INTERESTED PARTY STANDING:
A BETTER RULE FOR *INTER PARTES* REVIEW

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INTRODUCTION

In 2011, Congress passed and President Obama signed the America Invents Act ("AIA"),[1] the most significant reform to the U.S. patent system since the 1950s.[2] In response to the ever-rising cost of patent litigation in federal district courts,[3] the Act overhauled the set of administrative proceedings in which the U.S. Patent and Trademark Office ("PTO") reviews the validity of issued patents.[4] This Article is about *inter partes* review ("IPR"), the most popular of those administrative proceedings.

Congress created IPR to provide a forum for resolving patent validity disputes in a quicker and cheaper manner than district court litigation. What's more, IPR also offers patent challengers a friendlier legal terrain (for example, requiring only a preponderance of evidence on invalidity rather than the clear and convincing evidence required in district court). Statistics show that patent challengers succeed far more often in IPR than in district court litigation. Thus, it's not surprising that many defendants in patent-infringement lawsuits have filed IPR petitions attacking the patent claims asserted against them. But they are not alone. With a few exceptions, the AIA permits any person except the patent owner to file an IPR petition — in other words, there is no standing requirement for requesting IPR. And indeed many proceedings have been initiated by third parties not engaged in litigation with the patent owner.

What would motivate an uninvolved third party to seek cancellation of a patent? The third party might be a competitor of the patentee and might hope to be able to manufacture a product covered by the patent. Or perhaps the third party might hope that invalidating the patent will lead to lower prices for consumers. Two of the more controversial motivations, however, are to cause a decrease in the patent owner's stock price and to obtain a settlement payment from the patent owner. The first practice involves a few steps: as part of a novel investment strategy,

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[1] The Leahy-Smith America Invents Act, Pub. L. No. 112–29, 125 Stat. 284 (2011) (codified as amended in scattered sections of 35 U.S.C.).
[2] *See, e.g.*, Press Release, The White House, President Obama Signs America Invents Act, Overhauling the Patent System to Stimulate Economic Growth, and Announces New Steps to Help Entrepreneurs Create Jobs (Sept. 16, 2011), *available at* https://www.whitehouse.gov/the-press-office/2011/09/16/president-obama-signs-america-invents-act-overhauling-patent-system-stim.
[3] *See, e.g.*, H.R. Rep. No. 112-98, at 48 (2011) (describing Congress's goal of "providing quick and cost effective alternatives to litigation").
[4] *See id.* at 45-46 (describing the shortcomings of the previous PTO proceedings).

hedge funds have petitioned for review of patents covering brand-name drugs while short selling shares of the drugmaker's stock.[5] The funds realize a profit if the pharmaceutical company's stock price falls (whether due to the mere fact of a challenge to the company's intellectual property or due to an eventual cancellation of patent claims). Patent owners have denounced this practice as an abuse of the IPR process. The second one is more straightforward: the patent owner receives a letter stating that the sender would file an IPR petition against its patent unless it enters settlement discussions. The patent owner may wish to settle rather than face the expense of conducting an IPR proceeding and the risk of losing its patent.

In response to these practices, two bills introduced in the last Congress proposed limiting who may petition for IPR. The first, the Innovation Act, would require petitioners to certify that they have not participated in either of the two practices noted above. The other, the STRONG Patents Act, would require petitioners to satisfy the Article III standing requirements. For the reasons below, I conclude that the Innovation Act grants standing too liberally while the STRONG Patents Act restricts it too tightly. A standard that falls somewhere in the middle, I argue, will best promote innovation. Specifically, Congress should require petitioners to certify that they have a particularized interest in the cancellation of the challenged patent claim because they plan to conduct academic, commercial, or other activity that may arguably infringe the claim. For convenience, call this standard "interested party standing." I will attempt to show that it strikes a better balance between protecting patent owners and weeding out bad patents than do the proposed bills or the status quo.

The Article proceeds in four parts. Part I describes the legal rules governing IPR and how the proceeding has functioned in practice. Part II provides more details on the short-sale and settlement-offer strategies mentioned above, explains the PTO's decision not to prohibit those practices, and describes the Innovation Act and the STRONG Patents Act. Part III analyzes the pros and cons of each proposal. Part IV then defines interested party standing and argues that it better promotes innovation than the two proposed bills.

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[5] *See, e.g.*, Gretchen Morgenson, *Working to Lower Drug Costs by Challenging Questionable Patents*, N.Y. TIMES (Nov. 27, 2015), http://www.nytimes.com/2015/11/29/business/working-to-lower-drug-costs-by-challenging-questionable-patents.html; Joseph Walker & Rob Copeland, *New Hedge Fund Strategy: Dispute the Patent, Short the Stock*, WALL ST. J. (April 7, 2015 7:24 PM), http://www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408.

I. *INTER PARTES* REVIEW

This part describes IPR proceedings, highlights some key differences between IPR and district court litigation, and presents data on the effectiveness of IPR in invalidating patents.

A. The IPR Process

This section provides an overview of the IPR process. The rules governing IPR come from both legislation and regulation: the AIA specified the basic framework for IPR, but Congress granted the PTO broad rulemaking authority to add to its handiwork.[6] That delegation of power includes not only procedural rules but also substantive rules that often prove outcome determinative. For example, the PTO provided by regulation that patent claims in IPR proceedings would be given their "broadest reasonable construction" — not the "ordinary meaning standard" applicable in district courts.[7] And in *Cuozzo Speed Technologies*, the Supreme Court upheld that choice as a reasonable exercise of the delegated authority.[8]

By statute and rule, an IPR proceeding begins with a petition, which asks a subdivision within the PTO called the Patent Trial and Appeal Board ("PTAB" or "Board") to review one or more claims of an issued patent.[9] With a few exceptions based on estoppel and timeliness, any person except the owner can request IPR.[10] The petition must "identif[y], in writing and with particularity, each claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim"[11] It must also contain a certification that "the petitioner is not barred or estopped from requesting an inter partes review"[12] and must identify "all real parties in interest."[13] The patent owner may then file

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[6] *See* 35 U.S.C. § 316(a)(4) (directing the PTO to prescribe regulations "establishing and governing inter partes review").
[7] Cuozzo Speed Techs., LLC v. Lee, 136 S. Ct. 2131, 2142-43 (2016) (citing 37 C.F.R. s. 42.100(b)).
[8] *Id.* at 2144 (concluding that the broadest reasonable construction regulation "represents a reasonable exercise of the rulemaking authority that Congress delegated to the Patent Office").
[9] 35 U.S.C. § 311(a) ("Subject to the provisions of this chapter, a person who is not the owner of a patent may file with the Office a petition to institute an inter partes review of the patent."); *id.* s. 6 (establishing the PTAB).
[10] 35 U.S.C. § 315(a) (IPR unavailable if the petitioner or the real party in interest has already filed a civil action challenging the validity of the claim); *id.* § 315(b) (IPR unavailable if more than a year has passed since the patent owner served a complaint alleging infringement); *id.* § 315(e) (IPR unavailable due to estoppel based on previous proceedings in the PTO, in district court, or in the International Trade Commission); 37 C.F.R. s. 42.101.
[11] 35 U.S.C. § 312(a); 37 C.F.R. § 42.104(b).
[12] 37 C.F.R. § 42.104(a).
[13] 35 U.S.C. § 312(a)(2).

a preliminary response that explains why the Board should not institute IPR.[14] At that point, the PTAB will make a threshold decision. It will institute IPR only if there's a "reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition."[15] Like a motion to dismiss in district court, the PTAB must resolve factual disputes in the petitioner's favor at this stage.[16] But unlike a motion to dismiss, the PTAB's decision on whether to institute IPR is "final and nonappealable."[17]

If the PTAB institutes review, the proceedings continue with the patent owner conducting discovery and filing a response.[18] The petitioner may then conduct discovery and file a reply that "only respond[s] to arguments made in the . . . patent owner response."[19] Discovery in IPR is limited to "the deposition of witnesses submitting affidavits or declarations" and "what is otherwise necessary in the interest of justice."[20] Either party may then request an oral hearing before the panel of three patent judges deciding the case.[21] The PTAB will then render a final written decision, usually within one year of instituting review.[22] To prevail, the petitioner must show by a preponderance of the evidence that the claims at issue are invalid.[23] By statute, any "dissatisfied" party may appeal the PTAB's final written decision to the United States Court of Appeals for the Federal Circuit.[24]

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[14] 35 U.S.C. §313; 37 C.F.R. s. 42.107(a).
[15] 35 U.S.C. §314(a). Congress intended the "reasonable likelihood" standard to be more stringent than the standard for instituting *inter partes* reexamination, which required only a "substantial new question of patentability." H.R. Rep. No. 112-98, pt. 1, at 47.
[16] 37 C.F.R. s. 42.108(c) ("[A] genuine issue of material fact created by such testimonial evidence will be viewed in the light most favorable to the petitioner solely for purposes of deciding whether to institute an inter partes review.").
[17] 35 U.S.C. § 314(d); Cuozzo Speed Techs., LLC v. Lee, 136 S. Ct. 2131 (2016).
[18] 35 U.S.C. § 316(a)(8); 37 C.F.R. s. 42.120(a) ("A patent owner may file a response to the petition addressing any ground for unpatentability not already denied."). In addition to filing a Response, the AIA also permits the patent owner to cancel the challenged claims prior to a final written decision and to propose a reasonable number of substitute claims. 35 U.S.C. § 316(d). To do so, the patent owner must establish by a preponderance of the evidence that the substitute claims are patentable over the grounds of invalidity on which the PTAB instituted trial. *See, e.g.*, *Idle Free Systems, Inc. v. Bergstrom, Inc.*, IPR2012-00027, Paper 26, at 7–8 (June 11, 2013).
[19] 37 C.F.R. s. 42.23(b); *id.* s. 42.51 (providing for discovery).
[20] 35 U.S.C. § 316(a)(5).
[21] *Id.* § 316(a)(10); 37 C.F.R. s. 42.70(a).
[22] 35 U.S.C. § 316(a)(11); *id.* s. 318.
[23] 35 U.S.C. § 316(e).
[24] 35 U.S.C. § 141(c); *id.* s. 319.

