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SENATE SUBCOMMITTEE ON INTELLECTUAL PROPERTY

HEARING ON THE *STRONGER (SUPPORT TECHNOLOGY & RESEARCH FOR OUR NATION'S GROWTH AND ECONOMIC RESILIENCE) PATENTS ACT OF 2019*

TESTIMONY OF BRADLEY N. DITTY, VICE PRESIDENT AND GENERAL PATENT COUNSEL, INTERDIGITAL

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**1. Introduction**

Good afternoon Chairman Tillis, Ranking Member Coons, and members of the Subcommittee on Intellectual Property.

My name is Brad Ditty and I am Vice President and General Patent Counsel at InterDigital where I am responsible for managing and developing a global portfolio of over 32,000 patents and patent applications relating to a wide range of innovations, with an emphasis on wireless and video technology. In addition to managing InterDigital's patent portfolio, I am involved in licensing, acquisitions, intellectual property strategy and a variety of other patent matters. Prior to joining InterDigital in 2006, I spent nine years working at two other technology companies where, among other things, my role included licensing, portfolio development, patent sales and acquisitions, preparation and prosecution of patent applications and intellectual property strategy. I have a Bachelor of Science degree in Electrical Engineering from the University of Pittsburgh (1994) and a Juris Doctor degree from the University of Pittsburgh School of Law (1997). I am a member of the Pennsylvania bar and licensed to practice before the U.S. Patent and Trademark Office. I have been practicing as a corporate patent attorney for over twenty years.

It is a pleasure to be with you today to discuss our nation's patent system and the STRONGER Patents Act of 2019. I'd particularly like to thank Senator Tillis for holding this hearing and Senator Coons for his tireless efforts on behalf of Delaware, and the nation.

InterDigital is a Delaware headquartered company that designs and develops advanced technologies that enable and enhance mobile communications and

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capabilities. Since our founding in 1972, we have pioneered a wide range of innovations that are used in digital cellular and wireless products and networks, including 2G, 3G, 4G, 5G, and IEEE 802-related products and networks.

InterDigital is a significant independent contributor of innovation in the high-tech wireless and video industries and also collaborates with other companies and universities in developing the technology driving one of the most ubiquitous devices in history, the smartphone. InterDigital has a world class research and development team drawn from some of the best universities in the world, many of whom have advanced degrees and are recognized leaders in their fields. They are respected by their industry peers and many occupy important positions of leadership within major standards-setting bodies.

Below is a summary of various highlights in InterDigital's long history of innovation and leadership in each generation of wireless:

- Founded in 1972 to pursue research into digital wireless telephony – two years before the first cell phone call is made
- In 1985, InterDigital's founder made the first digital wireless call to then FCC Chairman, Dennis Patrick – three years before TDMA (InterDigital's longtime research area) was chosen as the first U.S. digital telecommunications standard
- In 1997, InterDigital demonstrated a broadband CDMA solution, delivering video over wireless on five different trial networks – a key development in the history of 3G networks
- In 1999-2000, InterDigital developed a protocol stack for Infineon Technologies' 3G chipset that has powered over 350 million devices worldwide
- In 2008, InterDigital launched its SlimChip, the first R6 HSPA baseband ASIC, hailed as a technology success by leading research firm Signals Ahead
- Since 2014, InterDigital developed 5 different "world's first" demonstrations of key 5G technologies

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We are a corporate research firm and, quite possibly, the only one of its kind in the U.S. developing two of the most impactful technologies today -- advanced wireless and video technologies. As a research firm that licenses its innovations to other industry participants, our technology developments are not biased in favor of any existing technology or particular product implementation. This allows our engineers the freedom and creativity to pursue the best technologies as opposed to many other companies that are locked into existing product lines and often constrained to focus on evolutionary improvements that limit disruption. We are very proud to be one of a small number of U.S. companies involved in the race to 5G and beyond, helping our nation with the critically important national goal of keeping its lead in wireless technology.

