

Written Statement of

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Hearing on
The Patent Trial and Appeal Board After 10 Years: Impact
on Innovation and Small Businesses

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Chairman Johnson, Ranking Member Issa, and Members of the Subcommittee, it is an honor to appear before you today to discuss the Patent Trial and Appeals Board (PTAB) and the dramatic impact it is having on U.S. innovation and startup activity.

I have spent over twenty years working in Silicon Valley as an innovator in the medical device field. I currently lead a venture-backed medical device incubator called

ExploraMed that is dedicated to identifying, creating, and developing novel solutions to meet the unmet health needs of patients around the world. Working with numerous colleagues, I have helped successfully launch six companies and their products. I have seen the medical device business from many perspectives as a lawyer, investor, innovator, and business leader. I am also an inventor on 26 U.S. issued patents with others currently pending. During the past 20 years, we have enjoyed continued success in developing products that benefit patients, but the nature of those products has changed as the nature and reliability of intellectual property protection has changed.

I am also a co-founder of the Alliance of U.S. Startups and Inventors for Jobs (USIJ) a group of startups, entrepreneurs, incubators, research institutions and investors dedicated to promoting a strong U.S. patent system.

Intellectual property protection directs and shapes the potential solutions developed by incubators that nurture fragile and risky innovations, and it influences the investment decisions that venture capitalists make.

We are always aware of the fact that we are using the money of our venture partners. These venture funds in turn are often leveraging resources provided by retirement funds and other investors large and small. They purposely allocate part of their funds to higher risk investments such as venture capital seeking a higher return for a portion of their investment funds, but the retirement plan's investors trust it to pick a venture capitalist who will make good choices. Part of

making good choices is ensuring that investments can be protected by effective intellectual property rights.

Changes to the patent system in recent years, particularly the Inter Partes Review (IPR) process with its high invalidity rates, duplicative/serial challenges, overreaching basis for obviousness challenges and the ability to challenge patents that have already been found valid puts existing patents at risk and makes venture capital harder to attract.

This has led to outcomes that shouldn't be surprising. There has been a decrease in capital invested in patent-intensive industries and less capital available for the earliest stage startups where risk is highest.

How PTAB has impacted venture-backed startups

Using IPRs to harass and to force smaller companies and competitors to incur unnecessary expenses are abuses of the IPR system by some of the largest companies in the world. Almost immediately we saw this abuse become a coordinated effort that led to serial and duplicative attacks on the most valuable patents held by small companies.

It may seem surprising now, but the concept of “one bite at the apple” at PTAB was actually a principle established under the Leahy-Smith America Invents Act.¹ Congress intended IPRs to be an *alternative* to district court litigation that would save time and money for challenging the validity of the minority of patents that are questionable. It was not

¹ <https://www.usij.org/research/2018/serial-attacks>

intended to become a tool for wealthy corporations to delay and repeatedly attempt to kill a valid patent in ways not tolerated in district court. Congress recognized the potential for abuse of PTAB litigation by serial petitions that repeatedly attack an inventor's patent. Throughout the legislative history of the AIA, and as cemented in the enacted legislation, Congress made clear that inventors should not have to endure repeated attacks on their patent claims at the PTAB. Once PTAB was in place, however, even the best inventions, covered by well-written patents, were prone to be stripped of their protections at the PTAB, precisely because the most valuable inventions draw the most repeated and concerted attacks by so many challengers. Our court system generally doesn't allow a plaintiff to file multiple lawsuits on the same matter once it has been adjudicated. In the case of IPRs, the petitioner is the equivalent of the plaintiff in our courts and if a single petitioner or a group of petitioners is allowed to file multiple petitions in an attempt to kill a patent claim, then it becomes virtually certain that any patent, including the very best patents, can be killed by IPR. And the data bear out that these repeated and overlapping petitions were routinely filed, both by a single challenger as well as in collaboration with other parties who are "privies" of the other filers in reality but mask their relationships to the other filers to conceal that point.

Patent owners were subjected to multiple IPRs challenging the same claims, gamesmanship by infringers in coordinated use of both the IPR procedures and motion practice in Federal court, and the use of surrogates to challenge patents. Infringers thereby were given extra avenues to attack the

patent. Rather than making litigation less expensive, which Congress was trying to do, these abusive tactics made litigation more expensive than it was before the AIA was enacted, particularly for smaller companies that could least afford the expense. Even worse, the practices of the PTAB created uncertainty around the existence of patent rights.