B. IPR Compared to District Court Litigation

The IPR process differs from district court litigation in several important ways. Patent challengers have several advantages in the PTAB that they lack in district court.

First, with limited exceptions based on estoppel and timeliness, anyone who is not the patent holder can file an IPR petition.[25] The petitioner need not have any connection with the patent. In district court, however, an Article III case or controversy must exist, so the patent challenger must prove it has standing.[26]

Second, IPR limits the legal theories and kinds of evidence that petitioners can use. A petition must assert invalidity based on lack of novelty or obviousness.[27] And it must make its case by citing only patents and printed publications as prior art.[28] By contrast, district courts often consider many other grounds of invalidity, including indefiniteness and lack of patentable subject matter. And district courts can entertain other kinds of evidence of invalidity, such as evidence that the public had already been using the invention.

Third, the petitioner need only establish unpatentability by a preponderance of the evidence — a far lower bar than the clear and convincing standard required for a district court to invalidate a patent.[29]

Fourth, in IPR proceedings, patent claims are given their "broadest reasonable interpretation" instead of the "ordinary and customary meaning" standard applicable in district court.[30] This distinction also helps challengers because interpreting a claim more broadly increases the likelihood that a piece of prior art anticipates or renders obvious the claim.

C. IPR in Practice

Given the more challenger-friendly legal terrain (because of the lower burden of proof and the broader claim construction standard), it's unsurprising that the PTAB has proven more effective at invalidating patent claims than district courts — so much so that Randall Rader, the

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[25] 35 U.S.C. §§ 314(a), 315.
[26] *See, e.g.*, *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 120-21 (2007).
[27] 35 U.S.C. § 311(b).
[28] *Id.*
[29] *See* 35 U.S.C. § 282; Microsoft Corp. v. i4i Ltd. Partnership, 131 S. Ct. 2238, 2242 (2011).
[30] Cuozzo Speed Techs., LLC v. Lee, 136 S. Ct. 2131, 2142-43 (2016).

former Chief Judge of the Federal Circuit, has referred to the PTAB as a patent "death squad."[31] The statistics bear out this fact. A canonical 1998 study by Professors John Allison and Mark Lemley found that 46% of patents litigated in district court were held invalid.[32] And that figure dropped only slightly to 42.4% in an updated article evaluating lawsuits filed in 2008 and 2009.[33] The rate of invalidation at the PTAB is far higher. Dr. Gregory Dolin found that, in its first 163 final written decisions, the PTAB invalidated nearly 75% of the claims.[34] And, as of 2016, "patent challengers have filed over 3,900 petitions, and nearly 87% of the IPR trials completed to date have resulted in the cancellation of some or all claims in the patent under review."[35] Such statistics led one commentator to opine that IPR has created a "new normal" in patent litigation: "Simply stated, when a patent owner is notified that a patent they own is being brought into a post grant proceeding the statistics, if not the gravity of the threat, suggest that it must be taken seriously immediately."[36]

In fiscal year 2016, the PTAB granted institution on 871 IPR petitions and denied only 444 of them (a 61% success rate on institution).[37] Further, as of February 28, 2017, of the 1474 IPR proceedings litigated to final written decision, the PTAB found all instituted claims unpatentable in 989 cases (67%) and found some instituted claims unpatentable in 234 cases (16%). Only in 251 cases (17%) did the PTAB uphold all instituted claims.

In addition to offering better chances, IPR also costs much less than district court litigation. In a 2015 report, the American Intellectual Property Law Association estimated that a patent lawsuit with $10-25 million at risk costs on average $1.9 million dollars to the end of

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[31] Peter J. Pitts, *Patent Death Squads v. Innovation*, WALL ST. J. (June 10, 2015, 7:23 PM), https://www.wsj.com/articles/patent-death-squads-vs-innovation-1433978591.
[32] John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205 (1998).
[33] John R. Allison et al., *Understanding the Realities of Modern Patent Litigation*, 92 TEX. L. REV. 1769, 1787 fig.4 (2014).
[34] *See, e.g.*, Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. REV. 881, 926–27 (2015). The difference might be even more stark if district courts could not rely on grounds of invalidity that the PTAB cannot consider, such as indefiniteness and lack of enablement under 35 U.S.C. § 112. *Id.* at 927.
[35] Brief for the Petitioner at 34, Cuozzo Speed Techs., LLC v. Lee, 136 S. Ct. 2131 (2016) (No. 15-446).
[36] Gene Quinn, *The PTAB Roadblock to Patent Monetization*, IPWATCHDOG (Feb. 7, 2014) http://www.ipwatchdog.com/2014/02/07/the-ptab-roadblock-to-patent-monetization/id=47879/.
[37] The PTO provides statistics on IPRs and other administrative proceedings on its website: https://www.uspto.gov/patents-application-process/appealing-patent-decisions/statistics/aia-trial-statistics.

discovery and $3.1 million to a final disposition.[38] By comparison, the same report estimated the average cost of an IPR proceeding to be $275,000 through the PTAB oral hearing and $350,000 through appeals.[39] The AIA, then, seems to have succeeded in providing a "quick and cost effective alternative[] to litigation."[40]

Given its effectiveness in invalidating patents and its lower cost, IPR has naturally been popular with patent challengers. The number of IPR petitions filed grew from 514 in fiscal year 2013 to 1310 in fiscal year 2014 and 1737 in fiscal year 2015, before dropping slightly to 1565 in fiscal year 2016.[41] All this is not to say that the higher invalidation rate at the PTAB is a bad thing, only that the data show the PTAB to be a more challenging forum for patent owners than district courts.

II. SHORT SALES AND DEMAND LETTERS

This Part describes in greater detail the short-sale and the settlement-offer practices mentioned in the introduction.[42] It then details the PTO's response to complaints by patent owners about these practices and the two bills introduced in Congress to curb these practices.

A. The Short Sale Strategy

In 2015, Kyle Bass, who heads a hedge fund called Hayman Capital Management LP, made headlines by "filing and publicizing patent challenges against pharmaceutical companies

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[38] AMERICAN INTELLECTUAL PROPERTY LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 2015, at 37 (June 2015), *available at* http://files.ctctcdn.com/e79ee274201/b6ced6c3-d1ee-4ee7-9873-352dbe08d8fd.pdf. And of course some cases far exceed that average. The Apple-Samsung litigation, for example, cost as much as $60 million in legal fees for Apple alone. Dan Levine, *Apple Spent over $60 million on U.S. Lawyers Against Samsung*, REUTERS (Dec. 6, 2013), http://www.reuters.com/article/us-apple-samsung-fees-idUSBRE9B50QC20131206.

[39] AMERICAN INTELLECTUAL PROPERTY LAW ASS'N, *supra* note 38, at 38.

[40] H.R. Rep. No. 112-98, at 48.

[41] *See* USPTO, Patent Trial and Appeal Board Statistics 3/31/2017, *available at* https://www.uspto.gov/sites/default/files/documents/AIA%20Statistics_March2017.pdf; USPTO, Patent Trial and Appeal Board Statistics 4/30/2015, *available at* https://www.uspto.gov/sites/default/files/documents/2015-04-30%20PTAB.pdf.

