

STATEMENT FOR THE RECORD

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COMMITTEE ON THE JUDICIARY

Subcommittee on Intellectual Property

United States Senate

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

June 22, 2022

I. Introduction

Chairman Graham, Chairman Leahy, Ranking Member Grassley, Ranking Member Tillis, and Members of the Subcommittee:

Please accept the following statement for the record on the Patent Trial and Appeal Board Reform Act (PTAB Reform Act).¹ In this statement, I address the important function of recent reforms adopted by the U.S. Patent & Trademark Office (USPTO). These reforms are central to reestablishing the reliable and effective patent rights that have been the driver of the U.S. innovation economy for over two hundred years. Thus, Congress should not enact the PTAB Reform Act, which abrogates these reforms while failing at the same time to fully address serious strategic abuses of the Patent Trial and Appeal Board (PTAB).

Created by the America Invents Act of 2011 (AIA), the PTAB has brought the U.S. patent system fully within the operations and practices of the modern administrative state. Accordingly, the PTAB’s operations have raised concerns about respect for due process and for the norms of the rule of law often expressed about the administrative state more generally.² Lawyers and judges have complained that the PTAB engages in what has come to be widely identified as “shenanigans” in violating basic norms of due process in pursuit of its *raison d’etre*—to cancel patents.³

¹ I am submitting this statement for the record solely on my own behalf, and my statement does not reflect the views of my employer or of any institution or organization with which I am affiliated.

² See Philip Hamburger, *Is Administrative Law Unlawful?* (Univ. Chicago Press, 2014).

³ See *Innovation in America: How Congress can make our patent system STRONGER*, Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary, 116th Cong. (testimony of Adam

In addition to these fundamental concerns about the PTAB's own actions as an administrative tribunal, many companies and organizations have engaged in strategic behavior in filing petitions at the PTAB. They have been able to exploit the PTAB for ill purposes simply because Congress imposed almost no procedural or substantive limitations on the PTAB in the few provisions of the AIA that created this administrative tribunal.

For example, anyone in the world can file a petition to cancel a patent for any reason. This has given birth to PTAB-petitioning entities who can file petitions for a wide range of illegitimate reasons, such as harassment of patent owners and manipulation of stock prices. These petitions also have served a key role in the rise of predatory infringement practices by large, well-funded defendants who are sued for infringement in court. Similarly, the AIA did not impose any restraints on the number of petitions that can be filed against a patent owner, which has led to the filing of numerous petitions by different companies—a practice now widely known as “serial petitioning.”

The PTAB Reform Act does not address these fundamental violations of due process and the rule of law, although it confusingly appears to do so in some of its provisions. For conciseness, this statement focuses on only two fundamental concerns with the PTAB Reform Act. First, the PTAB Reform Act's abrogation of the *Fintiv* factors ignores longstanding administrative law precedent that agencies have legitimate discretionary authority to refrain from engaging in enforcement actions, such as instituting an administrative hearing at the PTAB. If the *Fintiv* factors are abrogated, this would promote the continued abuse of the PTAB as a parallel litigation track by Big Tech companies, which use the PTAB as a key tool in their predatory infringement strategies. Second, the PTAB Reform Act does not properly address the problem of petitions filed at the PTAB for abusive purposes, despite its provisions that allegedly prohibit serial petitioning and petitions filed for the purpose of extortion. Its limitations to single-party serial petitions and petitioners who explicitly offer to lose or withdraw a petition ignore the well-established problems of different companies filing multiple petitions and petitions filed for other improper purposes.

In sum, the PTAB Reform Act does not provide the real reform that is necessary and right—properly limiting the PTAB to respect due process and to prevent its abuse by strategic behavior by petitioners. Despite it seemingly restricting discretionary decision-making, this is a false promise. The PTAB Reform Act empowers and expands the PTAB through its continued abuse by companies and PTAB-petitioning entities who improperly use it to harass patent-owners, to engage in predatory infringement purposes, or both. Congress should reject the PTAB Reform Act.