When added to the already enormous expense of trying to enforce patents against larger and better financed incumbents, the AIA has had the result that fewer and fewer entrepreneurs, innovators and their investors are willing to rely on the U.S. patent system to protect the investments of time and resources in high-risk projects. Some have shifted their IP strategies away from patents and toward trade secrets, while many others have abandoned efforts to challenge the large incumbents and are pursuing lower risk activities with shorter development periods that do not need patents. Certainty of patent rights facilitates transactions. Uncertainty in patent rights destroys confidence and dissuades early-stage development and investment.

The failure of U.S. policy makers to energize inventors and entrepreneurs to pursue these higher risk technologies is allowing other countries to seize our historical leadership in areas of great long term strategic importance. This is a matter of great strategic importance to our nation. Most critical technologies – such as IT hardware and operating systems, cybersecurity, medical devices, biopharmaceuticals, optics and quantum computing, to name just a few – require patents to justify long term investments in risky new technologies. The entrepreneurs and their investors often spend 10 years

developing and testing products with no revenue and more years to attain profitability.

One can imagine the impact that wanton attacks on its patents might have on an entrepreneur building a company in a patent-intensive area such as medical devices, semiconductors, wireless technology, computer hardware or drug discovery. I can assure you that their potential investors look at every conceivable risk factor facing a young company before they make any decisions, particularly those that involve tens or hundreds of millions of dollars and a decade or more to potentially provide a return on that investment. The jeopardy that patents are constantly placed in is well understood, and venture investors adjust accordingly.

In recent years we have seen a migration of venture capital away from critical, patent-intensive sectors and move into much less patent-intensive pursuits such as social media, financial services and software. Consider that according to the Pitchbook 2021 venture monitor, venture capital was heavily concentrated in three sectors that do not typically rely on patents and are often adversarial towards them:

- Enterprise technology (software): \$176 billion
- Consumer technology (social media/entertainment): \$96 billion
- Fintech: \$50 billion

Meanwhile, more patent-intensive sectors that are critical to our national security and well being attracted much less investment:

- Biotech & Pharmaceuticals: \$37 billion
- Cybersecurity: \$23 billion²
- Semiconductors: \$2.6 billion³
- Medical Devices: \$1.3 billion⁴

There are certainly a number of factors that contributed to this distribution and we have seen a recent implosion in the value of high-profile technology and crypto investments. But as Congress considers the impact of the PTAB on startups, particularly those in patent-intensive industries, this committee needs to understand that semiconductor and biotech startups are competing for the same venture funding as NFTs and consumer products, and if you make it more difficult for the next great biotech company to protect its IP you may make a Bored Ape or a new restaurant look like a better option to investors.

Maintaining Progress and Strengthening Protections

But this does not have to be an either/or situation. There are enough potential investment dollars to fund patent-intensive technologies as well as non-patent-intensive businesses as long as there is certainty regarding the patent right. Under strong recent leadership at the USPTO several improvements have been made that have addressed the most

² <https://cybersecurityventures.com/30-cybersecurity-companies-raised-200m-in-2021/>

³ <https://www.svb.com/industry-insights/hardware-frontier-technology/shortages-drive-record-investment-in-semiconductor-startups>

⁴ <https://www.medicaldevice-network.com/deals-analysis/medical-devices-industry-venture-financing-deals-total-1-3bn-in-north-america-in-july-2021/#:~:text=Total%20medical%20devices%20industry%20venture%20financing%20deals%20worth,of%20imperative%20Care%2C%20according%20to%20GlobalData's%20deals%20database.>

egregious examples of serial and duplicative IPRs. These improvements came in the *General Plastics*, *Sotera* and *Fintiv* precedential decisions made in 2019 and 2020.

The *General Plastics* precedent sets forth a number of clear and reasonable factors for PTAB to consider when deciding to institute an IPR petition on patents that have already been challenged.

The *Fintiv* precedential decision lays out a framework for PTAB to use its discretion to deny IPR petitions when the same patent is being litigated in a district court proceeding. The *Sotera* precedential decision works in conjunction with *Fintiv* and allows petitioners to avoid a *Fintiv* denial of their IPRs if they stipulate that they will not make the same invalidity claims against the patent in district court. This important tool for IPR petitioners was noted by PTO Director Vidal in her Senate confirmation hearing as a clear pathway to avoid a *Fintiv* denial and seek an “alternative” IPR proceeding.

