

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**

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Request for Comments on Motion To Amend Practice and Procedures in Trial Proceedings  
Under the America Invents Act Before the Patent Trial and Appeal Board

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**Docket No. PTO-P-2018-0062**

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**COMMENTS OF THE HIGH TECH INVENTORS ALLIANCE**

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Dec. 20, 2018

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## STATEMENT OF INTEREST

Innovation is the cornerstone upon which the companies of the High Tech Inventors Alliance (HTIA) are built. HTIA members (Adobe, Amazon, Cisco, Dell, Google, Intel, Oracle, and Salesforce) collectively invested \$63 billion in research and development last year, supporting nearly 500,000 employees in the United States along with the tens of millions of other jobs created as a result of the innovative goods and services our members provide.

Together, HTIA members own over 115,000 U.S. patents. HTIA members have litigated patent validity before the PTAB in numerous cases, appearing as both petitioner and patent owner. HTIA members have asserted their own patents in court and been sued by other innovative companies. HTIA members have also been forced to defend numerous suits by non-practicing entities asserting low-quality patents and seeking sub-defense-cost settlements. As such HTIA is uniquely well-situated to comment on the USPTO's proposed changes to AIA practice and to place those changes in the broader context of the patent system.

## STATEMENT

The USPTO requests comment on its proposed changes that would dramatically change AIA amendment practice.<sup>1</sup> The HTIA believes that the proposal would reduce the efficiency—and therefore the utility—of AIA proceedings. In particular, the changes to the trial schedule will require that the petitioners and the Board do more work in less time and that the patent owners will have an incentive to ensure that such work is wasted.

Regardless of the increased work required, the USPTO should not allow the proposed changes to jeopardize its successful implementation of the one-year timeline. To preserve the timeline without increasing inefficiency further, the USPTO should eliminate the use of contingent claiming for patent owners that opt into the pilot program.

Finally, the USPTO should not apply the pilot schedule to any proceeding resulting from a petition filed before the effective date. The law frowns on retroactivity. Particularly where, as proposed here, changes are applied to unwitting participants that entered a proceeding with settled expectations.

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<sup>1</sup> Request for Comments on Motion To Amend Practice and Procedures in Trial Proceedings Under the America Invents Act Before the Patent Trial and Appeal Board, PTO-P-2018-006283, 83 Fed. Reg. 54319 (Oct. 29, 2018) (“Request”).

## **I. Congress Created AIA Trials To Be Efficient, Cost-Effective, Alternatives To Challenging Patent Validity In Court**

Congress created AIA proceedings in 2011, after years of vigorous debate.<sup>2</sup> At the time of the AIA's enactment, lawsuits by non-practicing entities were at an all-time high. Such suits remain at historic heights even today. Indeed, it was Congress's understanding that poor-quality patents were being asserted against innovative companies in "patent 'troll' lawsuits that compelled the [House Judiciary] Committee to launch the patent reform project."<sup>3</sup>

Thus, Congress established AIA proceedings to provide "a more efficient system for challenging patents that should not have issued."<sup>4</sup> This would provide a check on the assertion of low-quality patents and prevent nuisance suits brought by assertion entities seeking only settlements below the cost of defense.

To the USPTO's credit, the implementation of AIA trials has proven a success. The system as it stands is lower cost and more efficient than typical district-court litigation. The average cost of defending a patent infringement case in court is several million dollars.<sup>5</sup> The cost of pursuing an Inter Partes Review is several hundred thousand dollars.<sup>6</sup> Because of these benefits, AIA trials have helped combat the assertion of low-quality patents and driven down the historic levels of patent litigation that have plagued innovative companies like HTIA members in recent years—exactly as Congress intended.