[42] To be clear, I take no position on the legality or desirability of these practices. While patent owners have complained vociferously, other commentators have made the case for them. *See, e.g.*, Jennifer Robichaux, Comment, *The Case for the Coalition for Affordable Drugs: Hedge Funds Should Be Able to Challenge the Validity of Biotechnology Patents Using Inter Partes Review Despite Their Mixed Motives,* 54 HOUS. L. REV. (forthcoming 2017); W. Michael Schuster, *Invalidity Assertion Entities and Inter Partes Review: Rent Seeking as a Tool to Discourage Patent Trolls*, 51 WAKE FOREST L. REV. 1163 (2016).

while also betting against their shares."[43] Together with Erich Spangenberg, Mr. Bass formed the Coalition for Affordable Drugs (CFAD), an organization aiming "to bring down drug prices that are kept artificially high by dubious patents."[44] CFAD had filed more than 30 IPR petitions by November 2015.[45] According to Mr. Bass, the patents he challenged "have little value other than to drive up prescription drug prices."[46] In conjunction with these IPR challenges, Mr. Bass shorted shares of the companies who owned the patents targeted by CFAD.[47] But he has downplayed the significance of the short sales, calling the fact that he stands to profit from falling stock prices a "truthful irrelevancy."[48] In total, CFAD filed 33 IPR petitions, obtained institution on about 60% of them, and won invalidation of at least one claim in 9 of the 33 challenges (27%).[49] Other hedge funds have also filed IPR petitions, presumably for the same reasons.[50]

Thus far, the short sale strategy has achieved only limited financial success. While some companies targeted by CFAD saw their stock prices drop, others saw little reaction to IPR filing.[51] CFAD filed its first two petitions against Acorda Therapeutics, challenging claims in

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[43] Joseph Walker & Rob Copeland, New Hedge Fund Strategy: Dispute the Patent, Short the Stock, Wall St. J. (Apr. 7, 2015, 7:24 PM), http://www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408.

[44] Morgenson, supra note 5. There are actually about a dozen different LLCs whose names all begin with "Coalition for Affordable Drugs." *See* Petition for Inter Partes Review, Exhibit 16, Coalition for Affordable Drugs III LLC v. Jazz Pharmaceuticals, Inc., IPR2015-01018 (filed Apr. 6, 2015). For simplicity, this Article will refer to all of these organizations as Coalition for Affordable Drugs.

[45] *See* Morgenson, supra note 5. Moreover, Mr. Bass and Mr. Spangenberg have also petitioned for IPR review in their own name rather than through CFAD or another corporate entity. *See, e.g.*, IPR2016-00254, Paper 1. A list of such entities can be found in *J Kyle Bass and Erich Spangenberg v. Fresenius Kabi USA, LLC*, IPR2016-00254, Patent Owner's Preliminary Response, Paper 6, at 54–55.

[46] Walker & Copeland, *supra* note 43.

[47] Morgenson, *supra* note 5. Bass also holds long positions in other drug companies, including generics Perrigo and Mylan. Wieczner, *supra* note X.

[48] Susan Decerk and Caroline Chen, *Will Kyle Bass's Drug Patent Gambit Pay Off? He'll Soon Find Out*, BLOOMBERG (Aug. 21, 2015 5:00 AM), http://www.bloomberg.com/news/articles/2015-08-21/will-kyle-bass-s-drug-patent-gambit-pay-off-he-ll-soon-find-out; *see also* Wieczner, *supra* note X ("Bass has insisted that the investments aren't just about making money, but about invalidating patents that keep drug prices 'sky high.'").

[49] Daniel Fisher, *Hard Times For Patent Trolls And Challengers As Courts, Targets Fight Back*, FORBES (Mar. 24, 2017, 9:24 AM), https://www.forbes.com/sites/danielfisher/2017/03/24/hard-times-for-patent-trolls-and-challengers-as-courts-targets-fight-back/#6cdcf59a2e7f.

[50] *See, e.g.*, IPR2015-00858, -1046, -1047.

[51] Decerk & Chen, *supra* note 48; Jen Wieczner, *Why Drug Prices Controversy Is Great News for This Hedge Fund Manager*, FORTUNE (Sept. 30, 2015 12:07 PM), http://fortune.com/2015/09/30/drug-prices-stocks-kyle-bass/ ("Until recently, Bass's biotech shorts didn't seem to be playing out so well; though the stocks' prices often dipped on the news of his challenges, they quickly recovered . . . .").

two patents covering the multiple-sclerosis drug Ampyra.[52] Acorda's stock dropped by 9.7% on the day of the first filing and 4.8% on the day of the second.[53] But the PTAB eventually denied institution on both petitions,[54] and Acorda shares surged 31% on the day of the PTAB decision.[55] The stock prices of companies targeted after Acorda showed little reaction to IPR filings.[56] And indeed, one company's stock price saw no significant movement even when CFAD successfully invalidated patent claims covering cancer drugs the company makes; shares actually rose by $6 (about 6%) the next day.[57]

B. Demand Letters

Other organizations have attempted a more direct means of making money from IPR: they threaten to file IPR petitions but offer to refrain if the patent owner will pay them. For example, in 2014 Mr. Spangenberg (Mr. Bass's CFAD colleague) sent an email on behalf of his company IPNav to the drug manufacturer Celgene that attached draft IPR petitions and expert declarations against two of Celgene's patents.[58] Celgene did not respond to the threat, but six months later, an attorney for a different organization sent a similar email and attached "nearly the same draft petitions and expert declarations that Mr. Spangenberg had used."[59] A similar threat reached Auspex Pharmaceuticals, which received a letter from an entity called Neptune Generics that threatened to file IPR petitions on three patents owned by Auspex.[60] The letter enclosed

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[52] Coalition for Affordable Drugs (ADROCA) LLC v. Acorda Therapeutics, Inc., IPR2015-00720, Paper 1, Petition for *Inter Partes* Review of U.S. Patent No. 8,663,685 (Feb. 10, 2015); Coalition for Affordable Drugs (ADROCA) LLC v. Acorda Therapeutics, Inc., IPR2015-00817, Paper 1, Petition for *Inter Partes* Review of U.S. Patent No. 8,007,826 (Feb. 27, 2015).

[53] Decerk & Chen, *supra* note 48.

[54] Coalition for Affordable Drugs (ADROCA) LLC v. Acorda Therapeutics, Inc., IPR2015-00720, Paper 15, Decision Denying Institution of *Inter Partes* Review (Aug. 24, 2015); Coalition for Affordable Drugs (ADROCA) LLC v. Acorda Therapeutics, Inc., IPR2015-00817, Paper 12, Decision Denying Institution of *Inter Partes* Review (Aug. 24, 2015).

[55] Wallace Witkowski & Sue Chang, *Acorda Shares Jump After Patent Challenge Thwarted*, MARKETWATCH (Aug. 24, 2015, 6:21 PM), http://www.marketwatch.com/story/apple-netflix-energy-sector-among-stocks-to-watch-2015-08-24.

[56] Decerk & Chen, *supra* note 48.

[57] Daniel Fisher, *Hard Times For Patent Trolls And Challengers As Courts, Targets Fight Back*, FORBES (Mar. 24, 2017, 9:24 AM), https://www.forbes.com/sites/danielfisher/2017/03/24/hard-times-for-patent-trolls-and-challengers-as-courts-targets-fight-back/#6cdcf59a2e7f.

[58] *See* Patent Owner Motion for Sanctions Pursuant to 35 U.S.C. § 316(a)(6) and 37 C.F.R. § 42.12, at 3, Coalition for Affordable Drugs VI LLC v. Celgene Corp., IPR2015-01092, Paper 11.

[59] *Id.* at 4.

[60] Letter from Ashley C. Keller, Neptune Generics, LLC, to Dr. Pratik Shah, President and CEO, Auspex Pharmaceuticals, Inc (April 8, 2015), available as *Neptune v. Auspex*, IPR2015-01313, Exhibit 2001.

invalidity charts for the patents and offered to "forgo filing [Neptune's] IPR petitions to allow time" for settlement discussions if Auspex would "substantively engage with Neptune" within five days by contacting either the letter's author or "Neptune's advisor Erich Spangenberg."[61] After Auspex's parent company refused to pay, Neptune filed its petitions.[62] IPR filings from other drug manufacturers indicate that Neptune has made the same demands against them too.[63]

Drug manufacturers are not the only recipients of such threats. Professor Michael Schuster has termed entities like IPNav and Neptune "Invalidity Assertion Entities" and argues that their activities may actually generate "socially beneficial externalities."[64] That is because he believes "IAEs will rationally target patent trolls," thereby disincentivizing that business model.[65] For example, Iron Dome, LLC, "[o]ne of the first publicly recognized IAEs" filed an IPR against a patent assertion entity that refused to pay.[66] On a different occasion, Iron Dome convinced the PTAB to find unpatentable claims on a patent owned by CRFD Research, Inc., reportedly a patent assertion entity that had sued numerous defendants including Time Warner, Comcast, Dish Network, AT&T, DirecTV, Hulu, Netflix, Spotify, Amazon.com, and Verizon.[67]

C. The PTAB's Reactions

Some patent owners have asked the PTAB to turn away petitions from CFAD as abuses of the IPR process. But the PTAB has declined to do so, finding that IPRs motivated by short selling are legitimate.

