

**Response of  
Red Hat, Inc. (“Red Hat”)**

**to the Request for Comments (“RFC”) on Motion To Amend Practice and  
Procedures in Trial Proceedings Under the America Invents Act Before the  
Patent Trial and Appeal Board (“PTAB”)**

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

**Published by the U.S. Patent & Trademark Office (“USPTO”) at:  
<https://www.federalregister.gov/documents/2018/10/29/2018-23187/request-for-comments-on-motion-to-amend-practice-and-procedures-in-trial-proceedings-under-the> (on Oct 29, 2018)**

**December 21, 2018**

Red Hat appreciates the opportunity to comment on the above-referenced matter. As a patent owner and engine of innovation, Red Hat has a significant interest in the *inter partes* review (“IPR”) procedure before the PTAB.

The RFC is far from clear in establishing what specific problem the U.S. Patent & Trademark Office (“PTO”) is trying to solve. Moreover, as laid out in the RFC, the proposal to amend the practice and procedures in PTAB proceedings would very likely undermine the efficacy and purpose of such proceedings, as established under the America Invents Act (“AIA”).<sup>1</sup> In fact, many proposed changes touch on areas where Congress has acted and modifications should be left to the legislative process.

Red Hat is a leading provider of open source software solutions, using a community-powered approach to deliver resilient and high-performing cloud, Linux, middleware, storage and virtualization technologies. An S&P 500 index member, Red Hat provides high-quality, trusted and affordable technology solutions that are found throughout mission-critical systems in the financial, transportation, telecommunication and government (civilian and defense) sectors in the United States and around the world. Red Hat is a patent holder of over 2400 active U.S. patents, and is a leader in such organizations as the Open Invention Network (“OIN”)<sup>2</sup> and LOT Network (“LOT”)<sup>3</sup> that work to protect

---

<sup>1</sup> Pub. L. No. 112-29, 125 Stat. 284 (2011).

<sup>2</sup> <https://www.openinventionnetwork.com/>.

<sup>3</sup> <https://lotnet.com/>.

innovators from abusive patent litigation threats. Red Hat is recognized as one of the world's most innovative companies.<sup>4</sup>

## ***Inter Partes* review promotes innovation and the effectiveness of the patent system**

Red Hat and other innovative companies all benefit from the availability of the IPR process — either directly as successful or potential petitioners in IPR proceedings or indirectly through a reduction in patent-infringement litigation and the cancellation of unpatentable claims imposing roadblocks to innovative enterprises. IPR provides a cost-effective, efficient, and fair mechanism for resolving patentability questions. It thereby fosters innovation, promotes economic growth, and preserves the finite resources of the federal courts.

- ***Inter Partes* review removes artificial barriers to quality patents**

Congress created *inter partes* review in the AIA<sup>5</sup> “to ensure that the poor-quality patents can be weeded out through administrative review.”<sup>6</sup> Congress sought to “provid[e] quick and cost effective” administrative procedures for challenging the validity of patent claims, to “improve patent quality,” and to “restore confidence in the presumption of validity.” Congress charged the PTAB with eliminating “low quality and dubious” patent claims and “separat[ing] the inventive wheat from the chaff.”<sup>7</sup> *Inter partes* review provides an efficient, low cost, and even handed means of eliminating unpatentable claims that would otherwise constitute a barrier to innovation.

Where the USPTO issues patents for claims that were not novel or that were obvious, those low quality and dubious patents stand as obstacles to technological progress. In the absence of the IPR procedure, innovators who are threatened with an infringement suit by the owner of an improperly issued patent are required either to pay for a license from the patent owner or to absorb the costs and delay of litigating the claims’ validity in court.

These impediments to technological progress were exacerbated in the years preceding enactment of the AIA by the proliferation of non-practicing entities (“NPEs”) that hoard patents – which are often, if not largely, of poor quality – with no intention of actually using them or ability to develop new inventions. As the USPTO is certainly well aware, patent assertion entity “activity cost defendants and licensees \$29 billion in 2011, a 400 percent increase over \$7 billion in 2005,” and “the losses are

---

<sup>4</sup> See Forbes, “The World’s Most Innovative Companies”, 2017, found at: <https://www.forbes.com/companies/red-hat/>.

<sup>5</sup> Pub. L. No. 112-29, 125 Stat. 284 (2011).

<sup>6</sup> 157 Cong. Rec. S5409 (Sept. 8, 2011) (Sen. Schumer).

<sup>7</sup> H.R. Rep. No. 112-98, pt. 1, at 48.

mostly deadweight, with less than 25 percent flowing to innovation and at least that much going towards legal fees.”<sup>8</sup> *Inter partes* review allows innovative companies to clear the patent underbrush in an appropriate and more efficient manner and, in turn, to devote a greater proportion of their resources to research and development, or licensing valuable patents addressed to useful technologies, rather than litigation regarding overly broad, invalid patents.

