

2019-1686

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UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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**UNILOC 2017 LLC,**  
*Appellant*

v.

**HULU, LLC, NETFLIX, INC.,**  
*Appellees,*

**ANDREI IANCU, DIRECTOR,**  
**U.S. PATENT AND TRADEMARK OFFICE,**  
*Intervenor.*

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Appeal from the United States Patent and Trademark Office,  
Patent Trial and Appeal Board in IPR No. 2017-00948.

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## ILLUSTRATIVE CLAIM 1

1. A system for adjusting a license for a digital product over time, the license comprising at least one allowed copy count corresponding to a maximum number of devices authorized for use with the digital product, comprising:
  - a communication module for receiving a request for authorization to use the digital product from a given device;
  - a processor module in operative communication with the communication module;
  - a memory module in operative communication with the processor module and comprising executable code for the processor module to:
    - verify that a license data associated with the digital product is valid based at least in part on a device identity generated by sampling physical parameters of the given device;
    - in response to the device identity already being on a record, allow the digital product to be used on the given device;
    - in response to the device identity not being on the record, set the allowed copy count to a first upper limit for a first time period, the allowed copy count corresponding to a maximum number of devices authorized to use the digital product;
    - calculate a device count corresponding to total number of devices already authorized for use with the digital product; and
    - when the calculated device count is less than the first upper limit, allow the digital product to be used on the given device.

Appx616.

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## **STATEMENT OF RELATED CASES**

The Director adopts by reference Uniloc's statement of related cases.



## **I. STATEMENT OF THE ISSUE**

In an inter partes review, the Patent Trial and Appeal Board found Uniloc's original claims invalid over prior art, and determined that Uniloc's proposed substitute claims were unpatentable under 35 U.S.C. § 101. The principal question on appeal is whether the IPR statute prohibits the Board from considering § 101 eligibility when deciding whether to grant a patent owner's motion to amend its patent with substitute claim language never before examined by the USPTO.

## **II. STATEMENT OF THE CASE**

### **A. Statutory Background**

In an inter partes review, petitioners “may request to cancel as unpatentable 1 or more claims of a patent on a ground that could be raised under [35 U.S.C.] section 102 or 103 and only on the basis of prior art consisting of patents or printed publications.” 35 U.S.C. § 311(b). The Board is therefore precluded from cancelling existing patent claims during an inter partes review based on either subject matter ineligibility under 35 U.S.C. § 101 or the disclosure-related requirements of 35 U.S.C. § 112.

While § 311(b) governs the permissible “[s]cope” of the petition, § 316 governs the “[c]onduct of inter partes review.” Section 316(d) provides that during an inter partes review, “the patent owner may file 1 motion to amend the patent,” to “propose a reasonable number of substitute claims” “[f]or each challenged

claim.” 35 U.S.C. § 316(d)(1)(B). Such an amendment “may not enlarge the scope of the claims of the patent or introduce new matter.” *Id.* § 316(d)(3). Thus, in the course of inter partes review proceedings, Congress contemplated that patent owners would have a chance to propose amendments to their patents, potentially resulting in the issuance of claim language reviewed directly by the Patent Trial and Appeal Board without first going through the normal examination process. *Compare id.* §§ 131-134 (providing for examination of proposed claims followed by possible appeal to the Board), with *id.* § 318(b) (providing that after the termination of any appeal of the Board’s final written decision, “the Director shall issue and publish a certificate . . . incorporating in the patent by operation of the certificate any new or amended claim determined to be patentable”).

Congress made clear that the Board’s “final written decision” should address the “patentability of . . . any new claim added under section 316(d).” 35 U.S.C. § 318(a); *see also id.* § 318(b) (directing the Director to issue a revised certificate regarding “any new or amended claim determined to be patentable”); *id.* § 318(c) (addressing the effect of “[a]ny proposed amended or new claim determined to be patentable and incorporated into a patent following an inter partes review”). In contrast to § 311(b), in which Congress specifically limited the Board’s review of existing patent claims to “ground[s] that could be raised under section 102 or 103,”

none of these provisions regarding the amendment process narrowed the usual scope of the Board’s “patentability” inquiry regarding proposed claim language.

Congress instructed the USPTO Director to establish regulations “allowing the patent owner to move to amend the patent” during the inter partes review under 35 U.S.C. § 316(d) to “propose a reasonable number of substitute claims.” *Id.* § 316(a)(9). Congress also required the regulations to “ensur[e] that any information submitted by the patent owner in support of any amendment entered under subsection (d) is made available to the public as part of the prosecution history of the patent.” *Id.*

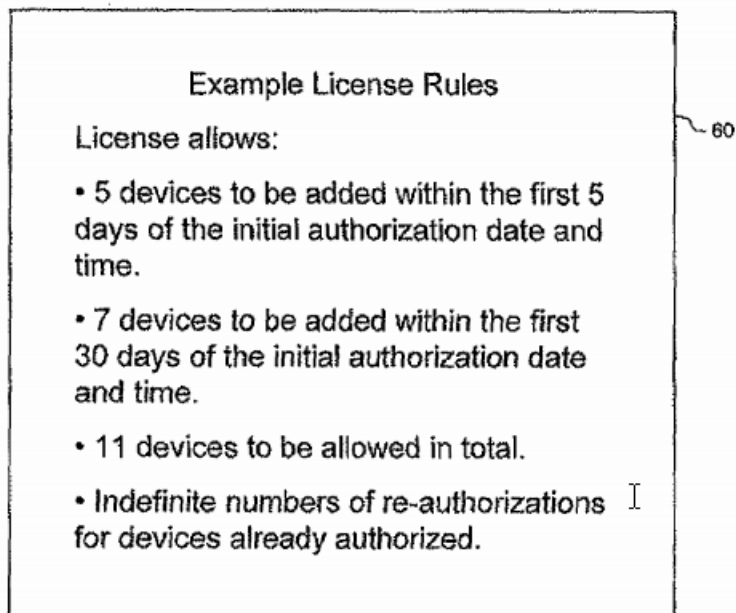
Finally, the Director has promulgated a regulation that requires a motion to amend to “set forth ... [t]he support in the original disclosure of the patent for each claim” the patent owner wants to add or amend. 37 C.F.R. § 42.121(b). Requiring the patent owner to submit this information facilitates the Board’s analysis of whether the proposed claims satisfy § 112’s written-description requirement for patentability. *See* 35 U.S.C. § 112.

