



July 9, 2018

Mail Stop Patent Board
Director of the United States Patent and Trademark Office
Attention: Vice Chief Administrative Patent Judges Michael Tierney and
Jacqueline Wright Bonilla
P.O. Box 1450
Alexandria, VA
22313-1450

Via email: PTABNPR2018@uspto.gov

RE: Comments on the Notice of Proposed Rule Making (Docket PTO-P-2018-0036)

Dear Director Iancu and APJs Tierney and Bonilla:

The Intellectual Property Section of the Bar Association of the District of Columbia* thanks the U.S. Patent Office (“PTO”) and Patent Trial and Appeal Board for the opportunity to be heard on the proposed rule changes announced on May 9, 2018. *See* Patent and Trademark Office, *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*, RIN 0651-AD16, 83 Fed. Reg. 21221 (May 9, 2018).

Many stakeholders in the intellectual property community are palpably excited at the prospect of changing to a *Phillips*-based claim construction standard for IPRs, PGRs, and CBMs, and the IP Section of the BADC hopes that this change eventually takes effect. Due, however, to the significant economic impact associated with the proposed change and omission of consideration of several crucial transition and implementation components, the IP Section invites the PTO to act purposefully and with careful attention to rulemaking procedural formalities so as to ensure the long-term viability of this change. As evidenced from at least the comments below, the IP Section encourages a second round of Notice of Proposed Rulemaking to iron out issues that are not a “logical outgrowth” of the regulations as published. As the Federal Circuit recently reminded the PTAB, rules for PTAB trials must be promulgated by statutory rulemaking. Attempts to “end run”¹ those procedures, leaving the implementation details to on-the-fly

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¹ *Aqua Products, Inc. v. Matal*, 872 F.3d 1290, 1339 (Fed. Cir. 2017) (“The Patent Office cannot effect an end-run around [the APA] by conducting rulemaking through adjudication . . .”). A further explanation of the PTAB’s rulemaking authority may be found in David Boundy and Andrew B. Freistein, *The PTAB Is Not an Article III Court, Part 2: Aqua Products v. Matal as a Case*



rulemaking, will expose the PTO and all parties to years of litigation, and defeat the “predictability” that Director Iancu seeks.

From Broadest Reasonable Construction to a District Court/ITC Standard

The IP Section of the BADC fully supports the change in claim construction standard from “broadest reasonable construction” for unexpired claims to an “ordinary meaning”-type construction used by district courts and the International Trade Commission, *i.e.*, an analysis following *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005), and its progeny. While either standard is permitted by statute, the IP Section favors the *Phillips*-based standard for the reasons set forth below. *See, e.g.*, 35 U.S.C. § 316.

AIA trials were envisioned to provide “an inexpensive substitute for district court litigation.” *See* 157 Cong. Rec. S5319 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl). If the post-grant review rules are changed such that trials at the PTAB, in district court, and at the ITC share the same claim construction standard, the concept that PTAB trials are a “substitute” will be closer to a reality. Consistency in the standard for claim construction among the three fora will promote greater predictability for both patent owners and petitioners and will aid in reducing inconsistent outcomes, which is currently a troubling phenomenon.

Comment 1

The PTO Should Withdraw this NPRM, so that the PTO Can Start Anew at the Beginning of a Proper Rulemaking Procedure

The IP Section recommends that the PTO withdraw this NPRM, so that the PTO can start anew at the beginning of a proper rulemaking procedure—conferring with the public (as required by the Paperwork Reduction Act), hosting roundtables, and the like. Because many preliminary steps were skipped, this NPRM has a number of procedural defects that may cause this rulemaking to be quashed either by the Office of Management and Budget or by courts:

The *Administrative Procedure Act* section (83 Fed. Reg. at 21224, col. 3) states that this rule “would not change the substantive criteria of patentability.” The *Administrative Procedure Act* section continues “These proposed changes involve rules of agency and procedure.” These rules are quintessentially “substantive,” not “procedural.” This is nearly the same substantive/procedural misstatement that drew skepticism from the Federal Circuit only seven months ago, in *Aqua Products v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017). 872 F.3d at 1319-21 (O’Malley plurality opinion); 872 F.3d at 1331-32 (Moore concurring).

The “*Costs and Benefits*” section (83 Fed. Reg. at 21222, col. 2) reads “This rulemaking is not economically significant, and is not significant, under Executive Order 12866 (Sept. 30, 1993), as amended by Executive Order 13258 (Feb. 26, 2002) and Executive Order 13422 (Jan. 18, 2007).”