- ***Inter Partes* review reduces wasteful litigation spending**

The IPR process has to date fulfilled its promise, consistent with the AIA vision of providing a more timely, cost-effective, and fair mechanism to resolve patentability questions. *Inter partes* review narrows (or, as appropriate, eliminates) disputes about the patentability of claims and reduces associated costs, thus providing greater certainty in the market and moving barriers to innovation.

For example, as a direct result of IPR, owners of poor quality patents are less likely to threaten litigation or file an infringement suit based on patent claims that they know or suspect to be unpatentable. Indeed, since passage of the AIA, there has been a notable change in the nature of federal courts’ patent-litigation dockets. Patent owners who seek to game the system and threaten or file suit in order to seek cost-of-litigation settlements have become less prevalent because the availability of IPR has reduced the cost, and increased the speed, of obtaining a determination of unpatentability.

This burden on the economy and innovation is meaningful. A full-blown patent-infringement case in district court can cost anywhere between \$2 million and \$10 million or more, while a typical *inter partes* review proceeding, from petition through final written decision, typically costs less than \$500,000.<sup>9</sup> Those substantial litigation costs are mitigated when the PTAB cancels the asserted claims or where the initiation of *inter partes* review prompts a settlement between the parties.<sup>10</sup>

IPR also serves to narrow the infringement issues to be resolved by the district court where the patent owner, in defending the patentability of its claims before the PTAB, makes arguments that have the effect of disavowing claim scope. The patent holder is barred from retracting that disavowal during litigation regarding those claims. This is yet-another example of the many ways in which the patent

---

<sup>8</sup> Brian T. Yeh, Cong. Research Serv., R42668, An Overview of the “Patent Trolls” Debate 2 (2013); see also Lauren Cohen et al., The Growing Problem of Patent Trolling, 352 Science 521, 521 (2016) (finding that after settling with non-practicing entities, firms on average reduce their research and development investment by 25%).

<sup>9</sup> See Am. Intell. Prop. L. Ass’n, 2015 Report of the Economic Survey 37-38 (2015), at <http://files.ctctcdn.com/e79ee274201/b6ced6c3-d1ee-4ee7-9873-352dbe08d8fd.pdf> ; RPX Corp., NPE Litigation: Costs by Key Events 3 (2015) (costs upwards of \$10 million for the 90th percentile of patent litigation), at <http://www.rpxcorp.com/wp-content/uploads/sites/2/2015/05/Final-NPE-Litigation-Costs-by-Key-Events1.pdf>.

<sup>10</sup> See *Arctic Cat Inc. v. Polaris Indus. Inc.*, No. 13-3579, 2015 WL 6757533, at \*3 (D. Minn. Nov. 5, 2015) (granting a stay pending the resolution of *inter partes* review because, “as the parties jointly argue, [*inter partes* review] may encourage a settlement without the further use of the Court”) (internal quotation marks omitted).

owner's arguments and the PTAB's conclusions clarify and streamline the issues to be decided in litigation, enhancing economic efficiency.<sup>11</sup>

- ***Inter Partes* review has worked effectively and promoted confidence in the patent system**

IPR has proved to be tremendously successful to date in securing the objectives envisioned by the AIA. As the Supreme Court recently noted, IPR has “help[ed] protect the public’s paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.”<sup>12</sup>

By almost any measure, the IPR process has, as intended by passage of the AIA, “provid[ed] a more efficient system for challenging patents that should not have issued; and reduc[ed] unwarranted litigation costs and inconsistent damage awards.”<sup>13</sup>

Estimates of those reduced costs, even in the most basic terms, range upwards into billions of dollars simply by avoiding “deadweight losses by providing an efficient system for challenging patents.”<sup>14</sup>

The intangible benefits are also reflected in heightened confidence in the patent system, where IPR minimizes the risk of having invalid or poor quality patents disrupt the innovation system and discourages abusers of patent litigation from gaming the system.

But the threat from non-practicing entities (NPEs) has not been eliminated. Rather, the assertions continue but settlement demands have lowered precisely because the defense costs have been somewhat mitigated. Many NPEs today seek to assert their patents against multiple innovative companies solely to extract below-defense-costs settlements from each.

---

<sup>11</sup> See *Arctic Cat Inc.*, 2015 WL 6757533, at \*3 (“the PTAB’s written determinations may clarify the scope of the patents and prior art, thus narrowing the disputes and limiting the breadth of discovery”).

<sup>12</sup> *In re Cuozzo Speed Techs.*, 136 S. Ct. at 2144 (ellipsis in original; internal quotation marks omitted).