## **II. The Proposed Pilot Would Raise Costs And Create Inefficiencies That Will Reduce The Use Of AIA Trials And Injure The Public**

### **A. The proposed pilot violates congressional intent for AIA proceedings**

Any changes to AIA trial practice should be made in view of Congress's intent to create a cost-effective and efficient means to check patent quality and in full view of the success that the USPTO has had in implementing these new proceedings. As shown below, the proposed pilot will increase the cost and reduce the efficiency of AIA proceedings. As the USPTO

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<sup>2</sup> See, e.g., Joe Matal, *A Guide to the Legislative History of the America Invents Act: Part II of II*, 21 Fed. Cir. B.J. 539, 600-605 (2012).

<sup>3</sup> H.R. Rep. No. 112-98, pt. 1 at 39-40 (2011).

<sup>4</sup> H.R. Rep. No. 112-98, pt. 1 at 39-40 (2011); see also Joe Matal, *A Guide to the Legislative History of the America Invents Act: Part I of II*, 21 Fed. Cir. B.J. 435, 437 n.8 (2012) ("Only one committee report, H.R. Rep. No. 112-98 (2011), was issued by a committee during the Congress in which the AIA was enacted.").

<sup>5</sup> See, e.g., AIPLA, Report of the Economic Survey 2015, at I-128 (median cost of defending \$25M+ assertion, \$3.8M); see also *id.* (cost through discovery, motions, and claim construction, \$2.5M).

<sup>6</sup> *Id.* at I-162 (median cost of Inter Partes Review through hearing, \$275,000).

acknowledges, the pilot schedule adds an additional round of briefing for the parties and an additional decision on the merits to the PTAB's heavy workload. But there are additional costs and inefficiencies that agency has not apparently considered. Congress was clear that AIA proceedings were meant to be efficient and less expensive, and one way that it struck that balance was to limit the use of amendments. The agency has correctly understood that to mean that good cause would be required for additional motions to amend and it should not abandon that approach now.<sup>7</sup>

### **B. The USPTO needs to consider all costs in creating the new proceedings**

Commenters are concerned that the proposed pilot schedule will raise costs—by requiring an additional work cycle for the parties—and reduce the efficiency of AIA proceedings—by requiring the additional work in a compressed schedule. The Request does not appear to fully consider these effects, which follow from the proposed changes to AIA trials. But given that the pilot will apply to all petitions, these costs should be closely examined before implementation.<sup>8</sup>

Some of the increased costs are apparent. For example, petitioners will have to oppose a second motion to amend. Responding to two motions to amend is inherently more costly. The second opposition certainly requires the expenditure of additional attorney fees. It also likely requires additional expert witness fees to consult on the merits of the second round of amendments and additional fees for a second prior art search.

But some of the increased costs are less visible. This is because the increased work comes in a compressed schedule that interferes with the established discovery schedule. In the pilot, petitioners will have only 1.5 months to respond to the first motion to amend; and only 1 month to respond to the second motion to amend.<sup>9</sup> Together this is less than the 3 months petitioners are currently allowed to respond to a single motion to amend.<sup>10</sup> This requires expedited work by attorneys and staff, which is more expensive. In addition, the compressed timeline means that much of petitioner's attorney and non-attorney work will need to be expedited or performed by multiple attorneys, a built-in inefficiency that generates higher fees and costs.

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<sup>7</sup> See, e.g., 35 U.S.C. § 316(d)(1) (allowing one motion to amend as of right); 37 C.F.R. § 42.121(c) (requiring good cause for additional motions to amend).

<sup>8</sup> See Request at 54324, col. 1.

<sup>9</sup> See Request at 54325-26.

<sup>10</sup> See, e.g., Trial Practice Guide Update, 30 (Aug. 2018) available at [https://www.uspto.gov/sites/default/files/documents/2018\\_Revised\\_Trial\\_Practice\\_Guide.pdf](https://www.uspto.gov/sites/default/files/documents/2018_Revised_Trial_Practice_Guide.pdf) (“Trial Practice Guide Update”).