InterDigital's unique role as a public company focused on research allows it to consistently develop key technological advances, invest in research and development, enhance the strength of U.S. intellectual property, and support high-skilled jobs in the U.S. economy. Our ability to do so, including in key areas such as 5G, is challenged by uncertainty in the patent system, an erosion of the fundamental constitutional right of limited exclusivity for patented inventions, incentives for prolonging disputes, inconsistent standards with which granted patents are reviewed, and venues viewed as clearly favorable or unfavorable simply based on whether a party is a patent holder or an accused infringer.

In the industry we operate in, wireless communications, patent issues are in their starkest relief, due to the nature of the research that takes place industry-wide as our engineers work to define new cellular standards. We at InterDigital, as well as our peers in cellular research, send our best engineers around the world to solve industry-wide issues, improve standards, lower barriers to entry for implementers and improve cellular capabilities for all end-users regardless of brand. Because this is a global industry, it means that the solutions we find to industry issues like patent disputes should be global as well and here, our position is simple. Countries, particularly countries in global leadership roles like the U.S., must have strong protections for intellectual property that allow for, and encourage, advanced research and the protection of these innovations. Innovators in standards should make fair, reasonable and non-discriminatory license offers, in line with our commitment to the standards bodies, but implementers must also understand that implementation of these standards in disregard of patent laws is impossible – a fact made more powerful by stronger patent protection of the kind we're discussing today. However, that framework should also provide implementers with the security of knowing that they will not

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be charged an unfair rate. Finally, in the event that licensees and licensors cannot find common economic ground, they should be willing to have the terms of a fair license determined by neutral arbitration. The STRONGER Patents Act is a key component of this system and one that we hope can make patent conflict in our industry disappear.

## **2. Adoption of the STRONGER Patents Act will foster innovation and benefit the U.S. patent system, the U.S. economy and InterDigital.**

### **a) Claim Construction:**

The STRONGER Patents Act’s codification that the Patent Trial and Appeal Board (PTAB) construe claims according to their “plain and ordinary meaning”<sup>1</sup> in trial proceedings will solidify an important change implemented by the United States Patent and Trademark Office (USPTO) in late 2018. This change harmonized the standard used for claim construction by the PTAB with the standard used by district courts, and brought to fruition a proposal that gained support from corporations, esteemed professors of law,<sup>2</sup> and public interest groups alike during the rulemaking process.<sup>3</sup> Indeed, the USPTO acknowledged a “large majority of comments” stood in favor of harmonizing the claim construction standards.<sup>4</sup>

InterDigital welcomes codification of the harmonized standard by Congress for at least the following reasons. First, Congress intended the PTAB to serve as an alternative forum for adjudicating patent validity, and that function historically and inherently requires each patent claim to be judged by its actual meaning. In the adjudication context, the actual meaning of the claim—the “meaning that the term would have to a person of ordinary skill in the art . . . at the time of the invention”—has long governed questions of both patent validity and

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<sup>1</sup> *Phillips v. AWH Corp.*, 415 F.3d 1303, 1313 (Fed. Cir. 2005) (en banc), *cert. denied*, 546 U.S. 1170 (2006).

<sup>2</sup> See Professors of Law and Economics, Response to the Proposed “Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board” at 2 (June 9, 2018), <https://www.uspto.gov/sites/default/files/documents/comment-professors-of-law.pdf>. Noted scholars Allison, Aoun, Barblan, Chin, Cotropia, Crouch, Darden, Dolin, Graham, Heled, Janis, Kesan, Lemley, Liebesman, Masur, Merges, Mossoff, Osenega, Rai, Sichelman, and Vishnubhakat joined in supporting the rule change.

<sup>3</sup> See Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board, 83 Fed. Reg. 51340, 51345 (Oct. 11, 2018) (codified at 37 C.F.R. pt. 42).

<sup>4</sup> *Id.* at 51341.

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infringement.<sup>5</sup> During examination of a patent application, in contrast, the USPTO’s patent examiners give claims an artificial “broadest reasonable interpretation” (BRI) to facilitate patent prosecution in a collaborative process where applicants are allowed to amend claims freely and frequently as well as propose new claims.<sup>6</sup> And while this broader standard is appropriate during the examination process, application of the BRI standard in a post-grant validity determination is not.