These improvements were long overdue as it took 8 years of coordinated and sustained abuse of the PTAB process to finally make these corrections. They have, not surprisingly, been challenged in court by highly profitable incumbent companies and they are still under assault today with the remarkable assertion to this committee that the PTO Director should not have the discretion to address abuses to the system such as these.

Bowing to these companies and casting aside the reforms made by the *General Plastics* and the *Fintiv* and *Sotera*

precedential decisions would resurrect the flawed approach of the PTAB's first several years when innovative, venture-backed startups in the U.S. were largely defenseless in the face of extensive and duplicative campaigns by large companies to invalidate their best patents. No other legitimate legal system in the world allows a party to continually file complaints until they eventually win. This is the way the PTAB process worked before *General Plastics*, *Fintiv* and *Sotera*.

USIJ, a group I work with, was among the first to produce hard data demonstrating the serial IPR tactics deployed by Big Tech targeting smaller competitors. Prior to reforms made by the USPTO, the data was clear:

- 56% of Apple's IPRs were duplicative (*i.e.*, multiple petitions filed attacking the same claims).
- 59% of Microsoft's were duplicative.
- 38% of Samsung's were duplicative.
- 38% of Google's were duplicative.
- 34% of LG's were duplicative.

Congress clearly intended to bar these type of serial petitions and the USPTO finally took action to address these attacks on small, innovative competitors.

Obviously, for some large technology companies that formerly relied on serial IPRs to target the highest quality patents held by competitors, the mere existence of the *General Plastics*, *Fintiv* and *Sotera* framework is a problem. To rationalize litigation and aggressive lobbying to reverse

these precedents, wealthy companies have offered a pair of erroneous rationales:

1. That the PTO Director does not have the statutory discretion to deny PTAB petitions, and/or;
2. That there should be few if any limitations on when IPRs should be instituted, mainly based on the claim that USPTO has granted a raft of “bad patents.”

These premises are factually wrong and therefore should never serve as the rationale for legislation that would restack the PTAB process in the favor of a handful of wealthy incumbent large companies who are its heaviest users.

Based on the clear statutory language of the America Invents Act and multiple court decisions, it is quite clear that former Director Iancu had the authority to clarify PTAB’s ability to deny serial and duplicative IPRs and implement what became the *General Plastics*, *Fintiv* and *Sotera* precedential framework. There has been no clear data that demonstrates that the USPTO is producing more “bad” or “clearly invalid” patents than it was ten years ago or that would justify a major overhaul of the PTAB process. The assertions about a [crisis of “bad patents”](#) in the U.S. seem to rest on one decade-old study that examined less than 1000 patents issued from 2000 to 2010. Whatever it may have shown at the time, it is now irrelevant and no longer even available online. A 2017 Brookings report addressing “invalid patents” claims there is “general agreement” that the USPTO is issuing “too many invalid patents” but literally offers no data to back up this

claim.⁵ The reality is that, over the last ten years, the mere existence of the PTAB has made the filing of flimsy patent cases far less profitable, and to the extent there ever was a problem with the abusive assertion of invalid patents, it is significantly diminished.

Regardless of whether or not there remains a “crisis of bad patents,” any patents that have been issued based on weak or erroneous prior art should be reviewed and invalidated when appropriate. Notably, however, for patents whose claims are demonstrably invalid, a single fair IPR should be enough. A system that encourages multiple, duplicative attacks on a single patent is not a system designed to address “bad patents;” it is a rigged process that allows tactical abuse to target a competitor.

And, of course, most importantly, the USPTO has made it clear that no IPR petition will be denied under the *Fintiv* framework if the petitioner simply agrees to not raise the exact same invalidity claims in district court. This simply avoids the type of double jeopardy and forum shopping that exists no place else in the U.S. legal system.

Fintiv is clearly compliant with the discretion granted the Director under AIA, it is certainly not denying legitimate invalidity claims from being heard. It is, however, making it much more difficult for a handful of wealthy companies to launch serial attacks on valuable patents held by smaller

⁵ https://www.brookings.edu/wp-content/uploads/2017/12/es_121317_decreasing_patent_office_incentives_grant_invalid_patents.pdf

competitors. These should be reasons to strengthen and expand it, not to repeal or replace it. The conversation we should be having is how can we strengthen the tenets of the *Fintiv* rule and further protect U.S. startups, inventors and entrepreneurs from abusive IPRs.

