

April 10, 2012



USPTO IMPLEMENTATION OF THE AMERICA INVENTS ACT

Comments on Proposed USPTO Rules and Guidance on Post-Issuance Review and the Transitional Program for Covered Business Method Patents

Submitted by the Innovation Alliance

The Innovation Alliance is pleased to submit the following comments for consideration by the USPTO in connection with its proposed rules, published in the Federal Register on February 9-10, 2012, on (i) the new post-issuance review proceedings set forth in Section 6 of the America Invents Act (“AIA”), and (ii) the transitional program for covered business method (“CBM”) patents established under Section 18 of the Act.

The Innovation Alliance (“IA”) represents innovators, patent owners, and stakeholders from diverse industries. Innovation Alliance members believe in the critical importance of maintaining a strong patent system that supports innovative enterprises across the country, helping to fuel the innovation pipeline and drive the 21st century economy.

A. Covered Business Method Patent Proceedings

1. Definition of “technological invention” exception to “covered business method patent”

a. IA endorses the USPTO’s decision not to tie the definition of technological inventions to Class 705

In defining the term “technological invention,” the Office proposes --

“that the following will be considered on a case-by-case basis to determine if a patent is for a “technological invention” solely for purposes of the transitional program for covered business method patents: whether the claimed subject matter as a whole (1) recites a technological feature that is novel and unobvious over the prior art; and (2) solves a technical problem using a technical solution.

The Office further clarifies that “case-by-case” means that it will consider the specific facts presented with no one fact being dispositive.

As an initial comment, we commend the USPTO for rejecting a rigid and overly simplistic definition of “technological invention” that would exclude all patents originally classified as Class 705. We strongly encourage the Office to adhere to this principled and well-reasoned position. As the Office rightly acknowledged in its rulemaking notice, a definition based on this classification would be “either overly narrow or overly broad,” as it would sweep in technological inventions originally classified in Class 705 and exclude non-technological inventions classified elsewhere:

“For example, there are patents that are originally classified in Class 705 which solve technical problems with technical solutions and which are patentable over the prior art based on a technological innovation. Similarly there are patents that are originally classified in classes other than Class 705 which fail to solve a technical problem with a technical solution and fail to be patentable over the prior art based on a technological innovation. For those reasons, the other considered definition was not adopted in view of the legislative history.”¹

b. The proposed USPTO definition of technological invention appears to require an unwarranted and potentially burdensome and complex patentability analysis

Nevertheless, IA is concerned that the proposed definition is too ambiguous in its scope and too complex and burdensome to satisfy and administer. The first prong of the test -- i.e., that the claim must recite a “feature” which, standing apart from the rest of the claim, is both “novel and unobvious” -- would, in effect, require the Office to conduct a patentability analysis to determine whether a patent is an exempted technological invention. Not only would this prove a complicated and time-consuming task for the Office to administer, it would require a patent owner to establish validity at the petition stage and in turn create a de facto presumption that the patent is, in fact, invalid if it fails to satisfy the test.

Nothing in Section 18 or its legislative history suggests that Congress meant for the USPTO to conduct a separate patentability analysis when determining whether a patent is “technological” in nature. At most, certain statements in the legislative record suggest that claimed subject matter should be novel to satisfy the definition of technological invention. Regardless of the legislative history, to limit “technological” inventions to claims that have novel and unobvious features would inject an additional, unwarranted layer of patentability review that contravenes the statutory structure of post-grant review proceedings. It would also depart from the long-standing practice of relying upon claims to define the invention, as opposed to isolated features.

¹ See Notice of Proposed Rulemaking for Transitional Program for Covered Business Method Patents—Definition of Technological Invention at 7101.

The post-grant review process requires a preliminary assessment of validity at the petition stage and a merits-based assessment of validity once the proceeding is instituted. At each of these stages, the petitioner bears the burden of satisfying the relevant statutory burden of proof. In contrast, the issue of whether a patent is a “technological invention” should be resolved *before* the Office engages in any kind of a patentability analysis. If a challenged patent is found to be technological in nature, a petition under Section 18 should be rejected immediately and without further analysis, at least with respect to the patent at issue.

By defining a technological invention as one that is novel and unobvious, the Office is conflating two separate issues, i.e., whether the patent is technological in nature and whether it is valid. In doing so, the proposed definition would shift the burden of proving patentability to the patent owner at the petition stage - a result that would clearly contravene Congress’s explicit intent. In effect, this first prong of the test would unfairly prejudice the rights of patent owners and introduce an unnecessary layer of expense and complexity into Section 18 proceedings.

Moreover, the “novel and unobvious” requirement would deviate from the ordinary meaning of “technological invention.” When Congress uses a word or phrase in a statute, and does not specifically define it, the general rule is that the term is interpreted according to its “ordinary meaning,” which usually is discerned by looking to dictionaries. *See, e.g., Engine Mfrs. Ass’n v. S. Coast Air Quality Mgmt Dist., 541 U.S. 246, 252 (2004).* This canon of statutory construction is well-settled, and it further dictates that statutory interpretation begins with the language of the statute, and ends there when the statutory language is clear. To the extent the legislative history gets considered at all, its effect should be quite limited where, as in this case, it suggests different interpretations of the term “technological invention.”

The ordinary dictionary meaning of technological focuses on the application of science, without regard to whether the application is novel and unobvious.² The term invention is generally defined as a process or device that originates through study and experiment.³ In short, by limiting technological inventions to novel and unobvious claims, the proposed definition would considerably narrow the scope of the term beyond its ordinary meaning.

The second prong of the definition is also problematic. To define a technological invention as a “technical solution to a technical problem” creates unnecessary ambiguity, as it offers no guidance as to the scope of the related and synonymous term “technical.” Moreover, this prong of the definition appears to derive from the European Patent Convention, which limits patentable subject matter to inventions of a technical character that solve a technical

² For example, the American Heritage Dictionary defines “technology” as the “application of science, especially to industrial or commercial objectives.”

³ Webster’s II New College Dictionary defines “invention” as a “new method, device, or process developed from study and experimentation.”

problem.⁴ Indeed, when viewed as a whole, the PTO's proposed definition of technological invention closely resembles the European test for patentability. Again, there is no statutory basis for tying the definition of "technological invention" to a patentability test, particularly one based on European law.

Finally, while we understand the Office's desire for flexibility, the "case-by-case" approach reflected in the USPTO's proposed definition could create uncertainty as to whether the term technological invention will be defined in a consistent manner. Petitioners need certainty in the standard that will be applied by the Board (particularly since filing fees are non-refundable); patent owners and their investors need to know which patents are vulnerable to challenge under the more expansive and burdensome CBM proceeding; and the Board needs clear parameters to decide which petitions should be granted. IA thus strongly recommends a bright-line standard that deletes the explicit reference to "case-by-case."

c. IA's proposed definition of "technological invention" reflects the ordinary meaning of "technological," consistent with rules of statutory construction

To rectify these problems, IA's proposed definition would appropriately focus the definition on the ordinary meaning of "technological," eliminate the "novel and unobvious" prong of the definition, and require that the USPTO's apply the proposed criteria in all cases. Specifically, IA's recommends that USPTO define "technological invention" as follows.

The term "technological invention" includes any claimed invention that, when given its broadest reasonable interpretation, covers: (i) the application of engineering sciences to solve any problem, or (ii) the application of natural sciences, engineering, or mathematics to solve a technical problem."

As explained above, IA strongly believes that the technological invention exemption should be directed solely to a subject matter definition, and not require a patentability analysis of any kind. As reflected in IA's proposed definition, the term "technological" is generally defined to mean the application of sciences and related branches of study, including mathematics and engineering, in a man-made context. Given that a man-made application of science is, in effect, a technical solution, IA's proposed definition eliminates the need to reference this term.

An application of natural sciences, engineering, or mathematics constitutes a technological invention under IA's formulation only if it solves a technical problem. However, an application of engineering sciences (including computer science) is technical in nature and hence a technological invention, regardless of the nature of the problem. Thus, IA's proposed definition includes but clarifies the second prong of USPTO's proposed definition, but also recognizes this alternative form of "technological invention."