Although post-grant proceedings created by the AIA are not administered by district courts, but instead by the USPTO (through the PTAB), the text, structure, and purpose of the AIA show that the process is adjudicatory in nature. The point of PTAB post-grant proceedings is to provide a cheaper and quicker alternative to validity determinations than patent litigation, not to serve as a preferred route for further patent examination. And while *inter partes* and *post grant* review offer opportunities for narrowing amendments,<sup>7</sup> to the extent patent owners successfully avail themselves of those provisions, the ability to amend is significantly limited.<sup>8</sup> Furthermore, intervening rights often make these amendments an unpalatable option. If a granted patent is substantively amended—for example, to avoid encompassing a prior art reference—the patentee may be barred from recovery for infringing activities that predate the amendment.<sup>9</sup> Simply put, the limited amendment opportunity available to patent owners during post-grant proceedings does not approximate the robust pre-grant examination process where BRI is the appropriate claim construction standard to apply.

Second, prior to the USPTO’s rule change, patentees often were compelled to defend their patent rights in the two alternative adjudicative forums under two different and conflicting claim construction standards. As the Federal Circuit recognized at that time, under the USPTO’s rule, “it is possible to have two different forums construing the same term in the same patent in a dispute involving the same parties but using different standards.”<sup>10</sup> Thus, it is possible

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<sup>5</sup> See *Phillips*, 415 F.3d at 1313.

<sup>6</sup> *In re Rambus, Inc.*, 753 F.3d 1253, 1255-56 (Fed. Cir. 2014).

<sup>7</sup> 35 U.S.C. §§ 316(d), 326(d).

<sup>8</sup> See *Aqua Products Inc. v. Matal*, 872 F.3d 1290, 1299 (Fed. Cir. 2017). “Despite repeated recognition of the importance of the patent owner’s right to amend during IPR proceedings—by Congress, courts, and the PTO alike—patent owners largely have been prevented from amending claims in the context of IPRs.” *Id.*

<sup>9</sup> 35 U.S.C. § 252.

<sup>10</sup> *PPC Broadband, Inc. v. Corning Optical Commc’ns RF, LLC*, 815 F.3d 747, 756 (Fed. Cir. 2016) (recognizing potential disparity in outcomes between different fora).

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that the district court and the PTAB, though considering identical claims and prior art, will adopt different constructions and reach inconsistent conclusions on patent validity. This divergence has created uncertainty about the validity of patent rights, encouraging forum shopping and fostering duplicative strategic litigation to the significant disadvantage of patent holders. There have been multiple incidents of patentees obtaining jury verdicts of patent infringement and validity in a district court under their claims' actual meanings only to be met with subsequent PTAB decisions finding the same claims invalid under the BRI standard.

When the PTAB was established as an alternative forum for adjudicating patent validity, the intent was not to relegate district courts to providing advisory opinions on validity and infringement based on what the claims *actually* mean as a mere warm-up to an invalidity ruling by the PTAB based on what the claims *might* mean. Yet, this is precisely what occurred under the USPTO's earlier claim construction standard. The PTAB frequently disregarded the claim construction of a district court or the Federal Circuit because it was not the "broadest reasonable interpretation" of the claims.<sup>11</sup> In such cases, the PTAB's use of the BRI fostered uncertainty and created an inefficient and imbalanced two-track system for adjudication of patent rights.<sup>12</sup>

InterDigital unfortunately has first-hand experience defending its patent rights in two alternative adjudicative forums under two different and conflicting claim construction standards. In 2013, after years of attempting to negotiate a patent license with ZTE, a leading Chinese cellphone manufacturer, InterDigital brought an action for infringement of U.S. Patent No. 8,380,244 ('244 patent) against ZTE Corporation and ZTE (USA) Inc. (jointly, "ZTE"). The result was a jury verdict finding the asserted '244 patent claims infringed and not invalid and a district court judgment in favor of InterDigital.<sup>13</sup>

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<sup>11</sup> See, e.g., *Seagate Tech. (US) Holdings, Inc. v. Enova Tech. Corp.*, IPR2014-00683, Paper 47 at 13-14, 2015 WL 5170256, at \*9 (P.T.A.B. Sept. 2, 2015); *Google Inc. v. ContentGuard Holdings, Inc.*, CBM2015-00040, Paper 9 at 20-21, 2015 WL 3920037, at \*12 (P.T.A.B. June 24, 2015); *Microsoft Corp. v. VirnetX Inc.*, IPR2014-00612, -00613, -00614, Paper 9 at 6-13, 2014 WL 5320530, at \*4-8 (P.T.A.B. Oct. 15, 2014), *modified on rehearing on other grounds*, Paper 12, 2014 WL 5840667 (P.T.A.B. Oct. 30, 2014).