How Congress Can Improve the PTAB for Startups and Innovators

In addition to maintaining some of the balance that has recently been restored to the PTAB process there are several other legislative changes that Congress should consider to restore PTAB to its original intent as an “alternative” to litigation and reduce the abusive tactics of wealthy incumbents.

It seems clear now that there should be a standing requirement for challenging patents at the PTAB. Simply allowing any party to challenge a valid U.S. patent has led to a number of almost unbelievable abuses that the authors of the AIA did not intend. We are all familiar with the attacks on biotech patents by hedge funds as a ploy to short their stocks. We have also seen the rise of well-funded and sophisticated proxies such as Unified Patents which literally offer bounties for information that can be used to attack patents held by companies that compete with their “members.” More recently PTAB abusers like OpenSky and Patent Quality Assurance have arisen. These shadowy LLCs have been formed by lawyers for the sole purpose of filing IPRs on small companies whose patents have been upheld in court and received an infringement award. The objective is

to extort some type of collateral benefit for the petitioner that is unrelated to the particular patent being attacked. These predatory petitioners attempt to shake down the patent owner into making payments (or some other benefit) to avoid putting their patents at risk when they are most vulnerable during an appeals process. The USPTO Director has the statutory discretion to address these PTAB abusers, but a standing requirement would also help stamp this abuse out.

Congress should also require PTAB to assume the validity of patents it has issued and require PTAB petitions to meet the same invalidity requirements as district court, namely that there needs to be clear and convincing evidence of invalidity, not merely a preponderance of the evidence.

Lastly, I would suggest that Congress insist that PTAB strictly enforce the clear statutory language that Congress established for proving in an IPR that a patent claim is invalid because it was “obvious:”

*A petitioner in an inter partes review may request to cancel as unpatentable 1 or more claims of a patent only on a ground that could be raised under section 102 or 103 and **only on the basis of prior art consisting of patents or printed publications.***

35 U.S.C. § 311 (Emphasis supplied).

To avoid the establishment of a duplicate judicial process and to stay consistent with the goal of PTAB being an efficient alternative to review the validity of “bad” patents, Congress intended for IPRs to be limited to situations where

the obviousness of a patent can be established on the face of the written prior art, which does not include inviting paid experts who would like to delve into extrinsic factual matters and offer opinions as to what the written record shows. The PTAB, however, has increasingly condoned obviousness challenges that rely on extrinsic matters not found in the cited prior art references. Recent IPR institution decisions openly accommodate wide-ranging expert opinions and rely on those opinions as a basis to institute IPRs. For example:

- “We ‘take account of the inferences and creative steps that a person of ordinary skill in the art would employ.’” IPR2018-01155, Paper No. 9, at 16;
- “Obviousness, however, is measured by allowing for what a person of ordinary skill in the art would have considered when faced with the various problems and teachings in the art.” IPR2018-01044, Paper No. 9, at 17;
- “Thus, according to Petitioner, ‘the use of TEOS was a known design choice, and one of a finite number of identified, predictable solutions.’” IPR2018-00951, Paper No. 7, at 11.

In such cases, the finding of obviousness is not based on information found only in patents or printed publications, but instead on a far more loosely defined universe of inferences and opinions that go well beyond the statutory limitation of IPRs. Experienced PTAB judges guided by properly motivated counsel for the parties are amply able to ascertain from the prior art itself and the file history that a

patent is demonstrably invalid. They do not need to have such conclusions provided to them by paid experts; district judges are far better equipped to deal with the extrinsic evidence.

I urge Congress to examine PTAB's overreaching to establish obviousness in IPR petitions and insist that it strictly adhere to the statutory language that this legislative body created.

I greatly appreciate the opportunity to appear before the IP Subcommittee and share my experiences as an entrepreneur, investor and patent attorney. I believe that you are taking the exact right approach in assessing the impact of PTAB from the perspective of small business and U.S. innovation. The intent of the AIA and the PTAB process was, after all, to strengthen our patent system and incentivize American innovation and economic growth. While we have certainly seen astounding growth of a few Big Tech companies since the AIA was passed, I have not seen a corresponding explosion in patent-intensive startups in that time. In fact it has become harder to attract capital and enter the market and very few entrepreneurs or investors would waste their time or resources trying to compete with a large technology monopolist. So by that count, I believe Congress should judge PTAB as having failed. We can rebalance the system, however and find ways to strengthen patent quality, address abuses wherever we find them and once again give inventors and small businesses the confidence in their intellectual property that the Constitution intended for them.