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Congress of the United States
House of Representatives
Washington, DC 20515

CHAIR, CALIFORNIA DEMOCRATIC CONGRESSIONAL DELEGATION
CO-CHAIR, CONGRESSIONAL CAUCUS ON VIETNAM

ZOE LOFGREN
19TH DISTRICT, CALIFORNIA

July 9, 2018

The Honorable Andrei Iancu
Under Secretary of Commerce for Intellectual Property &
Director of U.S. Patent and Trademark Office
U.S. Patent and Trademark Office
P.O. Box 1451
Alexandria, VA 22313

RE: Comments on Notice of Proposed Rulemaking regarding Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board

Dear Director Iancu:

I am writing in response to the United States Patent and Trademark Office's invitation for comment on its Notice of Proposed Rulemaking regarding *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*.

As a Member of Congress who currently sits on the Judiciary Committee and worked on the America Invents Act, I have firsthand knowledge not only on the thought and intent behind the balanced decisions in the AIA, but also on current legislation that features the same change the USPTO is proposing.

I am very concerned with the USPTO's proposed changes to the claim construction standard for interpreting claims in inter partes review (IPR), post-grant review (PGR), and the transitional program for covered business method patents (CBM) proceedings before the Patent Trial and Appeal Board (PTAB). While my comment will focus primarily on the impact to IPR, I believe the effects on PGR and CBM would be essentially the same.

My concerns are twofold: first, that by proposing this change in a vacuum you are upsetting not only the Congressional intent of the AIA but also circumventing the prerogative of Congress on an issue it has been actively working on; and second, that this change will not only fail to

increase judicial efficiency but it will lead to unintended forum shopping and a potential usurping of PTAB's authority on claim construction.

While I do not dispute the USPTO's authority to modify the claim construction standard used during IPR, it is also without dispute that Congress intended that the USPTO use a broadest reasonable interpretation (BRI) when constructing claims for IPR. Congress gave broad rulemaking authority to allow the USPTO the flexibility needed to adapt to unforeseen issues, and the USPTO has an obligation to use this authority responsibly. Part of that responsibility is to ensure that its rulemaking doesn't trample the assumptions Congress made when drafting complex, balanced legislation, and to proceed with caution where Congress is actively considering legislation.

As a member of the House Judiciary Committee who worked on the AIA, I can state, unequivocally, that our intention was that the USPTO would use BRI for IPR proceedings, just as it did for nearly every examination and reexamination proceeding at the time. The USPTO itself acknowledged and justified in its first rulemaking on IPR that its use of BRI was based on Congress's expectation that BRI would be used:

*The adoption of the 'broadest reasonable interpretation' standard is further consistent with the legislative history of the Leahy-Smith America Invents Act, which indicates that Congress was aware of the 'broadest reasonable interpretation' standard and expected the Office to apply the standard to the new Leahy-Smith America Invents Act review proceedings...Nothing in the legislative history indicates that Congress or the drafters of the legislation considered a different standard ...*¹

Additionally, more recent Congressional action bears this out. Of the eight bills introduced since passage of the AIA that change the claim construction standard used in IPR², only one has even been reported out of Committee. The Innovation Act had broad bipartisan support, was reported out of House Judiciary Committee in the 113th and 114th Congresses, and passed the House by a large bipartisan vote in December of 2013. The Innovation Act was a complex and balanced litigation reform measure that, begrudgingly, included a switch from BRI to *Phillips* claim construction in IPR as one component of a greater whole. No legislation to date has consider this change by itself. And while it's true that recent court decisions have addressed some of the Innovation Act's concerns,³ significant safeguards included in the bill to protect against patent trolls have yet to be made law.⁴ To pluck this one controversial piece out of a comprehensive bill

¹ See 77 FR 48680, 48697 (emphasis added).

² S.1390 — 115th Congress; H.R.5340 — 115th Congress; S.632 — 114th Congress; H.R.9 — 114th Congress; S.1137 — 114th Congress; S.1720 — 113th Congress; H.R.3309 — 113th Congress; and H.R.5360 — 113th Congress.