<sup>12</sup> See e.g., Professors of Law and Economics, *supra* note 2 at 3 ("Under the current system, construing the same claims multiple times can drag out validity disputes, forcing parties to spend more on needless litigation and undermining the efficiency goals of the AIA trial proceedings.")

<sup>13</sup> *InterDigital Commc'n. Inc. v. ZTE Corp.*, No. 1:13-cv-00009-RGA, ECF No. 431 at 4, 7 (D. Del.); *id.* ECF No. 456.

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During the proceedings, and exactly one year from the date of the complaint, ZTE filed an IPR petition challenging the '244 patent. Nearly a year after the jury verdict for InterDigital, the PTAB ruled the asserted patent claims were invalid as obvious in light of the same prior art that the jury had considered and rejected.<sup>14</sup> In doing so, the PTAB applied what it found to be the “broadest reasonable interpretation” of the claims—expressly acknowledging that it was applying a different and broader claim construction standard than the district court had applied.<sup>15</sup>

On appeal, the Federal Circuit affirmed the PTAB ruling except with respect to one of the challenged claims, which was remanded for further proceedings. The PTAB again held the remaining claim invalid in March 2018, and yet again, the PTAB’s decision is under review at the Federal Circuit. Given that InterDigital first attempted to defend its rights in the '244 patent nearly seven years ago—and secured a judgment against ZTE less than two years later—this case is illustrative of the undue delay and waste of resources caused by the former regime that applied the “broadest reasonable interpretation.”<sup>16</sup>

Third, the PTAB’s prior use of the BRI standard degraded the substantive rights of inventors in ways Congress could not have intended. When a patent is given its “broadest” possible interpretation, it is far more likely to read on prior art.<sup>17</sup> Application of this standard thus invalidates legitimate patents that would survive if judged on their actual merits and undermines the statutory presumption of validity that attaches to issued patents.<sup>18</sup>

Finally, construing claims under the BRI standard also creates a deadly Catch-22 for patentees because, while the PTAB (applying that artificially broad standard) is more likely to find a patent invalid, the district court (applying the correct, potentially narrower construction) is less likely to find the patent infringed. This “heads-you-win/tails-I-lose” dynamic is unfair, illogical, and contrary to a core principle of patent law that the same claim construction must be used for infringement and validity.

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<sup>14</sup> *ZTE Corp. v. InterDigital Tech. Corp.*, IPR2014-00525, Paper 48, 2014 WL 10405879 (P.T.A.B. Sept. 14, 2015) (correct date of decision noted on PTAB public electronic docket).

<sup>15</sup> *Id.* at 10-13 & n.4, 2014 WL 10405879, at \*6-8 & n.4.

<sup>16</sup> InterDigital also supports the STRONGER Patents Act’s provision of priority for federal court validity determinations to eliminate repetitive proceedings. We believe this change will ensure that patent owners need not engage in redundant litigation, and that they can remain confident in valid district court judgments.

<sup>17</sup> See 35 U.S.C. §§ 102, 103 (claims invalid if anticipated by or obvious in light of prior art).

<sup>18</sup> See *id.* § 282(a).

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Accordingly, InterDigital welcomes the STRONGER Patents Act’s codification that the Patent Trial and Appeal Board (PTAB) construe claims according to their “plain and ordinary meaning.”