Study in Administrative Law, ABA LANDSLIDE 10:5, pp. 44-51, 64 (May-Jun. 2018) ([here](#) or [here](#)) and David Boundy, *The PTAB Is Not an Article III Court, Part 3: Precedential and Informative Opinions* (in press—a URL should be available shortly).



Executive Orders 13258 and 13422 were revoked in 2009—citing these sources suggests that much of this NPRM was prepared without careful deliberation. And this regulation *clearly* changes outcomes for over \$100 million in patent cases each year—by what reasoning does the PTO assert that the economic effect is essentially zero, as required for a “not significant” designation? This rule is clearly “economically significant,” and should be treated as such.

There are a number of other procedural defects of similar magnitude. Various laws require agency regulatory processes to consider economic effect, benefit-cost, and similar public interest concerns. President Trump, in his first ten days in office, informed agencies that these regulatory principles would be core to his agenda for positive reform.²

In 2011, the PTO issued a request for “Comments on Improving Regulation and Regulatory Review, 76 Fed. Reg. 15891 (Mar. 22, 2011). The letters are listed on the PTO’s web site.³ One of the letters gave a thorough and helpful timeline and checklist for a regulatory process.⁴ Another gave a general comment on improving the PTO’s processes.⁵

Adherence to a sound rulemaking process will assist the PTO in filling its mission.

Comment 2

The PTO Should Provide Further Explanation of What It Means for a Prior Claim Construction to be “Considered”

The IP Section of the BADC respectfully requests that the PTO further clarify precisely what it means for “the Office [to] consider any prior claim construction determination in a civil action or ITC proceeding if a federal court of the ITC has construed a term of the involved claim previously using the same standard, and the claim construction determination has been timely made of record.” *See* 83 Fed. Reg. at 21224. It is noted that the Board used the word “consider” as opposed to, for example, “adopt.”

The PTO should consider the Supreme Court’s opening paragraph in *B&B Hardware, Inc. v. Hargis Industries Inc.*, 575 U.S. ___, 135 S.Ct. 1293, 1298-99 (2015):

² Donald J. Trump, Exec. Order No. 13,771, *Reducing Regulation and Controlling Regulatory Costs* (Jan. 30, 2017), 82 Fed. Reg. 9339-41 (Feb. 3, 2017); Donald J. Trump, Exec. Order No. 13,777, *Enforcing the Regulatory Reform Agenda* (Feb. 24, 2017), 82 Fed. Reg. 12285-97 (Mar. 1, 2017); Office of Management and Budget, Guidance Implementing Executive Order 13771, Titled ‘Reducing Regulation and Controlling Regulatory Costs’, M-17-21, § 1 (Apr. 5, 2017) (“[A]gencies must continue to assess and consider both the benefits and costs of regulatory actions, including deregulatory actions, when making regulatory decisions, and issue regulations *only upon* a reasoned determination that benefits justify costs” (emphasis added).

³ <https://www.uspto.gov/patent/laws-and-regulations/comments-public/comments-improving-regulation-and-regulatory-review>

⁴ <https://www.uspto.gov/patents/law/comments/boundy23may2011.pdf> This link is dead as of July 7, 2018—we can provide a replacement on request.

⁵ <https://www.uspto.gov/sites/default/files/patents/law/comments/belzer14apr2011.pdf>



Sometimes two different tribunals are asked to decide the same issue. When that happens, the decision of the first tribunal usually must be followed by the second, at least if the issue is really the same. Allowing the same issue to be decided more than once wastes litigants' resources and adjudicators' time, and it encourages parties who lose before one tribunal to shop around for another. The doctrine of collateral estoppel or issue preclusion is designed to prevent this from occurring.

Though the *B&B Hardware* holding facially only binds an Article III court after an agency decision, the *reasoning* appears to leave no doubt that “ordinary elements of issue preclusion” apply in the opposite direction as well. If the PTO wishes to distinguish *B&B Hardware* and/or to apply something other than the “ordinary elements of issue preclusion,” both an NPRM and final rule notice would have to offer an extraordinarily persuasive explanation. Given that the PTO was the very agency at issue in *B&B Hardware*, the absence of the words “estoppel,” “preclusion,” or *B&B Hardware* from the NPRM suggests further deliberation is required to satisfy the Administrative Procedure Act.