³ For pleading see April 29, 2015 Order from the Supreme Court of the United States amending the Federal Rules of Civil Procedure to abrogate Rule 84 Forms; for venue see *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S.Ct. 1514 (2017).

⁴ See for example SEC. 5. Customer-suit Exception; SEC. 4. Transparency Of Patent Ownership; and SEC. 3(d) Joinder Of Interested Parties.

and implement it through a rulemaking disregards the current work Congress is doing on patent litigation reform to combat patent trolls.

Given the legislative history and Congress's current work on this very issue, I believe the responsible way for the USPTO to proceed is to work with Congress on legislation rather than implement the proposed rule. But if the USPTO is determined to proceed, at a minimum, it must prove that there is a substantial gain to making such a change, and only after the USPTO can make assurances that there will not be significant unintended consequences.

However, I believe it is very likely that the USPTO is overestimating the impact changing the claim construction standard will have on judicial efficiency or predictability, and underestimating the potential risks for forum shopping and issue preclusion.

In my discussions with you and your office, you clarified that the increased "judicial efficiency" the USPTO is seeking with this proposal involves increasing the likelihood that a district court will grant a motion to stay to allow the PTAB to perform claim construction, which the court can then use in lieu of holding its own Markman hearing. However, based on the substantial variation in success rates for motions to stay, the uneven distribution of patent cases, and differences in case management processes among the various district courts, I believe that this change might have little to no actual effect on motion to stay determinations.

According to a study published by [managingip.com](http://www.managingip.com),⁵ of the 348 total orders on motions to stay pending PTAB review⁶ in the year between September 1, 2016 and August 31, 2017, 60% of the requests – 210 in total – were granted. So at best, it is only possible to increase the success rate of about 40% of the motions to stay filed each year.

While significantly increasing the success rate of these stays is still a laudable goal, the substantial variation in outcomes between courts further diminishes the potential returns of this proposal. According to the same study, "success rates for contested motions to stay vary substantially not only among districts but also among judges within the same district."⁷ For example, the five most favorable jurisdictions for stay requests already have--on average-- a success rate of 70% for contested stay requests.⁸ Compare that to two of the worst: the Eastern District of Texas and the Delaware District Court, which grant stay requests only 34% and 21%

⁵ District Court Stays Pending PTAB Review: An Analysis of the Past 12 Months, December 8, 2017. Authored by Christopher Hanewicz and Truscenialyn Brooks of Perkins Coie. <http://www.managingip.com/Article/3774120/District-court-stays-pending-PTAB-review-an-analysis-of-the-past-12-months.html>

⁶ This number reflects the total number of IPR, PGR, and CBM, but according to USPTO statistics for FY2017, 92% of PTAB trials were IPRs. https://www.uspto.gov/sites/default/files/documents/Trial_Stats_2017-09-30.pdf

⁷ See [managingip.com](http://www.managingip.com), *supra* note 5.

⁸ See [managingip.com](http://www.managingip.com) table titled "Favourable jurisdictions for stays pending IPR: September 1 2016 – August 31 2017."

of the time, respectively.⁹ For USPTO's proposal to work, it will have to have a provable impact on the stay rate for district courts with low success rates.

But further compounding the issue is that patent cases are not equally distributed among district courts. In fact, E.D. Texas and Delaware alone account for *nearly a third* of all the contested stays filed.¹⁰ There are many reasons a stay request could be denied, so for the USPTO's proposal to have any effect, it is going to have to have a significant impact on the reasons stays are denied in these two districts. Because court precedent generally already finds IPR's simplifying and puts substantial emphasis on whether all of the claims at issue were instituted in the IPR proceeding in its analysis, I believe changing claim construction standards is unlikely to have an impact beyond what *SAS Institute Inc. v. Iancu*¹¹ will by itself.