**b) Burden of Proof:**

Notwithstanding the USPTO’s harmonization of claim construction standards, still remaining is a lesser presumption of validity at the PTAB that undercuts the stronger presumption in district court proceedings.<sup>19</sup> In a district court action, an accused infringer may overcome the statutory presumption of validity only by proving that the claims, as correctly construed, are invalid over prior art “by clear and convincing evidence.”<sup>20</sup> By contrast, during trial proceedings at the PTAB, a petitioner need only prove that the claims are invalid “by a preponderance of the evidence.”<sup>21</sup>

Like the inefficiencies presented by divergent claim construction standards, this distinction proves problematic by emboldening accused infringers to gain a second bite at the apple by raising validity challenges in both forums. Under harmonized claim construction standards, a district court still maintains discretion over what deference to afford a final written decision issued by the PTAB.<sup>22</sup> And, solely on the basis of the burden of proof, a panel of administrative judges may disregard a trial court’s decision to uphold a patent on novelty or obviousness grounds.<sup>23</sup> These asymmetric standards discourage both the courts and administrative judges from relying on claim interpretations and invalidity findings handed down in parallel proceedings.<sup>24</sup> The resulting redundancy essentially forces parties to advance the same arguments twice and wastes the already constrained resources of the judiciary and USPTO. Perhaps indicating these flaws are attributable to the governing statutory regime, the Supreme Court in *Cuozzo Speed Techs. v. Lee*<sup>25</sup> stated, with respect to *inter partes* review

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<sup>19</sup> § 282(a).

<sup>20</sup> *Microsoft Corp. v. i4i Ltd.P’ship*, 131 S. Ct. 2238, 2242 (2011).

<sup>21</sup> § 316(e).

<sup>22</sup> *See, e.g., Liqwd, Inc. v. L’Oreal USA, Inc.*, 1:17-cv-14, 2019 U.S. Dist. LEXIS 70749 at \*13-14 (D. Del Apr. 25, 2019) (holding PTAB finding of invalidity not entitled to preclusive effect).

<sup>23</sup> *See, e.g., Novartis AG v. Noven Pharms., Inc.*, 853 F.3d 1289, 1293-94 (Fed. Cir. 2017) (holding PTAB is not bound by district courts’ findings of validity, even when evaluating such decisions on identical evidence).

<sup>24</sup> *See id.*

<sup>25</sup> 136 S. Ct. 2131 (2016)

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[the risk of inconsistent results have] long been present in our patent system, which provides different tracks—one in the Patent Office and one in the courts—for the review and adjudication of patent claims. As we have explained above, *inter partes* review imposes a different burden of proof on the challenger. These different evidentiary burdens mean that the possibility of inconsistent results is inherent to Congress’ regulatory design.<sup>26</sup>

Such inconsistency-prone design is detrimental to our patent system, and the change offered by the STRONGER Patents Act to the current design would provide a much-needed improvement.

The USPTO has endeavored to foster uniformity, predictability, and certainty among trial outcomes at the PTAB.<sup>27</sup> Last year, the USPTO stood in solidarity with commenters who proposed that harmonization could “reduce duplication of efforts by parties and by various tribunals . . . given there is significant overlap between AIA proceedings and district court litigation.”<sup>28</sup> The USPTO’s effort to align the claim construction standards is one step towards a more cost-effective and procedurally streamlined mechanism for patent validity challenges. This change alone, however, is still insufficient to achieve the agency’s stated goals since the statutory presumption of validity in Article III courts does not extend to trial procedures at the PTAB.

InterDigital encourages Congressional action to resolve these shortcomings of the AIA. Amendments to § 316(e) and § 326(e) that apply the presumption of validity set forth in § 282(a) and align the burden of proof for invalidation at the PTAB with that of Article III courts will encourage more consistent treatment of patents across separate venues. Proceedings before the PTAB should provide outcomes that are fair, efficient, and cost effective for both parties—not merely a forum in which petitioners expect a greater probability of invalidation than in district court. We believe the amendments in the STRONGER Patents Act are a prerequisite to achieving these long-pursued objectives.

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<sup>26</sup> *Id.* at 2146 (rejecting arguments that Patent Office lacked authority to construe claims according to their “broadest reasonable interpretation”).

<sup>27</sup> *See* Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings before the Patent Trial and Appeal Board, *supra* note 3 (noting agreement with comments advocating that rule change would “lead to greater consistency with the federal courts”).