<sup>13</sup> See footnote 12, above.

<sup>14</sup> Josh Landau, “*Inter Partes* Review: Five Years, Over \$2 Billion Saved”, Sept. 14, 2017 (found at: <https://www.patentprogress.org/2017/09/14/inter-partes-review-saves-over-2-billion/>). “This benefit is purely based on avoiding deadweight loss from legal fees; it does not account for the benefit of preventing transfers from defendants to plaintiffs based on patents that should have been invalidated. The financial data used in this analysis is based on publicly available data, as well as some data derived from the [2017 AIPLA Economic Survey](#).”

## The PTO Proposal Outlined in the RFC will Undermine the Efficacy of the IPR Process, Raising Its Costs and Delaying Its Work

The changes envisioned by PTO come in the wake of other significant alterations to the PTAB program, some initiated by PTO<sup>15</sup> and some the result of judicial action.<sup>16 17</sup> The potential for confusion is particularly ripe even without adoption of this PTO proposal. At minimum, this is an inappropriate time to consider this initiative, particularly given the well established Congressional interest in this specific area.

As laid out in the previous section, IPR has proved to be tremendously successful to date in securing the statutory language and legislative objectives of the AIA. It effectively reduces the strain placed on the courts to confront the often complex issues of patentability and validity, which are best addressed by knowledgeable experts sitting on the PTAB. It also clears the way for innovative companies to focus on technological advancement rather than wasting valuable resources on defending meritless patent assertions that represent an unproductive drain on the economy. Efficient proceedings have been key to that success..

- **PTAB Proceedings were Established with Specific Safeguards through Congressional Legislation**

Through the framework of the AIA, Congress established the IPR process intentionally through the venue of the PTAB, and distinct from the district court. As the Supreme Court stated in *Cuozzo*, there are characteristics “which make these [PTAB] agency proceedings similar to court proceedings, . . . in other significant respects, *inter partes* review is less like a judicial proceeding and more like a specialized agency proceeding.”<sup>18</sup> The Court determined that, because of the differences between litigation in district court and IPR proceedings before the PTAB, “the purpose of . . . [IPR] is not quite the same as the purpose of district court litigation” as it serves to “reexamine an earlier agency decision.”<sup>19</sup>

---

<sup>15</sup> “USPTO Changes PTAB Claim Construction Standard from Broadest Reasonable Interpretation to the Standard Used by Courts”, White & Case client alert, Oct. 11, 2018, available at: <https://www.whitecase.com/publications/alert/uspto-changes-ptab-claim-construction-standard-broadest-reasonable-interpretation>.

<sup>16</sup> *SAS v. Iancu*, 138 S. Ct. 1348 (2018). The impacts of the change on petitioner and patent owner in PTAB proceedings (See Guidance on Motions to Amend in view of *Aqua Products* (Nov. 21, 2017), available at [https://www.uspto.gov/sites/default/files/documents/guidance\\_on\\_motions\\_to\\_amend\\_11\\_2017.pdf](https://www.uspto.gov/sites/default/files/documents/guidance_on_motions_to_amend_11_2017.pdf) following SAS are still being assessed. More importantly, the impact of this change on the courts is also undetermined. For example, courts may become more willing to stay litigation given the knowledge that the PTAB will render judgment on all of the challenged claims of the patent and will create a broader estoppel against invalidity challenges. This increase in likelihood of stay will then itself result in fewer opportunities for inconsistency.

<sup>17</sup> *Aqua Products v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017).

<sup>18</sup> *Cuozzo*, 136 S. Ct. at 2144.

<sup>19</sup> *Id.* at 2144.

As such, it is not clear what problem this proposal, including the pilot program, is trying to solve. The background provided in the RFC is silent on why even a pilot program is necessary or warranted. In reviewing the history of PTO pilot programs in the past, they have been utilized as a means to test a “trial apparatus or operation” to see if a concept is suitable for a larger application,<sup>3</sup> are usually voluntary<sup>20</sup> and tailored to a small group.<sup>21</sup>

The PTO concept found in the RFC is a dramatic change to -- indeed, virtually a repeal of -- existing AIA requirements that do not provide for requisite notice and comment rulemaking. The statute allows “1 motion to amend the patent” as of right and permits “[a]dditional motions to amend” as permitted by regulations prescribed by the Director. The relevant PTO regulations, in turn, require that additional motions to amend be authorized upon “a good cause showing.”<sup>5</sup>

The proposed changes, thus, are effectively inconsistent with the PTO’s regulation (which serves the purpose of safeguarding petitioners and ensures efficient processing of AIA trials) by permitting an additional motion to amend in **every** AIA proceeding.