When a court is deciding to grant a stay, most courts continue to use the three-factor test.¹² However, courts are frequently reluctant to grant a motion to stay prior to the PTAB's decision to institute.¹³ When the PTAB does grant a review over every claim, "[t]here is a very strong likelihood that the IPR proceedings will simplify the issues for trial,"¹⁴ and when courts do deny a motion after IPR has been instituted, they often do so because a significant number of challenged claims have not been instituted¹⁵. So courts already find significant simplification value in IPRs under PTAB's current BRI standard. Therefore, it seems that the recent Supreme Court decision in *SAS Institute* requiring PTAB to institute all challenged claims¹⁶ will already have a significant impact on the granting of motions to stay. In light of this, it seems impossible for the USPTO to make an accurate determination of the impact changing claim construction standards would have on motions to stay without first waiting to see the impact of *SAS Institute*. As such, this proposal is premature at best.

Finally, the proposal also assumes that a substantial number of courts would just wholly accept the PTAB's construction, which is technically just a preliminary construction and not binding

⁹ See managingip.com table titled "Unfavourable jurisdictions for stays pending IPR: September 1 2016 – August 31 2017."

¹⁰ *Id.*

¹¹ See *SAS Institute Inc. v. Iancu*, 584 U.S. ____ (2018) (holding that the PTAB must institute all challenged claims in a petition).

¹² See *Semiconductor Energy Lab. Co. v. Chimei Innolux Corp.*, 2012 U.S. Dist. LEXIS 186322, 2012 WL 7170593, at *1, n.1 (C.D. Cal. Dec. 19, 2012) ("The Court sees no reason why the three factor assessment would not still be relevant [to the new inter partes review proceeding].").

¹³ See *Advanced Microscopy Inc. v. Carl Zeiss Microscopy, LLC*, (D. Del. 2016) ("the Court has become less and less sure about the merit of granting a stay in favor of an IPR proceeding, when the PTAB has not even weighed in on whether to institute review."); see e.g. *Dane Techs., Inc. v. Gatekeeper Sys., Inc.*, 2013 U.S. Dist. LEXIS 117718, 2013 WL 4483355 (D. Minn. Aug. 20, 2013); *Ultratec, Inc. v. Captel, Inc.*, 2014 U.S. Dist. LEXIS 120062 (W.D. Wis. Nov. 14, 2013).

¹⁴ See *454 Life Sciences Corporation v. Ion Torrent Systems, Inc.*, at 5 (D. Del. 2016).

¹⁵ See *Courtesy Prods., L.L.C. v. Hamilton Beach Brands, Inc.*, Civ. No. 13-2012-SLR/SRF, 2015 WL 5145526, *1-2 (D. Del. 2015) (denying a motion to stay where, inter alia, out of the three patents-in-suit, the IPR proceedings covered all of the asserted claims of one patent, all but two asserted claims of the second patent and no asserted claims of the third, such that "the parties' dispute [would] not be fully resolved by the IPRs, regardless of the outcome of such"). See e.g. *Toshiba Samsung Storage Tech. v. Lg Electronics*, 193 F. Supp. 3d 345 (D. Del. 2016);

¹⁶ See *SAS Institute Inc.*

until the final decision, rather than taking it just as one point of reference in its own Markman hearing. It is not unheard of for the PTAB to make significant changes to their initial claim construction twelve months later in their final decision.¹⁷ I think it is incumbent on the USPTO to prove the assumption that district courts will be willing to accept an IPR claim construction prior to final decisions, knowing that it could change.

In short, I am concerned that an already high overall success rate for motions to stay, the clustering of the majority of patent cases among just a few courts, the high denial rates on motions to stay in these courts, and *SAS Institute* taking away a frequent cause of denials chips away at any potential gains in judicial efficiency until there are none left.

Regarding the proposal's statement that this change "could lead to greater uniformity and predictability of the patent grant:" given the differences between the PTAB and district courts in admissible evidence¹⁸ and burden of proof¹⁹ for patentability determinations, and that the USPTO believes that applying the *Phillips* standard to past decisions would not have changed any of the outcomes²⁰, it is hard to see how this rule change could possibly *increase* predictability. In fact, what the USPTO sees as "unpredictability" or inconsistency was instead seen by the U.S. Supreme Court in *Cuozzo* as "inherent to Congress' regulatory design."²¹ In other words, Congress *intended* IPR to sometimes have decisions inconsistent with the courts, which the USPTO is now attempting to overrule.