<sup>28</sup> *Id.*

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### c) Restoration of Patents as Property Rights:

Article 1, Section 8, Clause 8 states that Congress shall have the power:

*To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.*

An erosion of the exclusive right of inventors to their discoveries has incentivized accused infringers to unfairly prolong disputes. In *eBay v. MercExchange*,<sup>29</sup> the Supreme Court held the presumption that an injunction should issue to a victorious patent owner is inappropriate, and a plaintiff must first satisfy a four-part injunction test. To succeed, a patent owner must prove:

(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.<sup>30</sup>

Subsequent to this decision, patentees have seen a statistically significant decrease in the proportion of permanent injunctions granted overall.<sup>31</sup> The effect of *eBay* and later cases, in some instances, has been to strip value from hard-earned intellectual property and grant constructive licenses to willful infringers.<sup>32</sup>

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<sup>29</sup> 126 S. Ct. 1837 (2006).

<sup>30</sup> *Id.* at 1839.

<sup>31</sup> See Christopher R. Seaman, *Permanent Injunctions in Patent Litigation After eBay: An Empirical Study*, 101 IOWA L. REV. 1949, 1983 (2016). This study indicates that between 2006 and 2013, patentees secured permanent injunctions in 72.5% of cases; the author notes that this figure continues to drop. *Id.* Although patentees continue to obtain injunctions in most cases, the post-*eBay* drop is noteworthy: previously, “courts granted patentees injunctions 95% of the time after finding infringement.” Lily Lim & Sarah E. Craven, *Injunctions Enjoined; Remedies Restructured*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 787, 798 (2009).

<sup>32</sup> See, generally, Paul M. Janicke, *Implementing the “Adequate Remedy at Law” for Ongoing Patent Infringement After eBay v. MercExchange*, 51 IDEA 163, 196-97 (2011). The author’s discussion of *Finisar Corp. v. DirecTV Group, Inc.*, is illustrative of this point. No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380, at \*1 (E.D. Tex. July 7, 2006), *modified*, 523 F.3d 1323 (Fed. Cir. 2008) (awarding treble damages, but denying permanent injunction and instead granting “compulsory license”); see also Paul R. Michel & Matthew F. Dowd, *Understanding the Errors of eBay*, 2 THE CRITERION J. ON INNOVATION 21, 28 (2017). The authors note

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The Supreme Court’s holding provides no basis for categorically denying injunctive relief when a patentee declines to bring their invention to market. In *eBay*, the Court condemned the very suggestion that “a ‘plaintiff’s willingness to license its patents’ and ‘its lack of commercial activity in practicing the patents’ [is] sufficient to establish that the patent holder w[ill] not suffer irreparable harm if an injunction d[oes] not issue.”<sup>33</sup> Yet, district courts continue to give undue weight to these circumstances when undertaking the *eBay* analysis.<sup>34</sup> The effects are profound: between 2006 and 2013, non-practicing entities’ (NPEs’) requests for permanent injunctions were granted in only 16% of cases, in contrast to non-NPEs’ 80% success rate.<sup>35</sup>

These errors are, at least in part, attributable to courts’ reliance upon Justice Kennedy’s concurring opinion in *eBay*.<sup>36</sup> In a series of mere “observations,” Justice Kennedy contended

[a]n industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.<sup>37</sup>

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[p]atent values, as measured by public sales, plummeted during the last ten years compared to the ten-year period preceding *eBay*. This result decreases the value of intellectual property because it undermines the enforceability of the exclusive right and it makes it more expensive to obtain a remedy for adjudged infringement.

*Id.*

<sup>33</sup> *eBay*, 126 S. Ct. at 1840 (citing district court’s “unfair” adoption of “expansive principles” in determining whether to grant relief).

<sup>34</sup> See, e.g., *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 574, 582-86 (E.D. Va. 2007) (citing extensively Justice Kennedy’s concurrence on remand); *z4 Tech. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 443 (E.D. Tex. 2006) (relying upon Justice Kennedy’s concurrence as “instruct[ive] that courts be cognizant of the nature of the patent being enforced and the economic function of the patent holder when applying the equitable factors.”).

<sup>35</sup> Seaman, *supra* note 31 at 1988.

<sup>36</sup> See, Ryan T. Holte, *The Misinterpretation of eBay v. Mercexchange and Why: An Analysis of the Case History, Precedent, and Parties*, 18 CHAP. L. REV. 3, 726-31 (2015); Michel & Dowd, *supra* note 32 at 26-27 (2017).

