

November 15, 2011



## IMPLEMENTATION OF THE AMERICA INVENTS ACT

### **Comments on Proposed USPTO Rules and Guidance on Post-Issuance Review, the Transitional Program, and Third Party Submissions**

*Submitted by the Innovation Alliance*

The Innovation Alliance respectfully submits the following comments for consideration by the Office in connection with proposed rulemaking on (i) the new post-grant review proceedings set forth in Section 6 of the America Invents Act, (ii) the transitional program for covered business method patents established under Section 18 of the Act, and (iii) pre-issuance submissions by third parties under Section 8. The Innovation Alliance represents innovators, patent owners, and stakeholders from diverse industries. Innovation Alliance members believe in the critical importance of maintaining a strong patent system that supports innovative enterprises across the country, helping to fuel the innovation pipeline and drive the 21st century economy.

#### I. POST-GRANT REVIEW AND INTER PARTES REVIEW (SECTION 6)

The post-grant review (“PGR”) and inter partes review (“IPR”) procedures set forth in the America Invents Act (“AIA”) represent a heavily negotiated and carefully crafted framework that aims, among its many objectives, to protect patent owners against serial and harassing validity challenges. The Innovation Alliance worked alongside representatives of the patent community, legislative staff, and the USPTO to ensure that the ultimate legislative text included adequate safeguards against tactical and potentially abusive uses of the new administrative review procedures. These safeguards, which we address below, include a heightened threshold for initiating a proceeding, robust estoppel standards, a clear burden of proof, and a deadline for completing the proceedings. These safeguards are essential to a balanced, equitable system of administrative post-issuance review and are also necessary to prevent inefficient and wasteful uses of the Office’s resources.

Certain commenters have encouraged the Office to ignore Congress's plain intent when interpreting these safeguards. Clearly, the Office cannot do so; instead, any related rules and procedures should rigorously construe and apply these measures in the manner that Congress intended.

#### A. Heightened Threshold for Initiating Post-Grant and Inter Partes Review

One of the key improvements to the Office's post-issuance review proceedings is the introduction of a heightened threshold for initiating a PGR or IPR. The pre-existing "substantial new question of patentability" test was widely viewed -- including by USPTO -- as an ineffectual standard that had consistently resulted in grant of at least 95% of petitions. A new elevated standard was deemed essential not only to guard against frivolous or ill supported challenges, but importantly to ensure that petitioners submit their best evidence at the outset of the proceeding. By compelling petitioners to "front load" their cases, the Office can better assess the merits of the challenge and ensure a more expeditious process once the proceeding commences.

1. The new statutory thresholds significantly elevate the bar to entry and require the equivalent of a prima facie case

Congress's reasons for adopting a heightened threshold showing are most fully summarized in the following legislative history:

Among the most important protections for patent owners added by the present bill are its elevated thresholds for instituting inter partes and post-grant reviews. The present bill dispenses with the test of "substantial new question of patentability," a standard that currently allows 95% of all requests to be granted. It instead imposes thresholds that require petitioners to present information that creates serious doubts about the patent's validity. Under section 314(a), inter partes review will employ a reasonable-likelihood-of-success threshold, and under section 324(a), post-grant review will use a more-likely-than-not-invalidity threshold.

Satisfaction of the inter partes review threshold of "reasonable likelihood of success" will be assessed based on the information presented both in the petition for review and in the patent owner's response to the petition. The "reasonable likelihood" test is currently used in evaluating whether a party is entitled to a preliminary injunction, and effectively

requires the petitioner to present a prima facie case justifying a rejection of the claims in the patent. Post-grant review uses the “more likely than not invalid” test. This slightly higher threshold is used because some of the issues that can be raised in post-grant review, such as enablement and section 101 invention issues, may require development through discovery. The Office wants to ensure that petitioners raising such issues present a complete case at the outset, and are not relying on obtaining information in discovery in the post-grant review in order to satisfy their ultimate burden of showing invalidity by a preponderance of the evidence.<sup>1</sup>

As noted above, the “reasonable likelihood of success” test applicable to IPR proceedings requires, at a minimum, that the petitioner present a prima facie case justifying rejection of the challenged claim. The “more likely than not” threshold applicable to PGRs is meant to be a somewhat higher test in light of the discovery-intensive issues that can be raised in such proceedings. Both proceedings, however, are meant to be adjudicative in nature; thus, the thresholds should be construed accordingly.

