

**COMMENTS OF THE ELECTRONIC FRONTIER FOUNDATION
REGARDING TRIAL PROCEEDINGS UNDER THE AMERICA INVENTS ACT
BEFORE THE PATENT TRIAL AND APPEAL BOARD**

Docket No. PTO-P-2014-0031

The Electronic Frontier Foundation (“EFF”) is grateful for this opportunity to respond to the request by the United States Patent and Trademark Office (“PTO”) for comments regarding trial proceedings before the Patent Trial and Appeal Board (“PTAB”). EFF is a nonprofit civil liberties organization that has worked for more than 20 years to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 24,000 dues-paying members have a strong interest in helping the courts and policy-makers to strike the appropriate balance between intellectual property and the public interest.

I. Introduction

The trial procedures created by the America Invents Act of 2011 (AIA) are intended to provide a much cheaper and faster alternative to litigation. Given the immense cost of litigation in federal court, smaller companies and startups threatened with a patent suit often have no choice other than to settle. For this reason, EFF strongly supports procedures that provide smaller companies affordable options for responding to a patent threat. Our comments are informed by EFF’s own experience as a petitioner in an *inter partes review* (IPR2014-00070). We urge the PTO to make AIA trial proceedings as fair and accessible as possible for smaller companies.

EFF makes the following submissions:

- On the whole, the PTO has done a good job creating and managing a complex new set of procedures. Trial proceedings before the PTAB have been a success and are fulfilling Congress’s purpose.
- The PTAB should continue to apply the broadest reasonable interpretation in AIA trial proceedings.
- The PTAB should not impose burdensome mandatory disclosures or loosen discovery requirements.
- Petitioners should be afforded the opportunity to reply to arguments raised by the Patent Owner before the PTAB determines whether or not to institute review.
- The rules should clearly require both petitioners and patent owners to support affirmative factual statements with evidence.

- The PTO should allow for reduced petition fees for small businesses and micro entities.
- The PTO should advocate for expanding inter partes review to include challenges based on 35 U.S.C. § 101.
- The PTO should maintain its rules regarding patentee estoppel.

EFF discusses each of these submissions in more detail below.

II. The PTAB should continue to scrutinize patents closely, including on Motions to Amend, as the AIA intended.

To date, PTAB trial proceedings have resulted in a large percentage of claims being invalidated.¹ This has led to criticism by some parties, who argue that the PTAB is cancelling too many claims. *See, e.g.,* Robert Sterne and Gene Quinn, *PTAB Death Squads: Are All Commercially Viable Patents Invalid?*, IP Watchdog, March 24, 2014.²

The PTO should ignore any such criticism, which is based on several fundamental misunderstandings of the patent system and of PTAB trials. PTAB trials focus only on those few patents that are commercially important. For those patents, the patent owner's competitor (or the accused infringer) has an economic incentive to challenge the patent. This differs from most of the millions of issued patents that are never litigated, and aren't as important. *See* Mark A. Lemley, *Can the Patent Office Be Fixed?*, 15 Marq. Intell. Prop. L. Rev. 295, 303 (2011) (suggesting that the PTO "should focus its examination resources on important patents").³ Competitors can provide the PTO with "private information" to "identify patents that warrant serious review." *Id.* at 305. Because competitors initiating an IPR or CBM review often provide the PTAB with prior art that the initial examination didn't find, it's not surprising that many of those reviews result in invalidity findings.

¹ While data solely for PTAB trials under the AIA is not readily available, analogous data for inter partes review generally is available. *See* U.S. Patent and Trademark Office, Inter Parte Reexamination Filing Data - September 30, 2013, available at: http://www.uspto.gov/patents/stats/inter_parte_historical_stats_roll_up_EOY2013.pdf. This shows that for inter partes reexaminations from 1999-2013, 45% resulted in all claims being canceled, and only 12% resulted in all claims being confirmed.

² Available at: <http://www.ipwatchdog.com/2014/03/24/ptab-death-squads-are-all-commercially-viable-patents-invalid/id=48642/>

³ Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1668203 (2010 draft).