<sup>37</sup> 126 S. Ct. at 1842-43.

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According to one former Chief Judge of the Federal Circuit Court of Appeals, Justice Kennedy’s assertions were overgeneralized and inaccurate.<sup>38</sup> The patent licensing business model “is not, as Justice Kennedy suggests, a new phenomenon.” For example, “[p]atent licensing entities were an important component of the U.S. economy in the 19th and early 20th centuries. Major inventors, including Goodyear, Howe, and Edison, actively licensed and enforced their patent portfolios.”<sup>39</sup> Still, as another federal judge previously pointed out, Justice Kennedy’s concurrence improperly receives precedential treatment since “many early district courts citing Justice Kennedy, and denying injunctions [under the *eBay* analysis], are themselves being ‘widely cited by subsequent district courts.’”<sup>40</sup>

Applied today, *eBay* and its progeny irreparably harm research companies, universities, independent inventors, and others who do not manufacture their inventions for legitimate reasons. A nearly categorical denial of injunctive relief to NPEs is at odds with Supreme Court precedent interpreting longstanding principles of equity<sup>41</sup> and “incongruent with the patent right” as a whole.<sup>42</sup> Nowhere in Article I nor Title 35 is a patent’s exclusive right “conditioned on its owner practicing the patent to make a product.”<sup>43</sup>

The implicit presumption against injunctive relief for certain patent holders creates an improper incentive for infringers of valid patents to prolong litigation in order to delay payment to patent holders for use of their inventions.<sup>44</sup> For

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<sup>38</sup> See Michel & Dowd, *supra* note 36 at 26-27.

<sup>39</sup> *Id.*

<sup>40</sup> See Holte, *supra* note 36 at 722.

<sup>41</sup> See *eBay*, 126 S. Ct. at 1840-41 (noting “[a] categorical rule is also in tension with *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 28 S. Ct. 748 (1908), which rejected the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent.”).

<sup>42</sup> See Michel & Dowd, *supra* note 36 at 29.

<sup>43</sup> *Id.*

<sup>44</sup> See generally, Janicke, *supra* note 32 at 187–88 (arguing that, absent additional measures to compensate a patent owner, failing to grant injunctive relief negatively affects patent owners’ ability to recover). The author asserts it is imprecise to classify courts’ denials of injunctive relief as “compulsory licensure,” which is proper under certain circumstances. Rather, denying injunctive relief amounts to condonation of illegal activity:

[T]he courts have drifted into thinking a suitable remedy can be a judicially issued compulsory license that converts unlawful activities into licensed ones, with court set periodic royalty-style payments, whether or not the patent owner wants such a result. However, unenjoined infringement bears little similarity to fully licensed transactions. The sole similarity to the world of licensing is that an entity who does not own the patent is

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research companies, absent a realistic possibility of securing injunctive relief, legitimate patent enforcement efforts become a matter of “pay now or pay later.” In this type of regime, many infringers, including those having the least respect for intellectual property rights, will opt to “pay later,” if indeed they pay at all. Today’s post-*eBay* precedent breeds so-called “efficient infringement,” where an infringer persists in unlawfully using another’s technology because it is cheaper to defend an action for recovery than to enter a licensing arrangement.<sup>45</sup> This unfairly denies appropriate rewards to innovators and creates inequity among users of the invention that may be respecting that patent right in the form of a license agreement with the patent holder.<sup>46</sup>

Upon denial of injunctive relief, judges face challenges in determining fair remedies for past and future infringement.<sup>47</sup> For instance, a judge may need to consider a variety of speculative factors, including the impact of continued infringement on new and existing licensees, the possibility that the patent owner may enter the market, and the likelihood that an infringer will actually cease infringing activity.<sup>48</sup> We believe independent resolution of disputes avoids these

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operating commercially within the scope of the patent and no court has told that entity to stop doing so . . . . Suffice it to say that it is clearly wrong to conflate avoidance of an injunction on the one hand with being licensed to commit illegal acts on the other. A court, even when refusing a permanent injunction, has no such magical power to convert unlawful activity into lawful conduct.