**B. The ’960 Patent**

U.S. Patent No. 8,566,960 B2 (“the ’960 patent”) is directed to “adjustable licensing of digital products.” Appx603 (title). The patent notes that while a software license usually allows the licensee to use the software on a particular product, “[a] problem that has arisen over time is the fact that consumers of

software have normal patterns of use that include the installation and use of digital products on multiple devices.” Appx611, 1:31-34; Appx 4. “For example[,] a person may wish to buy software and use it on three computers at their home, a computer at work, a mobile computer and the computers in their holiday home and their parent’s house.” Appx611, 1:34-37. Moreover, “computers are also bought, sold, and replaced so over time maybe two or three times this number of computers may be used by the user over time with a legitimate need to install and use the software on every computer.” *Id.* at 37-41.

The ’960 patent’s solution to these problems is to “adjust[] the number of devices allowed to use a digital product (e.g., software) under a license.” Appx603 (abstract); *see also* Appx612, 4:21-25 (“The number of devices allowed to run the software in an authorized or enabled state may increase over time to reflect the normal usage pattern of software users where the user adds devices, replaces or upgrades devices over time.”). Figure 1 of the patent provides an exemplary embodiment of the ’960 patent’s invention:



**Figure 1**

Appx606.

The '960 patent also describes using generic computer components, such as a “processor module” and “memory module,” Appx614, 7:48-49, to facilitate communication to enforce the terms of the adjustable license. *See* Appx613, 5:1-40; Appx6; Appx614, 7:36-67.

Specifically, illustrative claim 1 recites:

1. A system for adjusting a license for a digital product over time, the license comprising at least one allowed copy count corresponding to a maximum number of devices authorized for use with the digital product, comprising:

a communication module for receiving a request for authorization to use the digital product from a given device;

a processor module in operative communication with the communication module;

a memory module in operative communication with the processor module and comprising executable code for the processor module to:

verify that a license data associated with the digital product is valid based at least in part on a device identity generated by sampling physical parameters of the given device;

in response to the device identity already being on a record, allow the digital product to be used on the given device;

in response to the device identity not being on the record, set the allowed copy count to a first upper limit for a first time period, the allowed copy count corresponding to a maximum number of devices authorized to use the digital product;

calculate a device count corresponding to total number of devices already authorized for use with the digital product; and

when the calculated device count is less than the first upper limit, allow the digital product to be used on the given device.

Appx616.

### **C. The Board's decision**

The Board found that the '960 patent's original claims 1-8, 18-22, and 25 are unpatentable over a combination of prior art, but that the petitioner had not shown that claims 9-17, 23, and 24 are unpatentable. Appx3, Appx70. The Board also denied Uniloc's motion to enter proposed substitute claims 26-28, which were offered as amendments in the IPR proceeding, concluding that the newly proposed claims are ineligible for patenting under 35 U.S.C. § 101. Appx3; Appx53-63;

Appx70. Uniloc's original claims 26-28 had already been invalidated under § 101 by a district court in a separate case. Appx57 (citing *Uniloc USA, Inc. v. Amazon.com, Inc.*, 243 F. Supp. 3d 797, 811 (E.D. Tex. 2017)).

The Board described the changes made by the claim amendments:

At a high level, Patent Owner amends the independent claims to 1) recite two separate tests for verifying license data and determining whether a device identity is on record; and 2) recite adjusting an allowed copy count from its current number to a different upper limit, rather than simply setting the allowed copy count to the upper limit.

Appx55.

Substitute claim 26, recited below with the amendment's additions to the original claim (claim 1) underlined and its deletions struck through, is illustrative of the proposed changes:

26. A system for adjusting a license for a digital product over time, the license comprising at least one allowed copy count corresponding to a maximum number of devices authorized for use with the digital product, comprising:

a communication module for receiving a request for authorization to use the digital product from a given device, the request comprising: license data associated with the digital product ;

and

a device identity generated at the given device at least in part by sampling physical parameters of the given device;

a processor module in operative communication with the communication module;

a memory module in operative communication with the processor module and comprising executable code for the processor module to:

verify that the a license data associated with the digital product is valid ~~based at least in part on a device identity generated by sampling physical parameters of the given device;~~

in response to the license data being verified as valid, determine whether the device identity is currently on a record;

in response to the device identity already being on the a record, allow the digital product to be used on the given device;

in response to the device identity not currently being on the record, temporarily adjust the allowed copy count from its current number to a different number by setting the allowed copy count to a first upper limit for a first time period, the first upper limit corresponding to the maximum number of devices authorized to use the digital product during the first time period ~~the allowed copy count corresponding to a maximum number of devices authorized to use the digital product;~~

calculate a device count corresponding to total number of devices currently ~~already~~ authorized for use with the digital product; and

when the calculated device count is less than the first upper limit, allow the digital product to be used on the given device.

Appx54-55.

The Board first rejected Uniloc's contention that it lacked the authority to determine whether its proposed new claim language satisfied the patentability requirements in § 101. Appx57-59. It made clear, however, that it was "not plac[ing] the burden of proving patentability of the substitute claims on" Uniloc.

Appx59.

The Board then analyzed whether the proposed claims are directed at patent-eligible subject matter. Appx59-63. The Board noted that Uniloc made no effort



to defend their eligibility—and even confirmed during oral argument that “it does not raise any substantive arguments to Petitioner’s contention that the substitute claims are non-statutory.” Appx57. Addressing the petitioner’s arguments, the Board found that Uniloc’s “proposed amendments do not change the character of the claims such that they are not abstract.” Appx60. At step one of the analysis under *Alice Corp. v. CLS Bank Int’l*, 573 U.S. 208 (2014), the Board concluded that the proposed amendments were still “directed to a time-adjustable license,” and it agreed with the district court that had analyzed the original claims that this is an abstract idea. Appx60. With respect to step two of the *Alice* test, the Board found that “the additional elements of the substitute claims beyond the abstract idea of a time-adjustable license are recited as no more than generic computer modules and code [and] are well-understood, routine, and conventional.” Appx62-63. The Board concluded that the substitute claims are ineligible under § 101. Appx63.