Further, several procedural differences between PTO proceedings and district court litigation result in increased findings of invalidity. First, claims are given their broadest reasonable interpretation in IPRs. *See In re ICON Health and Fitness, Inc.*, 496 F.3d 1374, 1379 (Fed. Cir. 2007). Second, there is no presumption of validity at the PTO. *Q.I. Press Controls, B.V. v. Lee*, 752 F.3d 1371, 1378-79 (Fed. Cir. 2014). Third, the standard of proof is preponderance of the evidence. *Id.* Thus, it's not surprising that IPRs and CBMs have invalidated a relatively large number of claims, and the PTO should disregard any misguided criticism of its existing procedures on that basis. The AIA was *intended* to be an efficient means to remove low-quality patents from the system. *See* H. Rep. No. 112-98 at 39-40 (June 1, 2011) (explaining that the AIA's purpose was "improving patent quality and providing a more efficient system for challenging patents that should not have issued").

Similar criticisms of practices and procedures relating to Motions to Amend should also be disregarded. For example, certain organizations have argued that in a motion to amend, the burden should be on the patent challenger to show that proposed amended patent claims are not patentable. *See* Comments of the Intellectual Property Owners Assoc., at 3-4, Sept. 16, 2014.⁴ However, this argument ignores the incentives of the parties.

On a motion to amend, the patent owner is incentivized to receive the broadest grant of exclusivity possible. But should a patent owner propose amendments which would take a petitioner outside the scope of infringement,⁵ the petitioner is generally not incentivized to present fully articulated and investigated arguments as to why the proposed claim is not patentable. Indeed, a petitioner may choose to not oppose a motion to amend if it is confident it would not infringe any amended claim, given the costs involved in opposing. By placing the burden on the patentee to show the proposed amended claims are patentable, the PTAB recognizes the relative incentives of the parties and better insures that it allows only those claims

⁴ Available at http://www.uspto.gov/ip/boards/bpai/ipo_20140916.pdf.

⁵ In post grant proceedings, petitions are often filed after an allegation of infringement is made against a petitioner. Indeed, petitions for Covered Business Method Review can only be filed by a petitioner that has been sued or charged with infringement by the rights holder. *See* 37 C.F.R. § 42.302(a). Thus the petitioner is incentivized to limit the grant of patent rights that can be enforced against it, but is not generally incentivized to limit the grant of patent rights more broadly.

that are, in fact, patentable. This also maintains the normal burdens that would apply in any prosecution where the applicant amends claims after a non-final rejection. *See* 37 C.F.R. 1.111(c) (requiring the applicant to “clearly point out the patentable novelty which he or she thinks the claims present in view of the state of the art disclosed by the references cited or the objections made”).

Should the burdens be reversed, the PTAB runs a much higher risk of allowing claims that are not novel or nonobvious over the prior art. The patentee may submit amended claims, and the petitioner, so long as it is outside the scope of the claims, will not raise a full challenge to the claims. Without that challenge, the patent owner may receive a patent without substantive presentment or challenge on the merits. This could result in a right to exclude without any showing of entitlement to that grant, and with less of a burden than required to receive a patent in the first instance.

III. The PTAB should continue to apply the broadest reasonable interpretation in AIA trial proceedings.

Patents should “afford clear notice” of what is and is not covered by the claims. *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2123 (2014). This public notice function is best served by applying the broadest reasonable construction during proceedings before the PTAB. There are many reasons for this. First, patent owners are given the opportunity to amend claims. This strongly supports applying the broadest reasonable construction. If a patent owner is concerned that his or her patent will be found invalid under a broad construction, he or she can add narrowing language to the claims. This protects the interests of both the patentee and the public by promoting clearer claim language.

Second, the district court claim construction standard is too cumbersome and expensive to apply at the PTAB. *See generally* Claude M. Stern, *Wilson Sporting Goods and Lava Trading: Has the Federal Circuit Mandated A More Complicated, Expensive but Comprehensive Markman Proceeding?*, 19 *Intell. Prop. & Tech. L.J.* 1 (2007) (“the discovery process associated with the Markman hearing [is] becoming more complicated and expensive”). Trial proceedings under the AIA proceed according to strict timelines and the scope of discovery is much narrower than in patent litigation. *See* 35 U.S.C. § 316(a)(11); 35 U.S.C. § 316(a)(5); 37 C.F.R. §§ 42.51-53; *see also* H. Rep. No. 112-98 at 47; 154 *Cong. Rec.* 59988-89 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl) (discovery during inter partes review will be confined to “particular

limited situations, such as minor discovery that PTO finds to be routinely useful, or to discovery that is justified by the special circumstances of the case.”). In practice, it would be difficult to apply district court claim construction while meeting statutory deadlines and providing a low-cost alternative to district court litigation.