*Id.* at 187-89.

<sup>45</sup> See Joe Nocera, Opinion, *The Patent Troll Smokescreen*, N.Y. TIMES, Oct. 23, 2015, [https://www.nytimes.com/2015/10/24/opinion/the-patent-troll-smokescreen.html?\\_r=0](https://www.nytimes.com/2015/10/24/opinion/the-patent-troll-smokescreen.html?_r=0). For further explanation of the meaning of the term “efficient infringement,” see Adam Mossoff, & Bhamati Viswanathan, *Explaining Efficient Infringement*, CTR. FOR THE PROT. OF INTELL. PROP. (May 11, 2017), <https://cpip.gmu.edu/2017/05/11/explaining-efficient-infringement/>.

<sup>46</sup> See e.g., *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623, WL 2570614, at \*3-11 (W.D. Okla. Sept. 5, 2006), *aff'd*, 536 F.3d 1311 (Fed. Cir. 2008) (concluding injunction was not warranted). While enhanced damages, attorney’s fees, and interest all may moderate the risk to patent holders, in many cases only enhanced damages meaningfully raises the costs of continuing to infringe. Because of the uncertainty of an award of enhanced damages, many infringers may favor that risk over negotiating earlier payment to the owner of a valid patent. See Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 F. CIR. B.J. 227, 237 n.30 (2004) (finding wide variation in proportion of cases where treble damages were awarded, based on whether the issue was tried by a judge or by jury). For instance, a 2004 study indicated that plaintiffs were awarded full treble damages in only 8.7% of cases. *Id.*

<sup>47</sup> Janicke, *supra* note 32 at 206-08.

<sup>48</sup> *Id.*

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impediments.<sup>49</sup> Arbitration, for instance, promotes fair outcomes, encourages discussion under mutually agreeable terms, and avoids saddling courts with speculative and time-consuming issues. Injunctive relief serves an important role in urging parties to swiftly come together through this mechanism. And, for innovators such as InterDigital, who stand to gain no economic benefit by keeping others from bringing its technology into the marketplace, any suggestion that injunctive relief might be misused to obtain unreasonable licenses is not persuasive.

InterDigital believes the STRONGER Patents Act’s restoration of patents as property rights will assist in balancing the interests of innovators and implementers. Upon findings of validity and infringement, a presumptive fulfillment of the first and second prongs of the permanent injunction analysis is appropriate. We trust these changes will reserve discretion to grant relief in the courts and avoid “plac[ing] courts in the license-drafting and license-administration business.”<sup>50</sup> Moreover, these changes properly honor the Court’s guidance that uncompromising imperatives to award or deny injunctive relief should not be upheld.<sup>51</sup>

### **3. Conclusion:**

We support the STRONGER Patents Act and believe its adoption will improve our patent system and the innovation environment in this country. By restoring uniformity, predictability, and certainty to the U.S. patent system, InterDigital, and other companies investing in innovations critical to our great nation, will have the proper incentives and protections to promote technological progress in important areas such as 5G and beyond.

Finally, I would once-again like to thank Chairman Tillis and the members of the Subcommittee on Intellectual Property, and particularly Ranking Member Coons for the opportunity to be here today to provide our input on these critical issues.

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<sup>49</sup> See generally Bill Merritt, *FRAND Licensing: Arbitration, Arbitration, Arbitration*, WORLD INTELL. PROP. REV. (Apr. 16, 2018), <https://www.worldipreview.com/article/frand-licensing-arbitration-arbitration-arbitration>; also Bill Merritt, *Patent Licensing: The Fierce Debate Over FRAND*, WORLD INTELL. PROP. REV. (Feb. 20, 2019), [https://www.worldipreview.com/contributed-article/patent-licensing-the-fierce-debate-over-frand?success\\_login=1](https://www.worldipreview.com/contributed-article/patent-licensing-the-fierce-debate-over-frand?success_login=1).

<sup>50</sup> Janicke, *supra* note 32 at 165-66.

<sup>51</sup> 126 S. Ct. at 1840 (holding District Court and Court of Appeals “departed in . . . opposite direction[s] from the four-factor test” by prescribing general rules by which to grant or deny injunctions).