⁴ See, e.g., <http://www.epo.org/news-issues/issues/computers/software.html>

IA's proposed definition would appropriately capture the broad range of inventions that are technological in nature and provide USPTO with the guidance and flexibility to exclude those that are not. The invention challenged in the *Diamond v. Diehr* case⁵ provides a useful example of how IA's proposed definition would work in practice. The *Diehr* case dealt with an application of the [Arrhenius](#) equation, a mathematical statement of a natural law used in the field of chemistry. As such, an application of the equation would need to satisfy part (ii) of the definition to qualify as a technological invention. If, as in *Diehr*, the patent covers an application of the equation to open a rubber curing machine when the rubber is properly cured (a technical problem in the engineering sciences), it would be considered a technological invention. However, if the patent applies the same equation to decide when to buy or sell a stock (i.e., a non-technical business problem), it would not qualify as a technological invention.

2. Required nexus between “covered business method patent” and financial product and/or service

The USPTO's proposed rulemaking notice fails to address the required nexus between a challenged business method patent and a financial product or service. IA would encourage the Office to make clear that in order to utilize Section 18 proceedings, a petitioner must demonstrate that the challenged patent has a meaningful nexus to a “financial product or service,” as required by the definition of “covered business method patent.” This is not to suggest that a patent must be used exclusively within the financial services industry to constitute a covered business method patent, but the petitioner should be required to demonstrate something more than the fact that the patent has commercial applications that might tangentially implicate the movement of money.

In contrast, certain Member statements within the legislative history to Section 18 suggest that a covered patent's nexus to a “financial product or service” can be so attenuated as to make this statutory language meaningless. Clearly, the Board cannot ignore this important element of the statutory definition or the fact that Section 18 was enacted primarily to address certain business method patents asserted against the financial service industry.

At the same time, however, the legislative record indicates that for purposes of Section 18, the term “financial product or service” refers generally to intangible schemes or vehicles intended to facilitate a financial dealing. Section 18 would not apply, therefore, to patents related to novel computer or mechanical devices or techniques for processing physical paper instruments merely because the instruments may be associated with a financial product or a financial service, or because patents claiming features of the devices may otherwise be assigned to class 705.⁶

⁵ 450 U.S. 175 (1981).

⁶ See 157 Cong. Rec. H4497 (daily ed. June 23, 2011) (statement of Chairman Smith).

B. Procedures for Post-Grant Proceedings

1. Implementation of statutory safeguards

IA applauds the USPTO's efforts to implement the post-grant framework in a manner that preserves the robust statutory safeguards enacted by Congress. In particular, we commend the Office for proposing rules that would do the following:

- Interpret the new statutory thresholds applicable to post-grant petitions as elevated evidentiary standards that require the petitioner to present a compelling case for unpatentability at the outset, subject to a patent owner's right to respond.
- Apply a robust estoppel standard to all post-grant proceedings, including ex parte proceedings that follow an unsuccessful administrative challenge.
- Interpret real parties in interest and privies in a flexible manner consistent with federal common law principles and jurisprudence.
- Strictly adhere to the 12-month statutory deadline once a proceeding is instituted with very limited use of the permitted six month extension.

On November 15, 2011, IA submitted comments to the USPTO urging the Office to implement faithfully each of these statutory safeguards through the rulemaking process. (These comments, hereinafter referred to as "IA's Initial Comments," are attached as Appendix 1.) These safeguards are essential to a balanced, equitable system of administrative post-issuance review and are also necessary to prevent inefficient and wasteful uses of the Office's resources. We are very pleased that the Office has made clear its commitment and intent to rigorously construe and apply these measures in the manner that Congress intended. We offer below a few additional comments.

a. Petitioners should be required to corroborate complex challenges with robust documentary evidence

Consistent with the AIA, the proposed implementing rules for PGR and IPR require a petitioner to satisfy a new elevated "threshold" standard before a proceeding may be instituted. These new standards, which altogether replace the "substantial new question of patentability" test, were deemed essential by Congress not only to guard against frivolous or ill supported challenges, but importantly to ensure that petitioners submit their best evidence at the outset of the proceeding. As an added safeguard against unsubstantiated challenges, a petitioner is also required, with respect to each challenged claim, to state with "particularity" the grounds for the challenge and the evidence supporting the challenge. By compelling petitioners to "front load" their cases, the Office can better assess the merits of the challenge and ensure a more expeditious process once the proceeding commences.

IA is pleased that proposed § 42.104(b) and § 42.204(b) would further clarify these pleading requirements. In all cases, it is imperative that the petitioner comply with these requirements both to make sure that the patent owner has the information necessary to formulate a robust response, but also to ensure that the Board can make a well-reasoned assessment as to whether the petition satisfies the statutory threshold.

It bears emphasizing, moreover, that these pleading requirements will prove all the more critical where challenges are based on particularly fact-intensive grounds -- e.g., the public use or on sale bar defenses. In such cases, we would encourage the Office to further clarify that the petitioner must provide sufficient documentary corroboration at the petition stage to support its challenge.⁷ Otherwise, these types of challenges could lead to lengthier and more burdensome discovery for the patent owner, who typically will not have access to the evidence necessary to defend against the challenge.

b. The Board should reject attempts to avoid estoppel through piecemeal challenges against specific claims

As noted in IA's Initial Comments, Congress ultimately decided to adopt a strong "administrative" estoppel standard that applies to all post-issuance proceedings before the Office to mitigate the risk of serial, duplicative, and potentially abusive challenges to the same patent. For a patent owner, particularly a small innovator, multiple validity challenges could render the patent virtually unenforceable, especially if a court were to stay litigation pending administrative review. Senator Kyl, whose staff negotiated much of the text of Chapters 31 and 32, articulated these concerns by noting that --

*Lengthy and duplicative proceedings are one of the worst evils of other systems of administrative review of patents. During the pendency of such proceedings, a patent owner is effectively prevented from enforcing his patent.*⁸

Despite Congress's clear intent to limit a petitioner to "one bite at the apple" with respect to the same patent, the final estoppel language of the AIA includes a potential loophole, in that the estoppel effect of an administrative proceeding under sections 315(e) and 325(e) appears limited to the specific claim or claims challenged in the proceeding. This estoppel language potentially allows petitioners to game the system by challenging different claims of the same patent through piecemeal petitions -- something that Congress clearly meant to discourage.

⁷ See, e.g., *Washburn & Moen Mfg Co. v. Beat 'Em All Barbed-Wire Co.*, 143 U.S. 275 (1892).

⁸ 154 Cong. Rec. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

This aspect of the new estoppel language may have been an unintended holdover from the preexisting estoppel standards set forth in current sections 315(c) and 317(b), which also refer to claims. Regardless, Congress clearly did not intend to encourage piecemeal petitions under the new post-grant proceedings. To the contrary, the legislative history on administrative estoppel suggests that Congress assumed that an unsuccessful administrative challenge of a patent would preclude all subsequent challenges of that same patent:

Under paragraph (1) of sections 315(e) and 325(e), a party that uses inter partes or post-grant review is estopped from raising in a subsequent PTO proceeding any issue that he raised or reasonably could have raised in the post grant or inter partes review. This effectively bars such a party or his real parties in interest or privies from later using inter partes review or ex parte reexamination against the same patent, since the only issues that can be raised in an inter partes review or ex parte reexamination are those that could have been raised in the earlier post-grant or inter partes review.⁹

While the Board cannot ignore the plain language of the AIA, it should strongly discourage and disfavor efforts by petitioners to avoid estoppel through successive petitions against different claims within a patent. As a matter of efficiency and fairness, it is important that the petitioner identify in its initial petition all claims that potentially could be challenged based on the evidence and information reasonably available to it at the time of the petition. Thus, for example, a well-pled petition should specify all potential grounds for challenge under sections 101 and 112, as well as all claims to which such grounds potentially apply.