Finally, applying the broadest reasonable construction is consistent with Congressional intent. When Congress enacted the AIA, it was well-established that PTO proceedings would apply the broadest reasonable construction. *See In re Sneed*, 710 F.2d 1544, 1548 (Fed. Cir. 1983) (“It is axiomatic that, in proceedings before the PTO, claims in an application are to be given their broadest reasonable interpretation consistent with the specification.”). Some proposed bills have included language to change this practice. *See, e.g.*, Patent Transparency and Improvements Act of 2013, Section 7(b).⁶ This suggests that moving away from the broadest reasonable construction is more properly a decision for Congress. Absent clear direction from Congress, the PTO should apply the long-standing rule. This is both more efficient and serves the public interest.

IV. The PTAB should not impose burdensome mandatory disclosures or loosen discovery requirements.

Some commenters have suggested that the PTO should amend the regulations to add detailed and highly specific mandatory disclosures for the petitioner and to loosen the requirements for discovery. *See, e.g.*, Intellectual Property Owners Association (IPO) Comments (Sep. 16, 2014).⁷ For example, the IPO asks the PTO to mandate that the petitioner disclose highly confidential information such as indemnification agreements and joint defense agreements. *See id.* at 9. Requiring the disclosure of such sensitive information, even under seal, would discourage parties from filing petitions. Further, it would provide little or no benefit.

The PTO has already considered the issue of real party in interest in detail. *See Patent and Trademark Office Trial Practice Guide*, 77 Fed. Reg. 48756, 48759 (Aug. 14, 2012).⁸ The PTO correctly determined that whether an entity is a real party in interest depends on “traditional

⁶ Available at <https://www.leahy.senate.gov/download/patent-transparency-and-improvements-act-of-2013>.

⁷ Available at http://www.uspto.gov/ip/boards/bpai/ipo_20140916.pdf.

⁸ Available at http://www.uspto.gov/aia_implementation/trial_practice_guide_48756.pdf.

common-law principles” of privity. *Id.* This is a “highly fact-dependent question” that takes into account how courts generally have used the terms to “describe relationships and considerations sufficient to justify applying conventional principles of estoppel and preclusion.” *Id.* As such, the question of real party in interest is *not* subject to a rigid set of factors. *Id.* at 48760 (“rarely will one fact, standing alone, be determinative of the inquiry”).

Estoppel requires much more than mere commonality of interests – it requires real and “substantial control” over the conduct of litigation. *Gonzalez v. Banco Cent. Corp.*, 27 F.3d 751, 758 (1st Cir. 1994) (“Substantial control means what the phrase implies; it connotes the availability of a significant degree of effective control in the prosecution or defense of the case—what one might term, in the vernacular, the power—whether exercised or not—to call the shots.”); *see also Taylor v. Sturgell*, 553 U.S. 880 (2008). The existence of joint defense and indemnification agreements has little to no bearing on the question of whether one entity controls the conduct of another. *See, e.g., Apple Inc. v. Achates Reference Pub., Inc.*, Case IPR2013-00080; -00081, 2013 WL 6514049 at *2-4 (PTAB Mar. 8, 2013).

Given the very high standard that must be met before a tribunal applies estoppel to a non-party, the PTAB’s current approach is correct. In the rare case where there is a reason to believe that another entity truly controls the conduct of the petitioner, the patent owner can move for discovery. *See, e.g., RPX Corp. v. VirnetX Corp.*, IPR2014-00171, Paper 52 (PTAB June 23, 2014) (denying institution after discovery revealed evidence suggesting the petitioner was not the only real party in interest). Otherwise, the PTAB will deny discovery on the issue. *See, e.g., Achates Reference*, 2013 WL 6514049 at *4. This saves time and resources. In addition to imposing burdensome and sensitive mandatory disclosures, the IPO’s proposal would invite wasteful ancillary disputes.