Should greater clarification be offered, the IP Section asks that questions such as the following be addressed:

- If there is *exact* identity between the term or phrase construed in a federal court and the PTAB, does the Board intend for the prior construction to be binding?
- If there is *exact* identity between the term or phrase construed in an ITC proceeding, does the Board intend for the prior construction to be binding?
- How will the Board's treatment of the prior construction change if there is only *partial* identity – for example, if only one word of a clause has been previously construed or if a word/phrase is the same but found in a claim different from the one at issue before the Board?
- What if there is evidence of record before the Board that the federal court or the ITC failed to conduct a full and/or reasoned *Phillips* analysis – in such a case may the litigants bring that to the attention of the Board and seek a different outcome, or will the prior construction be binding, despite potential flaws?
- What if the construction has not reached finality through appeal or failure to appeal?

Further elaborating – with actual specificity – upon how the Board will treat prior claim constructions will promote uniformity and predictability as to claim construction, aspects both patent owners and petitioners crave.



Comment 3

Request that a Second-round NPRM Solicit Suggestions on Implementation Procedure

The IP Section of the BADC respectfully requests a second Notice of Proposed Rulemaking that fleshes out procedural rules for implementation of an “ordinary meaning” standard. Perhaps the rules of the [Northern District of California](#) or [Eastern District of Texas](#) could be used as models. Introducing a *Phillips*-like claim construction into proceedings that have been underway for almost six years will require significant adjustment, and thoughtful input from the public should assist in finding the least burdensome path.

The Board has already stated that “the Office prefers to resolve the applicable claim construction standard before institution, and ideally, before the patent owner preliminary response deadline has passed. The earlier that the appropriate standard for claim construction may be determined, the more guidance the Office may provide in its institution decision for the parties to conduct the trial, including discovery, appropriately and efficiently, and in some cases, the Office may decide to deny institution when applying the appropriate standard.” 81 Fed. Reg. 18750, 1875 (Apr. 1, 2016).

One way to resolve claim construction very early on is to use the period between the filing of the petition and patent owner’s preliminary response deadline. While this period is currently up to six months, that six-month timing is not set by statute, and can be extended by the Board. It is the filing of the preliminary response that triggers a statutory deadline for response by the Board, which, in turn and upon institution, triggers the statutory one-year deadline for the Final Written Decision. *See* 35 U.S.C. §§ 313 (affording the Director discretion for setting the deadline for a patent owner preliminary response), 314(b) (requiring that the Board act within three months of the preliminary response), and 316(a) (11) (requiring a final determination within one year of institution, absent an extension). While historically the Board has been hesitant to extend the time period between notice of filing date accorded and the patent owner preliminary response or to require patent owners to expend substantial effort and expense prior to institution, many believe patent owners would welcome the opportunity to resolve claim construction at the outset of the case – even if it requires effort and expense.

Soliciting feedback, preferably on specific questions, on how best to introduce the procedural rules for the substantive claim construction will facilitate a smooth and long-lasting transition.



Comment 4

Request that a Second-round NPRM Address Transition Provisions More Clearly: The Changes Should Only Go Effective For *New* Proceedings

The IP Section of the BADC questions whether the Board has authority to make the proposed changes retroactive, that is, to apply “to all pending IPR, PGR, and CBM proceedings.” *See* 83 Fed. Reg. at 21224.

First, agencies may not promulgate retroactive regulations unless a statute contains an express grant of such authority. *Bowen v. Georgetown University Hosp.*, 488 U.S. 204, 208–09 (1988); *Landgraf v. USI Film Products*, 511 U.S. 244, 270 (1994). The PTO has no such grant. Regulations that would materially affect existing proceedings are impermissibly retroactive.⁶

Second, the IP Section of the BADC has great difficulty seeing how a change in claim construction midway through an instituted proceeding could *not* be a failure of notice that would expose the PTAB’s final judgment to near *per se* attack.

Only if the proposed changes are applied after a date certain set in the final rule notice, and then only to new proceedings can prospective and actual litigants not be severely prejudiced.

While PTAB proceedings were envisioned to be “an inexpensive substitute for district court litigation” – “inexpensive” is a loaded word. The 2017 American Intellectual Property Owners Economic Survey lists \$451,000 as the average cost of a post-grant proceeding through appeal, with numbers ranging from as low as \$40,000 to as high as \$1,770,000. *See* 2017 AIPLA ECONOMIC SURVEY I-163. While PTAB proceedings may indeed be less expensive than district court litigation, they are by no means truly “inexpensive.” In addition to the cost of the proceedings themselves, one must also consider the long-term significant economic impact on patent owners due to the loss or preservation of their patents as well as on petitioners due to the maintenance or destruction of blocking patents.