The SNQP test, in contrast, is a remnant of the old reexamination process and has no relevance to either PGR or IPR proceedings. The SNQP test merely requires that the requester present a “new” piece of prior art that an examiner would deem “important” in deciding whether a claim is patentable. The Office has expressly stated that a requester is not obligated to present prior art that would render the claim invalid, and in practice, the “substantiality” of a new prior art ground is rarely questioned. Similarly, the concept of “newness” has been broadly construed by the Office to permit reexamination on virtually any ground -- including previously considered prior art -- unless the printed publication or patent was applied in exactly the same manner as it is now being applied.<sup>2</sup>

In short, the SNQP test has been construed in a manner that strongly favors the third party requester and rarely results in rejection of the petition. In contrast, Congress clearly intended the new statutory thresholds for PGR and IPR proceedings to serve as a meaningful bar against petitions that lack sufficient evidentiary support to establish a prima facie case of

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<sup>1</sup> 157 Cong. Rec. S1375 (daily ed. March 8, 2011) (statement of Sen. Kyl).

<sup>2</sup> See MPEP §2242.

unpatentability, consistent with the judicial standard for preliminary injunctions. Suggestions that the new thresholds are comparable to the SNQP test are baseless. As the Federal Circuit recently held in *Procter & Gamble v. Kraft Global*, the SNQP test is fundamentally different from the standard for preliminary injunctive relief, despite superficial similarities in wording:

[T]he PTO does not appear to equate the “substantial new question of place, see 35 U.S.C. § 312(a)(1), with the “substantial question of validity” standard by which a defendant may prevent a patentee from demonstrating a likelihood of success on the merits [citation omitted]. In particular, the PTO considers the standard for reexamination met when “there is a substantial likelihood that a reasonable examiner would consider the prior art patent or printed publication important in deciding whether or not the claim is patentable.” Manual of Patent Examination and Procedure § 2642 (8th ed. Rev. 7 2008) (emphasis in original). “Thus, ‘a substantial new question of patentability’ as to a patent claim could be present even if the examiner would not necessarily reject the claim as either anticipated by, or obvious in view of, the prior art patents or printed publications.” *Id.*<sup>3</sup>

Nevertheless, some commenters have urged the Office to interpret the new statutory thresholds as low bars to entry comparable to the SNQP test -- as if the plain language of the statute and Congress’s constitutional authority to amend our patent laws can and should be ignored. Congress explicitly and decisively rejected the SNQP test as an appropriate threshold for the new PGR and IPR proceedings. The Office must, in turn, require petitioners to satisfy at the outset a more robust evidentiary showing in order for a proceeding to commence.

2. To satisfy the threshold, petitioners should be required to provide a detailed analysis and all documentary evidence supporting the petition

To satisfy the threshold, the petitioner should be required to provide a detailed legal invalidity analysis for each statutory ground that forms the basis for its assertion. In the case of invalidity challenges based on patents and printed publications under Sections 102 and 103, the petition should reference the specific portions of the prior art documents that serve as the basis for its challenge and apply those portions in an analysis based on current law. The petitioner should review the original file history of the challenged patent and if any statements

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<sup>3</sup> *Procter & Gamble Co. v. Kraft Foods Global Inc.*, 459 F.3d 842 (Fed. Cir. 2008).

are made by the patentee that affect the claim scope, the petitioner should base its analysis on the claim scope resulting from the file history record.

For other challenges, the petitioner should submit with the petition all of the documentary evidence, including affidavits of witnesses, that it relies upon to make the challenge. In all cases, the documents and arguments supporting the petition (including any timely filed supplemental information) must be legally sufficient to satisfy the applicable threshold, without *ex parte* or *in camera* discussions with either the petitioner or patent owner.

#### B. “Reasonably Could Have Raised” Estoppel

Estoppel was one of the most extensively debated issues surrounding the new IPR and PGR proceedings. When new post-grant procedures were first proposed almost a decade ago, certain reform advocates argued that the existing “could have raised” estoppel standard of section 315(c) discouraged use of the then nascent *inter partes* reexamination system. This fear ultimately dissipated, however, with increasing use of the system. Moreover, the lengthy pendency rates associated with *inter partes* reexamination and subsequent appeals meant that, as a practical matter, estoppel had no preclusive effect on subsequent judicial validity challenges. Under existing law, an unsuccessful *inter partes* challenge has no preclusive effect until all appeals are exhausted -- a process that often takes many years to complete. As a consequence, the last several years have witnessed a significant increase in *inter partes* reexamination petitions, particularly as a defensive strategy by alleged infringers to stall and potentially avoid enforcement of a patent in court.