When the grounds and evidence asserted in a subsequent petition against the same patent suggest that the petitioner could have challenged the relevant claims in the previous proceeding, the Board should use its authority under Section 325(d) to reject that petition. Under the new 35 U.S.C. §325(d), “the Director may take into account whether, and reject the petition or request because, the same or substantially the same prior art or arguments previously were presented to the Office,” in deciding whether to order or institute an administrative post-grant proceeding. Although included within chapter 32 on post-grant review proceedings, this authority also expressly applies to inter partes review and ex parte reexamination proceedings. As noted in the legislative history to chapter 32, Congress included section 325(d) to give USPTO the authority to reject duplicative petitions, regardless of whether the petition satisfies the threshold standard:

This will prevent parties from mounting attacks on patents that raise issues that are substantially the same as issues that were already before the Office with respect to the patent.¹⁰

⁹ 157 Cong. Rec. S1376 (daily ed. March 8, 2011) (statement of Sen. Kyl).

¹⁰ *Id.*

Section 325(d) would clearly come into play where a petitioner attempts to bifurcate a challenges of parallel claims -- e.g., where an invention is specified in both method and apparatus form -- between two or more successive proceedings. In such situations, a petitioner has no valid reason not to specify all such claims in the same petition, and the Board should strongly encourage the petitioner to do so. Where a petitioner fails to challenge parallel claims in the same proceeding and attempts to institute a subsequent proceeding against the same patent, the Board should reject the subsequent petition under Section 325(d).

c. The Board should interpret the terms real parties in interest and privies in a flexible manner consistent with common law principles and federal case law

In the "Practice Guide for Proposed Trial Rules," the USPTO appropriately notes that questions of non-party privity are highly "fact-dependent" and should be addressed on a case-by-case basis.¹¹ IA endorses this well-established, flexible approach to the issue and commends the USPTO for opting not to adopt rigid criteria or bright-line rules that would narrowly construe often complex and always important issue of whether a particular non-party is a privy and/or real party in interest in the context of a post-grant proceeding.

Although a categorical rule on privity may have the superficial appeal of simplicity, it would represent a significant departure from federal jurisprudence in this area and inevitably lead to inequitable results, particularly for patent owners that face a heightened risk of serial validity challenges under the AIA. At the same time, however, the Board's proposed approach to this issue will require it to undertake the same kind of rigorous analysis that courts bring to bear when confronting issues of non-party preclusion. Congress's decision to extend post-grant estoppel to both real parties in interest and privies is yet another principled effort to ensure efficient and fair proceedings that do not unduly burden the Office or patent owners. Whether this objective is accomplished will depend critically upon the Office's diligence in enforcing these requirements and restrictions.

d. The Board should remain firm in its commitment to adhere to the 12-month statutory deadline

Some commenters have suggested that the Board should extend a proceeding beyond the 12-month deadline whenever a petition possesses certain indicia of complexity, e.g., it involves an obviousness challenge. IA strongly opposes any such policy and urges the Office to remain firm in its commitment to complete proceedings within the 12-month statutory deadline, with only rare use of the six month extension.

¹¹ See Notice of Proposed Rulemaking for Practice Guide for Proposed Trial Rules at 6870.

Of course, IA recognizes that certain circumstances may warrant additional time to complete a proceeding, beyond the 12-month timeframe, and is mindful that Congress authorized a maximum six-month extension to accommodate such circumstances. Nevertheless, as the Board itself has emphasized in each of its roadshows, such circumstances should be rare and evaluated on a case-by-case basis.

2. Proposed 12-month process and timeline

IA commends the USPTO for devising a flexible, efficient process that provides each party with a meaningful opportunity to complete each phase of a post-grant proceeding within the statutory deadline. IA offers a few comments below which we believe will improve the fairness of the process.

a. The Office should eliminate the prohibition against testimonial evidence in a patent owner's response

The proposed rules permit a petitioner to include an expert affidavit as part of its petition but preclude the patent owner from submitting testimonial evidence in its response.¹² Although not mandated by statute, the USPTO has proposed this limitation to avoid a battle of the experts at the petition stage.

Although IA commends the Office's efforts to ensure an efficient petition process, we are concerned that a categorical prohibition against testimonial evidence could unfairly limit the patent owner's ability to defend against unwarranted petitions, particularly in cases where a claim is challenged on fact-intensive grounds. Moreover, we do not believe that a patent owner's reliance on testimonial evidence at the petition stage would create any inefficiencies -- to the contrary, it could provide the Board with the technical evidence needed to avoid unnecessary proceedings.

For these reasons, IA urges the Office to eliminate this prohibition against testimonial evidence and to provide instead that a preliminary response may present testimonial evidence to rebut expert testimony cited by the petitioner. If the Office is unwilling to amend its rules accordingly, we would ask in the alternative that the Office clarify that attorney arguments in the patent owner's preliminary response will be given the same weight with respect to technical issues as any testimonial evidence presented by the petitioner.

We would also urge the Office to confirm that it will consider early motions to dismiss a proceeding where testimonial evidence presented by the patent owner effectively disproves expert testimony presented in the petition. If, based upon such new testimonial evidence, the Board would have concluded that the petitioner had failed to satisfy the statutory threshold, the Board should grant a motion to dismiss. Again, however, these potential "false positives"

¹² See Notice of Proposed Rulemaking for Practice Guide for Proposed Trial Rules at 6873.

are best avoided by permitting the patent owner to present testimonial evidence in its preliminary response.

b. A petitioner's claim construction should have no binding effect on other proceedings

The proposed rules would require a petitioner to include a claim construction for each challenged claim in its initial petition.¹³ Although IA understands the rationale for this requirement (and agrees that it could encourage a more efficient and equitable process), we would encourage the Office to clarify that the petitioner's claim construction is relevant only to the proceeding at issue and will not vary or limit the scope of the claims in litigation.¹⁴

c. The Board should permit additional motions to amend claims throughout a proceeding whenever circumstances warrant

The proposed rules indicate that the USPTO may be unreceptive to additional motions to amend if made relatively late in a proceeding. Although IA understands the Office's desire to avoid unnecessary delays, IA encourages the Office to acknowledge that a patent owner may not be in a position to craft a carefully tailored amendment early in a post-grant proceeding. The goal of the post-grant process should be to refine the scope of claims, not to knock them out altogether. To promote this goal, the Board should grant motions to amend throughout the proceeding whenever the facts and circumstances warrant.

A presumption against subsequent amendments could also result in inefficiencies. In particular, if a patent owner fears that it may have only one motion to amend, it will use its initial amendment opportunity to add as many claims as necessary to address every potential contingency. This could create added expense and uncertainty for the patent owner and undermine the Board's goal of timely resolution.

d. The Board should grant a patent owner's non-routine discovery requests when necessary to defend against non-prior art challenges

Although IA strongly supports the USPTO's desire to avoid unnecessary or excessive discovery, we would also encourage the Board to exercise flexibility when considering a patent owner's non-routine discovery requests in the context of fact-intensive validity challenges. Historically, the Office has required the patent owner to satisfy a fairly high burden as to why non-routine discovery is necessary. While this position may be warranted in the context of

¹³ See *id.* (citing proposed §§ 42.104, 42.204, 42.304, and 42.405).

¹⁴ This principle is consistent with current law on the effect of statements made by examiners as to claim scope. A patent owner's silence regarding such statements does not preclude it from taking a position contrary to such statements in litigation. See, e.g., *Salazar v. Procter & Gamble*, 414 F.3d 1342, 1345-46 (Fed. Cir. 2005).

prior art challenges, it could lead to inequities if a patent owner is precluded from undertaking the discovery necessary to rebut non-prior art grounds. A more flexible approach to discovery requests will prove particularly important in the early years of the new CBM program, as these proceedings will no doubt require the Board to decide an array of complex issues that are beyond the scope of reexaminations.

e. The USPTO should eliminate proposed § 42.51(b)(3)

The proposed § 42.51(b)(3) would require parties to a proceeding to provide all “noncumulative information” that is inconsistent with a position taken by the patent owner or petitioner during the proceeding. Although this measure aims to promote a more efficient process, it could potentially have the opposite effect and prove highly burdensome to the parties.

To comply with the proposed rule, parties would be required to undertake extensive searches throughout their company or organization. Even if such a search were feasible, a party would face considerable uncertainty in determining whether a particular document might be relevant, as the scope of the rule is ambiguous and potentially quite broad. The proposed requirement would thus create significant expense and delay and invite unnecessary disputes as to whether the other side is providing the proper information.

