



**Comments of the Software and Information Industry
Association**

Docket No. PTO-P-2018-0062

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December 21, 2018

I. Introduction

SIIA is the principal trade association of the software and information industries and represents over 800 companies that develop and market software and digital content for business, education, consumers, the Internet, and entertainment. SIIA's members range from start-up firms to some of the largest and most recognizable corporations in the world, and one of SIIA's primary missions is to protect their intellectual property and advocate a legal and regulatory environment that benefits the software and digital content industries. SIIA member companies are market leaders in many areas, including but by no means limited to:

- software publishing, graphics, and photo editing tools;
- corporate database and data processing software;
- financial trading and investing services, news, and commodities exchanges;
- internet search tools and cloud computing services;
- protection against software viruses and other malware; and
- education software and online education services.

SIIA has long been involved with the protection of intellectual property, and is well aware of the important incentives that the patent system creates for innovation. Many of our members have built large and valuable patent portfolios to protect their ground-breaking innovations, based on billions invested in R&D.

SIIA's members were and remain strong supporters of the America Invents' Act reforms to the patent system. Congress responded by passing the America Invents Act, legislation designed "to establish a more efficient and streamlined patent system that will improve patent quality

and limit unnecessary and counterproductive litigation costs.”¹ The creation of an inter partes review (IPR) proceeding was a centerpiece of that reform effort.² Although not as expensive as years of fighting in federal court, they are not cheap—the average cost of bringing a proceeding has been estimated as the low-to-mid six figures.³

When one examines the actual decisions of the IPR proceedings on the merits—defined as when the PTO either (1) declines to institute a proceeding, because there’s no reasonable likelihood that the patent is invalid, or (2) when it issues a final written decision on the validity of the challenged claims—the PTO upholds all challenged claims nearly 60 percent of the time.⁴

The verifiable, PTO-supplied data on the operation of IPR demonstrates that it is operating fairly and well. In

¹ H. Rep. No. 112-98 (part I), at 40 (2011).

² *Id.* at 39 (“The decisions reflect a growing sense that questionable patents are too easily obtained and are too difficult to challenge. Recent decisions by the Federal Circuit reflect a similar trend in response to these concerns. But the courts are constrained in their decisions by the text of the statutes at issue. It is time for Congress to act.”) (internal footnote omitted); 35 U.S.C. § 321(c), 311.

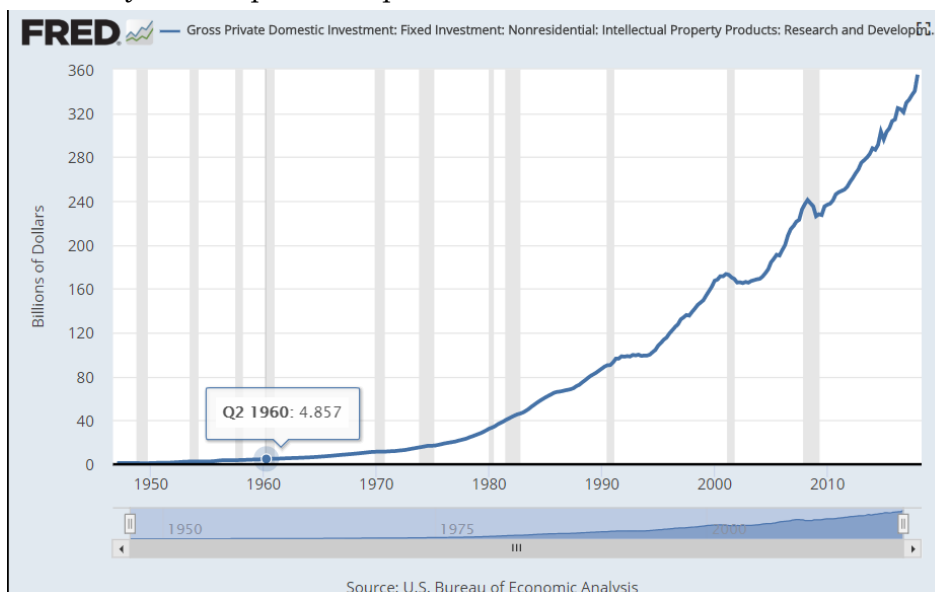
³ Rational Patents, Blog, IPR: Effectiveness vs. Cost (June 17, 2016), available at <https://www.rpxcorp.com/2016/06/17/iprs-balancing-effectiveness-vs-cost/>.

⁴ “Trial Statistics: IPR, PGR, CBM.” Patent Trial and Appeal Board (2018), available at https://www.uspto.gov/sites/default/files/documents/trial_statistics_20180531.pdf.

contrast, patentees lose on validity when decided in federal court 42% of the time.⁵

By Congressional design, the procedure requires that the petitioner front-load the substance of its case at the petition stage, acting as a deterrent against frivolous petitions. These proceedings balance the patent law's incentives and the need for certainty against the strong federal policy that unpatentable inventions belong in the public domain.