1. All proceedings before the office are subject to strong estoppel, which should be construed and enforced consistent with well-established common law principles

The growing popularity of inter partes reexamination as a tactical weapon of litigation significantly altered the debate over estoppel. Congress and the patent community grew increasingly concerned that, without a strong estoppel standard, multiple tracks of administrative and judicial review could lead to the threat of serial, duplicative, and potentially abusive attacks. For a patent owner, particularly a small innovator, multiple validity challenges could render the patent virtually unenforceable, especially if a court were to stay litigation pending administrative review. Senator Kyl, whose staff negotiated much of the text of Chapters 31 and 32, articulated these concerns by noting that --

Lengthy and duplicative proceedings are one of the worst evils of other systems of administrative review of patents. During the pendency of such proceedings, a patent owner is effectively prevented from enforcing his patent.<sup>4</sup>

In response, Congress ultimately decided to adopt a strong “administrative” estoppel standard that applies to all post-issuance proceedings before the Office, including PGR, IPR, and ex parte reexamination, regardless of whether the initial or subsequent challenge is filed at the USPTO, in court, or at the ITC. Although the statutory estoppel standard uses slightly different wording than the existing “could have raised” estoppel standard -- precluding successive challenges based on any “ground that the petitioner raised or *reasonably* could have raised during a previous proceeding” (emphasis added) -- the scope of the new statutory estoppel standard is largely the same. The addition of “reasonably” makes explicit a limitation that is arguably implicit in the existing estoppel standard. In other words, the reasonableness qualifier avoids the need for a “scorched earth” search, but courts have typically construed the scope of estoppel to include a reasonableness limitation.

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<sup>4</sup> 154 Cong. Rec. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

In that regard, the estoppel standard should be construed consistent with well-established jurisprudence on collateral estoppel, which generally precludes relitigation of issues that could have been discovered in the initial litigation through the exercise of reasonable due diligence. In the context of validity challenge, the “reasonably could have raised” standard would encompass issues of validity that could have been discovered through a diligent search by a skilled searcher. Indeed, this interpretation is reflected in the AIA’s legislative history:

Adding the modifier “reasonably” ensures that could-have-raised estoppel extends only to that prior art which a skilled searcher conducting a diligent search reasonably could have been expected to discover.<sup>5</sup>

In the context of judicial and administrative proceedings, collateral estoppel precludes relitigation of a particular issue, and does so with respect to all evidence or arguments that were or could have been raised in the initial litigation. In practice, because final resolution of an issue is deemed conclusive in subsequent litigation, courts typically do not find it necessary to undertake a “could have raised” analysis in the context of collateral estoppel. There are exceptions to this general rule - e.g., where a significant change in controlling facts has occurred since the original litigation. In this situation, a court will ask whether the new facts “could have been” discovered during the initial litigation in the exercise of due diligence. If so, collateral estoppel precludes relitigation of the issue. Another potential exception to the application of issue preclusion is a major change in the law.

These principles apply equally to the issue of patent validity. In a recent federal district court case *Roche Palo Alto, LLC v. Apotex, Inc.*<sup>6</sup>, the defendant attempted to argue that a previous judicial finding of patent validity precludes relitigation of validity only on the basis of the specific arguments and evidence raised in the original litigation (i.e., arguing that the relevant “issues” for purposes of collateral estoppel are the specific grounds and arguments raised in the prior litigation). The district court rejected this narrow reading of collateral estoppel, holding

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<sup>5</sup> 157 Cong. Rec. S1375 (daily ed. March 8, 2011) (statement of Sen. Kyl).

<sup>6</sup> *Roche Palo Alto, LLC v. Apotex, Inc.*, 526 F.Supp.2d 985 (N.D.Cal. 2007).

that the relevant "issue" covered by collateral estoppel is the ultimate determination of validity, thus barring relitigation of the patent's validity on any arguments or prior art grounds, whether or not raised in the first litigation.