Uniloc sought rehearing of the final written decision, arguing that in an IPR, the Board may only determine whether substitute claims overcome prior art and do not expand claim scope or introduce new matter. Appx596-602. Thus, Uniloc contended that the Board is required to permit claims whose patent-eligibility has never been determined—and that may well be invalid under §§ 101 or 112—to become part of an issued patent. Appx596-602.

The Board disagreed. It explained that Uniloc misunderstood 35 U.S.C. § 311(b), which provides that “[a] petitioner in an inter partes review may request to cancel as unpatentable 1 or more claims of a patent only on a ground that could be raised under section 102 or 103 and only on the basis of prior art consisting of patents and printed publications.” “By its terms,” the Board observed, this language only restricts the challenges that may be raised against the existing claims of a patent when the petition is filed. Appx76. The Board noted that the statute and this Court’s precedents distinguish between “challenged claims” (of the original patent) and the “substitute claims” proposed by the patent owner in an amendment. Appx76-77 (discussing 35 U.S.C. § 318 and *Aqua Products v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017)). The Board concluded that amendments in an IPR are governed by § 316(d), which does not preclude consideration of non-§ 102/103 patentability criteria when assessing the patentability of substitute claims. Appx77. The Board also noted that this Court had summarily affirmed the district court’s conclusion that the original claims of the ’960 patent are drawn to ineligible subject matter. Appx74 (citing *Uniloc USA, Inc. v. Amazon.com, Inc.*, 733 F. App’x 1026 (Fed. Cir. Aug. 9, 2018)).

On March 18, 2019, two months after the Board entered its decision on rehearing, the Director designated as precedential that decision’s conclusion that § 101 eligibility may be considered when evaluating the patentability of

amendments in an IPR. *See Amazon.com, Inc. v. Uniloc Luxembourg S.A.*, IPR2017-00948, Paper 34 (PTAB Jan. 18, 2019), *available at* <https://go.usa.gov/xVeez>.

### III. SUMMARY OF THE ARGUMENT

Claim language that a patent owner proposes to insert into a patent during an inter partes review will, in many cases, never before have been examined by the USPTO. The AIA plainly—and repeatedly—requires the Board to assess the “patentability” of such proposed substitute claims. *See* 35 U.S.C. § 318(a), (b), (c). The Board thus correctly concluded that the IPR statute allows it to determine whether such unexamined claims are patentable—an analysis that includes consideration of § 101 eligibility.

Section 311(b) does not limit the Board’s ability to consider the “patentability” of newly proposed claim language. That subsection limits “[a] request to cancel as unpatentable 1 or more claims of a patent” to only those “ground[s] that could be raised under section 102 or 103,” on the basis of “prior art consisting of patents or printed publications.” 35 U.S.C. § 311(b). By its terms, this provision applies only to a petitioner’s request to “cancel” a claim that is “of the patent,” not to the Board’s evaluation of proposed substitute claims. A proposed new claim that has never been issued cannot be “cancel[ed],” and is by definition not “of the patent” when the patent owner proposes it. And both Chapter

31’s structure and its consistent distinction between “challenged claims” and “substitute claims” underscore § 311(b)’s inapplicability to the patentability assessment of proposed claim language.

Moreover, the statutory history supports the USPTO’s interpretation of the statute. When the AIA was enacted, this Court and the USPTO had made clear that the reexamination statute—which included a provision similar to § 311(b)—did not preclude consideration of provisions other than §§ 102 and 103 in all circumstances. Rather, such language limits the Board’s ability to consider only “challenges to the patentability of original claims.” *In re NTP, Inc.*, 654 F.3d 1268, 1275 (Fed. Cir. 2011). But when the patent owner opens the door to additional issues by making priority claims or seeking amendments, language like § 311(b)’s does not “strip[]” the USPTO “of a critical legal tool needed in performing a proper reexamination.” *Id.* at 1277. Against this backdrop, it is improbable that Congress intended the IPR system to become a revolving door that requires the USPTO to reissue manifestly invalid claims through the IPR amendment process.

For those reasons, the USPTO’s interpretation represents the correct reading of the statute. And at a minimum, the interpretation is reasonable and entitled to deference. An agency’s “implementation of a particular statutory provision qualifies for *Chevron* deference” when its interpretation “was promulgated in the

exercise of [its] authority” to “make rules carrying the force of law,” including through “adjudication.” *United States v. Mead Corp.*, 533 U.S. 218, 226-27 (2001). The USPTO’s determination that it may consider the patentability of proposed substitute claims is embodied in a precedential Board decision that readily qualifies for such deference. And because Uniloc has made no effort to defend its substitute claims on their merits, it has forfeited any argument that its substitute claims are patentable and thus is not entitled to a remand.

#### **IV. ARGUMENT**

##### **A. Standard of Review**

This Court reviews statutes de novo to determine “whether Congress has directly spoken to the precise question at issue.” *Nan Ya Plastics Corp., Ltd. v. U.S.*, 810 F.3d 1333, 1341 (Fed. Cir. 2016) (citing *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 842-43 (1984)). Where a statute is ambiguous, “if an agency’s statutory interpretation promulgated under the authority delegated to it by Congress is reasonable, it is binding on the courts unless procedurally defective, arbitrary or capricious in substance, or manifestly contrary to the statute.” *Id.* (quotation marks omitted; cleaned up); *see also Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2142 (2016).

**B. The text, structure, and history of the IPR statute confirm that the Board can ensure that newly proposed claims are patentable**

**1. Congress directed the Board to determine the “patentability” of proposed claims without limitation**

Congress repeatedly made clear that in reviewing a patent owner’s motion to insert unexamined claim language into its patent during an IPR, the Board must determine whether such proposed substitute claims are patentable. Section 318(a) broadly commands the Board to “issue a final written decision with respect to the *patentability* of . . . any new claim added under section 316(d).” 35 U.S.C. § 318(a) (emphasis added). Section 318(b) reiterates this point, providing that “the Director shall issue and publish a certificate . . . incorporating in the patent by operation of the certificate any new or amended claim *determined to be patentable.*” *Id.* § 318(b) (emphasis added). And § 318(c) addresses the effect of “[a]ny proposed amended or new claim *determined to be patentable* and incorporated into a patent following an inter partes review.” *Id.* § 318(c) (emphasis added).