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[61] *Id.* at 2.
[62] IPR2015-01313, Exhibit 1019; IPR2015-01313, Paper 1.
[63] Patent Owner's Preliminary Response, at 7–8, Neptune Generics, LLC v. Nektar Therapeutics, IPR2015-00049; IPR2016-00240, Patent Owner's Preliminary Response, at 4, Neptune Generics, LLC v. Eli Lilly & Co.; Patent Owner's Preliminary Response, at 4, Neptune Generics, LLC v. Eli Lilly & Co., IPR2016-00237.
[64] W. Michael Schuster, *Invalidity Assertion Entities and Inter Partes Review: Rent Seeking as a Tool to Discourage Patent Trolls*, 51 Wake Forest L. Rev. 1163 (2016); Essay, W. Michael Schuster, *Rent-Seeking and Inter Partes Review: An Analysis of Invalidity Assertion Entities in Patent Law*, 22 Mich. Telecomm. & Tech. L. Rev. 271 (2016).
[65] Schuster, *Invalidity Assertion Entities and Inter Partes Review*, *supra* note 64, at 1165.
[66] Schuster, *Rent-Seeking and Inter Partes Review*, *supra* note 64, at 280. The PTAB declined to institute review on that petition. *See* Denial of Institution of *Inter Partes* Review, Iron Dome LLC v Chinook Licensing DE LLC, IPR2014-00674.
[67] *See* Andrews Kurth Kenyon LLP, *Iron Dome Launches a Third IPR Missile, While Another Flies out to Sea*, Lexology (Nov. 19, 2014); Final Written Decision, Iron Dome LLC v. CRFD Research, Inc., IPR2015-00055, Paper 30 (Apr. 22, 2016).

In April 2015, CFAD filed an IPR petition against a patent covering a narcolepsy medication manufactured by Jazz Pharmaceuticals.[68] In its preliminary response, Jazz raised two procedural arguments in urging denial of institution. First, it faulted the Petition for failing to list all of the investors in Mr. Bass's Hayman funds as real parties in interest, a requirement under the AIA.[69] Second, it asked the PTAB to exercise its discretion and decline to institute because the petition was "being used for an improper purpose."[70] Specifically, Jazz accused CFAD and related organizations of "abusing and misusing the IPR process to initiate their investment strategy aimed at affecting stock prices of targeted innovator pharmaceutical companies."[71] The AIA, Jazz contended, sought to "reduc[e] abusive litigation tactics, with a specific focus on stopping abusive practices of non-practicing entities."[72] Jazz also added that the Board would be overwhelmed with similar petitions were it to allow "IPRs for the sole purpose of profiting by affecting public companies' stock price."[73]

Despite ultimately denying institution of the petition, the PTAB explicitly rejected all of Jazz's procedural arguments. The Board first concluded that Jazz had not provided sufficient evidence to show that any of the unnamed investors had (or could have had) exerted control over the litigation or paid for its costs, as required to demonstrate a real-party-in-interest relationship.[74] It then disagreed with Jazz's framing of the AIA's purposes, finding instead that the Act "was designed to encourage the filing of meritorious patentability challenges, by any person who is not the patent owner, in an effort to improve patent quality."[75] The PTAB noted that, because it is an administrative agency, Article III's case or controversy requirement does not apply, and that "Congress did not limit *inter partes* reviews to parties having a specific competitive interest in the technology covered by the patents."[76] The PTAB also flatly rejected the idea that a profit motive made the IPR petition improper: "Profit is at the heart of seeking

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[68] *Coalition for Affordable Drugs III LLC v. Jazz Pharmaceuticals, Inc.*, IPR2015-01018, Paper 1 (Apr. 6, 2015).
[69] Patent Owner Preliminary Response, *Coalition for Affordable Drugs III LLC v. Jazz Pharmaceuticals, Inc.*, IPR2015-01018, Paper 11, at 11.
[70] *Id*.
[71] *Id.*
[72] *Id.* (citing 157 Cong. Rec. S5319 (daily ed. Sept. 6, 2011)).
[73] *Id.* at 12.
[74] Decision Denying Institution of Inter Partes Review, *Coalition for Affordable Drugs III LLC v. Jazz Pharmaceuticals, Inc.*, IPR2015-01018, Paper 17, at 10 (Oct. 15, 2015).
[75] *Id.* at 11 (footnote omitted) (citing H.R. Rep. No. 112-98, pt. 1, at 85 (2011); 35 U.S.C. § 311).
[76] *Id.*

patent protection in almost all *inter partes* reviews. As such, an economic motive for challenging a patent claim alone does not raise abuse of process issues."[77] Accordingly, the Board expressed "no position on the merits of short-selling as an investment strategy other than it is legal and regulated."[78]

In a different IPR proceeding, patent owner Celgene moved the PTAB to sanction CFAD by dismissing the petition.[79] Celgene too argued that using IPR solely to affect stock prices constituted an abuse of process.[80] In addition, Celgene recounted the previous demands of Mr. Spangenberg's firm for payment in exchange for not filing the IPR petitions at issue and urged denial of institution on that basis as well.[81] The PTAB rejected these arguments for the same reasons as in the Jazz decision.[82] And unlike in the Jazz proceedings, the discussions cannot be dismissed as dicta because the PTAB instituted review of several Celgene patents based on the CFAD petitions.[83] In short, the Board saw no need to use its power over procedure to limit filings from entities like CFAD.

D. Congressional Response

Although the PTAB did not act to prevent entities like CFAD from employing IPR, two bills were introduced in Congress that would have done so. The Innovation Act surgically targets the short-sale and settlement-offer tactics described above. By contrast, the STRONG Patents Act more severely restricts the class of potential petitioners to those who are involved in,

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[77] *Id.*
[78] *Id.* Long before Mr. Bass founded CFAD, the idea of shorting stocks just before filing a lawsuit has been discussed in the literature, with academics taking both sides of the debate. *See, e.g.*, Moin A. Yahya, *The Law & Economics of Sue and Dump: Should Plaintiffs' Attorneys Be Prohibited from Trading the Stock of Companies They Sue?*, 39 SUFFOLK U. L. REV. 425 (2006); Bruce H. Kobayashi & Larry E. Ribstein, *Outsider Trading as an Incentive Device*, 40 U.C. DAVIS L. REV. 21, 50–65 (2006) (responding to Professor Yahya); Stephen M. Bainbridge, *Insider Trading Under the Restatement of the Law Governing Lawyers*, 19 J. CORP. L. 1 (1993).
[79] *See* Patent Owner Motion for Sanctions, *Coalition for Affordable Drugs VI LLC v. Celgene Corp.*, IPR2015-01092, Paper 11 (July 28, 2015).
[80] *Id.* at 15.
[81] *Id.* at 1–5.
[82] Decision Denying Sanctions Motion, *Coalition for Affordable Drugs VI LLC v. Celgene Corp.*, IPR2015-01092, Paper 19 (Sept. 25, 2015).
[83] Decision Instituting Inter Partes Review, *Coalition for Affordable Drugs VI LLC v. Celgene Corp.*, IPR2015-01092, Paper 20 (Oct. 27, 2015).

or are soon likely to be involved in, litigation. This section describes both bills in greater detail.[84]

1. Innovation Act

The Innovation Act specifically prohibits the practices described in Part II.[85] It would prohibit institution of IPR unless the petitioner certifies that it and the real parties in interest (1) "do not own and will not acquire a financial instrument (including a prepaid variable forward contract, equity swap, collar, or exchange fund) that is designed to hedge or offset any decrease in the market value of an equity security of the patent owner or an affiliate of the patent owner, during a period following the filing of the petition to be determined by the Director" and (2) "have not demanded payment, monetary or otherwise, from the patent owner or an affiliate of the patent owner in exchange for a commitment not to file a petition under section 311 with respect to the patent that is the subject of the petition, unless the petitioner or the real party in interest of the petitioner has been sued for or charged with infringement of the patent, during a period to be determined by the Director."[86] To enforce these restrictions, the House Committee "anticipate[d] that the prospect of disciplinary proceedings under § 32 and sanctions under §§ 316(a)(6) and 326(a)(6) will be sufficient to ensure accurate certifications, such that discovery into such matters under §§ 316(a)(5) and 326(a)(5) will not be warranted."[87]

Dissenting members of the House Committee argued that these fixes would be ineffective at protecting patent owners.[88] They thought the bill "too narrowly tailored to address what has actually been occurring: where a hedge fund sells or shorts the stock of the patent holder before filing for the IPR or PGR of the patent holder's patent."[89] Advocacy groups including BIO (Biotechnology Innovation Organization) and PhRMA (Pharmaceutical Research and

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[84] Both bills do much more than change the rules governing IPR, but the other provisions are beyond the scope of this Article.
[85] The bill's text and legislative history can be found at https://www.congress.gov/bill/114th-congress/house-bill/9. A previous version of the Innovation Act that did not contain these changes to IPR passed the House with strong bipartisan support on December 5, 2013, but stalled in the Senate. *See* H.R. 3309 (113th): Innovation Act, GOVTRACK.US, https://www.govtrack.us/congress/bills/113/hr3309; *Stop Patent Trolls: Support the Innovation Act of 2015*, EFF, https://act.eff.org/action/stop-patent-trolls-support-the-innovation-act-of-2015.
[86] Innovation Act, H.R. 9, 114th Cong. § 9(b)(1)(C).
[87] H.R. Rep. No. 114-235, at 72 (2015).
[88] *Id.* at 183–84.
[89] *Id.* at 184.