Additional attorney work will be needed because the pilot schedule allows the Board to issue its preliminary decision one month into the petitioner's three-month discovery period and it allows the patent owner to file a second motion to amend two months into the petitioner's discovery period. Petitioner has to either conduct discovery without sufficient information regarding the amended claims or to conduct discovery during a single month—during which petitioner is also expected to prepare its opposition to the motion to amend and its reply.<sup>11</sup> A larger and therefore less efficient team will be required.

Another hidden cost is the use of additional agency resources that will require a rise in AIA petition fees. AIA trial fees are set to recover the agency aggregate costs.<sup>12</sup> The Board likely anticipates additional work in analyzing two sets of amended claims during the time when petitioner is preparing its reply. But should also consider the additional panel time needed to resolve time-sensitive discovery disputes that will necessarily arise under the pilot. Because much of the new proposed action interrupt the petitioner's discovery window, petitioners will likely be forced to seek supplemental discovery—including repeated depositions—after a new decision and newly amended claims are introduced.

### **C. The proposed changes will have unintended adverse effects on the patent system**

Beyond increased costs, the pilot will have other effects that burden the parties. For example, the compressed schedule requires two expedited prior art searches in the place of a single search. As explained, expedited prior art searches are inherently more expensive, which adds to the cost increase imposed on petitioners. But they are also likely to be less comprehensive because of time constraints. This could harm patentees by weakening the estoppel provisions applicable in other forums.<sup>13</sup> Estoppel, as applied to the amended claims, may be weakened because the grounds that “petitioner ... reasonably could have raised” are necessarily limited when time is short.<sup>14</sup> This, in turn, undermines the purpose of AIA trials, to serve as alternatives to traditional litigation and reexamination.<sup>15</sup>

The pilot schedule also promotes gaming the system. Patentees may hold the claims they ultimately want—or that they believe are most patentable—until the second motion to amend as a tactical move. Holding the best amendment to the second round reduces petitioner's time to

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<sup>11</sup> See Request at 54325-26.

<sup>12</sup> See Leahy-Smith America Invents Act (“AIA”) § 10, Pub.L. 112–29, 125 Stat. 284 (2011) (as amended by Pub.L. 115-273).

<sup>13</sup> See, e.g., 35 U.S.C. § 315(e).

<sup>14</sup> See, e.g., 35 U.S.C. § 315(e).

<sup>15</sup> See *id.* § 315(e)(1)-(2).

respond and increases pressure on petitioner to expend resources during petitioner's discovery phase.

Ironically, one likely outcome of the increased cost and reduced certainty is that more low-quality patents asserted by NPEs will be spared challenges—particularly when asserted against small and medium-sized companies—because the below-defense-cost settlements become more attractive as defense costs rise.

### **III. The USPTO Should Not Extend The 1-Year Timeline To Accommodate Additional Motions To Amend**

#### **A. AIA trials often save party and judicial resources because they can function as a true alternative to litigating the validity of claims in district court**

This happens when a district court stays an infringement case pending resolution of the AIA trial. One aspect of AIA trials that makes such stays commonplace is the Board's success in implementing the 1-year requirement.

One reason inter partes reexamination ("IPX") was replaced by Inter Partes Review was the seemingly open-ended schedule of the IPX that led many district courts to deny stay requests despite ongoing agency proceedings.<sup>16</sup> Making the length of AIA proceedings less predictable and longer will recreate that environment.

#### **B. Congress did not intend that the USPTO would have any AIA trials procedures that routinely take more than one year**

The USPTO has maintained the statutory 1-year timeframe in nearly every trial.<sup>17</sup> Commenters applaud the USPTO's performance and note that the pilot program rightly maintains the same deadline.<sup>18</sup>

HTIA urges the USPTO not to change this aspect of its pilot program. Congress instructed the USPTO to create AIA trials that end with a final written decision within one year and that can be extended beyond one year only for "good cause shown."<sup>19</sup> As the USPTO has explained, the presence of statutory good cause "will depend on the particular facts of a given

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<sup>16</sup> In the years leading up to the AIA, the average time for an IPX was never less than 28 months. *See* Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents, 77 Fed. Reg. 48680, 48721, col.1 (Aug. 14, 2012) ("2012 Rules Notice"). And many proceedings took much longer due to appeals to the PTAB.