"The authorities that have considered this question support Plaintiff's view and indicate that the relevant "issue" which Defendants are precluded from relitigating is the ultimate determination on patent validity itself. This Court is persuaded that the reasoning set forth in *Applied Med. Res. Corp. v. United States Surgical Corp.*, 352 F. Supp. 2d 1119, 1124-26 (C.D. Cal. 2005) ("*Applied*") regarding the applicability of issue preclusion in the patent invalidity context is correct. In *Applied*, applying Ninth Circuit precedent and the Second Restatement of Judgments, the district court held that the "issue" that the accused infringer was precluded from relitigating because of a prior judgment was the validity of the asserted patent claim. *Id.* at 1124-26 (citing *Kamilche Co. v. United States*, 53 F.3d 1059, 1062 (9th Cir. 1995)). The district court held that what the accused infringer argued were the "issues" -- specific arguments such as anticipation by prior sale, best mode, public use, and prior publication -- were "just the particular arguments raised in support of [invalidity] in the first case." *Id.* at 1125. Applying Ninth Circuit precedent, *Applied* found that issue preclusion barred the accused infringer not only from re-raising any grounds on which it had argued invalidity in the first litigation, but also the invalidity grounds newly raised in the second litigation, such as prior art anticipation and obviousness. See *id.* at 1127-28. District courts from around the country are in agreement with the result reached in *Applied*."<sup>7</sup>

This case is instructive because it affirms that the "reasonably could have raised estoppel" standard applicable to PGR and IPR proceedings is not an arbitrary or overly rigid standard in the context of patent validity challenges. Instead, the standard is based on the same sound legal and policy principles that historically have led courts and Congress to disfavor relitigation of issues, namely, judicial economy, fairness, and the prevention of legal harassment. Once a party has litigated a patent's validity, whether in court, the ITC, or at the USPTO, principles of collateral estoppel dictate that the party and its privies should be barred from relitigating prior art validity on any grounds that it could have discovered in the initial proceeding through a diligent search, subject to the same narrow exceptions that apply to collateral estoppel generally.

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<sup>7</sup> *Id.* at 995.

2. With rare exceptions, “reasonably could have raised” estoppel should preclude subsequent administrative review of a previously challenged claim

These well-established principles of estoppel dictate that successive administrative challenges of the same claim should rarely be permitted, as the petitioner could have discovered -- and thus reasonably could have raised -- the same patents and printed publications in the initial PGR or IPR proceeding as in the subsequent IPR or reexamination proceeding. Similarly, an unsuccessful judicial or ITC challenge should, except in rare cases, bar subsequent administrative proceedings, including ex parte reexaminations. Legitimate exceptions may exist, for example where new prior art was not discoverable through available search tools at the time of the original proceeding. However, the Office should permit a second challenge of a patent claim only in exceptional cases where the petitioner can demonstrate that the new prior art grounds could not have been reasonably discovered by a skilled searcher at the time of the original proceeding. Any less rigorous construction of the statutory estoppel standard will open the door to inefficiencies and delays in the use of the Office’s resources, undermine the enforceability of patent rights, and risk abuse of the system.

3. The Office must extend administrative estoppel to all real parties in interest and privies, as those terms are flexibly construed by federal courts based on equitable and practical considerations

Another notable improvement to rules of administrative and litigation estoppel is the explicit preclusion of repeat challenges by real parties in interest and privies. In contrast with the existing inter partes reexamination system, a petition for either a PGR or IPR proceeding must identify *all* real parties in interest, and this information must be disclosed to the patent owner. (*See* subsections (a)(2) and (a)(5) of sections 312 and 322) Similarly, a challenge of a claim bars repeat challenges by all real parties in interest and privies on grounds that reasonably could have been raised during the initial proceeding. This is yet another effort by Congress to ensure efficient and fair proceedings that do not unduly burden the Office or patent owners. Whether this objective is accomplished will depend critically upon the Office’s diligence in enforcing these requirements and restrictions.

Although the Office may rely upon patent owners to take the initiative, in the first instance, to determine whether a petitioner is a real party in interest or a privy for purposes of estoppel, the Office will need to resolve any resulting disputes -- something it has historically declined to do. Here again, the Office should look to the federal common law of judgments as its principal guide as to the appropriate meaning and scope of real parties in interest and privies in a particular case, and not to existing USPTO guidance for inter partes reexamination proceedings. There is no formulaic definition of a real party in interest or privy, and whether a related entity should be deemed a privy for purposes of estoppel is a factual and equitable determination that will necessarily depend on the specific circumstances of the case. Courts routinely make such determinations, and the Administrative Patent Judges (“APJs”) assigned to the new Patent Trial and Appeal Board (“PTAB”) will similarly need to resolve such disputes according to well-established legal principles.