For the reasons above, it appears unlikely the USPTO's proposal will result in increased judicial efficiency, nor will it result in more consistent patentability decisions. Instead, the more likely result is that the rule change will encourage case management and venue gamesmanship to win the race to Markman and preclude PTAB from constructing claims.

The Federal Circuit has made it clear that district courts have considerable discretion as to whether, when, and how to conduct claim construction proceedings.²² A number of courts over the years have adopted an "early" Markman hearing, held prior to the completion of fact discovery, while others wait until after discovery, or even until trial, to make their ruling.²³ According to one study, the average time to a Markman hearing varies between 8 to 15 months

¹⁷ See *TriVascular, Inc. v. Samuels*, 812 F.3d 1056, 1068 (Fed. Cir. 2016) ("The Board is not bound by any findings made in its Institution Decision. At this point, the Board is considering the matter preliminarily without the benefit of a full record. The Board is free to change its view of the merits after further development of the record, and should do so if convinced its initial inclinations were wrong."). See e.g. *ABS Global, Inc. et al. v. XY, LLC*, IPR2014-01161; *In re Magnum Oil Tools International, Ltd.*, 829 F.3d 1364 (Fed. Cir. 2016); and *Intellectual Ventures II LLC v. Ericsson Inc. et al.*, 2017 U.S. App. LEXIS 8106 (Fed. Cir. May 8, 2017).

¹⁸ In IPR prior art is limited to "patents or printed publications" 35 U.S.C. §331(b).

¹⁹ In IPR, the challenger must establish unpatentability "by a preponderance of the evidence"; in district court, a challenger must prove invalidity by "clear and convincing evidence." Compare 35 U.S.C. § 316(e) to *Microsoft Corp. v. i4i Ltd. Partnership*, 564 U.S. 91, 95, 131 S.Ct. 2238, 180 L.Ed.2d 131 (2011).

²⁰ This assertion comes from conversations between my staff and your office, and our discussion on this assertion specifically.

²¹ *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131, 2146 (2016).

²² See *Vivid Techs., Inc.*, 200 F.3d 795; *Sofamor Danek Grp.*, 74 F.3d 1221.

²³ *A Guide to Patent Litigation in Federal Court* at 12, published by Fish & Richardson (2016),

<https://www.fr.com/wp-content/uploads/2016/04/A-Guide-to-Patent-Litigation-in-Fed-Court-2016.pdf>

into litigation.²⁴ Then there are “rocket docket” courts like the Eastern District of Virginia that have a median time-to-trial of just a year²⁵, and granted only 25% of stays last year.²⁶ The large differences in case management timelines between district courts creates an incentive for plaintiffs to forum shop in hopes of getting a faster, more favorable claim construction to take to the PTAB.

Given the relative quickness of an IPR petition’s preliminary claim construction, at most six months from filing the IPR petition, it is tempting to believe that the chances of a district court beating the PTAB to claim construction is unlikely. However, this overlooks the fact that defendants have up to a year to file an IPR petition after being sued,²⁷ and that these petitions are a substantial amount of work that cannot simply be filed the same day the defendant is served.²⁸ If it takes just two months for a defendant to put together an IPR petition, this puts the PTAB’s claim construction neck-and-neck with courts that have a closer to 8 month Markman timeline. It’s also possible that some jurisdictions will take this opportunity to create even more aggressive timelines for “early” Markman hearings.

Furthermore, International Trade Commission adjudicators are increasingly holding claim construction hearings earlier and independent of the later evidentiary hearing.²⁹ Of the ITC’s section 337 investigations that had a separate Markman hearing, the average amount time between institution and Markman is only about *five months* for investigations terminated since the beginning of this year.³⁰ Because of modern supply chains and the use of overseas manufacturing for goods designed by American companies, a significant number of American companies are subject to the ITC’s jurisdiction. If plaintiffs perceive that the ITC is giving them more favorable claim constructions, we will likely begin to see an increase in exclusion order petitions. Since the ITC generally decides whether to institute an investigation within 30 days,³¹ an ITC Markman hearing will likely happen before the PTAB can finish its decision to institute.

