

QUALITY PATENTS COALITION



October 19, 2022

The Honorable Patrick Leahy, Chairman
The Honorable Tom Tillis, Ranking Member
United States Senate
Washington, DC 20510

Dear Chairman Leahy and Ranking Member Tillis:

On behalf of the members of the Quality Patents Coalition (QPC) we are writing to express our strong opposition to “The Patent Eligibility Restoration Act of 2022.” The QPC is organized around the principles of enhanced patent quality through improved application examination and access to meaningful reexamination. Unfortunately, the Patent Eligibility Restoration Act would fundamentally undermine current law and jurisprudence by significantly weakening standards for patent eligibility, thus propagating the issuance of low-quality business method patents and shielding them from meaningful review by experts at the Patent and Trademark Office.

Further weakening of patent eligibility standards only aggravates the problems created by the loophole in the Inter-Partes Review (IPR) process that effectively immunizes holders of otherwise subject-matter-invalid patents from administrative review because defendants in such cases are prohibited from challenging patent subject matter eligibility under Section 101. The result of The Patent Eligibility Reform Act would be to open the flood gates of low-quality patents and leave defendants in cases involving these patents without the opportunity to avail themselves of IPR which was created by Congress as a less costly and less time-consuming alternative to district court litigation, or to even raise 101 questions in district court litigation. This would mark a return to the years following the 1998 *State Street* decision, when low-quality business method patents were issued by the hundreds unleashing over a decade of frivolous patent litigation involving low quality business method patents.

Rather than pursue legislation that would pick winners and losers in the patent system, we urge you to support patent reforms aimed at enhancing the quality of issued patents and strengthening the IPR process by closing the Section 101, 112 loophole.

As the Senate Judiciary Committee proceeds with debate on patent reform we ask that the committee consider QPC priorities (attached) to ensure the U.S. intellectual property system provides for high-quality intellectual property, fair and efficient post-grant and inter-partes review procedures as set forth in the America Invents Act, and adheres to the letter of the law and judicial precedent.

On behalf of the diverse membership of the Quality Patent Coalition we urge you to support balanced solutions that enhance patent quality and provide equal access to the re-examination process. Thank you for your consideration. We look forward to the opportunity to discuss these matters with you.

Best Regards,

American Transaction Processors Coalition

Bank Policy Institute

Electronic Transactions Association

Independent Community Bankers of America

The Clearing House

Cc: Members of the Senate Judiciary Committee Subcommittee on Intellectual Property

AS ATTACHMENT/QPC PRINCIPLES
Low-Quality Patents Hurt the Economy

U.S. economic leadership hinges on innovation. The patent system must support real innovation and U.S economic growth. High-quality patents spur innovation and increase America's competitive advantage. Low-quality patents hurt businesses that make products and provide jobs to Americans.

Community banks, restaurants owners, retailers of all sizes, and virtually every business involved with the fulfillment of e-commerce orders have been harassed and extorted with demand letters from non-practicing entities asserting infringement of low-quality business method patents. Defendants targeted by entities asserting low-quality method patents should have access to effective, efficient administrative review including the ability to challenge validity under Section 101 of the Patent Act in inter partes reviews. Currently, defendants' choices are too often limited to costly litigation to invalidate a patent that never should have been issued or paying ransom to settle meritless litigation. Ensuring high standards for U.S. patents, both before and after they are issued, will provide greater economic opportunity for all Americans.

High-Quality Examination of Patent Applications

The best way to reduce the cost in dollars and innovation resulting from low-quality patents is to ensure that they are never issued in the first place. Patent quality is a critical component in driving efficiencies with respect to patent infringement litigation. Minimizing the issuance of low-quality patents means fewer frivolous lawsuits based on such patents. This requires a rigorous patent application examination process. There should be options and incentives for more rigorous examination of patent applications, such as providing benefits to applicants who obtain a certified prior-art search and/or opt for a more rigorous patent examination.

Greater Access to PGR/IPR Proceedings

When there are legitimate questions regarding the validity of a patent claim, all patent owners and petitioners should have access to effective, efficient post-grant and inter partes review proceedings at the USPTO. The due process rights of both patent owners and petitioners must be protected in the PGR/IPR process.

The PTAB should review asserted patents for all validity conditions. For two centuries, the Patent Act has required that patented inventions be novel and non-obvious, fully disclosed, clearly claimed, and eligible for patenting. All these requirements should be enforceable in PTAB reviews.

