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The Honorable John A. Squires
Under Secretary of Commerce for Intellectual Property and Director of the USPTO
600 Dulany Street, Alexandria, VA 22314

Re: Comments on Docket No. PTO–P–2025–0025 ("Revision to Rules of Practice Before the Patent Trial and Appeal Board") (FR Doc. 2025-19580 or 90 FR 48335)

Dear Director Squires:

A key stakeholder in this Notice of Proposed Rulemaking (NPRM), I am an independent inventor and small business owner. As a result of enforcing my patent rights in federal court, my patents have been challenged in ten (10) *inter partes* review (IPR) proceedings before the Patent Trial and Appeal Board (PTAB). My comments are informed by my participation in the *SUCCESS Act* study (Pub. L. 115-273) and my desire for maintaining the integrity of the patent system, now modified by the *America Invents Act* (AIA) (Pub. L. 112-29). The commentary below is my own and reflects my personal views and is not influenced by any entity with which I have or have had a professional relationship.

I. Support for Amendments to 37 CRF § 42.108

I support the proposed additions of paragraphs (d), (e), and (f) to 37 CFR § 42.108 as listed in the NPRM. In paragraph (e)'s barring of institution or maintenance of an IPR where challenged claims have already been found valid or not invalid under §§ 102 or 103 in prior judicial/administrative proceedings, the "one-and-done" rationale behind the enumerated categories is this — **if "adequate scrutiny" has already been demonstrated, post-issuance, on the merits** by an expert or a constitutionally authorized tribunal, **then duplication of that work is superfluous against agency and party resources.**

II. Expand § 42.108(e) to Include <u>Substantial Licensing</u>

As such, it should be noted that *<u>adequate scrutiny also exists where the challenged claims are subject to substantial, arms-length license agreements</u>*. It therefore follows that the NPRM's rationale should be extended to cover such claims, explained below.

Unlike subjective opinions on obviousness, licensing is not merely theoretical—it demonstrates market validation. A licensee paying real dollars after assessing technical scope, prior art, and litigation risk constitutes a transaction that precisely embodies what the NPRM identifies as central to patentability

determinations—a "judgment about which reasonable minds may disagree." When a license has been agreed to that includes payment to the patent owner, such payment represents an objective determination of non-obviousness. As such, when one or more independent and unrelated parties in the market have spoken via licensing—acting in their own economic self-interest with substantial royalties and particularly after researching and/or scrutinizing the relevant prior art—the Office should consider that evidence as dispositive of adequate scrutiny. Such licensing constitutes the same, if not more, weight as with the NPRM's enumerated categories.

Because the NPRM states that it is not in the interests of the patent system or the economy for the USPTO to conduct another review on claims that have received adequate scrutiny in a prior proceeding, it follows that **the Office should expand the list of circumstances in which institution or maintenance of an IPR may be unwarranted under Section 42.108(e) to include instances where the challenged claims are subject to qualified substantial licensing**.

III. Federal Circuit Recognizes the Authority of Licensing Evidence

Indeed, the Federal Circuit—a constitutionally authorized tribunal under the proposed 42.108(e) having, not just adequate scrutiny, but appellate jurisdiction over the other enumerated tribunals—has recently reminded us this: **actual market activity matters more than theoretical motivations**.

As demonstrated in *Ancora Technologies, Inc. v. Roku, Inc.*, 140 F.4th 1351 (Fed. Cir. 2025), **licensing activity constitutes an authoritative, objective measure of patent validity and nonobviousness**. The *Ancora* court vacated a PTAB decision for mistakenly "apply[ing] a more exacting nexus standard than [the] case law requires for license evidence" and underscored that licenses do not demand careful parsing to establish a nexus because "**[licenses] are, by their nature, directly tied to the patented technology" and "are highly probative because such actual licenses most clearly reflect the economic value of the patented technology in the marketplace**." *Id*. at 1361, quoting *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 79 (Fed. Cir. 2012). As such, "[l]icenses to the challenged patent[], unlike products or other forms of objective evidence of nonobviousness, do not require a nexus with respect to the specific claims at issue, nor does [] nexus law require that a particular patent be the only patent being licensed or the sole motivation for entering into a license." *Ancora*, 140 F.4th at 1361, citing *Institut Pasteur v. Focarino*, 738 F.3d 1337 (Fed. Cir. 2013). The court stated that the challenged patent simply being subject of the license is sufficient, concluding that "**licenses, taken by substantial parties paying substantial royalties to secure the right to practice [the] patent, *should [be] given more, if not controlling, weight in the Board's obviousness determination***." *Ancora*, 140 F.4th at 1364 (emphasis added).

The Court instructed the PTAB on remand to evaluate that licensing evidence against what was in effect its prima facie case of obviousness, thus pointing out that **market-based transactions** are not merely secondary indicia to overcome a claim of obviousness—they in fact **can represent primary indicia of patent validity because, in concrete economic terms, informed actors have determined the claimed technology as both novel and nonobvious**. The Board's error—treating such licensing as peripheral rather than controlling—is *precisely the kind of reasoning the NPRM seeks to correct and to provide as the stop gate against unnecessary review*.

