Biden's USPTO Pick Can Restore Much-Needed Patent Reform

By **Jean Anne Booth and Troy Lester** (November 10, 2021)

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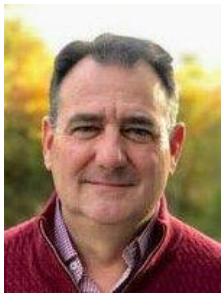

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With his nomination of Winston & Strawn LLP litigator Kathi Vidal as the new U.S. Patent and Trademark Office director, President Joe Biden has an opportunity to fix the problems in our patent system that have stifled innovation and entrepreneurs over the past few years.

It was just a decade ago that Republicans and Democrats came together and passed the America Invents Act, the most sweeping reform to our country's patent system in more than a half century.

The Leahy-Smith America Invents Act is good law. It was based on bipartisan support. Bad, overly broad patents are harmful to American companies like ours and are antithetical to fostering and protecting innovation. Simply stated, poor-quality patents disincentivize American manufacturing and strain good-paying manufacturing jobs.

Congress was forced to take action 10 years ago because our patent system was no longer working in an efficient and effective manner. Well-funded groups of investors, often referred to as patent trolls, were running wild, buying up broad, poor-quality patents and using them to exploit weaknesses in our legal system and extract extortion settlements from companies of all different sectors and sizes.

As we all know, patents provide the right to exclude, and the vast majority of patents are never actually used by the patentee. Thus, overly broad patents can create substantial roadblocks to innovation and stifle the widespread use of an idea that benefits the population. That phenomenon is most problematic where patents claim substantially beyond what was invented or claim technology already available.

Patents like these are often used by nonpracticing entities to extort payments from manufacturers, which can add significantly to the cost of doing business. In 2013, then Chief U.S. Circuit Judge Randall Rader of the U.S. Court of Appeals for the Federal Circuit called out the practice of asserting bad patents against smaller companies with limited means, demanding a license fee that is far less than the expense of litigation defense as litigation abuse.

Defendants are faced with a Hobson's choice — litigate and be vindicated after spending significant resources or pay the extortion fee to avoid the costs of litigation.

Patent trolls are much more harmful than their moniker might indicate. They do not build anything, generate new ideas, or even employ workers other than their own highly paid attorneys. Instead, they cost American companies as much as $29 billion a year and hold our entire economy back.

With all this in mind, Sen. Patrick Leahy, a liberal Democrat from Vermont, and former Rep. Lamar Smith, a conservative Republican from Texas, worked together to craft the America Invents Act. When it passed in an overwhelmingly bipartisan vote, the new law created a transparent system that better enforced high-quality patents and made it easier to invalidate low-quality patents that never should have been issued in the first place.

It established inter partes review, a process through which manufacturers, instead of having to go to court, could ask expert judges on the Patent Trial and Appeal Board to review the validity of patents asserted against them.

The IPR process provides an excellent opportunity for both sides of a dispute to review the patent's validity. For the patent owner, if the IPR is denied on the merits or the patent claims survive the IPR, the patent value has increased. On the other hand, if the patent is found to be invalid, it should never have issued in the first place based on all the relevant facts. Thus, both sides of the patent row will save significant funds avoiding litigation.

It is also important to understand that an IPR will not be instituted unless the petition shows that it is more likely than not that the patent is invalid. If this threshold is met, the IPR process should commence.

As a result of the IPR process, from 2011 until 2018, the amount of abusive patent litigation filed each year dropped by more than half. With our country's innovators more empowered to take their ideas, patent them and develop them into successful businesses, our economy came back stronger than ever before.

But in the past few years, that's all changed. The last director of the USPTO, Andrei Iancu, who served from 2018 until earlier this year, implemented policies that undermined the reforms that Congress established by law.

One of these changes is derived from the PTAB's 2018 NHK Spring Co. Ltd. v. Intri-Plex Technologies Inc. and 2020 Apple Inc. v. Fintiv Inc. decisions. The NHK-Fintiv rule is frequently used today to deny IPR petitions, without regard to their merits, if the patent at issue is also the subject of a lawsuit in federal court. IPRs are only instituted when patent claims are more likely than not invalid.

However, the NHK-Fintiv rule prevents IPRs even when the patent is likely to be invalid and deter innovation. Not only was this exactly the opposite of what Congress intended when it established IPR as an alternative to litigation, but it meant that these complex issues about patent law would be determined by ordinary jurors in civil trials, with extensive litigation fees, rather than by experienced patent judges.

Subsequently, patent trolls have come back, with abusive litigation continuing to rise over the last three years. At a time when we are trying to rebuild our economy, patent trolls are making it harder for companies of all sizes to grow their operations and put people back to work.

As the founder of a small, Austin, Texas-based startup that designs smartwatches for seniors and an executive at a Massachusetts-based manufacturer of golf equipment and apparel, we've felt the effects of patent trolls firsthand. Companies that are forced to settle with patent trolls reduce investments in research and development and slow real innovation.

Startups and smaller companies are particularly at risk because they do not have the resources to fight these cases in court. At our own companies, we've seen patent trolls sue based on anything from good news we publish to the fact that we use Wi-Fi in our facilities.

For example, at Acushnet Co., when we were threatened with litigation by a patent troll for our use of Wi-Fi, a standard technology for most companies today. We did not know the Wi-Fi art, nor did we have in-house engineers that knew the development of the technology.

Thus, it was very difficult to make an initial assessment of the patent. But if Acushnet lost in litigation, it would have had to shut down its golf ball manufacturing plants and cease making golf balls because the plant has Wi-Fi.

Although the U.S. Supreme Court's 2006 eBay Inc. v. MercExchange LLC decision made this less likely, the risks to Acushnet's operations were significant. In the end, we were able to work with our Wi-Fi provider to resolve the dispute, and the patent troll stopped threatening litigation against many small companies.

However, as the data shows, not every company is so fortunate. And every company that is threatened by patent trolls, even those that successfully fend off litigation, ends up losing productivity by spending resources toward unnecessary litigation and dispute resolution that could be better used for research and development or job creation.

The good news is that, just as we did 10 years ago, we can do something about this problem.

First, Biden has now nominated a new director of the USPTO. It is absolutely critical that, during her confirmation hearings, his nominee make clear that she will restore the intent of the America Invents Act, follow the law, reverse the negative changes that were made by the prior director, and ensure that our patent system works the way it should.

Second, in Congress, Leahy and Sen. John Cornyn, R-Texas, have introduced new legislation, the Restoring the America Invents Act, which will limit the USPTO's ability to deny an IPR request. This new legislation will codify what Congress intended a decade ago, ensuring that, regardless of who serves as USPTO director at any given moment, our country's inventors will have the tools they need to enforce the patents they hold and quickly dispense with abusive litigation.

While the overly broad patent problem will never be completely solved, there are solutions to reduce the problem. Thus, we need to put forth the resources to stop bad patents from issuing in the first place, and we need IPRs to be readily accessible so that the USPTO can remove bad patents that never should have issued in the first place. Supporting valid patents and reducing bad patents is critical to our economy and incentivizing innovation, and we need to get it right.

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