The Abrogation of *Fintiv* Discretionary Denials is Wrong as Matter of Law and Policy

The primary impetus for the PTAB Reform Act has been the legal and policy pushback against the the *Fintiv* factors adopted by the USPTO in 2020.⁴ In exercising its discretion to deny a petition to

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https://papers.ssrn.com/abstract_id=3457804.

⁴ These factors are sometimes referred to as the “NHK-Fintiv factors” given that they are based in two precedential decisions by the PTAB, *See Apple Inc. v. Fintiv, Inc.*, No. IPR2020-00019 (P.T.A.B. Mar. 20, 2020); *NHK Spring Co., Ltd. v. Intri-Plex Techs., Inc.*, No. IPR2018-00752 (P.T.A.B. Sept. 12, 2018). I will follow common practice today in referring to them as the “*Fintiv* factors.”

institute an Inter Partes Review hearing, the PTAB concluded in *Apple v. Fintiv* that it could account for parallel proceedings in an Article III court, such as the proximity of the resolution of the court proceeding involving the same patent.⁵ The legal and policy reaction was immediate.

Apple, Google, Cisco, and Intel filed a lawsuit to overturn the *Fintiv* factors. They soundly lost before the trial court.⁶ The Supreme Court ultimately denied their cert petition earlier this year.⁷

The loss of these Big Tech companies in their lawsuit confirms that their efforts to abrogate the *Fintiv* factors for discretionary denials lack a firm foundation in both law and policy. First, as a simple legal matter, Big Tech is wrong that the USPTO lacks the proper discretionary authority to account for parallel proceedings in court in *denying* a petition to institute a hearing for the PTAB to cancel a patent. There is well-established and longstanding legal authority in administrative law that agencies have substantial discretion to not undertake enforcement actions.⁸ In 2014, the Second Circuit Court of Appeals recognized that “[i]t is rare that agencies lack discretion to choose their own enforcement priorities.”⁹ Thus, when the PTAB determines that will *not* institute a hearing in response to a petition, the USPTO is acting well within administrative law that it has the greatest discretionary authority in choosing not to act.

In fact, it is notable that Big Tech is seeking to have its legal cake and eat it too on this issue. In amicus briefs and in the broader policy debates, Big Tech has vigorously argued in the past that the PTAB has significant discretionary rulemaking authority. In *Cuozzo Speed Technologies v. Lee* and *SAS Institute, Inc. v. Iancu*, for example, Big Tech defended a broad-based discretionary authority inherent in the PTAB as an administrative agency to enact rules in which there is no explicit mandate in the AIA.¹⁰ Big Tech cheered the decision by the *Cuozzo* Court that “inter partes review is less like a judicial proceeding and more like a specialized agency proceeding” in conferring *Chevron* deference on the PTAB’s discretionary decision to adopt the broadest-reasonable interpretation standard in claim construction.¹¹ Obviously, the broadest-reasonable interpretation standard in claim construction furthered Big Tech’s interests in securing the high

⁵ *Id.*

⁶ See *Apple Inc. v. Iancu*, No. 5:20-CV-06128-EJD, 2021 WL 5232241 (N.D. Cal. Nov. 10, 2021).

⁷ Blake Brittain, *Apple, Mylan lose Supreme Court bids to challenge patent review rule* (Jan. 22, 2022), <https://www.reuters.com/legal/transactional/apple-mylan-lose-supreme-court-bids-challenge-patent-review-rule-2022-01-18/>.

⁸ See, e.g., *Massachusetts v. E.P.A.*, 549 U.S. 497, 527 (2007) (recognizing the legal principle in administrative law that “discretion is at its height when the agency decides not to bring an enforcement action”); *Heckler v. Chaney*, 470 U.S. 821, 831 (1985) (“This Court has recognized on several occasions over many years that an agency’s decision not to prosecute or enforce, whether through civil or criminal process, is a decision generally committed to an agency’s absolute discretion.”); *American Horse Protection Ass’n, Inc. v. Lyng*, 812 F.2d 1, 4 (D.C. Cir. 1987) (recognizing the significant discretionary authority in an agency’s refusal to undertake an enforcement action given in part its similarity to a prosecutorial decision not to indict, “which traditionally involve executive control and judicial restraint”).