IV. Market Activity as "Adequate Scrutiny"

If the USPTO's goal is to focus its limited adjudicatory capacity on "the most appropriate disputes," then evidence of real-world licensing should preclude institution just as surely as a district-court verdict or ITC determination. **A substantial license executed by a licensee, especially after its assessment of prior art and claim scope — for example, following litigation discovery or a filed petition pursuant to an IPR/PGR, etc. — embodies a more reliable assessment of patentability than speculative re-litigation before the PTAB.**

This approach is consistent with *Impax Laboratories v. Lannett Holdings*, 893 F.3d 1372 (Fed. Cir. 2018), which affirmed reliance on large settlement licenses as objective indicia of non-obviousness, and with *Iron Grip Barbell v. USA Sports*, 392 F.3d 1317 (Fed. Cir. 2004), which noted that licensing motivated by genuine market need—not nuisance value—demonstrates invention value. Again, where "substantial parties [pay] substantial royalties to secure the right to practice" the patent, the *Ancora* court held, such evidence "should have been given more, if not controlling, weight" in evaluating validity. (*Ancora*, 140 F.4th at 1364.)

V. Defining "Substantial License" by Comparison to Litigation Costs

To provide the Office with a workable and objective standard, **a license may be deemed a *substantial license* when its economic value equals or exceeds the expected cost of defending a patent infringement suit through the discovery stage** as measured by authoritative industry data, for example, the American Intellectual Property Law Association (AIPLA) Economic Survey, especially if executed by a licensee following its assessment of prior art and claim scope.

According to the AIPLA, the median cost for a defendant to litigate a patent case "inclusive of pre-trial, trial, post-trial, and appeal" ranges from approximately $600,000 when less than $1 million is at stake, to $3.625 million when more than $25 million is at stake. AIPLA, *Report of the Economic Survey 2023*

(Oct. 2023) at I-148, I-152. Because a trial's discovery is the period when defendants have completed their invalidity positions—which provides for adequate scrutiny over claims and prior art to occur, and thus provides for a determination whether to take a license—it follows that the cost of a patent infringement trial "inclusive of *discovery*, motions, and claim construction" (DMC) provides more than an appropriate and useful metric for the USPTO. Before trial, for example, median defense costs inclusive of DMC stages range from $300,000 to $1.5 million, depending on the amount in controversy, compiled below. *Id*. at I-148 to I-152.

Amount at Stake	Median Costs, Inclusive of DMC (000s)
< $1M	$300
$1M to $10M	$600
$10M to $25M	$1,500
> $25M	$1,500

These real-world economic figures serve as viable benchmarks when a licensee assesses and takes a license, as this represents actual litigation risk and cost, and thus, the following objective metric can be adopted by the USPTO to qualify a license as being a "substantial license" if

$$\frac{\text{License Value}}{\text{Median Defense Cost Through DMC}} \geq 1.0$$

where:

- License Value = total consideration paid/to be paid (cash, lump sum, royalties, or equivalent economic value such as stock) for the license containing the challenged claims(s); and
- Median Defense Cost Through DMC = the reported median defense cost up through discovery, motions, and claim construction (which more than provides for adequate scrutiny, as discovery is all that is needed) for cases within their corresponding amount-in-controversy tier (e.g., <$1M, $1M-$10M, etc.).

A ratio of 1.0 or greater signifies that the license represents a rational market alternative to the risk of continuing with a litigation beyond discovery (*and also* beyond motions and claim construction), thereby evidencing arm's-length market validation. In such cases, the license amount reflects that technologically sophisticated parties have independently determined the claims possess value commensurate with their enforceability. This directly aligns with the *Ancora* standard, that licenses taken by substantial parties paying substantial royalties should be given more, if not controlling, weight in the validity analysis, especially those having demonstrated assessment of the claims and prior art. Moreover, this approach grounds "adequate scrutiny" in verifiable economic data and directly aligns with § 316(b)'s economic considerations directive.

VI. Proposed Text Addition to § 42.108(e)

The Office can implement this policy by including the following subsection to § 42.108(e):

> *(7) Substantial License Agreements — Has been or is the subject of one or more substantial, arms-length license agreements that demonstrates or reflects commercial acceptance by one or more technologically sophisticated parties having assessed relevant prior art.*

This addition would codify what the Federal Circuit has already recognized—that actual economic behavior provides the most reliable indicator of a patent's merit. It also aligns USPTO practice with Congress's direction under 35 U.S.C. § 316(b) to consider "the effect of any regulation on the economy, the integrity of the patent system, and the efficient administration of the Office."

VII. Conclusion

The proposed § 42.108(e)(7) represents a crucial step toward restoring confidence in the finality of patent rights. By further recognizing substantial licensing as an authoritative, objective measure of patent validity—where "adequate scrutiny" and market confirmation agree—the USPTO can (i) prevent unnecessary duplicative reviews, (ii) encourage private resolution of disputes, and (iii) reaffirm that real-world market validation—not theoretical speculation—is the ultimate test of patentability, thereby bolstering new life in patent licensing and further incentivizing innovation.

Thank you for your consideration, and I thank you for remembering the voice of the Inventor and the exclusive Right that is to be secured to her for her Discoveries.

Respectfully submitted,

Jeff Hardin

Jeff Hardin
Inventor