<sup>17</sup> 35 U.S.C. § 316(a)(11).

<sup>18</sup> *See* Request at 54320, col. 1; *id.* at 54325-26.

<sup>19</sup> *See, e.g.*, 35 U.S.C. § 316 (a)(11).

case.”<sup>20</sup> The one-year timeline should not be routinely extended based on procedures established by the Director. Furthermore, routine extensions would indicate that the Director failed to prescribe regulations that maintain “the ability of the Office to timely complete proceedings.”<sup>21</sup>

#### **IV. If The USPTO Adopts The Proposed Pilot It Should Not Allow Contingent Amendments For Patent Owners That Invoke The New Procedures**

##### **A. Contingent amendments are one inefficient aspect of AIA trials that should be eliminated at least where patent owners are given additional opportunities to amend**

The PTAB routinely allows patent owners to file “contingent” motions to amend.<sup>22</sup> Contingent amendments take effect only if the original claims of the patent are held unpatentable by the Board.<sup>23</sup> This typically allows patentees to pursue alternative claim sets up to the final written decision.

This means that AIA trials with amendments do not have “substitute claims” as called for by statute.<sup>24</sup> The statutory term “substitute claims” indicates that the patent owner may only replace claims, not pursue alternative claim sets. The alternative claim sets—original and amended—are therefore both always in the case and petitioners have to address both sets throughout, significantly increasing the inefficiency of the proceeding. Regardless of the propriety of the practice under the current rules, the agency should not continue the practice in a pilot that presupposes multiple motions to amend and therefore multiple claim sets as of right.

##### **B. Where patentee is allowed multiple motions to amend there appears to be no reason to allow contingent claims**

In its 2012 Rules Notice, the USPTO acknowledged the burden on petitioners that comes with allowing additional motions to amend.<sup>25</sup> That burden is made much greater by the routine use of contingent motions to amend. It is greater still in the proposed pilot, which apparently continues to allow contingent motions to amend. The result is that the USPTO will effectively

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<sup>20</sup> 2012 Rules Notice at 48695, col. 3.

<sup>21</sup> 35 U.S.C. § 316(b) (“In prescribing regulations under this section, the Director shall consider the effect of any such regulation on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete proceedings instituted under this chapter.”).

<sup>22</sup> See, e.g., *Western Digital Corp. v. Spex Techs., Inc.*, IPR2018-00082, -00084, Paper No. 13, 3 (June 1, 2018).

<sup>23</sup> *Id.*

<sup>24</sup> 35 U.S.C. § 316(a)(9).

<sup>25</sup> 2012 Rules Notice at 48690, col. 1.

require petitioners to search for prior art and supply arguments regarding **three** sets of claims during the limited AIA time period. This adds inefficiency on top of inefficiency, and it is unnecessary for the pilot, which allows two motions to amend as of right.

The PTAB preliminary decision regarding the first set of proposed amended claims will give patent owners guidance regarding the advisability of pursuing the first motion to amend. Patent owners dissatisfied with the PTAB’s preliminary decision—and unable to formulate a stronger set of amended claims—may simply amend back to the patent’s original claims. If the patent owner cannot formulate patentable substitute claims while considering the Board’s guidance, it is highly unlikely that the broader original claims are patentable.

Conversely, patent owners that prefer to file contingent amendments should be required to use the current timeline and procedure for review. The pilot would then be limited to patentees pursuing actual substitute claims, rather than contingent amendments and getting two motions to amend to do so. This would limit some of the costs inherent in the pilot because it allows patentees to select either the traditional track or the pilot during the proceeding.