In that regard, federal courts, including the Court of Appeals for the Federal Circuit, have in recent years taken a more expansive view of the concept of privity in the context of collateral estoppel, recognizing that multi-party litigation creates a high risk of waste and abuse unless parties to a joint defense agreements and similar arrangements are not precluded from relitigation of issues and claims. As noted in the legislative history to the AIA,

The word “privy” has acquired an expanded meaning. The courts, in the interest of justice and to prevent expensive litigation, are striving to give effect to judgments by extending “privies” beyond the classical description. The emphasis is not on a concept of identity of parties, but on the practical situation. Privity is essentially a shorthand statement that collateral estoppel is to be applied in a given case; there is no universally applicable definition of privity. The concept refers to a relationship between the party to be estopped and the unsuccessful party in the prior litigation which is sufficiently close so as to justify application of the doctrine of collateral estoppel.<sup>8</sup>

In the context of PGR and IPR, Congress expressed the hope that privity estoppel would, at a minimum, bar relitigation of prior art issues of validity in multi-party suits,

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<sup>8</sup> 154 Cong. Rec. S9987 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

recognizing that the patent owner's disclosures in court will impact the appropriate scope of estoppel:

[P]rivity is an equitable rule that takes into account the "practical situation," and should extend to parties to transactions and other activities relating to the property in question. Ideally, extending could-have-raised estoppel to privies will help ensure that if an inter partes review is instituted while litigation is pending, that review will completely substitute for at least the patents-and printed- publications portion of the civil litigation. Whether equity allows extending privity estoppel to codefendants in litigation, however, will depend in large measure upon the actions of the patent owner, and whether he has made it reasonably and reliably clear which patent claims he is asserting and what they mean. If one defendant has instituted an inter partes review, but other defendants do not have an opportunity to join that review before it becomes reasonably clear which claims will be litigated and how they will be construed, it would be manifestly unfair to extend privity estoppel to the codefendants.<sup>9</sup>

On a related point, it is important to note that the estoppel effect of an administrative, judicial, or ITC proceeding applies to any "proceeding before the Office," including ex parte reexaminations. (See sections 315(e)(1) and 325(e)(1)) According to the AIA legislative history, Congress expects the Office to amend its regulations to require identification of ex parte reexamination requesters in order to give full effect to administrative estoppel. Given that estoppel will also extend to the real parties in interest and privies of such requesters, the Office's new ex parte reexamination rules will also need to address disclosure of any such related parties.

Under paragraph (1) of sections 315(e) and 325(e), a party that uses inter partes or post-grant review is estopped from raising in a subsequent PTO proceeding any issue that he raised or reasonably could have raised in the post-grant or inter partes review. This effectively bars such a party or his real parties in interest or privies from later using inter partes review or ex parte reexamination against the same patent, since the only issues that can be raised in an inter partes review or ex parte reexamination are those that could have been raised in the earlier post-grant or inter partes review. The Office recognizes that it will need to change its regulations and require that ex parte reexamination requesters identify themselves to the Office in order for the Office to be able to enforce this new restriction.<sup>10</sup>

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<sup>9</sup> 157 Cong. Rec. S1376 (daily ed. March 8, 2011).

<sup>10</sup> *Id.*

### C. Burden of Proof

In order to convert IPR and PGR into adjudicative proceedings, the petitioner has “the burden of proving a proposition of unpatentability by a preponderance of the evidence.” (*See* sections 316(e) and 326(e)).<sup>11</sup> The new Office procedures and rules governing post-issuance proceedings should thus clearly assign the burden of proof to the petitioner, as is the case currently with interference proceedings. Moreover, for the avoidance of doubt, the Office should clarify the distinction between the petitioner’s threshold showing and burden of proof. As with judicial and quasi-judicial proceedings, satisfaction of the threshold is necessary and sufficient for the post-issuance proceeding to commence; it does not, however, satisfy the petitioner’s burden of proving unpatentability by a preponderance of the evidence or otherwise shift the burden of proof to the patent owner.