Manufacturers of America) submitted statements similarly claiming that the Innovation Act does not sufficiently reform IPR to protect patentees.[90] Abuse of the IPR system, PhRMA claimed, will "discourage the investment needed to develop new treatments and cures for patients."[91]

By contrast, Mr. Bass submitted a statement that opposed the bill for the opposite reasons, arguing that IPR proceedings should remain the same. According to Mr. Bass, "[t]he PTAB system as currently structured has thus far been highly effective in eliminating particularly egregious invalid patent claims."[92]

2. STRONG Patents Act

Introduced in the Senate in March 2015, the Support Technology and Research for Our Nation's Growth Patents Act of 2015 — or the STRONG Patents Act of 2015 — takes a different approach to remaking IPR proceedings. Under that bill, only persons who (or whose privy or real party in interest) had either been sued for infringement or been charged with infringement could petition for IPR. A charge of infringement occurs when "a real and substantial controversy regarding infringement of a patent exists such that the petitioner would have standing to bring a declaratory judgment action in Federal court."[93] In other words, the STRONG Patents Act would align the statutory standing requirement for IPR proceedings with the Article III requirement for being heard in federal court. That standard plainly eliminates far more potential petitioners than does the Innovation Act.

III. THE PROS AND CONS OF THE COMPETING BILLS

This Article asks how broadly Congress should grant IPR standing. In the following analysis, I will define the optimal IPR standing requirement as the one that maximizes innovation, which includes research, development, and commercialization activities. That definition simply reflects the constitutional and statutory purposes of the patent system.[94]

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[90] *Id.* Notably, the dissenting view also noted and seemed to praise an amendment, later withdrawn, to "exclude biopharmaceutical patents covering approved drug and biological products from IPR proceedings." *Id.*
[91] *Id.* at 183-84
[92] Statement of J Kyle Bass, Chief Investment Officer, Hayman Capital Management, L.P., on H.R. 9 (April 14, 2015), *available at* http://www.iam-media.com/files/Hayman%20HR%209%20Final%204-14-15%20(Final).pdf.
[93] STRONG Patents Act, S. 632, 114th Cong. § 102(d). The bill's text and legislative history can be found at https://www.congress.gov/bill/114th-congress/senate-bill/632.
[94] U.S. CONST. art. I, s. 8, cl. 8; H.R. Rep. No. 112-98, pt. 1, at 40 (explaining that the purpose of the AIA is to "promote innovation"); Jerry A. Hausman, Gregory K. Leonard & J. Gregory Sidak, *Patent Damages and Real*

Naturally, maximizing innovation requires avoiding both overprotection and underprotection of patent rights.[95] In the IPR standing context, striking that balance translates into two particular objectives. First, to avoid overprotection, parties who wish to innovate should be able to challenge invalid patents that deter their actions.[96] That, after all, is why Congress created IPR. Second and conversely, to avoid underprotection, IPR challenges that do not serve to advance innovation should be prohibited. That's because litigation costs hurt innovation both by causing firms to devalue patents (thereby disincentivizing research) and by directly cutting into the budget for research and development.[97] Former Director of the U.S. PTO Michelle Lee has spoken to Congress about "abusive litigation practices" that can "hurt innovation," such as widespread mailing of vague demand letters to small businesses that lack the resources to defend themselves against a complicated infringement claim.[98] The Innovation Act emphasizes the first goal while the STRONG Patents Act champions the second. This Part will argue that both proposed bills fail to optimize innovation, and the next Part will introduce a standard that I believe improves upon these proposals.[99]

Options: How Judicial Characterization of Noninfringing Alternatives Reduces Incentives to Innovate, 22 Berkeley Tech. L.J. 825, 852 (2007) ("The patent system allows firms to exclude competitors, thereby creating incentives for innovation.").

[95] *See, e.g.*, Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc., 548 U.S. 124, 125, 128 (2006) (Breyer, J., dissenting) ("Patent law seeks to avoid the dangers of overprotection just as surely as it seeks to avoid the diminished incentive to invent that underprotection can threaten."); Michael J. Burstein, *Rethinking Standing in Patent Challenges*, 80 GEO. WASH. L. REV. 498, 531 (2015) (explaining that the Patent Act "balance[s] the incentives for invention provided by a grant of exclusive rights with the 'recognition that imitation and refinement through imitation are . .. necessary to invention itself and the very lifeblood of a competitive economy.'" (quoting Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 146 (1989)); Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1616–17 (2003) ("[The] ratio of inventor cost to imitator cost . . . is quite large in the absence of effective patent protection. As a result, it is likely that innovation would drop substantially in the pharmaceutical industry in the absence of effective patent protection.").

[96] Lear, Inc. v. Adkins, 395 U.S. 653, 656 (1969) (noting the "strong federal policy favoring free competition in ideas which do not merit patent protection"); Pedraza-Farina, *supra* note X, at 817 ("[A] key function of patent doctrine is to weed out those inventions whose protection would only act as a tax to future innovators from those that are worth the 'embarrassment of an exclusive patent.'" (quoting Graham v. John Deere Co., 383 U.S. 1, 8–9 (1966))).

[97] *See, e.g.*, House Rpt. 112-98, at 48 (noting that litigation harassing patent owners would divert resources from the research and development of inventions); James Bessen & Michael J. Meurer, *The Patent Litigation Explosion*, 45 LOY. U. CHI. L.J. 401, 440 (2013) ("These costs effectively increase the cost of patenting, making patents less attractive, and thus ultimately reducing R&D incentives.").

[98] H.R. Rep. No. 114-235, at 25 (2015).

[99] In the following analysis, except for the effect of canceling an invalid patent, I do not consider how IPR otherwise impacts innovation. In other words, one could imagine that the existence of IPR by itself causes an overall lower valuation of patent rights, which leads to fewer patent applications, which may either help or harm innovation.

As an initial matter, it's worth noting that disputes about IPR standing matter only for a small fraction of the proceedings. Both the Innovation Act and the STRONG Patents Act agree that parties who meet the Article III case-or-controversy requirement should have access to IPR, and that uncontroversial position covers the vast majority of IPR petitioners. As of September 2014, about 80% of IPR proceedings involved patents asserted in district court litigation between the petitioner and the patent owner.[100] And even among the remaining 20%, many proceedings likely involve petitioners who satisfy Article III standing because they had already been threatened with infringement. The debate over third-party standing, therefore, concerns less than one-fifth of IPR proceedings.

A. The Innovation Act

The Innovation Act provides for third-party standing that is nearly as broad as currently exists under the AIA. As noted above, the Innovation Act would only require the petitioner to certify that it doesn't own securities betting against the patent owner and hasn't demanded payment in exchange for not filing the petition.[101] All parties who do not fall into these two narrow categories can still file IPR petitions. A broad grant of standing benefits innovation by allowing more parties to challenge patents, leading to more cancellations of invalid patents that allow the public to use those inventions freely. The bill also provides an administrable bright line rule.

On the other hand, broad standing risks underprotection of patent rights. Consider one of the protections for patent owners that the AIA provides: IPR petitioners bear the risk that an adverse final written decision will estop the petitioner, its privy, and the real party in interest from contesting validity "on any ground that the petitioner raised or reasonably could have raised during that inter partes review."[102] A party may be able to circumvent the estoppel bar by having a different entity file the IPR petition. For example, an anonymous corporation can help another

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Although that scenario is plausible, assessing the impact of this kind of indirect effect involves too much speculation. (For the same reason, I do not discuss whether the short-sale strategy employed by Kyle Bass and others ultimately aids or hurts innovation.)

[100] Brian J. Love & Shawn Ambwani, *Inter Partes Review: An Early Look at the Numbers*, 81 U CHI. L. REV. DIALOGUE 93, 103, https://lawreview.uchicago.edu/page/inter-partes-review-early-look-numbers.

[101] Innovation Act, H.R. 9, 114th Cong. § 9(b)(1)(C).

[102] 35 U.S.C. § 315(e).

entity avoid this risk since only it would be estopped after an adverse decision. And for the same reason, the Innovation Act, as drafted, may not actually succeed in preventing short sales and demands for payment. A newly formed corporate entity could honestly certify that it has not short sold the patent owner's stock or demanded payment and file an IPR petition, while a different entity shorts the stock or sends a demand letter.