⁹ *Natural Resource Defense Council, Inc. v. U.S. Food & Drug Admin.*, 760 F.3d 151, 171 (2d Cir. 2014).

¹⁰ See *SAS Institute, Inc. v. Iancu*, 138 S. Ct. 1348 (2018); *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 (2016).

¹¹ *Cuozzo*, 136 S. Ct. at 2135.

rates of cancellation of patents in PTAB hearings. Yet, when this discretion now cuts against its interests, Big Tech now argues that the PTAB lacks the same discretionary rulemaking authority that it advocated for and defended in *Cuozzo* and *SAS Institute*.

Second, as a matter of policy and economics, it is unsurprising that Big Tech has so vigorously sought to reverse the *Fintiv* factors, because this has impeded its practice of predatory infringement. Along with PTAB-petitioning entity, Unified Patents, Big Tech companies have filed the most petitions at the PTAB in the past ten years; the companies who filed the failed lawsuit against the *Fintiv* factors—Apple, Google, Cisco, and Intel—are among the top ten PTAB petitioners of all time.¹² The reason for this is simple: Big Tech uses the PTAB as a key part of its well-established practice of predatory infringement (also known as “efficient infringement”).¹³ Predatory infringement occurs when a company determines that it “economically gains from deliberately infringing patents” because the company understands that it will ultimately pay less in legal fees than in paying a properly negotiated license with the patent owner.¹⁴ Predatory infringement succeeds, because it is now incredibly uncertain and expensive for patent owners to file infringement lawsuits due to a host of changes to the patent system over the past 15 years, including the costs of defending one’s patent at the PTAB. Commentators regularly identify large Bit Tech companies like Apple or Google as engaging in predatory infringement.¹⁵

Big Tech has exploited the PTAB in its predatory infringement tactics because it has been able to use the PTAB for something that this agency tribunal was not intended to become: a parallel-track patent litigation system. In the debates leading up to the enactment of the AIA, it was explicitly stated by stakeholders that the PTAB would not create a two-track litigation system for patents. But this is exactly what the PTAB has become since 2012. One empirical study found a 70% overlap in defendants being sued for patent infringement and petitioners filing at the PTAB.¹⁶

These duplicative challenges in both court and in the PTAB impose immense significant burdens on patent owners. When a patent owner must spend financial resources to repeatedly defend the same patent again and again in multiple venues, it cannot invest those resources in additional innovation, recruitment of talent, or operational expansion, among other things. Moreover, the threat of a 78% cancellation rate for patents reviewed in PTAB administrative hearings, as was the case for PTAB hearings in early 2022, imposes additional costs and uncertainties on patent owners who seek their remedies in court and, as a result, are inundated with numerous PTAB petitions

¹² See *Infographic: Big Tech Companies Are Biggest Users of PTAB, 2012-2021*, From the Alliance Blog (June 20, 2022), <https://innovationalliance.net/from-the-alliance/infographic-big-tech-companies-are-biggest-users-of-ptab-2012-2021/>.

¹³ See Adam Mossoff & Bhamati Viswanathan, *Explaining Efficient Infringement*, CPIP Blog (May 11, 2017), <https://cpip.gmu.edu/2017/05/11/explaining-efficient-infringement>.

¹⁴ *Id.*

¹⁵ See Joe Nocera, *Why Sonos Has Already Lost Its Patent Suit Against Google*, Bloomberg (Jan. 10, 2020), <https://www.bloomberg.com/opinion/articles/2020-01-10/even-if-sonos-wins-its-suit-against-google-it-loses>; *The trouble with patent-troll-hunting*, The Economist (Dec. 14, 2019), <https://www.economist.com/business/2019/12/14/the-trouble-with-patent-troll-hunting>.

