

November 13, 2017

The Honorable Darrell Issa  
Chairman  
Subcommittee on Courts, Intellectual  
Property and the Internet  
Committee on the Judiciary  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Jerrold Nadler  
Ranking Member  
Subcommittee on Courts, Intellectual  
Property and the Internet  
Committee on the Judiciary  
U.S. House of Representatives  
Washington, DC 20515

Dear Chairman Issa and Ranking Member Nadler:

The Computer & Communications Industry Association (CCIA) respectfully submits this statement for the record to the Subcommittee on Courts, Intellectual Property and the Internet in regards to its hearing held on November 7, 2017, “Sovereign Immunity and the Intellectual Property System.” CCIA is an international association that represents companies of all sizes in the high technology sector, including in computer software, e-commerce, telecommunications, Internet products services, semiconductors.

CCIA’s members<sup>1</sup> include some of the largest patent holders in the world—and some of the companies most frequently targeted by non-practicing entities as well. Our members have both filed IPRs and had their patents challenged via IPR, and they believe that the IPR system is an effective tool to allow the Patent Office to review its own work, providing an accurate and cost-effective<sup>2</sup> way to deal with patents that never should have issued. As a result, Allergan’s use of sovereign immunity to avoid the IPR system is of particular concern to us, particularly in light of the evidence that non-practicing entities such as ProWire<sup>3</sup> and SRC Labs<sup>4</sup> are beginning to adopt the practice. This use of sovereign immunity to shield patents from IPR threatens the entire IPR system, and we support and commend the Subcommittee’s work in examining and responding to this unwelcome phenomenon.

However, we were concerned by citations, at the hearing and in the record, to inaccurate evidence that seems to suggest that there is a disagreement in the decisions being made by the district courts and the PTAB. We believe that the Subcommittee would benefit from a more accurate understanding of what the data actually shows to be the case with respect to this topic.

In particular, Mr. Johnson’s testimony, at page 9, states that “of the 263 patents upheld by the federal courts on validity that have also been challenged in PTAB proceedings, the PTAB has

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<sup>1</sup> A full list of our members is available at <https://www.ccianet.org/members>.

<sup>2</sup> CCIA estimates that the IPR system has saved more than \$2 billion just in deadweight losses in its first 4.5 years of operation. See <https://www.patentprogress.org/2017/09/14/inter-partes-review-saves-over-2-billion/>.

<sup>3</sup> See <https://arstechnica.com/tech-policy/2017/09/apple-is-being-sued-for-patent-infringement-by-a-native-american-tribe/>.

<sup>4</sup> See <https://www.patentprogress.org/2017/09/12/pay-delay-can-pay-immunity/>.

disagreed with the courts 76% of the time, and have invalidated 200 of them.”<sup>5</sup> He cites to data provided by Josh Malone and posted on IPWatchdog.<sup>6</sup>

The cited data is incorrect.

### **CCIA’s Review of The Malone Data Set**

We have completed a review of the entire set of patents identified by Mr. Malone<sup>7</sup>. This review shows that, rather than disagreeing in 200 out of 263 instances, there are only 43 instances of disagreement between the PTAB and a federal court. These 43 patents, out of 272<sup>8</sup> patents where both the PTAB and a federal court have made some type of validity determination, show that **instead of a 76% disagreement rate, there is in fact a 16% disagreement rate.**

This incorrect measurement arises because Malone assumed a conflict wherever any sort of determination of validity occurred, without regard to what claims were reviewed, what type of validity determination was made, and even whether that determination was later reversed by the same district court or by a court of appeals. This leads to a high false positive rate.

The most common reasons for Malone’s incorrect data are claim construction determinations of “not indefinite” being treated as the patent being determined to be valid, consent judgments and stipulations being treated as determinations of validity, requests for adverse judgment, and patent eligibility determinations by the PTAB invalidating claims that a court upheld in some way. Other sources of error include failing to review outcomes on appeal and mismatches in claims reviewed by venue.

### **Indefiniteness under 35 U.S.C. § 112**

In the case of 85 patents in the data set, the patent was listed as valid because the court had construed at least one claim to be “not indefinite.” However, the PTAB did not address definiteness, but instead addressed whether the claims were novel and non-obvious, a completely different question.

In one particularly egregious example<sup>9</sup>, the court construed a term as “not indefinite,” but the jury later found the claims to be invalid, as did the PTAB. Despite the jury’s determination of invalidity, which the judge upheld, Malone characterizes this patent as an instance in which the patent was “upheld by the federal courts.”