To be sure, the AIA and the Innovation Act do guard against these circumventions by extending their prohibitions against the petitioner's privy and the real party in interest. But patent owners have had difficulty employing this safeguard in practice. That is partly because the PTAB has not allowed broad discovery into the relationships that petitioners have with non-parties who may be unnamed privies or real parties in interest. The patent owner must "already be in possession of evidence tending to show beyond speculation that in fact something useful will be uncovered" before discovery will be permitted on the topic.[103] Such bootstrap evidence may be difficult to obtain where corporate entities are created anonymously. Suppose, for example, that Corporation A files an IPR petition on the same day that Corporations B, C, and D short sell the patent owner's stock. Other than timing, the patent owner may well have no evidence tending to show any relationship between the entities. So a petitioner that fails to identify its privy or the real parties in interest may well escape detection.

And lack of discovery is problematic even if petitioners act entirely in good faith. Under the PTAB's precedent, the inquiry of what constitutes a real party in interest or privy is fact intensive and requires considering many factors including the non-party's "relationship with the petitioner," the non-party's "relationship to the petition itself, including the nature and/or degree of involvement in the filing," and "the nature of the entity filing the petition."[104] These unranked, unweighted factors may be hard to determine and may point in different directions. So a petitioner could in good faith believe that it need not identify some non-party that the patent owner (and perhaps the PTAB if presented with evidence) would consider a privy or a real party

[103] *See* Garmin Int'l, Inc. v. Cuozzo Speed Techs. LLC, Case IPR2012-00001, Paper 26, at 6 (P.T.A.B. Mar. 5, 2013).
[104] *See, e.g.*, Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,759–60 (Aug. 14, 2012); Kapsch TrafficCom IVHS Inc. v. Neology, Inc., IPR2015-00808, Paper 13, at 5–6 (P.T.A.B. Sept. 14, 2015).

in interest. But because of the general unavailability of discovery, the patent owner will have a hard time challenging the petitioner's legal conclusion under these amorphous tests.

Nor does the PTAB's application of the real party in interest test give patent owners much comfort. In practice, non-parties have been able to avoid becoming the real party in interest even when providing financial support to the petitioner. Consider the example of Unified Patents Inc. (UPI), which collects subscription fees from its member corporations and provides "a wide range of services" including filing IPR petitions.[105] UPI once filed an IPR petition against a patent being asserted against Google — one of UPI's founding members — in litigation.[106] The Board allowed UPI to proceed absent evidence of Google controlling or funding the specific IPR petition at issue. Indeed, after filing nearly 50 IPR petitions, UPI boasts that it has "never lost a real party-in-interest (RPI) decision before the PTAB."[107] The Board has found that UPI's members are not the real parties in interest because UPI retains sole control over each individual IPR proceeding.

In short, because the Innovation Act requires only that the petitioner certify that it (including its privy and the real party in interest) has not engaged in short selling or demanding payment, it will likely fail to offer meaningful protection to patent owners. More generally, negative standing requirements, meaning requirements that exclude petitioners who are engaged in some undesirable activity, can be circumvented more easily than affirmative ones, meaning those that require proof of some desirable fact about the petitioner. As discussed above, a new corporation established for the sole purpose of filing IPR petitions will meet all negative requirements but would not meet any affirmative ones.

Aside from potentially enabling circumvention of statutory protections, broad third-party standing also requires patent owners to prepare to defend against an unending series of petitioners. In considering a predecessor bill to the AIA, several Members of Congress noted that "[i]t is not uncommon for the competitors of a patent's owner or licensee to coordinate their efforts and bring serial inter partes [reexamination] challenges to a patent, one after the other,

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[105] Unified Patents, *FAQ*, http://www.unifiedpatents.com/faq/ (last visited XYZ).
[106] Unified Patents, Inc. v. Clouding IP, LLC, IPR2013-00586, Paper 9, at 5–6 (Mar. 21, 2014).
[107] Unified Patents, *Unified's Real Party-in-Interest PTAB Panel Decisions*, http://www.unifiedpatents.com/news/real-party-in-interest-panel-decisions (last visited June 19, 2017).

each raising a different set of prior art in its challenge."[108] Each challenge costs the patent owner time and money to defend.[109] "These costs effectively increase the cost of patenting, making patents less attractive, and thus ultimately reducing R&D incentives."[110] And of course, the AIA and the Innovation Act allow not only the patent owner's competitors but any person to file IPR actions. By contrast, patent owners do not face the same threat of unending declaratory judgment actions against their patents in district courts because of Article III's case or controversy requirement, which limits the set of plaintiffs who could sue to have a patent declared invalid.

B. The STRONG Patents Act

Unlike the Innovation Act, the STRONG Patents Act strictly limits third-party standing for IPR, requiring the petitioner to show Article III standing. It requires the petitioner to have been "sued for infringement of the patent" or "charged with infringement" such that the petitioner could bring a declaratory judgment action in federal court.[111] Under the Supreme Court's *MedImmune* decision, federal district courts have jurisdiction over actions seeking declarations of patent invalidity when "there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."[112] The Federal Circuit has not always been entirely consistent in elaborating on that standard.[113] But it is clear that, at a minimum, "to establish an injury in fact traceable to the patentee a declaratory judgment plaintiff must allege an affirmative act by the patentee relating to the enforcement of his patent rights."[114]

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[108] S. Rep. No. 111-18, at 55 (2009).
[109] As a rough comparator, *inter partes* reexaminations used to cost patent owners up to "hundreds of thousands of dollars to defend." *Id.* at 54.
[110] James Bessen & Michael J. Meurer, *The Patent Litigation Explosion*, 45 LOY. U. CHI. L.J. 401, 440 (2013).
[111] S. 632, 114th Cong. s. 102(d) (2015), *available at* https://www.congress.gov/bill/114th-congress/senate-bill/632/text.
[112] MedImmune, Inc. v Genentech, Inc., 549 U.S. 118 (2007).
[113] Burstein, *supra* note 95, at 507–09; Nicholas D. Walrath, Note, *Expanding Standing in Patent Declaratory Judgment Actions to Better Air Public Policy Considerations*, 88 N.Y.U. L. REV. 476, 498-500 (2013). The STRONG Patents Act may therefore suffer from an administrative-efficiency problem. Using the Article III standard would sometimes require the PTAB sometimes to decide the complicated legal question of whether Article III jurisdiction exists, which requires much more work than checking that the petition contains the correct certifications.
[114] 3M Co. v. Avery Dennison Corp., 673 F.3d 1372, 1377 (Fed. Cir. 2012).

Adopting this restrictive standard has both pros and cons. The primary benefit is that the STRONG Patents Act better protects patent owners, who know that IPR petitions could only come after they have taken some overt action against the petitioner (such as making a threat or filing a lawsuit). This allows the patentee to avoid IPR challenges by not seeking to enforce its patent rights against a potential petitioner, and it means the patentee will never face a surprise IPR petition from an unknown entity.[115]

There's another potential benefit, though one more related to the legal system than to innovation. Adopting the Article III requirement for IPR would save from constitutional doubt the Federal Circuit's statutory jurisdiction to review all PTAB decisions.[116] When a losing patent owner appeals the PTAB's decision that its claims are unpatentable, the Article III requirements of injury-in-fact, causation, and redressability are satisfied: the cancellation of its claims is an injury in fact. But Congress did not limit Federal Circuit review to dissatisfied patent owners: instead it provided that "[a] party dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 318(a) may appeal the decision pursuant to sections 141 through 144. Any party to the inter partes review shall have the right to be a party to the appeal."[117] When the patent is upheld, Federal Circuit review may run afoul of the case or controversy requirement because the petitioner may lack Article III standing. For instance, if the petitioner wants to invalidate the patent only to benefit the general public, it has only a generalized grievance with respect to the PTAB's decision and lacks Article III standing.[118] So

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[115] The doctrine of specific personal jurisdiction seeks to serve the same ends. Under the Due Process Clause, defendants need not submit to the jurisdiction of a state court unless they have sufficient minimum contacts with that forum such that litigation there would be foreseeable. *See, e.g.*, International Shoe Co. v. Washington, 326 U.S. 310 (1945).

[116] 35 U.S.C. § 141(c).

[117] 35 U.S.C. § 319.

[118] The Federal Circuit said as much in *Consumer Watchdog v. Wisconsin Alumni Research Foundation*, 753 F.3d 1258 (Fed. Cir. 2014), which discussed this question in the closely related context of *inter partes* reexamination, the predecessor to IPR. The court found that Consumer Watchdog, a self-described "not-for-profit public charity dedicated to providing a voice for taxpayers and consumers in special interest-dominated public discourse, government and politics," *id.* at 1260, lacked standing to challenge the PTAB's decision affirming the patentability of several claims involving human embryonic stem cells. *Id.* at 1261–62. Consumer Watchdog neither performed nor intended to perform any activity that could form the basis of an infringement claim. It had only alleged "a general grievance": its "concern[] about the potential preemptive reach of the . . . patent and the alleged burden it places on taxpayer-funded research in the State of California." *Id.* at 1263. Because it had not suffered an injury-in-fact, the Federal Circuit did not have jurisdiction to hear its appeal. However, the court left open the possibility that the preclusive effect of the estoppel provision regarding *inter partes* reexamination could constitute an injury-in-fact if Consumer Watchdog intended to file another request for the PTO to cancel the relevant claims. *Id.* at 1262–63.