The term “patentability” includes consideration of § 101 eligibility. In *Versata Dev. Group, Inc. v. SAP Am., Inc.*, 793 F.3d 1306 (Fed. Cir. 2015), this Court held that Congress’s use of the phrase “conditions of patentability” elsewhere in the America Invents Act extends to consideration of § 101 challenges. *See id.* at 1329-31 (addressing the scope of challenges to existing claims under the

statute’s covered-business method provisions). As the Court explained, “both our opinions and the Supreme Court’s opinions over the years have established that § 101 challenges” are “patentability challenges.” *Id.* at 1330; *see also Aristocrat Techs. Austl. Pty. Ltd. v. Int’l Game Tech.*, 543 F.3d 657, 661 (Fed. Cir. 2008) (noting that “[i]t has long been understood” that § 101 is a “condition[] for patentability”) (citing *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1 (1966))). Consistent with the well-established understanding against which Congress crafted the IPR amendment provisions, the term “patentability” should be understood to include a determination regarding *all* conditions of patentability. *See, e.g., Versata*, 793 F.3d at 1330 (noting the canon of statutory interpretation that “Congress is presumed to know the background against which it is legislating”). This common-sense interpretation ensures that the USPTO does not issue patent claims that have never been evaluated for compliance with the statutory conditions for patentability.

**2. By its plain language, § 311(b) applies only to the petitioner’s challenge to original claims**

The statute contains no indication that Congress intended to limit the Board to analyzing the patentability of previously unexamined substitute claims only under §§ 102 and 103—a rule that would require the Board to issue claims that may be invalid under §§ 101 and 112. Uniloc bases its argument that the statute requires this extraordinary result on § 311(b). That provision sets out the

permissible “scope” of a petitioner’s challenge to existing claims: “A petitioner in an inter partes review may request to cancel as unpatentable 1 or more claims of a patent only on a ground that could be raised under section 102 or 103 and only on the basis of prior art consisting of patents or printed publications.” 35 U.S.C. § 311(b).

The plain language of this provision limits it to a petitioner’s “request to *cancel* . . . claims.” *Id.* (emphasis added). Uniloc in effect argues that § 311(b) *implicitly* governs both original claims and proposed amendments. *See, e.g.,* Br. at 14. But the ordinary meaning of “cancel” is “to destroy the force, effectiveness, or validity of.” *Merriam-Webster Dictionary* (definition of “cancel”), at <https://www.merriam-webster.com/dictionary/cancel>. In other words, cancellation presupposes an *existing* thing with “force, effectiveness, or validity” that can be extinguished. It would make no sense to speak of “cancelling” a proposed amendment that has never been approved or issued by the USPTO in the first place. Section 311(b) thus regulates only challenges to existing, in-force claims.

Similarly, § 311(b) refers to cancelling claims “of a patent.” Only original claims, previously approved and issued by the USPTO, are part of the patent—as the statute itself recognizes, it is only *after* a substitute claim has been finally “determined to be patentable” that the Director shall issue a certificate “incorporating [the claim] in the patent.” 35 U.S.C. § 318(b). Until the Director



issues such as an amended certificate, that new or amended claim is not “of the patent”—and is not subject to § 311(b).

Other parts of Chapter 31 confirm that § 311(b) applies only to the Board’s review of existing claims. Congress consistently used the term “cancelled” only with respect to a “challenged claim.” And in context, it is clear that such “challenged claims” are original claims challenged in the petition.

Section 316(a)(9) authorizes the patent owner to move to “cancel a challenged claim or propose a reasonable number of substitute claims.” 35 U.S.C.

§ 316(a)(9). Section 316(d)(1) likewise allows the patent owner to “[c]ancel any challenged claim” or, “[f]or each challenged claim, propose a reasonable number of substitute claims.” 35 U.S.C. § 316(d)(1). And § 316(d)(1)(B) authorizes patent owners to propose a reasonable number of substitute claims “for each challenged claim.” *Id.* § 316(d)(1)(B). These provisions’ alternative treatment of “challenged claims” and “substitute claims” reinforce the distinction between these categories.<sup>1</sup>

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<sup>1</sup> As the Board emphasized, the plurality opinion in *Aqua Products v. Matal* also noted that “§§ 316(a)(9) and 316(d) distinguish a ‘challenged claim’ from ‘substitute claims.’” Appx77 (quoting *Aqua Prods.*, 872 F.3d at 1306). But as the Board further noted, no opinion in *Aqua Products* garnered a majority of the Court, and the only legal conclusions in that case that “support and define the judgment of the [C]ourt” relate to whether the USPTO had properly adopted regulations assigning the burden of proof with respect to IPR amendments. Appx58, n.5 (quoting *Aqua Prods.*, 872 F.3d at 1327-28). Nothing in *Aqua Products* addresses

Indeed, conflating “challenged claims” with “substitute claims” could have perverse results. Section 316(d)(1)(B)’s authorization to propose substitute claims “for each challenged claim,” in particular, obviously does not authorize the patent owner to propose “a reasonable number of substitute claims” for *other* substitute claims—an interpretation that would result in a mushrooming of IPR claim amendments, and be at odds with § 316(d)’s clear mandate to limit amendments. *See* 35 U.S.C. § 316(d)(1) (“the patent owner may file 1 motion to amend the patent”); *id.* (d)(2) (limiting additional motions). Thus when § 311(b) refers to “cancel[ling]” claims, it should be construed, *in pari materia* with Chapter 31’s other provisions regarding the cancellation of claims, as applying only to the cancellation of *existing* claims of the patent.

The structure of Chapter 31 underscores this conclusion. Section 311’s other subsections apply only to the petition phase preceding an IPR; subsection (a) establishes who may file an IPR petition challenging original claims, and subsection (c) regulates when the IPR petition challenging original claims may be filed. An entirely separate provision—§ 316, entitled “Conduct of inter partes review”—regulates the conduct of the trial phase of an IPR proceeding. This is of a piece with Chapter 31’s overall chronological structure: §§ 311-313 set rules for

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whether amendments proposed in an IPR may be required to satisfy non-§ 102/103 patentability criteria.

petitions, §§ 314-315 establish criteria for institution, § 316 regulates the conduct of the trial (including amendments), and §§ 317-319 address settlement, the final written decision, and appeals. Given this consistently chronological approach, § 311(b) should not be read to implicitly regulate the amendment process during the trial phase of an IPR.