The PTO should also resist calls to loosen the standards for discovery generally. *See* IPO Comment at 7-8. Such calls run contrary to Congressional intent. Congress created CBM and *inter partes* review to be quick and cost-effective alternatives to litigation. *See* H. Rep. No. 112-98 at 45-48 (2011). The AIA makes it clear that discovery in *inter partes* review is to be limited to “the deposition of witnesses submitting affidavits or declarations” and “what is otherwise *necessary* in the interest of justice.” 35 U.S.C. § 316(a)(5)(B) (emphasis added). The requirement that additional discovery be necessary is far stricter than the standard in district court. *Compare* Fed. R. Civ. P. 26(b)(1). In applying this statutory standard, the PTAB struck a

good balance in *Garmin Int'l, Inc. v. Cuozzo Speed Techs. LLC*, Case IPR2012-00001, 2013 WL 2023626 (PTAB Mar. 5, 2012). The *Garmin* factors help the PTAB limit discovery to that which is truly necessary. While litigants may be accustomed to the free-ranging (and very expensive) discovery that takes place in district court, the PTAB has struck the right balance for trial proceedings under the AIA.

V. Petitioners should be afforded the opportunity to reply to arguments raised by the Patent Owner before the PTAB determines whether or not to institute review.

After a petitioner submits its petition for inter partes review, a patent owner has the opportunity to present arguments as to why a petition should not be granted. *See* 37 C.F.R. §§ 42.107(a) & (b), § 42.207(a) & (b), § 42.300(a). Although many of these arguments may be predictable to a petitioner, and may very well be addressed in the petition, it is not possible for a petitioner to completely and absolutely predict every possible argument a patent owner may raise in response. Furthermore, even if a petitioner were able to predict each argument, page limits on the petition may not afford the petitioner opportunity to make such arguments. *See* 37 C.F.R. § 42.24(b)(1). Thus a patent owner may raise arguments in response to a petition that were either not accounted for in a petition or not otherwise addressed because of space limitations. The petitioner is thus not given the opportunity to demonstrate to the PTAB any flaws in the patent owner's argument. The PTAB should amend the rules to allow the petitioner a short reply to the patent owner response prior to the decision on whether to institute.

A short reply would be beneficial for several reasons. First, this would allow the petitioner the opportunity to more fully develop the record with respect to arguments made by the patent owner. For example, it is not reasonable to require the petitioner to address every possible claim term in its petition. *Cf. U.S. Surgical Corp. v. Ethicon, Inc.*, 103 F.3d 1554, 1568 (Fed. Cir. 1997) (“Claim construction is a matter of resolution of disputed meanings and technical scope, to clarify and when necessary to explain what the patentee covered by the claims....It is not an obligatory exercise in redundancy.”) A petitioner may reasonably believe a given term does not require construction. However, a patent owner may argue a term not addressed by the petitioner requires claim construction. By allowing the petitioner a short reply, the petitioner would be able to argue why that term needs no construction, or otherwise address the patent owner's argument. Without a reply, the PTAB is left with only half the argument.

A reply is beneficial for a second reason: it will reduce the number of requests for rehearing. Currently, if a petition for inter partes review is not fully instituted or denied outright, petitioners are allowed to submit a request for rehearing pursuant to 37 C.F.R. § 42.71(d). Often, arguments made in the request for rehearing could have been easily made in a reply instead. But by filing a request for rehearing, the PTAB is burdened by the fact that it must now address petitioner's request and issue an opinion on that request. The more efficient procedure would be to allow a reply so that the PTAB could address any petitioner response to the patent owner's arguments in its initial decision.

Relatedly, a reply will also more fully ensure the decision on institution is correctly made. In a rehearing request, the PTAB will refuse to consider arguments not raised in the petition. 37 C.F.R. § 42.71(d). Furthermore, rehearing requests are only granted where the PTAB determines that its decision was an abuse of discretion. 37 C.F.R. § 42.71(c). Thus the petitioner is placed in an untenable position: it is not possible to address in a petition every possible argument a patent owner may make. A patent owner, knowing this, may then in its response address arguments not raised by a petitioner or otherwise distort the record knowing that the petitioner will not be given the opportunity to respond. Such an outcome should not be condoned. By allowing a reply, the PTAB would allow the petitioner the opportunity to rebut arguments made by the patent owner.