Innovation has flourished under the AIA's procedures. Fixed investment into intellectual property products is decidedly on an upward slope:



In 2015 alone, R&D investments in the software and internet industry grew faster than any other industry: “[s]oftware & Internet [R&D spending] grew at over 27%, far greater than the growth of all other industries from 2014 to

⁵ John R. Allison et al, *Our Divided Patent System*, 82 U. of Chicago L.R. 1100, 1073-1154 (2015) (an evaluation of all court decisions made between 2009 and 2013 on patent cases filed in 2008 and 2009).

2015.”⁶ And that spending is increasing as a percentage of R and D generally, from 15% of total R&D spending in 2010 to 24% in 2020.⁷ Companies that reported faster revenue growth than their competitors allocated more R&D investment to software.⁸ That same positive trajectory is on the startup side as well: since 2014, venture capital funding for startup software and internet companies is up by 88% compared to the three years prior.⁹ And in 2016, venture capital raised \$41.6 billion for startups, the highest amount in 10 years.¹⁰

Nonetheless, SIIA remains concerned about the patent litigation landscape. Despite the AIA’s reforms, NPE suits represent approximately 85% of the technology-related patent litigation that affects SIIA and its members.¹¹ SIIA is also concerned that while the number of patent litigation suits remains less than its all-time high, it still remains at

⁶ [PwC, 2015 Global Innovation 1000: Innovation’s New World Order at 14, October 2015.](#)

⁷ [\(PWC, 2016 Global Innovation 1000, October 2016\).](#)

⁸ [PWC, 2016 Global Innovation 1000, October 2016.](#)

⁹ PwC / CBI Insights MoneyTree™ data explore, available at <http://www.pwc.com/moneytree> (showing that U.S. VC funding for internet and software companies totaled \$55.13B for Q2 2011-Q2 2014; funding for Q3 2014-Q3 2017 totaled \$104.22B).

¹⁰ [\(2017 NVCA Yearbook\)](#). See also Patent Progress, Innovation is Alive and Well, <https://www.patentprogress.org/2018/02/08/innovation-alive-well-rd/>.

¹¹ Unified Patents, Q3 2018 Patent Dispute Report, available at <https://www.unifiedpatents.com/news/2018/9/28/q3-2018-patent-dispute-report>.

concerning levels.¹² And as the office is well aware, most of the claims involved in IPR are themselves the subject of litigation, which is what Congress intended.¹³

It is against this backdrop that SIIA evaluates the proposed amendments to IPR procedure, which seems to re-introduce the kinds of burden and expense that the AIA was designed to eliminate in the first instance.

II. The Proposed Amendments Raise the Cost of IPR Without Justification

The Office has read the Federal Circuit's *en banc* opinion in *Aqua Products* to require that the burden of persuasion must be on the petitioner with respect to proving the unpatentability of new or amended claims.¹⁴ Despite the shift in the burden, attempts to amend reviewed claims remain rare – occurring ten percent of the time.¹⁵

The reason that these amendments occur rarely is not because of the perceived difficulty or some other procedural problem, but because of the doctrine of intervening rights. That doctrine provides that if substantive changes are made to the patent claims, an infringer is only liable for damages for acts *after* the date of amendment—recovery for infringement of

¹² See Miller *et al.*, “Who’s Suing Us? Decoding Patent Plaintiffs since 2000 with the Stanford NPE Litigation Dataset”, 21 Stan. Tech. L. Rev. 235, 258 (2018), *available at* https://www-cdn.law.stanford.edu/wp-content/uploads/2018/09/Miller_LL_20180910.pdf.

¹³ See 35 U.S.C. § 315.

¹⁴ Aqua Prod., Inc. v. Matal, 872 F.3d 1290, 1296 (Fed. Cir. 2017).

¹⁵ 83 Fed. Reg. at 54321.

the original claim is prohibited.¹⁶ The interests of the patentee therefore run strongly towards not amending, or in the alternative making as minor an amendment as possible to keep its claims substantively “identical” to the original and maximizing its recovery.¹⁷ As the Office knows and Congress foresaw, many or most of the patents involved in IPR are or would be the subject of federal lawsuits.¹⁸ Nothing in IPR or the AIA changes the intervening rights doctrine,¹⁹ so the substantive incentives for the patent owner to amend (or not) remain exactly the same.

What the proposed “pilot program” will do is increase the costs and complexity of IPR without any corresponding benefit. According to the RFC, the petitioner will have about a month and a half to address the first motion to amend, and only thirty days to respond to a second motion to amend.²⁰ Currently, petitioners have three months for an entire amendment procedure.²¹ The compressed time frame creates at least three problems.

First, as a practical matter, the proposed new system will lead to considerable additional expense as prior art searches and responses will have to be amassed on an expedited schedule—either by a single attorney, or (more likely) multiple additional attorneys, a scenario in which costs will mushroom. The need for expedited prior art searches will similarly add to the expense.