Article III likely does not allow Congress to provide all losing petitioners the right to appeal PTAB decisions.[119] But if, as the STRONG Patents Act requires, all petitioners satisfy Article III standing already, then of course the congressional grant of appellate jurisdiction is constitutional.

Turning to the drawbacks of the STRONG Patents Act, shrinking the class of potential petitioners would likely mean that more bad patents are allowed to stand, which inhibits innovation and raises prices on consumers.[120] Researchers and innovators who wish to explore or develop products in a particular area, but who haven't been threatened by the patent owner, would be unable to file IPR petitions. This situation hurts innovation as these parties cannot obtain a hearing in either the district courts or the PTAB.[121]

As Justice Breyer has explained:

> [P]atents do not only encourage research by providing monetary incentives for invention. Sometimes their presence can discourage research by impeding the free exchange of information, for example by forcing researchers to avoid the use of potentially patented ideas, by leading them to conduct costly and time-consuming searches of existing or pending patents, by requiring complex licensing arrangements, and by raising the costs of using the patented information, sometimes prohibitively so.[122]

The STRONG Patents Act would emphasize the patent's role in encouraging research while accepting the impedance of free exchange of information as a necessary cost. Its assumptions about which side requires greater protection is the opposite of the Innovation Act's.

Given the strong similarities between *inter partes* reexamination and IPR, the Federal Circuit would likely analyze the question of standing to appeal IPR decisions in the same way.

[119] Professor Sapna Kumar recently discussed how lack of Federal Circuit jurisdiction could inhibit uniformity in PTAB decision and suggested several fixes for that problem. *See* Kumar, *supra* note X, at 29-33.

[120] *See, e.g.*, Walrath, *supra* note 113, at 490 (noting that two public benefits to a successful challenge of an invalid patent are (1) that the public no longer has to pay hypercompetitive prices of products that incorporate the previously patented invention and (2) that increased innovation results from more competitors practicing the previously patented invention).

[121] While *ex parte* reexamination would be available, limited participation makes that option less appealing to many patent challengers.

[122] Laboratory Corp. v. Metabolite Laboratories, Inc., 548 U.S. 124, 126 (2006) (Breyer, J., dissenting).

IV. THE INTERESTED PARTY STANDARD

Rather than either of the approaches discussed above, Congress should adopt what I will term the "interested party" standard for IPR standing. Broader than the STRONG Patents Act but narrower than the Innovation Act, this rule would only allow petitions from parties who wish to engage in some potentially infringing activity but who are deterred by the presence of the challenged patent claims from doing so. By allowing filings from all petitioners seeking to innovate while also affording patent owners greater protection, the interested party standard strikes a better compromise than either the Innovation Act or the STRONG Patents Act.

This heightened standing rule would not dramatically decrease the number of petitions. As noted above, about 80% of IPRs involved patents asserted in litigation between the petitioner and the patent owner; some of the remaining 20%, moreover, likely involved other types of interested parties, including those who have been charged with infringement, direct competitors of the patentee, and the like. The fraction of petitioners unable to satisfy the interested party standard will therefore be small. By excluding this small portion of petitions, the interested party standard better protects for patent owners. On balance, I believe this approach better advances innovation than the two proposed bills and the AIA.

A. Who Is an Interested Party?

An interested party has the desire and capability to conduct some potentially infringing activity but is deterred from doing so by the existence of the patent.[123] This standard somewhat resembles the allegations a patent challenger must make to bring a declaratory judgment action in federal district court: "a declaratory judgment plaintiff must allege both (1) an affirmative act by the patentee related to the enforcement of his patent rights, and (2) meaningful preparation to conduct potentially infringing activity."[124] But there are two crucial differences. First, the interested party standard dispenses with the first prong and does not require any affirmative act by the patentee. Second, the petitioner need only have the desire and capacity to undertake a

[123] Under the Patent Act, "whoever without authority makes, uses, offers to sell, or sells any patented invention . . . infringes the patent." 35 U.S.C. 271(a). An interested party, therefore, wishes to make, to use, to offer to sell, or to sell some invention it thinks may be patented.

[124] Ass'n for Molecular Pathology v. U.S. Patent & Trademark Office, 689 F.3d 1303, 1318 (Fed. Cir. 2012) (citation omitted), *rev'd on other grounds sub nom.* Ass'n for Molecular Pathology v. Myriad Genetics, Inc., 133 S. Ct. 2107 (2013).

potentially infringing activity; actual preparation, let alone "meaningful preparation," to do so is not required.[125]

Some examples may help clarify the scope of interested party standing. A patent owner's direct competitor who wishes to make and sell a product that would arguably infringe the patent claim is clearly an interested party. An academic researcher who wishes to use a patented invention in her investigation would also be an interested party. As would licensees who are practicing the patented invention. On the other hand, a person who wishes to eliminate a bad patent solely to benefit the general public would not be an interested party. Nor would a customer who simply hopes that a product would cost less if the patent covering it were invalidated.

A simple certification requirement will suffice to enforce the standard: each IPR petition must identify with specificity at least one potentially infringing activity that the petitioner wishes to perform. The activity need only arguably infringe the claim, so the petitioner need not admit infringement to utilize IPR, just as a declaratory judgment plaintiff need not admit infringement to file suit. In order to make this requirement meaningful, the patent owner would be entitled to limited discovery to assess the veracity and accuracy of the certification.

B. The Advantages of the Interested Party Standard

The interested party standard walks a middle path between the Innovation Act and the STRONG Patents Act. Petitioners who seek to innovate will be able to challenge patent claims that block their efforts. That result is better for innovation than the STRONG Patents Act because many parties who cannot satisfy Article III standing may nonetheless be deterred from invalid patents from conducting productive activities.

At the same time, the interested party standard provides more protection to patent owners than do the Innovation Act and the AIA. Because the petitioner must identify its reason for

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[125] Similar standards have been proposed in Congress. For example, a Senate bill titled the Patent Reform Act of 2007, which was not enacted, would have permitted administrative challenges to a patent claim only when "[t]here is substantial reason to believe that the continued existence of the challenged claim is likely to cause the petitioner significant economic harm" and the petitioner has received notice of infringement from the patent owner. S. Rpt. 110-259, at 45 (Jan. 24, 2008). This requirement of "significant economic harm" is more restrictive than the interested party standard.

challenging the patent and must have the capability to conduct potentially infringing activities, it will be harder for anonymous entities to file IPR petitions. Moreover, the patent owner, knowing the planned activity that led the petitioner to attack the patent, may be able to negotiate licensing arrangements with the petitioner.

Whether the short-sale strategy and the IPR threat letters are good or bad for innovation is beyond the scope of this Article. But if one agrees with the Innovation Act's sponsors that these practices should be forbidden, the interested party standard would significantly curb them. That is because entities like the Coalition for Affordable Drugs would not be interested parties (assuming they do not intend to manufacture generic versions of drugs), so the hedge funds would need to find interested parties willing to file IPR petitions on their behalf. Similarly, when a patent owner receives a demand letter from an unknown entity, it can investigate whether that entity has the capability of infringing the threatened patent claims. If it turns out that the entity is, for instance, nothing more than a shell corporation, then the demand letter can be safely ignored. Indeed, in view of the possible means of circumventing the privity and real-party-in-interest restrictions, interested party standing may fulfill the goals of the Innovation Act better than that bill as drafted.

All in all, I believe the benefit of this additional protection to patent owners outweighs the cost of excluding petitioners who cannot certify an adequate interest in challenging the patent claim. It seems to me that petitioners who cannot so certify are the least likely to innovate and most likely to use the IPR process for other purposes. (That's not to say that those purposes are illegitimate, only that they do not advance innovation directly.) Just like the Innovation Act and the STRONG Patents Act, the interested party standard is open to criticism. Perhaps the best counterargument is that this standard would harm innovation by precluding non-interested parties ("altruistic parties" for short) from challenging bad patents. In the next section, I address that point.

C. Need for Altruistic Challenges?

Consider the following pair of interrelated arguments for why innovation suffers if Congress requires IPR petitioners to list its potentially infringing activity. First, altruistic parties, including well-known public interest organizations have had some success in invalidating patents they claim were being asserted by patent trolls. Interested party standing would generally

exclude such organizations from filing IPR petitions on others' behalf. Second, the absence of altruistic challenges becomes particularly worrisome if, for whatever reason, none of the interested parties has sufficient incentives to challenge a bad patent. In that case, no one would file IPR petitions against the patent, which would harm innovation.