Finally, PTAB may be understandably concerned that a reply may delay the decision on institution and therefore impede the ability of the PTAB to render its decision in a timely manner. Respectfully, EFF believes this concern, although legitimate, likely counsels for allowing a reply rather than not. By allowing a reply, the PTAB is presented with a crystalized dispute between the petitioner and the patent owner. Under the current procedure, the PTAB must independently scrutinize the record to determine the validity of the arguments raised by the patent owner, without any guidance as to what counterarguments exist, if any. A reply would allow the PTAB to quickly and easily determine relevant information that should be considered when considering the validity of the patent owner's arguments, as presumably the petitioner is incentivized to present the best possible arguments in response.

Thus for all these reasons, the rules should be amended so as to allow a short reply to any patent owner response to a petition.

VI. The rules should clearly require both petitioners and patent owners to support affirmative factual statements with evidence.

The rules presently require that a petition for *inter partes* review include supporting evidence together with an explanation of the relevance of that evidence. Specifically, the rules provide that the petition must include:

The exhibit number of the supporting evidence relied upon to support the challenge and the relevance of the evidence to the challenge raised, including identifying specific portions of the evidence that support the challenge. The Board may exclude or give no weight to the evidence where a party has failed to state its relevance or to identify specific portions of the evidence that support the challenge.

37 C.F.R. § 42.104(b)(5).

EFF has no objection to this rule. As in any formal legal proceeding, parties should be required to clearly identify the evidentiary support for their factual contentions. And the PTAB should not be expected to trawl through voluminous exhibits to find the most relevant information. EFF is concerned, however, that the rules appear to not impose a similar requirement on the patent owner. The rule regarding the patent owner response makes no mention of supporting evidence. *See* 37 C.F.R. § 42.120. Thus, the rules could be read to impose different requirements on the petitioner and patent owner.

While the petitioner bears the burden of persuasion in *inter partes* review, this should not alter the expectation that both parties present evidence in support of any affirmative factual statements. (Of course, this would not preclude a patent owner from arguing that a petitioner failed to present adequate evidence in support of its challenge.) In practice, EFF expects that the rules will be interpreted to require both parties to provide evidence and explain its relevance. Nevertheless, the rules should not be written in a way that might encourage patent owners to respond to challenges with unsupported speculation. *Cf. DietGoal Innovations LLC v. Bravo Media LLC*, 13 CIV. 8391 PAE, 2014 WL 3582914 *4 (S.D.N.Y. July 8, 2014) (patent owner opposing motion for summary judgment of invalidity “may not rely on mere speculation or conjecture as to the true nature of the facts”). The rules governing PTAB trial proceedings should clearly state that all affirmative factual statements, from any party, must be supported by citations to admissible evidence.

EFF suggests the following amendment to 37 C.F.R. § 42.120:

(b) *Supporting Evidence*. The response should include the exhibit number of the supporting evidence relied upon to support the response and the relevance of that

evidence, including identifying specific portions of the evidence that support the response. The Board may exclude or give no weight to the evidence where a party has failed to state its relevance or to identify specific portions of the evidence that support the response.

Alternatively, similar language could be added to 37 C.F.R. § 42.22 and the provision could be amended to make clear that it applies to petitions, motions, oppositions, and responses.

VII. The PTO should provide reduced application fees for small businesses and micro entities.

EFF previously submitted detailed comments urging the PTO to make post-grant challenges affordable to smaller companies faced with patent threats.⁹ The PTO currently offers a small entity fee for requests for ex parte reexamination. Unfortunately, the PTO does not provide a reduced small entity or micro entity fee for AIA trial proceedings. Currently, fees for an instituted *inter partes* review are at least \$23,000. This is far too high for the numerous small businesses that have been targeted by patent assertion entities (PAEs).¹⁰ For the reasons given in our previous comments, we again urge the PTO to reduce fees for small businesses seeking to challenge patents.