Finally, § 42.121(b) of the regulations governing IPR requires that a patent owner's motion to amend "set forth ... [t]he support in the original disclosure of the patent for each claim" the patent owner wants to add or amend. 37 C.F.R. § 42.121(b). The purpose of this regulation is to facilitate the Board's review of amended claims to determine whether they satisfy the requirements of § 112. The agency's regulations thus make clear that the Board's review of "the patentability of . . . any new claim added under section 316(d)" (35 U.S.C. § 318(a)) will not be restricted to the patentability criteria of §§ 102 and 103.

**3. The statutory history supports the Board's ability to analyze the patent eligibility of new claim language proposed during an IPR**

Inter partes review is not the first administrative mechanism that Congress has established to allow the USPTO to reconsider the validity of issued patents. Section 311(b) is based on the pre-AIA reexamination statute, which (when the AIA was enacted and today) authorizes the filing of a "request" to challenge claims

on the basis of “prior art consisting of patents or printed publications.”

35 U.S.C. §§ 302, 301.<sup>2</sup>

When the AIA was enacted, this Court and the Board had concluded that this language does *not* preclude consideration of provisions other than §§ 102 and 103 during reexaminations in some circumstances. In *In re NTP, Inc.*, 654 F.3d 1268 (Fed. Cir. 2011), the Court addressed a patent owner’s argument that because the reexamination statute incorporated the “patents and printed publications” restriction, it thereby barred the examiner from evaluating the § 112 sufficiency of an earlier application to which the patent owner sought priority during the reexamination. *See id.* at 1276 (noting the argument that the “sufficiency of a disclosure” cannot be considered because the statute is limited to “reexamination of patentability based on prior art patents and publications”).

This Court rejected such an interpretation. It noted that “when a patentee argues that its claims are entitled to the priority date of an earlier filed application, the examiner must undertake a priority analysis” under 35 U.S.C. § 120, and that such an analysis requires that the written description in the earlier application is “sufficient to satisfy the requirements of § 112.” *Id.* at 1277. The “patents and printed publications” language notwithstanding, *NTP* concluded that “no statutory

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<sup>2</sup> Section 302 authorizes requests for *ex parte* reexamination; § 301 is the foundation for both *ex parte* and *inter partes* reexamination.

limitation during a reexamination proceeding prohibit[s] the examiner” from conducting this § 112 priority analysis—“[o]therwise, the examiner would be stripped of a critical legal tool needed in performing a proper reexamination.” *Id.*

*NTP* confirms that the statutory language limiting “requests” for post-issuance review to challenges based on “prior art consisting of patents and printed publications” does not inevitably bar the agency from considering provisions other than §§ 102 and 103. This Court made clear that although this language restricts the scope of the requester’s initial “challenges to the patentability of original claims,” *id.* at 1275, it does not bar consideration of other patentability issues raised by the patent owner’s response.

Moreover, the USPTO has long interpreted and applied the reexamination statute to specifically allow consideration of non-§ 102/103 criteria when evaluating amendments proposed by patent owners. As *NTP* noted in support of its holding, long before the AIA was enacted, the USPTO had adopted regulations providing that “[s]ection 112 can be used to evaluate claims that were added during reexamination.” *NTP*, 654 F.3d at 1276 n.6 (citing 37 C.F.R. §§ 1.552(a), 1.906(a)). Since 2000, USPTO regulations have established that “subject matter added or deleted in the reexamination proceeding” will be examined “on the basis of the requirements of 35 U.S.C. 112.” 37 C.F.R. § 1.552; *see also* MPEP § 2658.II (“Where new or amended claims are presented or where any part of the

disclosure is amended, the claims of the reexamination proceeding are to be examined for compliance with 35 U.S.C. 112.”) (8th ed. 2004).<sup>3</sup>

“Congress is presumed to be aware of an administrative<sup>4</sup> or judicial interpretation of a statute and to adopt that interpretation when it re-enacts a statute without change.” *Lorillard v. Pons*, 434 U.S. 575, 580 (1978); *see also Immersion Corp. v. HTC Corp.*, 826 F.3d 1357, 1365 (Fed. Cir. 2016) (noting that “Congress has done nothing to disapprove of this clearly articulated [administrative] and judicial] position despite having amended section 120 several times since its first enactment in 1952”). Thus when interpreting the AIA, this Court looks to the state of the law “[w]hen Congress enacted the AIA in 2011.” *Return Mail, Inc. v. United States Postal Serv.*, 868 F.3d 1350, 1363 (Fed. Cir. 2017) (*quoting Mississippi ex rel. Hood v. AU Optronics Corp.*, 571 U.S. 161, 169 (2014), *rev’d*

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<sup>3</sup> Prior versions of the MPEP are available in an archive on the USPTO’s website, at <https://www.uspto.gov/web/offices/pac/mpep/old/index.htm>.

<sup>4</sup> It is well established that this canon of statutory construction also extends to an agency’s interpretation of the statute it administers. *See National Lead Co. v. United States*, 252 U.S. 140, 145, 146 (1920) (“[It is] settled law that, when uncertainty or ambiguity . . . is found in a statute, great weight will be given to the contemporaneous construction by department officials”—and when Congress reenacts language “without substantial change, . . . [it] amounts to an implied legislative recognition and approval of the executive construction of the statute”); *National Treasury Employees Union v. United States Merit Systems Protection Board (“NTEU”)*, 743 F.2d 895, 916 (D.C. Cir. 1984) (“Although in this case the rules in effect prior to the statutory enactment were administrative,” the canon “applies just as if the rules were statutory.”).

on other grounds, *Return Mail, Inc. v. United States Postal Serv.*, 139 S. Ct. 1853 (2019)).