¹⁶ *See* *Laitram Corp. v. NEC Corp.*, 163 F.3d 1342, 1346 (Fed. Cir. 1998).

¹⁷ 35 U.S.C. 252.

¹⁸ *Id.* § 315.

¹⁹ *E.g.*, 35 U.S.C. 318(c) (referencing 35 U.S.C. 252).

²⁰ 83 Fed. Reg. at 54342-43.

²¹ Trial Practice Guide Update, at 30 (August 2018).

Second, SIIA is concerned that the pilot program will result in pressure to push the total time from institution to final written decision well outside the AIA’s one year deadline.²² The AIA requires that such extensions—of no longer than six months—be granted only for “good cause shown.”²³ That phrase strongly suggests that Congress intended extensions to be based on careful case-by-case consideration, not as a matter of routine.²⁴ Put another way, the existence of this pilot program should not allow for extensions of the 1-year time limit to be de rigeur.

Finally, raising the cost of the procedure will ensure that some low-quality patents that should face IPR challenge will not. While some of SIIA’s larger members can afford teams of lawyers to deal with the PTO’s new procedures, small and mid-size members may well not be able to do so. The higher the cost of defense, the more likely that the below-cost-of-defense offers will be accepted on patents that really should be challenged.

III. Contingent amendments should be dropped.

The PTAB’s current procedure permits “contingent” amendments that arise if a particular claim is invalidated.²⁵ If the Office is determined to go forward with its pilot program, these amendments should no longer be allowed. Such a procedure is virtually guaranteed to result in additional delays,

²² See 35 U.S.C. 316 (a)(11).

²³ *Id.*

²⁴ See Black’s Law Dictionary, 692-93 (1990) (defining “good cause” as depending on circumstances of a particular case). *Cf. also, e.g.*, Fed. R. Civ. Pro. 5.2(e) (protective order requiring redaction of certain information permitted for “good cause”).

²⁵ *Western Digital Corp. v. Spex Techs., Inc.* IPR2018-00082, -00084, Paper No. 13 at 3 (June 1, 2018).

and is rendered unnecessary by the second chances that the pilot program provides.

A second reason to scrap so-called “contingent” amendments stems from the language of the statute. Such amendments appear to be vulnerable to challenge as beyond the authority granted to the office. The text of 35 U.S.C. 316 (a)(11) allows the respondent to amend by providing a “reasonable number of *substitute*” claims (emphasis supplied). “Substitute,” however, means “to take the place of another,” or “replace.”²⁶ “Contingent,” in contrast, means “dependent or conditioned by something else.”²⁷ They are not synonyms.²⁸

The plain language of the statute thus grants an amendment-seeking patent owner two options in IPR: (1) it may defend the original claim; (2) it may cancel the original claim, and replace it with a “reasonable number” of “substitute” claims; or (3) it may cancel the claim altogether. What the patent owner may not do is create a series of springing claims that arise on the condition that the original claim fails. The Office should abandon this procedure as both unnecessary and legally questionable.

IV. The scope of the “pilot project” should be reduced.

According to the RFC, the changes to amendment procedure will apply to all cases in which a decision to institute has been

²⁶ See Merriam-Webster Online, available at <https://www.merriam-webster.com/dictionary/substitute>.

²⁷ See Merriam-Webster Online, available at <https://www.merriam-webster.com/dictionary/contingent>.

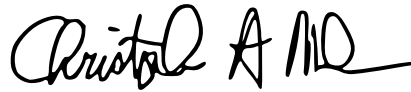
²⁸ Compare Roget’s II: The New Thesaurus (3d Ed. 1995) at 976 (defining substitute as “one that takes the place of another”, “alternate” “stand-in” or “surrogate”) *with id.* at 205 (defining “contingent” as “having a chance of happening or being true”, “conditional, dependent, reliant or subject.”).

made after the date of the pilot program.²⁹ Petitioners who filed their cases based on reliance on the preexisting procedure may well have prepared differently had they known that they would be subject to a more hectic proceeding. A preferred solution would therefore be to have the “pilot program” apply only to those petitions filed after the effective date, so that all parties make their decision based on one set of rules.

V. The Office should stop making changes to IPR and observe the effect of the changes it has already made

In the last several months, the Office and the courts have made numerous significant changes to the IPR procedure—a procedure that all evidence suggests is working well and fairly before these changes. The changes to the claim construction standard and the amendment process are significant for both the Office, petitioners, and patent holders, as is the Supreme Court’s *SAS* decision.³⁰ We urge that the Office collect data on the effect of the cumulative impact of these developments before making any other changes to the IPR process.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Christopher A. Mohr". The signature is fluid and cursive, with the first name being the most prominent.

Christopher A. Mohr
Vice President for Intellectual
Property and General Counsel

²⁹ 83 Fed. Reg. at 54324.

³⁰ *SAS Institute v. Iancu*, 138 S.Ct. 1348 (2018).