This change would still allow patentees to pursue two sets of claims—either as an original and amended set or as two amended sets—on either track. At the same time, it would limit in some ways the added burden that the pilot places squarely on petitioner and manage the workload of the Board.

## **V. The Pilot Should Use BRI To Construe Amended Claims Pursued On The Two-Amendment Track**

The USPTO recently justified its adoption of the claim-construction standard used in district courts for both original and amended claims by pointing to the limited opportunity to amend in AIA trials.<sup>26</sup> This was contrary to the USPTO’s position in rulemaking and litigation, that the broadest reasonable interpretation (“BRI”) was appropriate in the agency because of the opportunity to amend. In rulemaking, the USPTO argued that “[A] party’s ability to amend claims to avoid prior art—which exists in these proceedings (§ 42.121)—distinguishes Office proceedings from district-court proceedings and justifies the broadest reasonable interpretation standard for claim interpretation.”<sup>27</sup> And in litigation, the USPTO argued that “patentee may still

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<sup>26</sup> See, e.g., Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board, 83 Fed. Reg. 51340, 51350 (Oct. 11, 2018) (“Claim amendments in AIA proceedings are relatively rare and substantially different than amendments during examination, and the Office no longer believes that the opportunity to amend in an AIA proceeding justifies the use of BRI.”) (“Final Claim-Construction Rule”).

<sup>27</sup> 2012 Rules Notice at 48,688, col. 1 (citing *In re Yamamoto*, 740 F.2d 1569, 1571 (Fed. Cir. 1984)).

amend its claims to disavow the broader reading” as “the core rationale” for using BRI in AIA proceedings.<sup>28</sup>

The USPTO pilot program, however, offers two motions to amend with an intervening USPTO decision to guide the second amendment. Thus, the pilot increases the patentee’s opportunity to amend to a point comparable to reexamination, undermining the USPTO justification to apply the district-court standard and recalling the USPTO’s prior positions. As a result, BRI should be used in the pilot.

## **VI. The USPTO Should Not Apply The Pilot Schedule To Any Petition Filed Before The Effective Date**

The Request states that the pilot may be applied to petitions filed but not yet instituted.<sup>29</sup> This should not be done. It is contrary to the settled expectations of petitioners that filed before the Request was promulgated.

This is both a practical and a legal concern. It is a practical concern because petitioners that have filed petitions—and paid the corresponding fees—did so with the very real expectation that they would participate in a well-defined process that was efficient and cost-effective. It is unfair to change the process on such petitioners. Commenters note that expectations play a role in AIA filings. Witness, for example, the discernable spike in petition filings just before the change in claim-construction standard became effective.<sup>30</sup>

It is also a legal concern. “Retroactivity is not favored in the law.”<sup>31</sup> Agencies are not empowered to “promulgate retroactive rules unless that power is conveyed by Congress in express terms.”<sup>32</sup> Here, the USPTO, at the very least, is retroactively changing its interpretation of “good cause” in its motion-to-amend regulations.<sup>33</sup> There is no reason a retroactive reinterpretation of an agency rule would be favored when retroactive rules are disfavored. Thus, applying the new pilot schedule to previously filed petitions subject the Board’s decisions to uncertainty that is contrary to “the integrity of the patent system.”<sup>34</sup>

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<sup>28</sup> Brief For The Respondent at 13, *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 (2016).

<sup>29</sup> Request at 54324, col. 1.

<sup>30</sup> See PTAB Petitions Spike Ahead Of Claim Construction Change Law360 (Nov. 14, 2018).

<sup>31</sup> *Bowen v. Georgetown Univ. Hosp.*, 488 U.S. 204, 208 (1988).