Although *NTP* and the USPTO regulations only addressed § 112,<sup>5</sup> they demonstrate that Uniloc is wrong that Congress would have expected language like § 311(b)'s to bar consideration of any provision except §§ 102 and 103 during an IPR. The statutory limitation of “requests” for review to challenges that are based on “prior art consisting of patents and printed publications,” 35 U.S.C. § 301, 302, 311, governs only the requester’s initial “challenges to the patentability of original claims.” *NTP*, 654 F.3d at 1275. In particular, such language does *not* govern the USPTO’s review of amended claims.

Nor is there any reason to distinguish between the Board’s ability to consider § 101 and § 112. As *NTP* recognized, § 101 and § 112 challenges are *both* challenges that are *not* based on “prior art consisting of patents and printed publications.” 654 F.3d at 1275-76. The Court noted that neither “qualification as

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<sup>5</sup> The pre-AIA regulations’ silence regarding § 101 may be attributable to the relative paucity of such issues in the era between *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (1998), and *Bilski v. Kappos*, 561 U.S. 593 (2010). See generally *The State of Patent Eligibility in America: Part II: Hearing before the U.S. Senate Committee on the Judiciary*, 116th Cong., June 5, 2019 (statement of Barbara A. Fiacco, President-Elect, AIPLA, at p.4) (noting that only two § 101 appeals reached this Court during the year before *Bilski* was decided), available at <https://www.judiciary.senate.gov/imo/media/doc/Fiacco%20Testimony.pdf>.

patentable subject matter under § 101 [n]or satisfaction of the written description and enablement requirements of § 112” may be raised in the initial “challenges to the patentability of original claims.” *Id.* at 1275-76. If the “patents and printed publications” restriction does not govern consideration of § 112 during the amendment phase of the proceeding, it also does not preclude consideration of an amendment’s § 101 eligibility.

The canon favoring implied incorporation of settled judicial and administrative constructions into a new statute applies with special force to the IPR statute. First, the “presumption is particularly appropriate” where, as here, “Congress exhibited both a detailed knowledge of the [prior law’s provisions] and their judicial interpretation and a willingness to depart from those provisions regarded as undesirable or inappropriate for incorporation.” *Lorillard*, 434 U.S. at 581. The AIA reflects a detailed picking and choosing between the parts of the old inter partes reexamination statute that are discarded and those that are preserved. It “modifies inter partes reexamination” by “chang[ing] the standard that governs the Patent Office’s institution of the agency’s process” from “substantial new question of patentability” to “a reasonable likelihood that the challenger would prevail;” *Cuozzo*, 136 S. Ct. at 2137; “[t]he new statute provides a challenger with broader participation rights,” *id.*, such as by allowing discovery and depositions, *see* 35 U.S.C. § 316(a)(5); and the AIA “convert[s] inter partes reexamination from an



examinational to an adjudicative proceeding.” *Abbott Labs. v. Cordis Corp.*, 710 F.3d 1318, 1326 (Fed. Cir. 2013) (*quoting* H.R. Rep. No. 112-98, at 46-47 (2011)); *see also SAS Institute v. Iancu*, 138 S. Ct. 1348, 1355 (2018) (noting that “[i]t’s telling . . . to compare [the AIA’s IPR] structure with what came before.”).

Because the AIA reflects a detailed assessment of the old law, and a “willingness to depart” from specific provisions, *Lorillard*, 434 U.S. at 581, it is also “particularly appropriate” to presume that when Congress chose to preserve specific provisions of the old law in the new, it knew what it was doing and understood what those provisions meant.

In addition, the “policy behind the precept” of presuming incorporation of extant judicial and administrative constructions into a new statute—“to avoid the defeat of settled expectations based on legal practice”—also applies with special force to the AIA. *NTEU*, 743 F.3d at 916. As *NTP* recognized, if the “patents and printed publications” language were construed to bar consideration of non-§ 102/103 questions even when the patent owner has opened the door to such issues, “the examiner would be stripped of a critical legal tool needed in performing a proper examination.” *NTP*, 654 F.3d at 1277. Indeed, if a patent owner seeking amendments in an IPR were not bound by § 101 and § 112, then in virtually any case, it could overcome prior art and obtain new claims simply by going outside the boundaries of patent eligibility and the invention described in the

specification. And in this case, such an approach would allow the '960 patent's claims, despite having been finally adjudicated ineligible by this Court, to return from the dead as IPR amendments. This would occur, not because those amendments made changes that cured the claims' § 101 invalidity, but simply because the Board was prevented from even considering § 101 eligibility when assessing "patentability." 35 U.S.C. § 318(a). Not only would such an approach violate the United States's historic policy, since the Patent Act of 1836, 5 Stat. 117, of requiring USPTO examination of all new patent claims; it would contravene the AIA's "important congressional objective" of allowing post-issuance review to "improve patent quality and restore confidence in the presumption of validity." *Cuozzo*, 136 S. Ct. at 2140 (quoting H.R. Rep. 112-98, at 45, 48 (2011)).

Finally, there is no merit to Uniloc's suggestion that an amendment that adds new limitations to a claim cannot make the claim ineligible. Br. at 8, 11, 24-25. First, the argument presupposes that the original claims are eligible—a proposition that this Court has rejected for the '960 patent. *See Uniloc*, 733 F. App'x 1026. And more fundamentally, additional limitations *can* render claims ineligible. This is particularly so in the IPR context, where claim amendments are typically proposed in the alternative, and thus are considered only after the Board has already determined that all of the limitations of the original claims are within the prior art. The newly proposed limitation thus naturally becomes the focus of the

claim—it is the patent owner’s only remaining basis for contending that the amended claim is not obvious. And if that new limitation consists of ineligible subject matter, the claim is likely drawn to ineligible subject matter. Thus if the Alice Corporation had confined itself to claiming a computer system and a computer-readable medium, *see Alice*, 573 U.S. at 226, no one would suggest that its claims suffered from eligibility (as opposed to obviousness) defects. But with the addition of limitations claiming an escrow system for resolving financial transactions, the claims are directed to a fundamental economic practice, and are patent ineligible. *See id.* Even if Uniloc’s original claims had been eligible, the addition of limitations to those claims via an IPR amendment would not preclude the possibility that the new claims are ineligible.