As we will see below, the first counterargument adds little to the second: so long as some interested party is willing to petition for IPR, altruistic parties can litigate on its behalf. And indeed such alliances have been employed to satisfy Article III standing in federal court. For the kinds of high-profile patents that attract the attention of public interest organizations, many interested parties likely exist. On the second point, I contend that only rarely will no interested party wish to challenge the patent, so the boost to innovation by better protecting patentees will outweigh any harm that results.

Public interest organizations have successfully invalidated some patent claims through IPR. Perhaps the most well-known example is the Electronic Frontier Foundation's (EFF) challenge to a patent asserted against podcasters. Personal Audio, LLC, a non-practicing entity, had sued a number of accused infringers, including comedian and podcaster Adam Carolla, under its patent directed at disseminating episodic and serialized media content.[126] In response, EFF helped raise funds for an IPR petition against the asserted patent,[127] and the PTAB ultimately cancelled the challenged claims.[128] Similarly, one could consider the IPR victories of the Coalition for Affordable Drugs, whose stated goal is to lower drug prices for the public, as successful challenges by a public interest organization.

Under interested party standing, public interest organizations will no longer be permitted to file IPR petitions out of a bare desire to benefit the public as a whole. For this reason, EFF had opposed the STRONG Patents Act but supported the Innovation Act.[129] Imposing Article III

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[126] *See* Personal Audio, LLC, v. Togi Entertainment, Inc., Case No. 2:13-CV-13-JRG-RSP (E.D. Tex.); Personal Audio, LLC, v. CBS Corp., Case No. 2:13-CV-00270 (E.D. Tex.); Personal Audio, LLC, v. NBC Universal Media LLC, Case No. 2:13-CV-00271 (E.D. Tex.); U.S. Patent No. 8,112,504 B2.
[127] Daniel Nazer, *Help Save Podcasting!*, ELEC. FRONTIER FOUND. (May 30, 2013), https://www.eff.org/deeplinks/2013/05/help-save-podcasting.
[128] Elec. Frontier Found. v. Personal Audio, LLC, IPR2014-00070, Paper 41, at 2, 28 (P.T.A.B. Apr. 10, 2014).
[129] *See* Adi Kamdar, The STRONG Patents Act Is a Prime Example of Weak Reform, ELEC. FRONTIER FOUND. (Mar. 4, 2015), https://www.eff.org/deeplinks/2015/03/strong-patent-act-prime-example-weak-reform; *Stop Patent*

standing requirements on IPR would, like imposing interested party standing, make it impossible for EFF to file IPR petitions on its own. That could harm innovation by allowing more bad patents to go unchallenged.

But interested party standing doesn't actually bar public interest organizations from filing IPR petitions; it merely adds an additional step of finding an interested party on whose behalf they could file petitions. Usually that task will be easy — in the podcasting case, for example, any podcaster (or anyone planning to start a podcast) would have been an interested party. And indeed this sort of partnership already happens in the federal-court context. For instance, in the *Myriad* case about patenting human genes, the ACLU recruited individuals with standing to file a declaratory judgment action seeking to invalidate patents related to human genes. The plaintiffs in *Myriad* included Dr. Ostrer, a researcher at New York University School of Medicine, "medical patients, advocacy groups, and other doctors."[130] Attorneys from the ACLU then served as counsel for the plaintiffs. In this way, public interest organizations can continue to use IPR by simply finding interested parties and obtaining consent to file a petition on their behalf.

This solution assumes that at least one interested party wants to challenge the patent, but that may not always be the case. When no interested party wishes to challenge the patent, the standard would insulate the patent from PTAB review — a troubling outcome. Accordingly, some commentators have suggested that public interest organizations serve an essential role in policing patent quality because the patentee's competitors may not challenge patents as vigorously or as broadly.[131] And scholars have also noted several reasons why direct

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Trolls: Support the Innovation Act of 2015, ELEC. FRONTIER FOUND., https://act.eff.org/action/stop-patent-trolls-support-the-innovation-act-of-2015 (last visited June 19, 2017).

[130] Association for Molecular Pathology v. Myriad Genetics, 133 S. Ct. 2107, 2114 (2013). The Federal Circuit had held that only Dr. Ostrer had standing because of "Myriad's actions against him and his stated ability and willingness to begin BRCA1 and BRCA2 testing if Myriad's patents were invalidated." *Id.* Without any analysis beyond reciting the controlling legal standard, the Supreme Court agreed that Dr. Ostrer had standing and had no need to address the other plaintiffs. *Id.* at 2114 n.3.

[131] Lisa A. Dolak, *Declaratory Judgment Jurisdiction in Patent Cases: Restoring the Balance Between the Patentee and the Accused Infringer*, 38 B.C. L. REV. 903 (1997); Roderick Blevins, Comment, *Resurrecting the Public Voice: The Expansion of Standing in Patent Litigation*, 65 EMORY L.J. 893 (2016); Amelia Smith Rinehart, *Patent Cases and Public Controversies*, 89 NOTRE DAME L. REV. 361 (2013); *cf.* Walrath, *supra* note 113, at 501 (arguing that parties who lack standing under current doctrine could bring "novel policy arguments" into court if allowed to file declaratory judgment actions).

competitors could be skittish about attacking a patent. First, a finding of invalidity is a public good, so there exists the usual free rider problem, wherein the benefit inures to both those who paid to challenge the patent and those who stayed on the sidelines. What's more, the problem is exacerbated by the fact that the potential free riders may be competitors of the patent challenger. Second, competitor companies often have a strong incentive to forgo validity challenges because of possible blowback on their own patents.[132] Third, competitors may forego patent challenges if they can seize part of the patentee's monopoly profits for themselves. In a statement to Congress, Kyle Bass explained that, in the pharmaceutical context, often "the goal of generic companies is not to eliminate the brand's monopoly profits based on weak patents — it is to share in those profits with the brand manufacturer."[133] The Federal Trade Commission has expressed concerns over the "pay for delay" tactic whereby a brand-name drug company shares a portion of its supracompetitive profits with the generic company in exchange for the generic abandoning its challenges to the brand company's patents; this practice may violate antitrust laws.[134] So interested parties may have no incentive to file IPR petitions if they could share in the profits obtained from invalid patents.

While these are valid objections, the frequency of such situations is unknown, and I believe it is likely low. As noted above, the vast majority of IPR petitioners (more than 80%) are interested parties. Further, while direct competitors of the patentee may hesitate to file IPR petitions, interested parties need not be competitors but can include end users as well.[135] Thus, not all interested parties will care if the patentee's competitors would gain a windfall from patent invalidation, and not all will own patents that could be imperiled. Similarly, the threat of the interested parties sharing supracompetitive profits with the patent owner will not occur when end users or researchers are among the interested parties. And even if the only interested parties are competitors, the patentee may find it difficult to reach agreement with all of them. In the

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[132] Blevins, *supra* note 131, at 896.
[133] Statement of J Kyle Bass, Chief Investment Officer, Hayman Capital Management, L.P., on H.R. 9, at 3 (April 14, 2015), *available at* http://www.iam-media.com/files/Hayman%20HR%209%20Final%204-14-15%20(Final).pdf.
[134] *See* Federal Trade Comm'n v. Actavis, 133 S. Ct. 2223 (2013); FEDERAL TRADE COMM'N, PAY-FOR-DELAY: HOW DRUG COMPANY PAY-OFFS COST CONSUMERS BILLIONS (2010).
[135] *See* Gaia Bernstein, *The End User's Predicament: User Standing in Patent Litigation*, 96 B.U. L. Rev. 1929, 1932-33 (2016).

pharmaceutical field, for example, a brand company would need to reach agreement with every generic interested in manufacturing a version of the drug. At some point, the pie of supracompetitive profits may be sliced too thin to make the arrangement desirable for all parties involved.[136] All in all, the situation where no interested party has an incentive to challenge the patent will arise only rarely.

CONCLUSION

If Congress believes that short sales and settlement demands based on IPR proceedings hurt innovation, passing the Innovation Act will probably not prevent those practices. That's because newly formed entities could always file IPR petitions. Indeed, the same tactic would defeat any requirement that a petitioner certify that it has not done some forbidden thing. To be effective, Congress should require the petitioner to prove a positive fact about itself instead. But it should not overreact by enacting the STRONG Patents Act. Limiting IPR to only petitioners who have Article III standing would preclude challenges from parties being deterred from productive conduct, and that sort of overprotection of patent rights can harm innovation just as much as the Innovation Act's underprotection.

Instead of either extreme, interested party standing offers a compromise approach that best promotes progress and innovation. By allowing IPR petitions from persons who can and wish to engage in potentially infringing activity, the standard guarantees that those challenges most likely to lead to innovation remain cognizable. And by precluding IPR petitions from persons who can demonstrate no such interest, the standard reinforces the protections for patent owners already in the AIA and guards against vexatious, repetitive filings by unknown entities.

[136] Moreover, anti-trust scrutiny may apply to deter such profit-sharing schemes.