### D. Deadline for Completion of Post-Issuance Review Proceedings

To achieve the legislative objectives of a more robust system of post-issuance review, it is critically important that the Office adhere to the 1 year deadline in the vast majority of PGR and IPR proceedings. Doing so will prove challenging; yet, the USPTO’s leadership has consistently and repeatedly assured Congress and the patent community that it can complete the new IPR and PGR proceedings within the statutory deadline. If, instead, the deadline is treated as merely aspirational or even irrelevant, the Office will further exacerbate the many evils already associated with lengthy reexamination proceedings. Excessive delays in completing inter partes reexaminations have created a cottage industry in tactical uses of the system as a

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<sup>11</sup> *See id.* at S1375 (“One important structural change made by the present bill is that inter partes reexamination is converted into an adjudicative proceeding in which the petitioner, rather than the Office, bears the burden of showing unpatentability. . . . In the present bill, section 316(a)(4) gives the Office discretion in prescribing regulations governing the new proceeding. The Office has made clear that it will use this discretion to convert inter partes into an adjudicative proceeding. This change also is effectively compelled by new section 316(e), which assigns to the petitioner the burden of proving a proposition of unpatentability by a preponderance of the evidence.”).

weapon of litigation.<sup>12</sup> With the new adjudicative structure of post-issuance review, the Office has more tools to create an efficient and manageable process. However, to do so, it will need to ensure that the overall post-issuance process and procedures effectively drive all participants -- the APJ panel, petitioners, and patent owners -- towards expeditious completion of a proceedings.

Each of the structural reforms noted above will, if fully and effectively enforced, drive a more efficient process, including rigorous interpretation of the threshold to ensure that a robust case exists at the outset; rigorous interpretation of the burden of proof to ensure that validity challenges are promptly dismissed where the petitioner fails to satisfy the burden; and rigorous interpretation of estoppel to ensure prompt dismissal of challenges that either could have been raised during an earlier proceeding or that are filed by a real party in interest or privy. In addition, the Office should limit the scope of discovery to avoid excessive costs and delays,<sup>13</sup> and prescribe and enforce meaningful, deterrent sanctions against petitioners that engage in abusive practices that prevent timely completion of a proceeding, as required under sections 316(a)(6) and 326(a)(6).

The Office is given broad discretion to determine the nature, severity, and application of such sanctions. At a minimum, the PTAB and its APJs should be empowered and encouraged to terminate a proceeding with prejudice and award legal fees and costs in cases of abuse or improper use of the proceedings (as appears to be the case under existing rule 41.128). The misuse of administrative review can have a devastating impact on a patent owner, effectively negating the enforceability of its rights, exhausting precious monetary and human resources, and truncating the useful life of the patent. More broadly, such abuses waste the Office's resources and call into question the fairness of the entire system of post-issuance

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<sup>12</sup> For a discussion of tactical uses of inter partes reexamination, *see* Sen. Judiciary Comm. Rep. No. 111-18 at 54-56 (May 12, 2009) (minority views).

<sup>13</sup> *See* 157 Cong. Rec. S1376 (daily ed. March 8, 2011), citing 154 Cong. Rec. S9988-89 (Sept. 27, 2008) (“Given the time deadlines imposed on these [PGR and IPR] proceedings, it is anticipated that . . . PTO will be conservative in its grants of discovery.”).

review. In such cases, APJs should respond swiftly and decisively to redress the specific abuse at issue and signal that improper practices will not be tolerated.

Beyond these considerations, the specific procedures, timelines, and deadlines for PGRs and IPRs should reflect the expedited nature of the proceedings. The existing rules and procedures applicable to contested cases and interferences before the Office (as set forth in 37 CFR Part 41) may, to a certain extent, provide a sound basic framework for the new post-issuance proceedings, but they should be reassessed and where appropriate revised to compel a more efficient adjudicative process, and one that fully reflects the other statutory reforms and requirements set forth in Chapters 31 and 32. In that regard, the Office should impose and enforce clear deadlines for submitting supplemental information, completing discovery, filing motions to amend, requesting joinder, and other similar activities that could easily delay completion of a proceeding and increase its costs. At the same time, the Office should, where appropriate, accommodate reasonable requests that are jointly made by the parties.

Finally, although the one-year deadline for completing a PGR or IPR may be extended by an additional six months for “good cause,” such extensions should be permitted only in exceptional cases and not as a matter of course. The Office should provide guidance on the types of factors that may, on a case by case basis, demonstrate “good cause” for an extension, including, for example, where a large number of independent claims are being challenged or the patent owner is granted additional motions to amend the patent.