Section 101 is the most effective and efficient tool to address the validity of poor quality business method patents. Section 101 plays an important role with respect to patent quality by blocking the issuance of overly broad, abstract patent claims and by providing a tool for defendants in litigation to efficiently address such claims.

Unfortunately a special interest loophole in the AIA prohibits petitioners from raising the issue of subject matter eligibility in IPR proceedings. This loophole has been exploited by non-practicing entities who assert low-quality business method patents, forcing defendants to choose between costly and time-consuming litigation or licensing low-quality IP that is more likely than not invalid. Congress must close the "101 loophole" to provide fair access to IPR proceedings to all parties, requiring that patented inventions be not only novel and non-obvious, but actually eligible for patenting.

Section 112 of the Patent Act should also be a basis for challenging a patent in a IPR proceeding. Making sure an invention is fully disclosed and clearly claimed is as important as making sure it novel and non-obvious, as uncertainty regarding claim scope only hurts the public.

Both Section 101 and 112 were grounds for invalidity considered in the now-sunset Certified Business Method (CBM) program created by the AIA. If anything, the CBM program illustrated how the inclusion of these grounds was not only not a burden on the PTAB, but actually worked well to ensure that improperly issued patents were invalidated regardless of the grounds of invalidity.

The Director and the PTAB should be prohibited from denying institution of PGR/IPR proceedings when all the requirements for institution have been met. Too often petitioners have been denied access to the PGR/IPR system because the Director and/or PTAB exercise their discretion to deny institution because of pending litigation in district court, even in cases where the petitioner is not a party to the litigation. However, the AIA was passed, in part, to create a separate system to allow petitioners to challenge the invalidity of a patent at the Patent Office, and it explicitly recognizes that the patent might be involved in concurrent district court litigation. To allow the Director and the PTAB to use the existence of that litigation as a basis to deny institution of a proceeding frustrates the very intent behind this provision of the AIA. As such, discretionary denials of PGR/IPR institution should be prohibited.

Equity in the Patent Litigation Process

As stated above, the QPC believes the most effective curb on abusive patent litigation is a fair, efficient PGR/IPR process that requires that patented inventions be novel and non-obvious, fully disclosed, clearly claimed, and eligible for patenting. Accordingly, in situations where a PGR/IPR proceeding has been instituted there should be an automatic stay on district court litigation, eliminating wasteful and expensive dual proceedings. If the patentability of the asserted patent is confirmed by the PTAB, the patentee can still have its day in court. In fact, the estoppel effects that stem from the PGR/IPR proceeding actually narrow the issues for the district court litigation in the patentee's favor. However, if the patent is determined to be invalid by the PTAB, this can save the time and resources of the parties and the court system having to litigate an ultimately invalid patent.

Many district courts already routinely exercise their discretion to stay litigation pending a PGR/IPR review. However, those that do not have seen their dockets swell with filings by non-practicing entities hoping to use the time and expense of litigation to force parties accused of infringing questionable patents to accept settlement rather than expend resources attempting to invalidate the patent. Mandating automatic stays of district court litigation would help to lower the cost of invalidating these questionable patents, benefitting both the parties accused of infringement and the public at large.

In district court litigation not subject to a stay (especially if the “101 loophole” in IPR proceedings discussed above is not addressed by Congress), questions regarding subject matter eligibility should be decided early in litigation. Courts have already determined that Section 101 subject matter eligibility is a question of law that may have underlying questions of fact. In cases where there is not genuine dispute over the underlying facts, courts should determine Section 101 subject matter eligibility as early as possible, such as in response to a motion to dismiss or an early motion for summary judgment. This would prevent dilatory discovery and delay tactics that tie up the courts and drive up the cost of litigation on otherwise invalid patents.

Unfortunately, courts already have the power to address Section 101 issues early in litigation, but too often decline to do so. That fact alone further highlights the need to add Section 101 as a basis for challenging validity in PGR/IPR proceedings, as discussed above. However, that is only a partial solution to this problem. In situations where motions to dismiss and for summary judgment based on invalidity under Section 101, the denial of such motions should be subject to an interlocutory appeal. Such a right of appeal would help ensure district courts resolve subject matter eligibility issues as early as possible, and prevent unscrupulous patentees from using the litigation process to force accused infringers to accept settlement rather than expending resources invalidating a questionable patent.