- **The PTO Proposal Increases the PTAB IPR’s costs, inefficiency and efficacy without any demonstrable benefit**

By any measure, the PTAB makes it *significantly cheaper* and *more efficient* to mitigate the tangible effects of poor quality patents, consistent with sound principles of patent prosecution. In particular, it allows small and medium businesses to defend themselves from poor quality and abusive litigation, instead of being forced to pay because they couldn’t afford to defend themselves, or because it was cheaper to pay than to fight.

Allowing multiple motions to amend as of right will undoubtedly increase legal fees, expert fees, and fees for additional (and expedited) prior art searches.<sup>22</sup> Allowing multiple motions to amend will reduce efficiency by encouraging patentees to hold their “best” claims in reserve while the petitioners and the PTAB work at a breakneck pace to review, challenge, and analyze the first set of claims.<sup>23</sup>

---

<sup>20</sup> See, e.g., Glossary Pilot Program, 79 Fed. Reg. 17137 (Mar. 27, 2014) (Pilot provides “expedited processing” only for applicants that successfully petition to join the pilot).

<sup>21</sup> *Id.* (Glossary Pilot Program limited to 200 “grantable petitions”).

<sup>22</sup> See, e.g., 35 U.S.C. § 316(d)(1)-(2). 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.

<sup>23</sup> These costs have not been adequately examined by the PTO. 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.

Some patentees may find tactical advantage from a change rendering AIA trials less efficient and therefore more costly, regardless of substantive benefits. Indeed, the likely (perhaps unintended) effect of the proposal is to provide more avenues for ‘gaming the system’ which the AIA and Congress sought to minimize in establishing the IPR procedure.

Having a more costly and less efficient procedure will inevitably lead to more litigation settlements based solely on the cost of challenging the patent. More settlements of that type inevitably lead to increased assertions of low-quality patents. This result is a direct violation of Congressional intent. Increasing litigation costs and complexity—for its own sake—should be unacceptable to the PTO.

The PTO addressed these concerns in promulgating its Original Rules by requiring a showing of “good cause” for additional motions to amend.<sup>24</sup> The good-cause standard allows the agency to maintain the “integrity and efficiency” of AIA reviews without “additional burden [being] placed on petitioner.”<sup>25</sup> Notably, this concern was identified by the PTO when it earlier expressed concern before the PTAB developed the practice of “contingent” amendments that generally force the petitioner to contest the validity of two sets of claims simultaneously. The “burden placed on the petitioner” is already higher than contemplated during the original-rule making. The proposed change would further increase the trial burden on petitioner by adding a third set of claims for consideration when no good cause exists for the late introduction of those claims.

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. 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>26</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>27</sup> This, in turn, undermines the purpose of AIA trials, to serve as alternatives to traditional litigation and reexamination.<sup>28</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.

---

<sup>24</sup> See, e.g., 37 C.F.R. § 42.121(c).

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

<sup>26</sup> See, e.g., 35 U.S.C. § 315(e).

<sup>27</sup> See, e.g., 35 U.S.C. § 315(e).

<sup>28</sup> See *id* § 315(e)(1)-(2).

Holding the best amendment to the second round reduces petitioner's time to respond and increases pressure on petitioner to expend resources during petitioner's discovery phase.

**In the alternative, rather than pursuing the proposal in the RFC, Red Hat strongly urges the PTO to consider the following steps to reinforce confidence in the patent system, improve patent quality and minimize frivolous patent litigation:**

- Protect the public interest by “sifting out” unpatentable subject matter in amended claims. It may do so by promulgating a rule imposing the burden on the party seeking the amended claims or by accepting for itself the burden of a full examination for amended claims. Merely allowing the Board to consult with the examining core in limited circumstances is a half-measure, insufficient to protect that interest
- Oppose any routine extension of the 12-month statutory deadline to accommodate the proposed changes.
- Patent owners that prefer to file contingent amendments should be required to use the current timeline. The pilot would then be limited to patentees pursuing actual substitute claims, rather than those pursuing contingent amendments and getting two motions to amend to do so. This would limit some of the costs inherent in the pilot because it allow patentees to select either the traditional track or the pilot during the proceeding.
- 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.

Once, again, we appreciate this opportunity to provide our comments on this RFC. Please do not hesitate to contact us if we can provide further information or answer questions.

**Contact:**

Mark Bohannon  
Vice President, Global Public Policy  
and Government Affairs  
Red Hat  
[markb@redhat.com](mailto:markb@redhat.com)

David Perry  
Senior Patent Counsel  
Red Hat  
[dperry@redhat.com](mailto:dperry@redhat.com)

Patrick McBride  
Senior Director of  
Patents and Trademarks  
Red Hat  
[pmcbride@redhat.com](mailto:pmcbride@redhat.com)