VIII. The PTO should advocate for expanding *inter partes* review to include challenges based on 35 U.S.C. § 101.

By creating multiple new adversarial proceedings, the AIA assigned the PTO a complex task. The agency responded well to the challenge and has shown that it can efficiently and effectively manage adversarial proceedings. This suggests that further expansion of the AIA proceedings would be a highly effective means to address patent quality. In particular, covered business method review could be made permanent and expanded to include a broader category of

⁹ Comments of the Electronic Frontier Foundation and the Computer & Communications Industry Association in Response to the Patent and Trademark Office Providing Comment on its Proposals to Set or Adjust Patent Fees, Docket No: PTO-C-2011-0008 (Nov. 5, 2012), available at http://www.uspto.gov/aia_implementation/comment-eff-ccia.pdf

¹⁰ See, e.g., A.G. Schneiderman Announces Groundbreaking Settlement With Abusive “Patent Troll”, available at <http://ag.ny.gov/press-release/ag-schneiderman-announces-groundbreaking-settlement-abusive-%E2%80%9Cpatent-troll%E2%80%9D> (discussing PAE that sent over 10,000 letters to small businesses); Joe Mullin, *Wi-Fi “patent troll” will only get 3.2 cents per router from Cisco*, Arstechnica (Feb. 6, 2014) (PAE sent “13,000 letters asking for individual chain hotels and coffee-shops to pay between \$2,300 and \$5,000 in licensing fees”), available at <http://arstechnica.com/tech-policy/2014/02/cisco-strikes-deal-to-pay-wi-fi-patent-troll-3-2-cents-per-router/>.

patents and *inter partes* review could include challenges based on 35 U.S.C. § 101. Indeed, one anomaly of the AIA is that CBM review can be based on § 101 challenges (*see* AIA § 18(a)(1); 35 U.S.C. §§ 282(b), 321(b)), while an *inter partes* review is limited to challenges based on §§ 102 and 103 (*see* 35 U.S.C. § 311(b)). Section 101 challenges would be particularly helpful to streamline IPR proceedings – the Supreme Court’s decision in *Alice Corp. v. CLS Bank Int’l.*, 134 S. Ct. 2347 (2014) promptly resulted in many court invalidations based on § 101. *See* Timothy B. Lee, *Software patents are crumbling, thanks to the Supreme Court*, Vox (September 12, 2014).¹¹

While the PTO does not have authority to make these reforms alone, it can be a voice for change. The administration and lawmakers will undoubtedly call upon the agency’s expertise when crafting future patent legislation. The PTO should point to its real-world success and encourage Congress to expand the scope of post-grant trials.

IX. The PTO should maintain its rules regarding patentee estoppel

37 C.F.R. § 42.73(d)(3) precludes a patent owner from “taking action inconsistent with the adverse judgment, including obtaining in any patent [] a claim that is not patentably distinct from a finally refused or canceled claim.” The PTO should maintain this rule.

The PTO and petitioners expend significant time and expense in evaluating and challenging claims in post grant proceedings.¹² Absent estoppel provisions against the patentee, both the PTO and the petitioner are forced to play a game of whack-a-mole. That is, absent estoppel, a patentee faced with invalidation of his claims in a post-grant proceeding may merely seek new, not patentably distinct claims in a continuation application, increasing the burdens on both the PTO and the petitioner who must then evaluate and/or challenge those claims in another forum. Such a result needlessly creates duplicative costs for the PTO and the petitioner.

¹¹ Available at: <http://www.vox.com/2014/9/12/6138483/software-patents-are-crumbling-thanks-to-the-supreme-court>

¹² One estimate places the cost to a petitioner at approximately \$150,000 to \$300,000. *See* Barry, Daniel G., *Invalidating Patents Through Inter Partes Review*, 36 Orange County Business Journal, 27, July 8-14, 2013.

X. Conclusion

EFF again thanks the PTO for the opportunity to comment regarding trial proceedings under the AIA. We commend the PTO for its work so far in making trial proceedings before the PTAB a success. For the reasons given above, we hope the PTO will build on this success and make trials under the AIA more accessible to small businesses and startups.

Respectfully submitted,

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