* [2013] UKSC 46.

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It seems hard to get more funding at the USPTO. The whole issue that has been raised is the USPTO needs more resources. The PTAB gets more resources to look at the patents than the initial examiners get, so how is that fair.

I think you make a good point. If we can “clean up” the initial examination, you wouldn’t need to rely on IPRs as much. So that is a good point. I just don’t see how. They have had that issue for many years and haven’t resolved it. So I don’t know. How do you resolve that? Where do you get the funding I guess is the question.

QUESTIONER [Prof. McNichol]: Maybe a Patent Office that operated at a profit could spill money back into the general fund.

MR. GOLDMAN: Last question or comment? Anybody on the panel? Anyone else?

[No response]

Thanks very much for coming today and I’d like to thank the panel.