#### E. Other Important Procedural Issues

1. Sufficient amendments and substitute claims should be permitted to achieve proper claim scope

Sections 316(d)(2) and 326(d)(2) provide that additional motions to amend are permissible under certain specified circumstances, including where permitted by regulation during the course of an IPR proceeding and upon request where good cause is shown in the case of a PGR proceeding. Although the Innovation Alliance understands the need to limit amendments, particularly given the expedited nature of the proceedings, Office rules and

guidance should also recognize the importance of amendments in allowing the patent owner to appropriately narrow the scope of a claim. The goal of post-issuance review is not to “knock out” patents altogether, but instead to ensure better quality patents. The Office’s inter partes reexamination statistics bear this out -- the majority of certificates are issued with at least some surviving claims. Although certain issued patent claims may be invalid in view of newly identified prior art, the patent owner should be able to modify the scope of patent protection in view of this prior art and retain rights in the adjusted claims.

Thus, the Office’s regulations should permit additional amendments where doing so would allow the patent owner to more accurately calibrate necessary adjustments in claim scope and preserve rights in some part of the invention. For similar reasons, the Office’s rules and guidance should permit sufficient substitute claims under sections 316(d)(1)(B) and 326(d)(1)(B). Rigid enforcement of a “one motion to amend” policy could force patent owners to insert overly-narrow limitations into the claim for fear of losing it altogether. This unwarranted forfeiture of rights could have profound and potentially devastating consequences, particularly given the risk of intervening rights.

2. IPR and PGR proceedings should terminate after settlement except in exceptional circumstances

Under sections 317(a) and 327(a), an IPR or PGR proceeding must be terminated upon joint request of the parties, “unless the Office has decided the merits of the proceeding before the request for termination is filed.” Unless construed as a narrow and rare exception to termination, the Office’s discretion to continue a proceeding despite the parties’ joint decision to settle could chill settlement negotiations. Parties are far less likely to discuss settlement when confronted with the possibility of continued review. The Innovation Alliance encourages the Office to issue guidance on this point and to clarify the specific circumstances in which the Office might continue a review despite the parties express desire to settle. To encourage settlement, this guidance should make clear that the Office will terminate proceedings upon settlement, except in exceptional circumstances.

## II. TRANSITIONAL PROGRAM FOR COVERED BUSINESS METHOD PATENTS (SECTION 18)

### A. Exemption of “Technological Inventions” from Transitional Program

Although the Innovation Alliance understands Congress’s rationale in adopting a special “transitional” program for certain “covered business method patents,” we are concerned that this additional post-grant review proceeding could yield an unmanageable number of reviews and more importantly undermine the enforceability of a broad range of patents that clearly constitute patent-eligible subject matter under section 101 of the Patent Act. If the Office broadly opens the transitional program to patents that are not inherently suspect under the Supreme Court’s decision in *Bilski v. Kappos*<sup>14</sup>, it could easily upend the careful balance that Congress struck between so-called first and second windows of post-issuance review -- namely to protect the enforceability and predictability of patent rights by limiting second-window proceedings to prior art validity challenges.

The key to preserving this balance is the statutory exemption of “technological inventions” from the definition of a “covered business method patent” under subsection (d)(1) of Section 18. The Office has been given a critically important and challenging task in defining this term, which has no established meaning under U.S. patent law. Nevertheless, the legislative history to the AIA, as well as the Supreme Court’s decision in *Bilski*, provide important guidance. Among other things, *Bilski* confirms that the scope of ineligible subject matter under the Constitution is narrowly confined to claims directed solely to a physical phenomenon, law of nature, or abstract idea. Conversely, the term “technological invention” should be broadly defined to encompass any patent-eligible invention in a technological field, including the natural sciences, mathematics, or engineering. The exemption should include inventions related to computer hardware or software, provided that the hardware or software is novel as such, as well as inventions related to machines. More specifically, the Innovation Alliances proposes the following definition of “technological invention”:

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<sup>14</sup> *Bilski v. Kappos*, 129 S.Ct. 2735 (2010).

*“Technological invention” means any invention in a technological field, including natural sciences, mathematics, or engineering, regardless of whether the invention relates to computer operations, software, or machines.*

This proposed definition, which is based on the legislative history of Section 18 (excerpted below), would appropriately limit the scope of the transitional program.