**C. The USPTO’s resolution of any ambiguity regarding patentability of proposed amendments is entitled to deference**

As explained, the IPR statute is best read as permitting the Board to ensure the patentability in all respects of any new or amended claim the Board orders to be added to the patent. But even if this Court found the statute susceptible to other interpretations, it should nonetheless defer to the USPTO’s reasonable interpretation of the statute in its precedential decision in *Amazon.com*.

Settled principles of administrative law compel that conclusion. In *United States v. Mead Corp.*, 533 U.S. 218 (2001), the Supreme Court held that an agency’s “implementation of a particular statutory provision qualifies for *Chevron*

deference when it appears that Congress delegated authority to the agency generally to make rules carrying the force of law, and that the agency interpretation claiming deference was promulgated in the exercise of that authority.” *Id.* at 226-27. “It is fair to assume generally that Congress contemplates administrative action with the effect of law when it provides for a relatively formal administrative procedure tending to foster the fairness and deliberation that should underlie a pronouncement of such force.” *Id.* at 230. “Delegation of such authority may be shown in a variety of ways, as by an agency’s power to engage in adjudication or notice-and-comment rulemaking, or by some other indication of a comparable congressional intent.” *Id.* at 227; *see id.* at 229 (identifying “congressional authorizations” for “rulemaking or adjudication” as a “very good indicator of delegation meriting *Chevron* treatment”). The Court has also reasoned that, where Congress enacts a “complex[]” statute implicating a “vast number of claims” with a “consequent need for agency expertise and administrative experience,” it is appropriate to “read the statute as delegating to the Agency considerable authority to fill in, through interpretation, matters of detail related to its administration.” *Barnhart v. Walton*, 535 U.S. 212, 225 (2002). The Board’s precedential decisions interpreting the AIA’s inter partes review provisions qualify for *Chevron* deference under these principles. First, Congress has expressly delegated to the USPTO the authority to adjudicate challenges brought under the AIA, *see* 35 U.S.C. §§ 311-

319, as well as the authority to enact regulations “establishing and governing inter partes review under this chapter,” *id.* § 316(a)(4). Thus, both of the quintessential forms of lawmaking authority discussed in *Mead*, “adjudication [and] notice-and-comment rulemaking,” are present here. Moreover, the AIA is a complex, specialized statutory regime implicating a “vast number of claims” with a “consequent need for agency expertise and administrative experience.” *Barnhart*, 535 U.S. at 225.

Second, the USPTO designates Board decisions as precedential through a structured deliberative process. *Cf. Mead*, 533 U.S. at 230 (inquiring whether interpretation was made through a “formal administrative procedure tending to foster ... fairness and deliberation”). This process is governed by the Board’s Standard Operating Procedure 2 (SOP2), at § III.<sup>6</sup> First, an issued decision may be nominated for precedential designation; once nominated, it is forwarded to a Screening Committee that consists of members designated by the Director, the Commissioner for Patents, and the Chief Judge of the Board. SOP2, §§ II.D, III.A. The Screening Committee then makes a recommendation to the Executive Judges Committee, which consists of the Chief Judge of the Board, the Deputy Chief Judge, and the Vice Chief Judges in order of seniority and availability. After the

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<sup>6</sup> SOP2 is available on the USPTO’s website at <https://www.uspto.gov/sites/default/files/documents/SOP2%20R10%20FINAL.pdf>

Executive Judges Committee deliberates on the matter, that committee votes on making a recommendation and provides an explanation to the Director, who makes the final decision whether to designate the decision as precedential. SOP2, §§ III.B-III.C. Any opinion that has been designated as precedential therefore represents the considered views of agency leadership as to the proper interpretation of the statute.

The USPTO's precedential-designation process also clearly fulfills a "lawmaking" function within the agency. *Mead*, 553 U.S. at 233. Unlike ordinary decisions by three-judge Board panels, which by default are non-precedential, decisions designated as precedential are expressly binding on all future Board panels. SOP2, § III.D. A precedential Board decision thus carries the "force of law" in the sense described in *Mead* and applied in subsequent cases.

Finally, the USPTO need not act via notice-and-comment rulemaking to receive *Chevron* deference.<sup>7</sup> "The decision 'between proceeding by general rule or by individual, ad hoc litigation is one that lies primarily in the informed discretion

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<sup>7</sup> And in any event, the USPTO *has* acted through notice-and-comment rulemaking to adopt a regulation that makes clear that the Board's patentability review of amendments is *not* limited to §§ 102/103 prior-art questions. As noted above, § 42.121 of the IPR regulations requires the patent owner proffering an amendment to identify "[t]he support in the original disclosure of the patent for each claim that is added or amended" (37 C.F.R. § 42.121(b)(1))—a requirement that plainly contemplates a § 112 analysis of the amended claims.

of the administrative agency.” *National Organization of Veterans’ Advocates, Inc. v. Secretary of Veterans Affairs*, 927 F.3d 1263, 1269-70 (Fed. Cir. 2019) (quoting *SEC v. Chenery Corp. (Chenery II)*, 332 U.S. 194, 203 (1947)). And precisely because “the choice between rulemaking and adjudication lies in the first instance within the [agency’s] discretion,” an agency “is not precluded from announcing new principles in an adjudicative proceeding.” *NLRB v. Bell Aerospace Co.*, 416 U.S. 267, 294 (1974). Moreover, *Mead* and subsequent cases make clear that where, as here, Congress has empowered an agency to proceed both by adjudication and regulation, it is not a precondition for *Chevron* deference that the agency choose the rulemaking path. *See, e.g., Barnhart*, 535 U.S. at 222 (reiterating *Mead*’s conclusion that “the presence or absence of notice-and-comment rulemaking” is not dispositive in the *Chevron* analysis); *see also* Pierce & Hickman, *Administrative Law Treatise*, § 4.9, at 532 (6th ed. 2019) (“The [Supreme] Court has not even suggested that a court can constrain an agency’s choice between rulemaking and adjudication in any opinion since *Bell Aerospace*”).

Accordingly, the fact that Congress has authorized the USPTO to “prescribe regulations ... establishing and governing inter partes review,” 35 U.S.C. § 316(a)(4), and to “establish regulations ... govern[ing] the conduct of proceedings in the Office,” *id.* § 2(b)(2), does not thereby impliedly withhold from

the agency the concurrent power to interpret the statute pursuant to its independent powers of adjudication, *see id.* §§ 6(b), 311-316. Nothing in the AIA expressly requires the USPTO to use one means of interpreting the statute rather than another. *See Pierce & Hickman* § 4.9, at 524 (“Most agency-administered statutes confer on the agency power to issue rules and power to adjudicate cases, leaving the agency with discretion to choose any combination of rulemaking and adjudication it prefers.”).