As a result, IA believes that the proposed § 42.51(b)(3) contravenes the Office’s overarching goal to create an efficient and fair administrative review process. We strongly recommend that this requirement be eliminated from the USPTO’s rulemaking package.

f. The Board should consider early motions to dismiss a proceeding based on written statements of the patent owner filed under section 301

In our comments of March 5, 2012 (attached as Appendix 2), IA asked the Office to clarify in writing that, in deciding whether to institute a post-grant proceeding, it will consider any evidence properly submitted by a party in connection with the petition process, including relevant statements on claim construction previously filed by the patent owner in a proceeding with the Office or a Federal court. However, if the Office is of the view that section 301(d) precludes, in all circumstances, consideration of such statements before a post-grant proceeding is instituted – i.e., even if the statements are introduced as part of the petition process – the Office should permit patent owners to file a motion to dismiss the proceeding shortly after it commences if the Office’s earlier consideration of the claim construction statement might have caused it to deny the petition in the first place.

In other words, if the statement might have caused the Board to conclude that the petition failed to satisfy the relevant threshold standard, the Board should be willing to entertain a motion to dismiss the proceeding for lack of sufficient evidence. Similarly, patent owners should be permitted to request termination of ex parte reexamination proceedings based upon such claim construction statements.

* * *

Thank you for considering the views of the Innovation Alliance on these important issues.

Sincerely,

Brian Pomper
Executive Director, The Innovation Alliance

APPENDIX 1

INITIAL COMMENTS OF THE INNOVATION ALLIANCE ON AIA RULEMAKING

DATED NOVEMBER 15, 2011



IMPLEMENTATION OF THE AMERICA INVENTS ACT

Comments on Proposed USPTO Rules and Guidance on Post-Issuance Review, the Transitional Program, and Third Party Submissions

Submitted by the Innovation Alliance

The Innovation Alliance respectfully submits the following comments for consideration by the Office in connection with proposed rulemaking on (i) the new post-grant review proceedings set forth in Section 6 of the America Invents Act, (ii) the transitional program for covered business method patents established under Section 18 of the Act, and (iii) pre-issuance submissions by third parties under Section 8. The Innovation Alliance represents innovators, patent owners, and stakeholders from diverse industries. Innovation Alliance members believe in the critical importance of maintaining a strong patent system that supports innovative enterprises across the country, helping to fuel the innovation pipeline and drive the 21st century economy.

I. POST-GRANT REVIEW AND INTER PARTES REVIEW (SECTION 6)

The post-grant review (“PGR”) and inter partes review (“IPR”) procedures set forth in the America Invents Act (“AIA”) represent a heavily negotiated and carefully crafted framework that aims, among its many objectives, to protect patent owners against serial and harassing validity challenges. The Innovation Alliance worked alongside representatives of the patent community, legislative staff, and the USPTO to ensure that the ultimate legislative text included adequate safeguards against tactical and potentially abusive uses of the new administrative review procedures. These safeguards, which we address below, include a heightened threshold for initiating a proceeding, robust estoppel standards, a clear burden of proof, and a deadline for completing the proceedings. These safeguards are essential to a balanced, equitable system of administrative post-issuance review and are also necessary to prevent inefficient and wasteful uses of the Office’s resources.

Certain commenters have encouraged the Office to ignore Congress’s plain intent when interpreting these safeguards. Clearly, the Office cannot do so; instead, any related rules and procedures should rigorously construe and apply these measures in the manner that Congress intended.

A. Heightened Threshold for Initiating Post-Grant and Inter Partes Review

One of the key improvements to the Office’s post-issuance review proceedings is the introduction of a heightened threshold for initiating a PGR or IPR. The pre-existing “substantial new question of patentability” test was widely viewed -- including by USPTO -- as

an ineffectual standard that had consistently resulted in grant of at least 95% of petitions. A new elevated standard was deemed essential not only to guard against frivolous or ill supported challenges, but importantly to ensure that petitioners submit their best evidence at the outset of the proceeding. By compelling petitioners to “front load” their cases, the Office can better assess the merits of the challenge and ensure a more expeditious process once the proceeding commences.

1. The new statutory thresholds significantly elevate the bar to entry and require the equivalent of a prima facie case

Congress’s reasons for adopting a heightened threshold showing are most fully summarized in the following legislative history:

Among the most important protections for patent owners added by the present bill are its elevated thresholds for instituting inter partes and post-grant reviews. The present bill dispenses with the test of “substantial new question of patentability,” a standard that currently allows 95% of all requests to be granted. It instead imposes thresholds that require petitioners to present information that creates serious doubts about the patent’s validity. Under section 314(a), inter partes review will employ a reasonable-likelihood-of-success threshold, and under section 324(a), post-grant review will use a more-likely-than-not-invalidity threshold.

Satisfaction of the inter partes review threshold of “reasonable likelihood of success” will be assessed based on the information presented both in the petition for review and in the patent owner’s response to the petition. The “reasonable likelihood” test is currently used in evaluating whether a party is entitled to a preliminary injunction, and effectively requires the petitioner to present a prima facie case justifying a rejection of the claims in the patent. Post-grant review uses the “more likely than not invalid” test. This slightly higher threshold is used because some of the issues that can be raised in post-grant review, such as enablement and section 101 invention issues, may require development through discovery. The Office wants to ensure that petitioners raising such issues present a complete case at the outset, and are not relying on obtaining information in discovery in the post-grant review in order to satisfy their ultimate burden of showing invalidity by a preponderance of the evidence.¹⁵

As noted above, the “reasonable likelihood of success” test applicable to IPR proceedings requires, at a minimum, that the petitioner present a prima facie case justifying rejection of the challenged claim. The “more likely than not” threshold applicable to PGRs is meant to be a somewhat higher test in light of the discovery-intensive issues that can be raised in such proceedings. Both proceedings, however, are meant to be adjudicative in nature; thus, the thresholds should be construed accordingly.

¹⁵ 157 Cong. Rec. S1375 (daily ed. March 8, 2011) (statement of Sen. Kyl).

The SNQP test, in contrast, is a remnant of the old reexamination process and has no relevance to either PGR or IPR proceedings. The SNQP test merely requires that the requester present a “new” piece of prior art that an examiner would deem “important” in deciding whether a claim is patentable. The Office has expressly stated that a requester is not obligated to present prior art that would render the claim invalid, and in practice, the “substantiality” of a new prior art ground is rarely questioned. Similarly, the concept of “newness” has been broadly construed by the Office to permit reexamination on virtually any ground -- including previously considered prior art -- unless the printed publication or patent was applied in exactly the same manner as it is now being applied.¹⁶

In short, the SNQP test has been construed in a manner that strongly favors the third party requester and rarely results in rejection of the petition. In contrast, Congress clearly intended the new statutory thresholds for PGR and IPR proceedings to serve as a meaningful bar against petitions that lack sufficient evidentiary support to establish a prima facie case of unpatentability, consistent with the judicial standard for preliminary injunctions. Suggestions that the new thresholds are comparable to the SNQP test are baseless. As the Federal Circuit recently held in *Procter & Gamble v. Kraft Global*, the SNQP test is fundamentally different from the standard for preliminary injunctive relief, despite superficial similarities in wording:

[T]he PTO does not appear to equate the “substantial new question of place, see 35 U.S.C. § 312(a)(1), with the “substantial question of validity” standard by which a defendant may prevent a patentee from demonstrating a likelihood of success on the merits [citation omitted]. In particular, the PTO considers the standard for reexamination met when “there is a substantial likelihood that a reasonable examiner would consider the prior art patent or printed publication important in deciding whether or not the claim is patentable.” Manual of Patent Examination and Procedure § 2642 (8th ed. Rev. 7 2008) (emphasis in original). “Thus, ‘a substantial new question of patentability’ as to a patent claim could be present even if the examiner would not necessarily reject the claim as either anticipated by, or obvious in view of, the prior art patents or printed publications.” *Id.*¹⁷

Nevertheless, some commenters have urged the Office to interpret the new statutory thresholds as low bars to entry comparable to the SNQP test -- as if the plain language of the statute and Congress’s constitutional authority to amend our patent laws can and should be ignored. Congress explicitly and decisively rejected the SNQP test as an appropriate threshold for the new PGR and IPR proceedings. The Office must, in turn, require petitioners to satisfy at the outset a more robust evidentiary showing in order for a proceeding to commence.