¹⁶ See Saurabh Vishnubhakat, Arti K. Rai, & Jay P. Kesan, *Strategic Decision Making in Dual PTAB and District Court Proceedings* 31 BERKELEY TECH. L. J. 45 (2016) (finding 70% overlap).

filed in response to their lawsuit.¹⁷ (In reviewing all written decisions by the PTAB, others have identified an overall cancellation rate of 84% of at least a portion of all the patents reviewed in PTAB administrative hearings.¹⁸)

The result is that patent owners are significantly disincentivized to sue in defending their rights against predatory infringement practices by Big Tech, especially for individual inventors, startups, small companies, and universities. The legal protection of patented innovation becomes only the “sport of kings,” in the apt words of Judge Paul Michel.¹⁹ In sum, Big Tech uses the PTAB as a parallel proceeding to impose additional costs on inventors, startups, smaller companies, and other under-capitalized commercial entities who are the victims of their predatory infringement tactics.

This economic and policy reality for patent owners today explains Big Tech’s vigorous opposition to the *Fintiv* factors. If the PTAB denies instituting an administrative hearing to review a patent that a Big Tech company has been sued for infringing, then this reduces Big Tech’s ability to use PTAB administrative hearings as a legal cudgel in its predatory infringement toolbox. This is key to understanding Big Tech’s sudden reversal on its previous support for wide-ranging discretionary rulemaking authority by the PTAB, which Big Tech has asserted the PTAB should be given *Chevron* deference—contrary to its arguments in its recent failed lawsuit against the *Fintiv* factors. The arguments against the *Fintiv* factors should not just be rejected as a matter of law, they should also be rejected as a matter of patent policy. The *Fintiv* factors are a modest step that reestablishes the reliable and effective patent rights against the predatory infringement tactics of Big Tech.

The Problem of Abusive Petitioning is Not Addressed by the PTAB Reform Act

The PTAB Reform Act allegedly addresses the problem of abusive petitions by prohibiting serial petitions filed by the same petitioner against the same patent, as well as prohibiting petitions filed for the purpose of extortion in which the petitioner offers to delay or lose if paid consideration. Neither of these purported prohibitions address the actual problem of abusive PTAB petitions filed for the purpose of harassing patent owners. Instead, these provisions in the PTAB Reform Act only give the appearance of a cure for a longstanding problem that they do not actually fix, and thus they sow only confusion about whether the problem has in fact been addressed.

First, with respect to the alleged prohibition on serial petitioning, the PTAB Reform Act significantly limits this prohibition in two key respects. First, it applies to a *single party* or *real*

¹⁷ See Daniel F. Klodowski, Michael R. Galgano et al., *IPR, CBM, and PGR Statistics for Final Written Decisions Issued in January and February 2022*, At the PTAB Blog (Apr. 1, 2022), <https://www.finnegan.com/en/insights/blogs/at-the-ptab-blog/ipr-cbm-and-pgr-statistics-for-final-written-decisions-issued-in-january-and-february-2022.html>.

¹⁸ See Josh Malone, *Assessing PTAB Invalidity Rates* (June 24, 2021), <https://usinventor.org/assessing-ptab-invalidity-rates/>.

¹⁹ *The Impact of Bad Patents on American Businesses: Hearing Before the Subcomm. on Courts, Intellectual Prop., and the Internet of the H. Comm. on the Judiciary*, 115th Cong. (2017) (statement of J. Paul R. Michel, former Chief Judge of the U.S. Court of Appeals for the Federal Circuit) (“Indeed, most owners of patents can no longer afford to enforce them. ... Experts opine that to enforce a small portfolio an owner needs \$15 million in cash and \$3 billion in market cap. ... [T]he ‘sport of kings,’ horse racing, has been replaced by patent litigation.”).

party in interest filing multiple petitions. Second, it applies only to multiple petitions against the *same patent claim(s)*.

Serial petition is a significant and well-established problem at the PTAB that has long been used to harass patent owners by improperly imposing on them additional costs in defending their patents,²⁰ and the limitations imposed by the PTAB Reform Act on serial petition does not address this problem. As one empirical study has reported, serial petitioning is a problem insofar as “a *number of patents* have been targets of *serial challenges* spread across both multiple petitions and *multiple challengers* in IPR petitions.”²¹ Thus, the PTAB Reform Act cannot and will not end abusive serial petitions filed against *multiple patents* and *multiple patent claims* by *different petitioners*.