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<sup>5</sup> Johnson Testimony at 9.

<sup>6</sup> Johnson Testimony at n. 26, 27.

<sup>7</sup> Daniel Nazer and Vera Ranier of the Electronic Frontier Foundation assisted in reviewing a subset of these patents. We have reviewed their portion of the data, and concur with their conclusions on those patents. We appreciate their assistance with the review.

<sup>8</sup> Since Mr. Malone’s original post was created, there have been a few additional determinations made that provide a PTAB/district court pairing, leading to the slight increase in total number of patents considered. Of the 272, 207 are “disagreements” by Malone’s criteria.

<sup>9</sup> U.S. Pat. No. 6,381,211.

In another instance<sup>10</sup>, the district court found the claims not indefinite, and then proceeded to find them invalid as obvious. Malone again characterizes this as an instance in which the patent was upheld in court, despite the court being the first venue to invalidate claims of the patent.

### **Consent Judgments and Stipulations**

In the case of 28 patents in the data set, the patent was listed as valid because, as part of a settlement or consent judgment, the parties agreed to stipulate that the patent had not been proven invalid. In these instances, the validity of the patent is not actually reviewed; instead, it is simply presumed valid because validity has not been questioned. However, Malone treats this type of stipulation as a determination by the court of validity, even though it would not bear even persuasive effect in the same court in front of the same judge.

### **Requests for Adverse Judgment**

In the case of 27 patents in the data set, the patent owner requested adverse judgment or disclaimed their claims, requiring the PTAB to cancel their claims as invalid. The PTAB was not rendering judgment on the district court's judgment, but instead carrying out the desires of the patent owner. (In many of these cases, the claims being cancelled are also not the claims being reviewed by the district court.)

### **Patent-Eligibility**

In the case of 13 patents, the PTAB determined the relevant claims were invalid for lack of subject matter eligibility under § 101, while the federal court had reviewed the patents validity under something other than § 101. In these instances, the PTAB does not disagree with the district court, but rather reached a different issue. In one instance<sup>11</sup>, after a first district court decided not to dismiss the patent as invalid under § 101, a second district court ruled that the patent was invalid under § 101; the PTAB agreed with that district court, which had conducted a full review of the patent, not merely ruled on a motion to dismiss.

### **Additional Sources of Error in Malone's Data**

In addition to the major sources of error above, there are additional, smaller sources of error in Malone's data.

First, Malone ignores the results of appeals. For example, in the case of several patents the Federal Circuit reversed the trial court's results, finding that the five asserted patents were actually not subject-matter eligible, agreeing with the PTAB.)<sup>12</sup>

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<sup>10</sup> U.S. Pat. No. 7,315,406.

<sup>11</sup> U.S. Pat. No. 7,603,382.

<sup>12</sup> See, e.g., U.S. Pat. No. 7,334,720; 8,033,458; 8,061,598; 8,118,221; 8,336,762; 7,942,317; see also *Smartflash LLC v. Apple, Inc.*, 2015-1701 (Fed. Cir. 2015).

Second, Malone also fails to account for which claims are reviewed in which venue. In a number of instances, the PTAB only invalidated claims the district court did not consider. In other instances, the PTAB and district court actually agreed that the claims both considered were valid.

Finally, Malone ignores the vast number of patents the PTAB reviews which are subject to litigation but where no disagreement exists because the issue is resolved. There have been 4,051 patents challenged in IPRs through Q3 2017. Of those 4,051 patents, 3,056 were also involved in lawsuits.<sup>13</sup>

Looking at every case related to those 3,056 patents, there appear to be only 43 cases (**only 1%** of IPRs) where the PTAB and district court actually disagreed with one another.

### **Conclusion**

The data, when correctly understood, shows that the PTAB only rarely disagrees with the federal courts when both review the validity of the same patent. The data also shows that the two venues only rarely review the validity of the same patent. We believe the Subcommittee's work will benefit from this understanding of the extreme infrequency with which the PTAB and a district court reach different conclusions.

We would be happy to provide the data behind our analysis to the Subcommittee, and are available to discuss our analysis in more detail at the Subcommittee's pleasure.

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<sup>13</sup> See 80 Percent of IPR Filings Are For Defensive Purposes, Patexia, *available at* <https://www.patexia.com/feed/patexia-chart-44-80-percent-of-ipr-filings-are-for-defensive-purposes-20171107>