2. To satisfy the threshold, petitioners should be required to provide a detailed analysis and all documentary evidence supporting the petition

¹⁶ See MPEP §2242.

¹⁷ *Procter & Gamble Co. v. Kraft Foods Global Inc.*, 459 F.3d 842 (Fed. Cir. 2008).

To satisfy the threshold, the petitioner should be required to provide a detailed legal invalidity analysis for each statutory ground that forms the basis for its assertion. In the case of invalidity challenges based on patents and printed publications under Sections 102 and 103, the petition should reference the specific portions of the prior art documents that serve as the basis for its challenge and apply those portions in an analysis based on current law. The petitioner should review the original file history of the challenged patent and if any statements are made by the patentee that affect the claim scope, the petitioner should base its analysis on the claim scope resulting from the file history record.

For other challenges, the petitioner should submit with the petition all of the documentary evidence, including affidavits of witnesses, that it relies upon to make the challenge. In all cases, the documents and arguments supporting the petition (including any timely filed supplemental information) must be legally sufficient to satisfy the applicable threshold, without ex parte or in camera discussions with either the petitioner or patent owner.

B. “Reasonably Could Have Raised” Estoppel

Estoppel was one of the most extensively debated issues surrounding the new IPR and PGR proceedings. When new post-grant procedures were first proposed almost a decade ago, certain reform advocates argued that the existing “could have raised” estoppel standard of section 315(c) discouraged use of the then nascent inter partes reexamination system. This fear ultimately dissipated, however, with increasing use of the system. Moreover, the lengthy pendency rates associated with inter partes reexamination and subsequent appeals meant that, as a practical matter, estoppel had no preclusive effect on subsequent judicial validity challenges. Under existing law, an unsuccessful inter partes challenge has no preclusive effect until all appeals are exhausted -- a process that often takes many years to complete. As a consequence, the last several years have witnessed a significant increase in inter partes reexamination petitions, particularly as a defensive strategy by alleged infringers to stall and potentially avoid enforcement of a patent in court.

1. All proceedings before the office are subject to strong estoppel, which should be construed and enforced consistent with well-established common law principles

The growing popularity of inter partes reexamination as a tactical weapon of litigation significantly altered the debate over estoppel. Congress and the patent community grew increasingly concerned that, without a strong estoppel standard, multiple tracks of administrative and judicial review could lead to the threat of serial, duplicative, and potentially abusive attacks. For a patent owner, particularly a small innovator, multiple validity challenges could render the patent virtually unenforceable, especially if a court were to stay litigation pending administrative review. Senator Kyl, whose staff negotiated much of the text of Chapters 31 and 32, articulated these concerns by noting that --

Lengthy and duplicative proceedings are one of the worst evils of other systems of administrative review of patents. During the pendency of such proceedings, a patent owner is effectively prevented from enforcing his patent.¹⁸

In response, Congress ultimately decided to adopt a strong “administrative” estoppel standard that applies to all post-issuance proceedings before the Office, including PGR, IPR, and ex parte reexamination, regardless of whether the initial or subsequent challenge is filed at the USPTO, in court, or at the ITC. Although the statutory estoppel standard uses slightly different wording than the existing “could have raised” estoppel standard -- precluding successive challenges based on any “ground that the petitioner raised or *reasonably* could have raised during a previous proceeding” (emphasis added) -- the scope of the new statutory estoppel standard is largely the same. The addition of “reasonably” makes explicit a limitation that is arguably implicit in the existing estoppel standard. In other words, the reasonableness qualifier avoids the need for a “scorched earth” search, but courts have typically construed the scope of estoppel to include a reasonableness limitation.

In that regard, the estoppel standard should be construed consistent with well-established jurisprudence on collateral estoppel, which generally precludes relitigation of issues that could have been discovered in the initial litigation through the exercise of reasonable due diligence. In the context of validity challenge, the “reasonably could have raised” standard would encompass issues of validity that could have been discovered through a diligent search by a skilled searcher. Indeed, this interpretation is reflected in the AIA’s legislative history:

Adding the modifier “reasonably” ensures that could-have-raised estoppel extends only to that prior art which a skilled searcher conducting a diligent search reasonably could have been expected to discover.¹⁹

In the context of judicial and administrative proceedings, collateral estoppel precludes relitigation of a particular issue, and does so with respect to all evidence or arguments that were or could have been raised in the initial litigation. In practice, because final resolution of an issue is deemed conclusive in subsequent litigation, courts typically do not find it necessary to undertake a “could have raised” analysis in the context of collateral estoppel. There are exceptions to this general rule - e.g., where a significant change in controlling facts has occurred since the original litigation. In this situation, a court will ask whether the new facts “could have been” discovered during the initial litigation in the exercise of due diligence. If so, collateral estoppel precludes relitigation of the issue. Another potential exception to the application of issue preclusion is a major change in the law.

These principles apply equally to the issue of patent validity. In a recent federal district court case *Roche Palo Alto, LLC v. Apotex, Inc.*²⁰, the defendant attempted to argue that a

¹⁸ 154 Cong. Rec. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

¹⁹ 157 Cong. Rec. S1375 (daily ed. March 8, 2011) (statement of Sen. Kyl).

²⁰ *Roche Palo Alto, LLC v. Apotex, Inc.*, 526 F.Supp.2d 985 (N.D.Cal. 2007).

previous judicial finding of patent validity precludes relitigation of validity only on the basis of the specific arguments and evidence raised in the original litigation (i.e., arguing that the relevant "issues" for purposes of collateral estoppel are the specific grounds and arguments raised in the prior litigation). The district court rejected this narrow reading of collateral estoppel, holding that the relevant "issue" covered by collateral estoppel is the ultimate determination of validity, thus barring relitigation of the patent's validity on any arguments or prior art grounds, whether or not raised in the first litigation.

"The authorities that have considered this question support Plaintiff's view and indicate that the relevant "issue" which Defendants are precluded from relitigating is the ultimate determination on patent validity itself. This Court is persuaded that the reasoning set forth in *Applied Med. Res. Corp. v. United States Surgical Corp.*, 352 F. Supp. 2d 1119, 1124-26 (C.D. Cal. 2005) ("*Applied*") regarding the applicability of issue preclusion in the patent invalidity context is correct. In *Applied*, applying Ninth Circuit precedent and the Second Restatement of Judgments, the district court held that the "issue" that the accused infringer was precluded from relitigating because of a prior judgment was the validity of the asserted patent claim. *Id.* at 1124-26 (citing *Kamilche Co. v. United States*, 53 F.3d 1059, 1062 (9th Cir. 1995)). The district court held that what the accused infringer argued were the "issues" -- specific arguments such as anticipation by prior sale, best mode, public use, and prior publication -- were "just the particular arguments raised in support of [invalidity] in the first case." *Id.* at 1125. Applying Ninth Circuit precedent, *Applied* found that issue preclusion barred the accused infringer not only from re-raising any grounds on which it had argued invalidity in the first litigation, but also the invalidity grounds newly raised in the second litigation, such as prior art anticipation and obviousness. See *id.* at 1127-28. District courts from around the country are in agreement with the result reached in *Applied*."²¹

This case is instructive because it affirms that the "reasonably could have raised estoppel" standard applicable to PGR and IPR proceedings is not an arbitrary or overly rigid standard in the context of patent validity challenges. Instead, the standard is based on the same sound legal and policy principles that historically have led courts and Congress to disfavor relitigation of issues, namely, judicial economy, fairness, and the prevention of legal harassment. Once a party has litigated a patent's validity, whether in court, the ITC, or at the USPTO, principles of collateral estoppel dictate that the party and its privies should be barred from relitigating prior art validity on any grounds that it could have discovered in the initial proceeding through a diligent search, subject to the same narrow exceptions that apply to collateral estoppel generally.