In failing to recognize why serial petitioning occurs explains why the PTAB Reform Act will not address this serious problem. The purpose of serial petitioning is to impose significant costs on patent owners as one tactic in the strategic policy of predatory infringement. As long as a defendant in a patent infringement lawsuit can continue to impose costs on a patent owner—both the actual costs of defending the patent at the PTAB and the additional costs of uncertainty and delay—then it succeeds in preventing inventors, small companies, and other undercapitalized innovators from seeking their proper legal relief for the violation of their property rights. This is why serial petitioning was an entirely predictable problem when the PTAB was created by the AIA for the simple reason that the AIA imposed no substantive limitations on petitions beyond the estoppel requirements set forth in § 315 (a limitation on the PTAB that was sought to be undone through an alleged technical corrections bill introduced shortly after the AIA was enacted).

Given the estoppel limitations on filing of petitions in the original AIA provisions creating the PTAB, defendants in patent infringement lawsuits have already strategically devised methods for filing multiple petitions against patent owners to impose additional significant costs on these patent owners. This includes filing multiple petitions against multiple patents, as well as filing petitions by multiple parties against these multiple patents and patent claims. Since these PTAB petitions are filed by distinct legal entities, and they are not real parties in interest under the patent statutes, these serial petitions have succeeded in being filed and have led to institution decisions.

For example, a single patent owner who had sued multiple Big Tech companies for patent infringement in 2014 was the victim of *90 petitions* filed against *multiple patents* it owned by *multiple parties* filing the petitions.²² In the patent infringement lawsuits by VirnetX, Microsoft

²⁰ See, e.g., Anne S. Layne-Farrar, *The Cost of Doubling Up: An Economic Assessment of Duplication in PTAB Proceedings and Patent Infringement Litigation*, LANDSLIDE, May–June 2018, at 52, 55 (“On a per-patent basis, out of 3,460 patents with an IPR challenge filed, 842 (24 percent) were ‘serially petitioned patents.’ (footnotes omitted)).

²¹ Saurabh Vishnubhakat, Arti K. Rai & Jay P. Kesan, *Strategic Decision Making in Dual PTAB And District Court Proceedings*, 31 BERKELEY TECH L. J. 1, 70 (2016) (emphases added); see also Gregory Dolin, *Dubious Patent Reform*, 56 BOSTON COLLEGE L. REV. 881, 939-44 (2015) (describing the practice of multiple petitions filed by multiple entities against a patent owner).

²² See Vishnubhakat et al., *supra* note 21, at 21.

filed 12 petitions over the course of six months against 6 patents owned by VirnetX.²³ Notably, RPX had already filed multiple petitions against 4 of these 6 patents, alleging the exact same grounds of invalidity, which is unsurprising given the commercial relationship between Microsoft and RPX (which was not a legal relationship sufficient to trigger the estoppel provisions for petitions filed by a real party in interest at the PTAB).²⁴ Similar correlations between defendants in patent infringement lawsuits have long existed at the PTAB between other PTAB-petitioning entities and Big Tech defendants in patent infringement lawsuits.

These serial petitioning practices would *not* be prohibited by the provisions of the PTAB Reform Act that purportedly claim to end these practices given the limitations of its provisions to serial petitions filed by the *same party* or real party in interest against the *same patent claim(s)*.

Second, the harassment of patent owners by PTAB petitioners would not end with the limited prohibition in the PTAB Reform Act against bad-faith petitioners engaging in extortion in filing petitions who promise to delay or lose in exchange for a payoff. Given the uncertainties and high cancelation rates at the PTAB, the mere *threat* of a petition being filed can be more than sufficient. Also, if the threatening party has the financial wherewithal to follow through on the threat, and it takes only one such instance to make it a viable threat, then the extortionary threat of a PTAB petition remains despite the prohibition in the PTAB Reform Act.

