

Response to Patent Trial and Appeals Board Request for Comments on Trial Proceedings under the America Invents Act before The Patent Trial and Appeal Board

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General: Question 17: “What other changes can and should be made in AIA Trial proceedings? For example, should changes be made to the Board’s approach to instituting petitions, page limits, or request for rehearing practice?”

Comment: The Board has interpreted the AIA to permit instituting inter partes review on only some claims set forth in petitions, as opposed to instituting review on all the claims challenged in the petition, if certain thresholds are met. As discussed in detail below, this approach is highly problematic, and, in our view, undermines the very purpose of these proceedings. We urge the PTO to revise the practice to move away from partial institution and institute petitions on all challenged claims, preserving the scope of the appeal right envisioned by Congress.

The Problem of Partial Institution

The America Invents Act (AIA) created several new and important administrative procedures to challenge issued patents: post grant review (PGR), inter partes review (IPR), and transitional covered business method reviews (CBM). The Patent and Trial Appeal Board (PTAB) at the United States Patent and Trademark Office (PTO) runs these trials under rules promulgated by the PTO. In the less than two years since the post-grant trials became available, parties have made increasing use of these trials, especially IPR and CBM. Under a statutory requirement to complete the trials within one year of institution, the PTO has taken steps to narrow proceedings as much as possible to ensure their timely completion. But at least one of these narrowing steps violates the AIA itself and must be corrected: the partial institution of a trial on only a subset of the challenged claims. According to the PTAB, as of April 2, 2014, 10 out of 52 CBM institution decisions and 90 out of 416 IPR institution decisions involved partial institution. AIA Trial Roundtables at 25 (available at http://www.uspto.gov/ip/boards/bpai/ptab_roundtable_slides_4.13.14.pdf).

IPR and CBM trials follow similar procedures and both suffer from the problem described in this article. We focus on IPR trials here for simplicity. The IPR process begins when a challenger files a petition seeking review of patent. The petition must include a set of challenged claims. Each claim may be challenged on one or more grounds of unpatentability. “The statute ... establishes a two-step procedure for inter partes review: the Director’s decision whether to institute a proceeding, followed (if the proceeding is instituted) by the Board’s conduct of the proceeding and decision with respect to patentability.”). *St. Jude Medical, Cardiology Div., Inc. v. Volcano Corp.*, No. 2014-1183, slip op. at 5 (Fed. Cir. April 24, 2014). The PTAB may institute an IPR if “there is a reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition.” 35 U.S.C. § 314(a). Based on the phrase “at least one of the claims,” the standard contemplates holding a trial on more claims than those that exceeded the initial threshold.

While the PTAB may decline to initiate a trial if no claims cross the threshold, once one claim exceeds the threshold, the resulting trial must cover all of the challenged claims. Thus, rather than allowing claim-by-claim institution, as currently practiced by the PTAB, Congress intended for institution to be a

binary decision: institute the trial on all challenged claims, or none of them. But unfortunately for challengers facing a partial institution, the statute bars appellate review of the decision whether to institute an IPR. *Id.* (citing 35 U.S.C. § 314(d)). Thus, a challenger has no apparent way to appeal the patentability of non-instituted claims because the non-appealable institution decision does address the non-instituted claims, but the appealable final written decision does not.

The statute provides challengers the right to appeal as to the patentability of any challenged claim. The PTAB's partial institution practice strips petitioners of this statutory right as to non-instituted claims. Under the AIA, the PTAB must issue a final written decision at the conclusion of each trial. That final written decision must address "the patentability of any patent claim challenged by the petitioner." *St. Jude Medical*, slip op. at 3 (emphasis added, citing 35 U.S.C. § 318(a)). And the statute consistently describes the "challenged" claims as those the petitioner chose to include in the petition. 35 U.S.C. § 312(a)(3) (requiring an IPR petition to "identif[y], in writing and with particularity, each claim challenged"); 35 U.S.C. § 314(a) (referring to "claims challenged in the petition"). The provision relating to claim amendments in IPR trials likewise relates to any "challenged patent claim." 35 U.S.C. § 316(d)(1). It would make little sense to allow amendments on any challenged claims, if all of the challenged claims were not included in the trial. Thus, the final written decision must address the patentability of all of the claims the petitioner included in the petition.

The importance of a complete final written decision addressing all challenged claims stems from the statutory scheme linking the challenger's appeal right to the PTAB's final written decision. 35 U.S.C. § 319 (permitting "[a] party dissatisfied with the final written decision [to] appeal the decision pursuant to sections 141 through 144"); 35 U.S.C. § 141 (permitting "[a] party to an inter partes review ... who is dissatisfied with the final written decision ... [t]o appeal the Board's decision only to the United States Court of Appeals for the Federal Circuit"). Because the right to appeal stems from a final written decision, and because the final written decision must address the patentability of all challenged claims, the AIA provides an appeal right as to the patentability of any challenged claim. The PTAB's partial institution practice takes that right away.

Instead of instituting a trial on all challenged claims, the PTAB—consistent with the PTO's own regulations, but not the AIA—institutes trials only on those claims it decides warrant review. This practice, coupled with statute's designation of institution decisions as "final and nonappealable," 35 U.S.C. § 314(d), leaves no point in the process for a party to appeal regarding the patentability of claims excluded from a trial. When Congress enacted the AIA, it insulated the determination "*whether to institute*"—note the binary phrasing—from appellate review. *St. Jude Medical, Cardiology Div., Inc. v. Volcano Corp.*, No. 2014-1183, slip op. at 2 (Fed. Cir. April 24, 2014) (emphasis added, citing 35 U.S.C. § 314(b)). But that did not authorize the PTO to remove challenged claims from the scope of a trial.