<sup>32</sup> *Id.*

<sup>33</sup> See Request at 54320, col. 2 (“[T]he Board’s preliminary decision addressing the initial motion to amend will be deemed ‘good cause’ for further amendment under 37 CFR 42.121(c) & 42.221(c).”).

<sup>34</sup> See, e.g., 35 U.S.C. § 316(b).

The USPTO recognized these principles in implementing its rule change on claim construction.<sup>35</sup> That rule was eventually applied only to petitions filed after the effective date. The same should apply here.

## **VII. The USPTO Should Either Return The Burden Of Showing Amended Claims Are Patentable To The Patent Owner Proposing The Amendment Or Perform A Full Search And Examination Of The Claims**

The Request also seeks comment on how the burden on patentability should be assigned.<sup>36</sup> As the PTAB explained in its pre-*Aqua Products* decisions, that burden most naturally lies with the patentee.<sup>37</sup> A majority of the Federal Circuit sitting en banc in *Aqua Products* would allow the USPTO to promulgate rules effectuating that analysis.<sup>38</sup>

If the agency chooses not to place the burden on patentee, it should accept the burden itself. In general examination, the burden lies with the Office, and it is the Office's responsibility to protect the public from the issuance of invalid claims.<sup>39</sup> The USPTO should not shirk that responsibility by placing the burden of proof on petitioner—who may or may not have any motivation to challenge the amended claims or interests aligned with the public's interest.

Any successfully amended claim will become enforceable against the public and should likely be entitled to the statutory presumption of validity.<sup>40</sup> The statutory presumption of validity carries with it a heavy burden in district court—it “requires an invalidity defense to be proved by clear and convincing evidence.”<sup>41</sup> This presumption was codified in Section 282 after its development in the courts. It is centered on “the basic proposition that a government agency such as the then Patent Office was presumed to do its job.”<sup>42</sup> But the proposed assignment of the burden to the petitioner reasonably calls into question the applicability of the presumption of validity. Where the agency has not fully examined the claims, the “basic proposition” undergirding the presumption, that the agency it has done its job, is weakened considerably. It is particularly lacking where the petitioner has no interest in (or funds for) testing the amended claims.

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<sup>35</sup> Final Claim-Construction Rule at 51356, col. 3.

<sup>36</sup> Request at 54324, col. 2.

<sup>37</sup> *MasterImage 3D, Inc. v. RealD Inc.*, IPR2015-00040, Paper 42 (P.T.A.B. Jul. 15, 2015); *Idle Free Systems, Inc. v. Bergstrom, Inc.*, IPR2014-00027, Paper 26 (P.T.A.B. Jun. 11, 2013).

<sup>38</sup> *Aqua Prod., Inc. v. Matal*, 872 F.3d 1290, 1342 (Fed. Cir. 2017) (en banc on this point).

<sup>39</sup> See, e.g., *In re Oetiker*, 977 F.2d 1443, 1445 (Fed. Cir. 1992).

<sup>40</sup> See 35 U.S.C. § 282(a).

<sup>41</sup> *Microsoft Corp. v. i4i Ltd. P'ship*, 564 U.S. 91, 95 (2011).

<sup>42</sup> *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359 (Fed. Cir. 1984), abrogated in other respects by *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (citing *Morgan v. Daniels*, 153 U.S. 120, 125 (1894)).

The proposed pilot does not solve this dilemma. In limited circumstances, the pilot would allow the Board “in its discretion” to solicit patent examiner assistance in considering a motion to amend.<sup>43</sup> In Commenter’s view, merely allowing the Board to request help if it desires is insufficient. Such claims should be fully searched and examined subject to all provisions of statute. And the USPTO should itself accept the burden of showing that the claims are unpatentable.

### **CONCLUSION**

The High Tech Inventors Alliance appreciates that the USPTO seeks to improve AIA trials but suggests that the proposed pilot contains many costs and inefficiencies. It should either be altered, along the lines suggested, or not implemented.

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<sup>43</sup> Request at 54323, col. 3.