[T]echnological inventions are excluded from the scope of the program, and that these technological inventions include inventions in the natural sciences, engineering, and computer operations—and that inventions in computer operations obviously include software inventions. . . . If an invention recites software elements, but does not assert that it is novel as software, or does not colorably appear to be so, then it is not ineligible for review simply because of that software element. But an actual software invention is a technological invention, and is not subject to review under section 18.<sup>15</sup>

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Inventions related to manufacturing and machines that do not simply use known technology to accomplish a novel business process would be excluded from review under Section 18. Section 18 would not cover patents related to the manufacture and distribution of machinery to count, sort, and authenticate currency. It is the intention of Section 18 to not review mechanical inventions related to the manufacture and distribution of machinery to count, sort and authenticate currency like change sorters and machines that scan currency whose novelty turns on a technological innovation over the prior art. These types of patents would not be eligible for review under this program.<sup>16</sup>

#### B. Scope of “Covered Business Method Patents”

When determining whether a petition should be granted under the transitional program, the Office should apply a two-part test:

- (i) Does the challenged claim fall within the exemption for technological inventions? If the answer is yes, the petition should be summarily denied without further consideration.

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<sup>15</sup> 157 Cong. Rec. S5431 (daily ed. Sept. 8, 2011).

<sup>16</sup> 157 Cong. Rec. H4497 (daily ed. June 23, 2011) (statement of Chairman Smith).

(ii) If the challenged claim is not a technological invention, the second question is whether it constitutes a “covered business method patent” as defined in section 18.

In addressing this second issue, the Office should keep in mind the primary objectives of Section 18, namely to permit comprehensive post-grant review of a relatively small number of “notorious” business method patents that have been asserted against financial services companies on a serial basis. Section 18 does not aim, as some have suggested, to target all business method or software-related patents. This is evident from the legislative history referenced above.

Although certain “covered business method patents” fall within the USPTO’s class 705, the fact that a patent claim falls within or outside class 705 is not conclusive as to whether it should or should not constitute a “covered business method patent.” The statutory definition is more nuanced and will require a more thoughtful analysis by the Office.

For instance, by its own terms, application of Section 18 is limited solely to patents that claim a method or corresponding apparatus “for performing data processing or other operations used in the practice, administration, or management of *a financial product or service....*” (See subsection (d)(1) of Section 18). Clearly, the imputed definitions of “financial product” and “financial service” govern applicability of Section 18 to a far greater extent than the largely subjective assignment of a patent to class 705.

Moreover, discussions on the legislative record reflect the concern that for purposes of Section 18, the terms “financial product” and “financial service” refer generally to intangible schemes or vehicles intended to facilitate a financial dealing. Section 18 would not apply, therefore, to patents related to novel mechanical devices or techniques for processing physical paper instruments merely because the instruments may be associated with a financial

product or a financial service, or because patents claiming features of the devices may otherwise be assigned to class 705.<sup>17</sup>

Perhaps more importantly, the Office should consider whether the challenged claim is unpatentable as an abstract idea under *Bilski* and subsequent Federal Circuit decisions. Here again, this test may not be determinative in all cases, but it should create a strong presumption as to whether a business method patent is “covered” by the transitional program. If a business method patent claim has the requisite nexus to financial products or services *and* it appears to constitute patent-ineligible subject matter, the petition should be granted, assuming the threshold and other statutory criteria of a PGR proceeding are met. In contrast, if the business method claim has merely a tenuous connection to financial services and products, the petition should presumptively be denied. Similarly, the fact that a challenged claim constitutes eligible subject matter under section 101 should create a strong presumption in favor of denial.

### III. THIRD PARTY SUBMISSIONS OF PRIOR ART (SECTION 8)

Section 8 of the AIA sets forth standards for pre-issuance submissions by third parties. Although this section aims to enhance the efficiency and quality of the pre-issuance examination process, the Office should provide rules and guidance that discourage the same third party (or the same real party in interest) from harassing the patent applicant and wasting Office resources by “dumping” references and serial submissions. Among other measures, the Office should consider appropriate fees to discourage reference “dumping” on the Office. In addition, to ensure transparency and compliance with the statute, the “person” providing the required statement of compliance under the new section 122(e)(2)(C) should be required to disclose the real party in interest.

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<sup>17</sup> See *supra* note 16.

Thank you for considering the views of the Innovation Alliance on these important issues.

Sincerely,

A handwritten signature in black ink that reads "Brian Pomper". The signature is written in a cursive style with a large initial "B".

Brian Pomper  
Executive Director  
The Innovation Alliance