Our search of the AIA's legislative history for any approval or even suggestion of a claim-by-claim institution practice failed to find support. It appears this practice was never contemplated by Congress, at least on the record. The closest point we located was a statement by Senator Kyl explaining that the original petition should define the scope of the trial. He explained in the context of the heightened bar to get a trial instituted, "[t]he elevated threshold will require challengers to front load their case. Also, by requiring petitioners to tie their challenges to particular validity arguments against particular claims, the new threshold will prevent challenges from 'mushrooming' after the review is instituted into additional arguments employing other prior art or attacking other claims." 157 Cong. Rec. S1368,

S1376. Senator Kyl's remarks align with our view, that the petition defines the claims that will be included in any resulting trial.

The PTO was made aware of this issue before the first IPR petition was filed, when it received comments on its proposed AIA implementation rules. In summarizing the public's comments in the Federal Register, the PTO highlighted one comment indicating "that instituting review on a claim-by-claim basis is unfairly prejudicial to challengers and potentially at odds with the statute" and noted the comment further raised concerns that "claims or issues deemed not to have a reasonable likelihood of prevailing are cut off from further review in a final and non-appealable decision." 77 Fed. Reg. 48680, 48702 (Aug. 14, 2012). The comment referenced by the PTO appears to originate from IBM. Letter from IBM Corp. to Lead Judge M. Tierney at 2-3 (April 6, 2012) (available at www.uspto.gov/aia_implementation/comment-ibm5.pdf).

The PTO's response to IBM's concerns did not resolve the statutory conflict. According to the only substantive part of the PTO's response, partial institution was acceptable because the statutory estoppel also applies on a claim-by-claim basis. 77 Fed. Reg. at 48703. But the Office failed to explain the relevance of the statutory estoppel provision or tie it to the institution decision. On the contrary, the claim-by-claim estoppel provided in the statute contradicts the Office's argument.

The estoppel provision in section 325 shows Congress knew how to specify claim-by-claim treatment where it wanted to. Recently, the PTAB itself has relied on similar logic to explain why CBM reviews are available for entire patents even if only one claim recites a covered business method. The PTAB reasoned that "[i]f Congress intended to limit the availability of the covered business method patent review on a claim-by-claim basis, ... it could have used the term 'claim' rather than 'patent.'" *Liberty Mutual Ins. Co. v. Progressive Casualty Ins. Co.*, CBM2012-00002, Paper 66 at 6 (Jan. 23, 2014). The same is true here. Congress could have written the statute to permit claim-by-claim institution, but did not.

Moreover, section 325's estoppel provision refers to "a final written decision under section 328(a)." The final written decision, as noted above, must address "patentability of any challenged claim." That Congress wanted the estoppel effect to be tailored to the challenges made in the petition does not mean it authorized partial institutions. Beyond its point about estoppel, the PTO made no other substantive statutory arguments and deferred to its own rulemaking authority and highlighted concerns about efficiency. 77 Fed. Reg. at 48703. Of course, no rulemaking authority or policy concerns about efficiency permits the PTO to violate the statute. Those statutory violations carry with them a number of practical problems for parties involved in IPR and district court proceedings.

Problems Caused by Partial Institution

District courts will feel the impact of the partial institution procedure in many cases. One factor district courts consider in deciding motions to stay litigation pending an IPR trial is whether the PTO proceeding will simplify the issues for trial. Partial institution further complicates stay decisions by making it less clear how much a PTAB trial will simplify issues. Claims excluded from a partially-instituted trial will return to the district court, presumably without estoppel. In one recent decision granting a stay pending IPR, the district court reasoned that "the case is likely to be streamlined even if no claims are cancelled because of the estoppel provisions of 35 U.S.C. § 315(e), which will estop [defendant] from asserting that surviving claims are invalid on grounds that were addressed during the *inter partes* review."

Brixham Solutions Ltd. v. Juniper Networks, Inc., No. 3-13-cv-00616 (N.D. Cal. April 28, 2014). This result is not unusual. Many courts are staying cases to allow the PTO to review patent claims, and if a case comes back at all, the courts expect a simplified version of the case. The judges ordering stays may be especially surprised to see the parties return in 18 months, with the plaintiff asserting claims that were supposed to be simplified by the IPR, and the defendant unrestrained by any estoppel as to those claims.

IBM's comments identified the statutory problems with partial institution early on. Now, two years later, early data shows the concerns were well founded. As noted above, in one hundred IPR and CBM trials—over 20% of the institution decisions—the PTAB has violated the statute. AIA Trial Roundtables at 25 (available at http://www.uspto.gov/ip/boards/bpai/ptab_roundtable_slides_4.13.14.pdf). The scope of this problem is significant. Of those hundred trials, many have not settled and will likely return to PTAB on remand based on this violation. The PTAB should fix these cases by acting now, before the number of cases to fix becomes unmanageable.

A Simple Solution to the Problem

Fortunately for the parties to PTAB trials and the PTAB itself, the problem can be fixed through a minor modification to current PTAB practice that will not impact the one-year time frame for competing trials. The PTAB already addresses the patentability of all challenged claims in its institution decisions. The PTAB could institute trials on all challenged claims by changing a few lines in its institution decisions. The parties would then try the case, subject to the existing page and time limits, which serves as limits on the scope of the trial and forces the parties to focus on the most important issues. Following this procedure, the parties will generate a more complete record. By the end of the trial, if the PTAB judges have not changed their opinions that some claims should survive, they would only need to carry their analysis about those claims forward from the institution decision into the final written decision. That small change would require little additional effort by the PTAB, restore the right to appeal the final written decision as to all challenged claims, make sure the Federal Circuit has a complete record for appeal, and limit the number of trials that the Federal Circuit may be remanding back to fix this issue in the future.