2. With rare exceptions, "reasonably could have raised" estoppel should preclude subsequent administrative review of a previously challenged claim

²¹ *Id.* at 995.

These well-established principles of estoppel dictate that successive administrative challenges of the same claim should rarely be permitted, as the petitioner could have discovered -- and thus reasonably could have raised -- the same patents and printed publications in the initial PGR or IPR proceeding as in the subsequent IPR or reexamination proceeding. Similarly, an unsuccessful judicial or ITC challenge should, except in rare cases, bar subsequent administrative proceedings, including ex parte reexaminations. Legitimate exceptions may exist, for example where new prior art was not discoverable through available search tools at the time of the original proceeding. However, the Office should permit a second challenge of a patent claim only in exceptional cases where the petitioner can demonstrate that the new prior art grounds could not have been reasonably discovered by a skilled searcher at the time of the original proceeding. Any less rigorous construction of the statutory estoppel standard will open the door to inefficiencies and delays in the use of the Office's resources, undermine the enforceability of patent rights, and risk abuse of the system.

3. The Office must extend administrative estoppel to all real parties in interest and privies, as those terms are flexibly construed by federal courts based on equitable and practical considerations

Another notable improvement to rules of administrative and litigation estoppel is the explicit preclusion of repeat challenges by real parties in interest and privies. In contrast with the existing inter partes reexamination system, a petition for either a PGR or IPR proceeding must identify *all* real parties in interest, and this information must be disclosed to the patent owner. (*See* subsections (a)(2) and (a)(5) of sections 312 and 322) Similarly, a challenge of a claim bars repeat challenges by all real parties in interest and privies on grounds that reasonably could have been raised during the initial proceeding. This is yet another effort by Congress to ensure efficient and fair proceedings that do not unduly burden the Office or patent owners. Whether this objective is accomplished will depend critically upon the Office's diligence in enforcing these requirements and restrictions.

Although the Office may rely upon patent owners to take the initiative, in the first instance, to determine whether a petitioner is a real party in interest or a privy for purposes of estoppel, the Office will need to resolve any resulting disputes -- something it has historically declined to do. Here again, the Office should look to the federal common law of judgments as its principal guide as to the appropriate meaning and scope of real parties in interest and privies in a particular case, and not to existing USPTO guidance for inter partes reexamination proceedings. There is no formulaic definition of a real party in interest or privy, and whether a related entity should be deemed a privy for purposes of estoppel is a factual and equitable determination that will necessarily depend on the specific circumstances of the case. Courts routinely make such determinations, and the Administrative Patent Judges ("APJs") assigned to the new Patent Trial and Appeal Board ("PTAB") will similarly need to resolve such disputes according to well-established legal principles.

In that regard, federal courts, including the Court of Appeals for the Federal Circuit, have in recent years taken a more expansive view of the concept of privity in the context of collateral estoppel, recognizing that multi-party litigation creates a high risk of waste and

abuse unless parties to a joint defense agreements and similar arrangements are not precluded from relitigation of issues and claims. As noted in the legislative history to the AIA,

The word “privy” has acquired an expanded meaning. The courts, in the interest of justice and to prevent expensive litigation, are striving to give effect to judgments by extending “privies” beyond the classical description. The emphasis is not on a concept of identity of parties, but on the practical situation. Privy is essentially a shorthand statement that collateral estoppel is to be applied in a given case; there is no universally applicable definition of privy. The concept refers to a relationship between the party to be estopped and the unsuccessful party in the prior litigation which is sufficiently close so as to justify application of the doctrine of collateral estoppel.²²

In the context of PGR and IPR, Congress expressed the hope that privy estoppel would, at a minimum, bar relitigation of prior art issues of validity in multi-party suits, recognizing that the patent owner’s disclosures in court will impact the appropriate scope of estoppel:

[P]rivy is an equitable rule that takes into account the “practical situation,” and should extend to parties to transactions and other activities relating to the property in question. Ideally, extending could-have-raised estoppel to privies will help ensure that if an inter partes review is instituted while litigation is pending, that review will completely substitute for at least the patents-and printed- publications portion of the civil litigation. Whether equity allows extending privy estoppel to codefendants in litigation, however, will depend in large measure upon the actions of the patent owner, and whether he has made it reasonably and reliably clear which patent claims he is asserting and what they mean. If one defendant has instituted an inter partes review, but other defendants do not have an opportunity to join that review before it becomes reasonably clear which claims will be litigated and how they will be construed, it would be manifestly unfair to extend privy estoppel to the codefendants.²³

On a related point, it is important to note that the estoppel effect of an administrative, judicial, or ITC proceeding applies to any “proceeding before the Office,” including ex parte reexaminations. (See sections 315(e)(1) and 325(e)(1)) According to the AIA legislative history, Congress expects the Office to amend its regulations to require identification of ex parte reexamination requesters in order to give full effect to administrative estoppel. Given that estoppel will also extend to the real parties in interest and privies of such requesters, the Office’s new ex parte reexamination rules will also need to address disclosure of any such related parties.

Under paragraph (1) of sections 315(e) and 325(e), a party that uses inter partes or post-grant review is estopped from raising in a subsequent PTO proceeding any issue that he raised or reasonably could have raised in the post-grant or inter partes review. This

²² 154 Cong. Rec. S9987 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

²³ 157 Cong. Rec. S1376 (daily ed. March 8, 2011).

effectively bars such a party or his real parties in interest or privies from later using inter partes review or ex parte reexamination against the same patent, since the only issues that can be raised in an inter partes review or ex parte reexamination are those that could have been raised in the earlier post-grant or inter partes review. The Office recognizes that it will need to change its regulations and require that ex parte reexamination requesters identify themselves to the Office in order for the Office to be able to enforce this new restriction.²⁴

C. Burden of Proof

In order to convert IPR and PGR into adjudicative proceedings, the petitioner has “the burden of proving a proposition of unpatentability by a preponderance of the evidence.” (See sections 316(e) and 326(e)).²⁵ The new Office procedures and rules governing post-issuance proceedings should thus clearly assign the burden of proof to the petitioner, as is the case currently with interference proceedings. Moreover, for the avoidance of doubt, the Office should clarify the distinction between the petitioner’s threshold showing and burden of proof. As with judicial and quasi-judicial proceedings, satisfaction of the threshold is necessary and sufficient for the post-issuance proceeding to commence; it does not, however, satisfy the petitioner’s burden of proving unpatentability by a preponderance of the evidence or otherwise shift the burden of proof to the patent owner.

D. Deadline for Completion of Post-Issuance Review Proceedings

To achieve the legislative objectives of a more robust system of post-issuance review, it is critically important that the Office adhere to the 1 year deadline in the vast majority of PGR and IPR proceedings. Doing so will prove challenging; yet, the USPTO’s leadership has consistently and repeatedly assured Congress and the patent community that it can complete the new IPR and PGR proceedings within the statutory deadline. If, instead, the deadline is treated as merely aspirational or even irrelevant, the Office will further exacerbate the many evils already associated with lengthy reexamination proceedings. Excessive delays in completing inter partes reexaminations have created a cottage industry in tactical uses of the system as a weapon of litigation.²⁶ With the new adjudicative structure of post-issuance review, the Office

²⁴ *Id.*

²⁵ See *id.* at S1375 (“One important structural change made by the present bill is that inter partes reexamination is converted into an adjudicative proceeding in which the petitioner, rather than the Office, bears the burden of showing unpatentability. . . . In the present bill, section 316(a)(4) gives the Office discretion in prescribing regulations governing the new proceeding. The Office has made clear that it will use this discretion to convert inter partes into an adjudicative proceeding. This change also is effectively compelled by new section 316(e), which assigns to the petitioner the burden of proving a proposition of unpatentability by a preponderance of the evidence.”).

²⁶ For a discussion of tactical uses of inter partes reexamination, see Sen. Judiciary Comm. Rep. No. 111-18 at 54-56 (May 12, 2009) (minority views).

has more tools to create an efficient and manageable process. However, to do so, it will need to ensure that the overall post-issuance process and procedures effectively drive all participants -- the APJ panel, petitioners, and patent owners -- towards expeditious completion of a proceedings.