This Court’s precedent confirms the same principle. “*Chevron* deference is not limited to regulations adopted after notice-and-comment rulemaking.” *Pesquera Mares Australes Ltda. v. United States*, 266 F.3d 1372, 1380 (Fed. Cir. 2001). Instead, “*Chevron* deference is due *at least to* those statutory interpretations that are articulated in any relatively formal administrative procedure, where Congress has provided for agency resolution of rights, subject to deferential judicial review ... and those interpretations are embodied in rulings that are given precedential effect by the agency.” *Id.* (emphasis added). Accordingly, *Pesquera Mares* concluded that it was appropriate to apply *Chevron* deference to adjudicative interpretations contained in Commerce Department antidumping rulings, “even when there is no formal regulation at issue.” *Id.* at 1382. The Supreme Court itself later extended *Chevron* treatment to the same class of decisions. *See United States v. Eurodif S.A.*, 555 U.S. 305, 316 (2009) (citing



*Mead* and *Chevron* and explaining that “when the [Commerce] Department exercises [its] authority in the course of adjudication, its interpretation governs” if reasonable). *Cf. Shalala v. Guernsey Mem’l Hosp.*, 514 U.S. 87, 96 (1995) (rejecting the proposition that “the Secretary has a statutory duty to promulgate regulations that, either by default rule or by specification, address every conceivable question in the process of determining equitable reimbursement” under Medicare). Given this settled backdrop, Congress in enacting the AIA would have understood that its grant of rulemaking authority in § 316(a)(4) would not be construed to limit the agency’s ability to render interpretations through adjudication and to receive deference for those interpretations to the extent that they resolve ambiguities or fill gaps in the statute.

Thus, to the extent that Chapter 31 is ambiguous as to whether the Board’s assessment of a proposed new or amended claim’s “patentability,” 35 U.S.C. § 318(a), may include a § 101 analysis, this Court should defer to the USPTO’s reading of the statute here. The agency has interpreted Chapter 31 as permitting the Board to evaluate amended claim language proposed during an IPR for compliance with all the conditions for patentability, not just those in §§ 102 and 103. For all the reasons set out above, that interpretation is—at minimum—reasonable. And the USPTO has announced its understanding of the statute via its precedential-opinion designation process, yielding a decision that binds all future

panels of the Board. The USPTO's "implementation" of the IPR statute on this score is thus an exercise of its legislatively delegated authority "to make rules carrying the force of law" entitled to deference. *See Mead Corp.*, 533 U.S. at 226-27.

**D. Uniloc is not entitled to a remand to make arguments that it declined to raise before the Board**

Both before the Board and in its opening brief in this Court, Uniloc made no effort to defend the § 101 eligibility of its proposed substitute claims. Yet it asks that, if this Court concludes that the Board may properly considers all patentability criteria when evaluating amended claims, the Court remand the case to allow Uniloc to finally present an argument defending the eligibility of its proposed claim language under § 101. Uniloc contends that it "was justified in not responding to the substance of petitioner's challenge based on § 101" because it interpreted the statute as precluding the Board from considering eligibility. Br. at 29.

Uniloc bears the burden of showing that the Board committed reversible error. *See In re Watts*, 354 F.3d 1362, 1369 (Fed. Cir. 2004). The Board's actions may not be set aside unless they are shown to be "arbitrary, capricious, an abuse of discretion, unsupported by substantial evidence, or otherwise not in accordance with law." *In re Sullivan*, 362 F.3d 1324, 1327 (Fed. Cir. 2004); 5 U.S.C. § 706(2)(A). Because Uniloc fails to even present an argument in this Court that

the Board erred in concluding that its substitute claims are ineligible, it cannot meet its burden of showing error. For that reason alone, vacatur of the Board's decision and remand are not justified.

Moreover, it is “important that the [patentee] challenging a decision not be permitted to raise arguments on appeal that were not presented to the Board.” *Watts*, 354 F.3d at 1367. Uniloc failed to defend the eligibility of its substitute claims before the Board (Appx495-512, Appx596-602), and it identifies no change in the statute, in this Court's precedents, in the USPTO's practices, or any of the other “special circumstances . . . that militate against a finding of waiver.” *Id.* at 1368 (citing *Forshey v. Principi*, 284 F.3d 1335, 1355 (Fed. Cir. 2002) (en banc)). The Board concluded that Uniloc's substitute claims are ineligible because they are directed to “financial transactions and regulating of economic relationships” (Appx60)—a result consistent with this Court's affirmance of the § 101 invalidation of the '960 patent's original claims. *See Uniloc*, 733 F. App'x 1026. And this Court continues to adhere to the view that claims directed to such subject matter are ineligible. *See, e.g., In re Greenstein*, No. 2019-1521, 2019 WL 4233554 (Sep. 6, 2019).

Uniloc is hardly the only litigant capable of developing alternative arguments challenging an administrative agency's decisions. Allowing piecemeal adjudication of such challenges, via post-appeal remands to consider arguments

that were previously withheld, would waste the time and resources of both the Board and this Court. Uniloc's § 101 merits argument should be deemed waived.

## V. CONCLUSION

The Board's determination that Uniloc's substitute claims are § 101 ineligible should be affirmed.

Respectfully submitted,

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**RULE 32(a)(7)(C) CERTIFICATE OF COMPLIANCE**

I certify pursuant to Fed. R. App. Proc. 32(a)(7) that the foregoing BRIEF FOR INTERVENOR—DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE complies with the type-volume limitation required by the Court’s rule. The total number of words in the foregoing brief is 9,521 words as calculated using the Word® software program.

/s/JOSEPH MATAL

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U.S. Patent and Trademark Office

**CERTIFICATE OF SERVICE**

I hereby certify that on October 11, 2019, the foregoing BRIEF FOR INTERVENOR—DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE was electronically filed using the Court’s CM/ECF filing system.

/s/JOSEPH MATAL

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