The proposed rule requires the PTAB to “consider any prior claim construction determination...in a civil action, or an ITC proceeding.” This by itself is potentially enough to encourage forum shopping between various district courts or the ITC, as discussed above.

²⁴ *Id.*

²⁵ *2017 Patent Litigation Study: Change on the horizon?* at 22, published by PricewaterhouseCoopers (2017).

²⁶ See managingip.com table titled “Unfavourable jurisdictions for stays pending IPR: September 1 2016 – August 31 2017”.

²⁷ 35 U.S.C. § 315(b).

²⁸ “Defendant did not file the instant motion to stay **until four months after the Complaint was filed in the case**...By noting that fact, the Court is in no way suggesting the motion to stay was dilatory or untimely, especially **in light of the significant work that must be done to file an IPR petition.**” (emphasis added) *Advanced Microscopy Inc.*, *supra* note 13.

²⁹ *Markman at the ITC and Its Effect on an Investigation* (“the chances of having a Markman in an ITC investigation have gone up dramatically in recent years.”). <https://www.jdsupra.com/legalnews/markman-at-the-itc-and-its-effect-on-an-47818/>

³⁰ ITC Investigations: 337-TA-1004, 337-TA-1016, 337-TA-1026, 337-TA-1042, 337-TA-1049, 337-TA-1061, 337-TA-1080, 337-TA-1042, and 337-TA-990. <https://pubapps2.usitc.gov/337external/cannedStatSearch?f=terminated&d=180>

³¹ *Section 337 Investigations at The U.S. International Trade Commission: Answers to Frequently Asked Questions*, at 16; https://www.usitc.gov/intellectual_property/documents/337_faqs.pdf

However, the real risk comes from forcing the PTAB to use *Phillips* claim construction, which could result in issue preclusion prohibiting the PTAB from doing its own claim construction. It is undisputed precedent that the PTAB is “not generally bound by a prior judicial construction of a claim term.”³² However, the crucial factor in this holding is that the PTAB “applies a different claim construction standard than that applied by a district court, affording claims ‘their broadest reasonable interpretation consistent with the specification.’”³³ It is incumbent on the USPTO to thoroughly examine the potential risk of issue preclusion, otherwise, it may find that it no longer has a choice on whether to accept claim constructions from another jurisdiction.

Until the USPTO has found a way to mitigate the above risks of forum shopping and issue preclusion, it should not implement this proposed rule.

Finally, as a closing observation, you stated in your testimony before the House Judiciary Committee, that the USPTO is currently studying the IPR amendment process³⁴. I believe that this is a much more fruitful avenue for a rulemaking to increase the efficiency of the patent system. Unfortunately, reforming the amendment process is complicated by this very proposal, because one reason for the use of BRI over the *Phillips* standard is the fact that patentees can amend claims in IPR, but cannot in district court.³⁵ I believe a much more measured proposal would have instead focused on reforming the amendment process, and taken a wait-and-see approach as to what impact *SAS Institute* will have on motions to stay, rather than the current focus on claim construction.

I ask that the USPTO instead work with Congress on addressing issues of patent litigation efficiency and fairness, rather than proceeding with this proposed rule. Thank you for your consideration.

Sincerely,

Zoe Lofgren
Member of Congress

³² See *Power Integrations, Inc. v. Lee*, 797 F.3d 1318, 1326 (Fed. Cir. 2015).

³³ *Id.*

³⁴ <https://judiciary.house.gov/wp-content/uploads/2018/05/Director-Iancu-Testimony.pdf>

³⁵ See *Aqua Products, Inc. v. Matal*, 872 F. 3d 1290, 1298 (Fed. Cir. 2017) (“In *Cuozzo*, the Supreme Court emphasized that the patent owner's opportunity to amend its patent in IPRs is what justifies the Board's use of the broadest reasonable interpretation standard in IPRs”).