Each of the structural reforms noted above will, if fully and effectively enforced, drive a more efficient process, including rigorous interpretation of the threshold to ensure that a robust case exists at the outset; rigorous interpretation of the burden of proof to ensure that validity challenges are promptly dismissed where the petitioner fails to satisfy the burden; and rigorous interpretation of estoppel to ensure prompt dismissal of challenges that either could have been raised during an earlier proceeding or that are filed by a real party in interest or privy. In addition, the Office should limit the scope of discovery to avoid excessive costs and delays,²⁷ and prescribe and enforce meaningful, deterrent sanctions against petitioners that engage in abusive practices that prevent timely completion of a proceeding, as required under sections 316(a)(6) and 326(a)(6).

The Office is given broad discretion to determine the nature, severity, and application of such sanctions. At a minimum, the PTAB and its APJs should be empowered and encouraged to terminate a proceeding with prejudice and award legal fees and costs in cases of abuse or improper use of the proceedings (as appears to be the case under existing rule 41.128). The misuse of administrative review can have a devastating impact on a patent owner, effectively negating the enforceability of its rights, exhausting precious monetary and human resources, and truncating the useful life of the patent. More broadly, such abuses waste the Office's resources and call into question the fairness of the entire system of post-issuance review. In such cases, APJs should respond swiftly and decisively to redress the specific abuse at issue and signal that improper practices will not be tolerated.

Beyond these considerations, the specific procedures, timelines, and deadlines for PGRs and IPRs should reflect the expedited nature of the proceedings. The existing rules and procedures applicable to contested cases and interferences before the Office (as set forth in 37 CFR Part 41) may, to a certain extent, provide a sound basic framework for the new post-issuance proceedings, but they should be reassessed and where appropriate revised to compel a more efficient adjudicative process, and one that fully reflects the other statutory reforms and requirements set forth in Chapters 31 and 32. In that regard, the Office should impose and enforce clear deadlines for submitting supplemental information, completing discovery, filing motions to amend, requesting joinder, and other similar activities that could easily delay completion of a proceeding and increase its costs. At the same time, the Office should, where appropriate, accommodate reasonable requests that are jointly made by the parties.

Finally, although the one-year deadline for completing a PGR or IPR may be extended by an additional six months for "good cause," such extensions should be permitted only

²⁷ See 157 Cong. Rec. S1376 (daily ed. March 8, 2011), citing 154 Cong. Rec. S9988-89 (Sept. 27, 2008) ("Given the time deadlines imposed on these [PGR and IPR] proceedings, it is anticipated that . . . PTO will be conservative in its grants of discovery.").

in exceptional cases and not as a matter of course. The Office should provide guidance on the types of factors that may, on a case by case basis, demonstrate “good cause” for an extension, including, for example, where a large number of independent claims are being challenged or the patent owner is granted additional motions to amend the patent.

E. Other Important Procedural Issues

1. Sufficient amendments and substitute claims should be permitted to achieve proper claim scope

Sections 316(d)(2) and 326(d)(2) provide that additional motions to amend are permissible under certain specified circumstances, including where permitted by regulation during the course of an IPR proceeding and upon request where good cause is shown in the case of a PGR proceeding. Although the Innovation Alliance understands the need to limit amendments, particularly given the expedited nature of the proceedings, Office rules and guidance should also recognize the importance of amendments in allowing the patent owner to appropriately narrow the scope of a claim. The goal of post-issuance review is not to “knock out” patents altogether, but instead to ensure better quality patents. The Office’s inter partes reexamination statistics bear this out -- the majority of certificates are issued with at least some surviving claims. Although certain issued patent claims may be invalid in view of newly identified prior art, the patent owner should be able to modify the scope of patent protection in view of this prior art and retain rights in the adjusted claims.

Thus, the Office’s regulations should permit additional amendments where doing so would allow the patent owner to more accurately calibrate necessary adjustments in claim scope and preserve rights in some part of the invention. For similar reasons, the Office’s rules and guidance should permit sufficient substitute claims under sections 316(d)(1)(B) and 326(d)(1)(B). Rigid enforcement of a “one motion to amend” policy could force patent owners to insert overly-narrow limitations into the claim for fear of losing it altogether. This unwarranted forfeiture of rights could have profound and potentially devastating consequences, particularly given the risk of intervening rights.

2. IPR and PGR proceedings should terminate after settlement except in exceptional circumstances

Under sections 317(a) and 327(a), an IPR or PGR proceeding must be terminated upon joint request of the parties, “unless the Office has decided the merits of the proceeding before the request for termination is filed.” Unless construed as a narrow and rare exception to termination, the Office’s discretion to continue a proceeding despite the parties’ joint decision to settle could chill settlement negotiations. Parties are far less likely to discuss settlement when confronted with the possibility of continued review. The Innovation Alliance encourages the Office to issue guidance on this point and to clarify the specific circumstances in which the Office might continue a review despite the parties express desire to settle. To encourage settlement, this guidance should make clear that the Office will terminate proceedings upon settlement, except in exceptional circumstances.

II. TRANSITIONAL PROGRAM FOR COVERED BUSINESS METHOD PATENTS (SECTION 18)

A. Exemption of “Technological Inventions” from Transitional Program

Although the Innovation Alliance understands Congress’s rationale in adopting a special “transitional” program for certain “covered business method patents,” we are concerned that this additional post-grant review proceeding could yield an unmanageable number of reviews and more importantly undermine the enforceability of a broad range of patents that clearly constitute patent-eligible subject matter under section 101 of the Patent Act. If the Office broadly opens the transitional program to patents that are not inherently suspect under the Supreme Court’s decision in *Bilski v. Kappos*²⁸, it could easily upend the careful balance that Congress struck between so-called first and second windows of post-issuance review -- namely to protect the enforceability and predictability of patent rights by limiting second-window proceedings to prior art validity challenges.

The key to preserving this balance is the statutory exemption of “technological inventions” from the definition of a “covered business method patent” under subsection (d)(1) of Section 18. The Office has been given a critically important and challenging task in defining this term, which has no established meaning under U.S. patent law. Nevertheless, the legislative history to the AIA, as well as the Supreme Court’s decision in *Bilski*, provide important guidance. Among other things, *Bilski* confirms that the scope of ineligible subject matter under the Constitution is narrowly confined to claims directed solely to a physical phenomenon, law of nature, or abstract idea. Conversely, the term “technological invention” should be broadly defined to encompass any patent-eligible invention in a technological field, including the natural sciences, mathematics, or engineering. The exemption should include inventions related to computer hardware or software, provided that the hardware or software is novel as such, as well as inventions related to machines. More specifically, the Innovation Alliances proposes the following definition of “technological invention”:

“Technological invention” means any invention in a technological field, including natural sciences, mathematics, or engineering, regardless of whether the invention relates to computer operations, software, or machines.

This proposed definition, which is based on the legislative history of Section 18 (excerpted below), would appropriately limit the scope of the transitional program.

[T]echnological inventions are excluded from the scope of the program, and that these technological inventions include inventions in the natural sciences, engineering, and computer operations—and that inventions in computer operations obviously include software inventions. . . . If an invention recites software elements, but does not assert that it is novel as software, or does not colorably appear to be so, then it is not ineligible for

²⁸ *Bilski v. Kappos*, 129 S.Ct. 2735 (2010).

review simply because of that software element. But an actual software invention is a technological invention, and is not subject to review under section 18.²⁹

* * *

Inventions related to manufacturing and machines that do not simply use known technology to accomplish a novel business process would be excluded from review under Section 18. Section 18 would not cover patents related to the manufacture and distribution of machinery to count, sort, and authenticate currency. It is the intention of Section 18 to not review mechanical inventions related to the manufacture and distribution of machinery to count, sort and authenticate currency like change sorters and machines that scan currency whose novelty turns on a technological innovation over the prior art. These types of patents would not be eligible for review under this program.³⁰

B. Scope of “Covered Business Method Patents”

When determining whether a petition should be granted under the transitional program, the Office should apply a two-part test:

(i) Does the challenged claim fall within the exemption for technological inventions? If the answer is yes, the petition should be summarily denied without further consideration.