In view of these high economic stakes, patent owners and petitioners strategize carefully, often for months, before launching their attacks or defenses. A moving target, as would exist if the proposed changes spring to life for all pending proceedings, would severely hamper such detailed strategies and would require both patent owners and petitioners – as well as the Board – to expend substantial and unnecessary resources. *See* Executive Order 12866, §§ 1(b)(5) and (12) (Sept. 30, 1993) (noting, *inter alia*, that agencies are to take into account when making regulations “the costs of . . . compliance . . . to the government, . . . and the public . . . [as well as] disruptive impacts,” that regulations should be tailored “to impose the least burden on society, including individuals, businesses of differing sizes, and other entities,” and that regulations shall be drafted “to be simple and easy to understand”). The following two scenarios illustrate such harm.

⁶ *Tafas v. Dudas*, 541 F.Supp.2d 805, 810 (E.D. Va. 2008), *Tafas v. Kappos*, 586 F.3d 1369, 1371 (Fed. Cir. 2009) (denying PTO’s motion to have that decision vacated).



Scenario One: Potential IPR Following Initiation of District Court Infringement Action

Patent Owner files and serves his district court infringement action on August 20, 2018. It is September 15, 2018, and the district court defendant elects to file one or more IPRs against the patent owner. His deadline to do so is August 20, 2019. The final changes to the Board rules have not yet issued nor has there been clarification on the extent to which prior claim constructions will be “considered.”

Until the final changes issue, the putative petitioner must expend time, effort, and money strategizing under two scenarios – one with a broadest reasonable construction standard and one with a *Phillips* standard. He may even be forced to expend precious words and/or pages of his petition on advancing claim construction theories under each standard. Yet, the Office has already stated that “it is too burdensome to require a petitioner to submit in its petition a construction under both a broadest reasonable construction and a Phillips-type construction” 81 Fed. Reg. 18750, 18753 (Apr. 1, 2016).

Until the final changes issues, both patent owner and petitioner will not know the extent of the impact of their claim construction arguments in the district court proceeding, *i.e.*, how exactly the district claim construction will be “considered.” In the interim, both patent owner and petitioner must factor into their strategies this uncertainty, which brings with it added effort and expense.

Scenario Two: Ongoing IPR Following Initiation of District Court Infringement Action

Assume the patent owner filed a district court infringement action and within one year of service of the complaint the petitioner sought to institute an IPR. Claim construction has occurred in the district court proceeding. Assume also a trial has been instituted.

If the final changes to the Board rules are then announced and the rules apply to *pending* IPRs, many practical difficulties will arise, including: (1) whether the instituted trial would not have been instituted under a *Phillips*-based standard. This will require additional briefing and, in the interim, both parties and the Board will have expended significant time, effort, and expense. (2) whether the claim construction adopted in the Decision to Institute would have been different, depending on how exactly the district court claim construction is to be “considered.” This, too, will require additional briefing and, in the interim, both parties and the Board will have expended significant time, effort, and expense. (3) whether expert witnesses must be deposed again due to the impact of the changed claim construction standard. (4) whether briefing-to-date must be revised and resubmitted so that arguments reflecting the new standard are employed. (5) whether demonstratives must be revised and another oral hearing offered so that arguments reflecting the new standard are employed.

Should the final changes be applied to pending proceedings, the impact of the changes may be great, unforeseen, and both time-consuming and expensive for both the Board and the litigants to address.

The IP Section of the BADC respectfully requests that the proposed changes not take effect until 60 days after announcement of the final rule and that the changes only apply to new proceedings filed after that date.



Conclusion

The proposed change to a *Phillips*-based claim construction standard is welcome to many stakeholders in the patent system. Due to the significant economic impact of IPRs, PGRs, and CBMs, the IP Section of the BADC welcomes the opportunity to assist the Board and the interested public in devising an appropriate transition program so as to ensure the long-term viability of these important changes.

Respectfully submitted,

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* The BADC thanks Mr. David Boundy of the Cambridge Technology Law Group LLC in Cambridge, Massachusetts for his thoughtful input to these comments.

** The comments provided herein do not necessarily reflect the opinions of the authors' employers or their employers' clients.