The PTAB Reform Act prohibits only the specific nature of the extortionary tactics employed by OpenSky against VSLI,²⁵ but bad-faith petitions and the strategies for filing them are far more varied than this one approach. For example, it would not prohibit petitions filed to manipulate stock prices for financial gain, such as the petitions filed by Ken Bass. In that case, the PTAB rejected the motion for sanctions filed by the patent owner (Celgene) given that Bass was not engaging in extortion, concluding that his “economic motive for challenging a patent claim” is “legal,” i.e., the short-selling of Celgene stock, and thus his motive was neither a basis to sanction Bass nor to deny his petition. Bass’ petitions were fully considered by the PTAB given that Bass was not seeking an extortionary payout to metaphorically throw the fight with Celgene if his petitions resulted in an institution decision by the PTAB.²⁶ The prohibition against bad-faith petitions also would not prohibit bad-faith petitioning practices in which collusion between PTAB-petitioning entities and defendants sued for infringement results in PTAB petitions filed only to impose additional costs on patent owners as victims of a predatory infringement strategy.

Conclusion

The PTAB was intended to eliminate mistakenly issued patents that clog the efficient operations of the U.S. innovation economy. Instead, the PTAB has fundamentally destabilized the U.S. patent

²³ See Dolin, *supra* note 21, at 938-39.

²⁴ *Id.*

²⁵ See Gene Quinn, *OpenSky Attorney Emails Expose the Seedy Underbelly of PTAB Practice* (March 4, 2022), <https://www.ipwatchdog.com/2022/03/04/opensky-attorney-emails-expose-seedy-underbelly-ptab-practice/id=147155/>.

²⁶ See Gene Quinn, *Kyle Bass IPR challenge moves forward, what does it mean for patent reform?*, IPWATCHDOG (Oct. 12, 2015), <http://bit.ly/1jltJ4U>.

system and undermined this essential foundation for the U.S. innovation economy. It has destabilized the patent system through “shenanigans,” but, more importantly, it is often-used tool by Big Tech to engage in predatory infringement. This explains Big Tech’s vigorous opposition to the *Fintiv* factors, which is incorrect in both law and policy, as well as contradicts Big Tech’s prior enthusiastic endorsement of the PTAB’s discretionary rulemaking authority.

As I have stated in prior testimony on the STRONGER Patents Act, Congress should impose significant procedural and substantive limitations on the PTAB to ensure that it respects due process and the norms of the rule of law, as well as prevents strategic abuse by petitioners.²⁷ The PTAB has rightly adopted via its rulemaking authority much-needed reforms in recent years. These reforms should be permanently fixed into its structure such that patent owners will not be subject to the vicissitudes of changing regulations with changes in Executive Branch administrations.

Unfortunately, the PTAB Reform Act does not achieve this goal. While superficially appearing to restrict discretionary decision-making by the PTAB, it in fact achieves the opposite. The PTAB Reform Act expands the power of the PTAB to receive petitions filed for the purpose of predatory infringement strategies by Big Tech and, even in its nominally restrictive provisions, it does not prohibit actual abuses, such as filing serial petitions by multiple parties against multiple patents for the purpose of imposing additional costs on a patent owner in a predatory infringement strategy.

Given space limitations, this statement for the record addressed only the legitimate authority by the PTAB to deny petitions that serve the predatory infringement strategy in the improper use of the PTAB as a parallel litigation track in the patent system, and the failure of the PTAB Reform Act to address the actual problem with harassment of patent owners, such as by serial petitions.

The PTAB Reform Act has additional significant problems, such as attempting to confer standing in Article III courts on PTAB-petitioning entities appealing PTAB decisions affirming the validity of patents. This suffers similar legal and policy failings. First, it is unconstitutional, as standing in court is a requirement under the “case or controversy” clause in Article III of the Constitution, which cannot be changed by statute. Second, this attempted change in standing for PTAB-petitioning entities expands the ability of petitioners to harass or otherwise impose additional costs and delays on patent owners who are victims of the predatory infringement strategy of Big Tech.

In sum, the PTAB Reform Act should not be enacted by Congress. This bill would not address actual abuses of the PTAB by strategic actors. Through its abrogation of the *Fintiv* factors and its conferral of Article III standing on PTAB-petitioning entities, among other changes, the PTAB Reform Act would in fact expand the power of the PTAB to cancel more patents and thus make it more susceptible to continued abuse by Big Tech and other entities exploiting its processes and decisions to engage in predatory infringement practices. If real reform of the PTAB is sought by Congress, the STRONGER Patents Act should be reintroduced and enacted by Congress.

²⁷ See *supra* note 3.