(ii) If the challenged claim is not a technological invention, the second question is whether it constitutes a “covered business method patent” as defined in section 18.

In addressing this second issue, the Office should keep in mind the primary objectives of Section 18, namely to permit comprehensive post-grant review of a relatively small number of “notorious” business method patents that have been asserted against financial services companies on a serial basis. Section 18 does not aim, as some have suggested, to target all business method or software-related patents. This is evident from the legislative history referenced above.

Although certain “covered business method patents” fall within the USPTO’s class 705, the fact that a patent claim falls within or outside class 705 is not conclusive as to whether it should or should not constitute a “covered business method patent.” The statutory definition is more nuanced and will require a more thoughtful analysis by the Office.

For instance, by its own terms, application of Section 18 is limited solely to patents that claim a method or corresponding apparatus “for performing data processing or other operations used in the practice, administration, or management of a *financial product or service*....” (See subsection (d)(1) of Section 18). Clearly, the imputed definitions of “financial

²⁹ 157 Cong. Rec. S5431 (daily ed. Sept. 8, 2011).

³⁰ 157 Cong. Rec. H4497 (daily ed. June 23, 2011) (statement of Chairman Smith).

product” and “financial service” govern applicability of Section 18 to a far greater extent than the largely subjective assignment of a patent to class 705.

Moreover, discussions on the legislative record reflect the concern that for purposes of Section 18, the terms “financial product” and “financial service” refer generally to intangible schemes or vehicles intended to facilitate a financial dealing. Section 18 would not apply, therefore, to patents related to novel mechanical devices or techniques for processing physical paper instruments merely because the instruments may be associated with a financial product or a financial service, or because patents claiming features of the devices may otherwise be assigned to class 705.³¹

Perhaps more importantly, the Office should consider whether the challenged claim is unpatentable as an abstract idea under *Bilski* and subsequent Federal Circuit decisions. Here again, this test may not be determinative in all cases, but it should create a strong presumption as to whether a business method patent is “covered” by the transitional program. If a business method patent claim has the requisite nexus to financial products or services *and* it appears to constitute patent-ineligible subject matter, the petition should be granted, assuming the threshold and other statutory criteria of a PGR proceeding are met. In contrast, if the business method claim has merely a tenuous connection to financial services and products, the petition should presumptively be denied. Similarly, the fact that a challenged claim constitutes eligible subject matter under section 101 should create a strong presumption in favor of denial.

III. THIRD PARTY SUBMISSIONS OF PRIOR ART (SECTION 8)

Section 8 of the AIA sets forth standards for pre-issuance submissions by third parties. Although this section aims to enhance the efficiency and quality of the pre-issuance examination process, the Office should provide rules and guidance that discourage the same third party (or the same real party in interest) from harassing the patent applicant and wasting Office resources by “dumping” references and serial submissions. Among other measures, the Office should consider appropriate fees to discourage reference “dumping” on the Office. In addition, to ensure transparency and compliance with the statute, the “person” providing the required statement of compliance under the new section 122(e)(2)(C) should be required to disclose the real party in interest.

* * *

³¹ Id.

Thank you for considering the views of the Innovation Alliance on these important issues.

Sincerely,

Brian Pomper, Executive Director
The Innovation Alliance

APPENDIX 2

COMMENTS OF THE INNOVATION ALLIANCE ON SECTION 301

DATED MARCH 5, 2012



March 5, 2012

IMPLEMENTATION OF THE AMERICA INVENTS ACT

Comments on Proposed USPTO Rules and Guidance on Submissions of Written Statements Made by Patent Owners Regarding Claim Scope under the amended 35 U.S.C. 301 (77 Fed. Reg. 442 (Jan. 5, 2012))

SUBMITTED BY THE INNOVATION ALLIANCE

The Innovation Alliance (IA) is pleased to submit the following comments on proposed regulations to implement the amended 35 U.S.C. 301. The Innovation Alliance represents innovators, patent owners, and stakeholders from diverse industries. Innovation Alliance members believe in the critical importance of maintaining a strong patent system that supports innovative enterprises across the country, helping to fuel the innovation pipeline and drive the 21st century economy.

The amended 35 U.S.C. 301(a)(2) permits “any person” to file with the USPTO “statements of the patent owner filed in a proceeding before a Federal court or the Office in which the patent owner took a position on the scope of any claim of a particular patent.” Section 301(d) further provides that “a written statement submitted pursuant to subsection (a)(2), and additional information submitted pursuant to subsection (c), shall not be considered by the Office for any purpose other than to determine the proper meaning of a patent claim in a proceeding that is ordered or instituted pursuant to section 304, 314, or 324.”

The USPTO has interpreted 35 U.S.C. 301(d) to limit the Office’s use of claim construction statements filed pursuant to section 301(a)(2) to post-grant proceedings that have already been ordered or instituted: “The provision limits the Office’s use of such written statements to determining the meaning of a patent claim in ex parte reexamination proceedings that have already been ordered and in inter partes review (IPR) and post grant review (PGR)

proceedings that have been instituted.” The Office further interprets 35 U.S.C. 301(d) as “prohibiting it from considering a §1.501(a)(2) written statement when making the determination of whether to order ex parte reexamination under 35 U.S.C. 303.”

These statements suggest that a similar prohibition may extend to IPR and PGR proceedings (instituted under sections 314 and 324 respectively). Such a prohibition would preclude the Office from considering written statements filed under section 301(a)(2) (or implementing regulation §1.501(a)(2)) to determine whether a petitioner has satisfied the threshold standard for instituting an IPR or PGR proceeding. This prohibition, however, could lead to incongruous results if it precludes parties from directly introducing previous statements made by the patent owner as part of the normal IPR and PGR petition process, or prevents the Office from considering such statements in deciding whether to institute an IPR or PGR proceeding (under proposed implementing regulations §42.108(c) and §42.208(c)).

In creating a more robust petition process with a heightened evidentiary threshold, Congress sought to enhance the fairness and efficiency of post-grant proceedings. By compelling petitioners to submit their best evidence at the outset of the proceeding, the higher threshold guards against ill supported challenges and better enables the Office to complete the proceedings within the 12-month statutory timeframe.

These objectives would be undermined if the Office were to interpret section 301(d) (and its implementing regulation) in a manner that broadly precludes it from considering a patent owner’s previous statements on the scope of its claims in determining whether to institute an IPR or PGR proceeding, even though such statements are introduced directly by the petitioner or patent owner as part of the petition process. As a technical matter, such statements should fall outside section 301(a)(2) (and implementing regulation §1.501(a)(2)) since they enter the record through the petition filing under section 312(a)(3) or 322(a)(3), or the patent owner’s response to the petition under section 313 or 323. However, the USPTO’s guidance on 35 U.S.C. 301, quoted above, creates doubt as to whether the Office would, under any circumstances, consider such statements in deciding whether to institute a post-grant proceeding.

To avoid any further confusion on this issue, IA requests that the Office clarify in writing that, in deciding whether to institute an IPR or PGR proceeding, it will consider any evidence properly submitted by a party in connection with the petition process, including relevant statements on claim construction previously filed by the patent owner in a proceeding with the Office or a Federal court. However, if the Office is of the view that section 301(d) precludes, in all circumstances, consideration of such statements before an IPR or PGR proceeding is instituted – i.e., even if the statements are introduced as part of the petition process – the Office should permit patent owners to file a motion to dismiss the proceeding shortly after it commences if the Office’s earlier consideration of the claim construction statement might have caused it to deny the petition in the first place. In other words, if the statement might have caused the Office to conclude that the petition failed to satisfy the relevant threshold standard, the Office should be willing to entertain a motion to dismiss the proceeding for lack of sufficient evidence. Similarly, patent owners should be permitted to request termination of ex parte reexamination proceedings based upon such claim construction statements.

* * *

Thank you for considering the views of the Innovation Alliance on this important issue.

Sincerely,

A handwritten signature in black ink that reads "Brian Pomper". The signature is written in a cursive, flowing style.

Brian Pomper, Executive Director
The Innovation Alliance