No. 19-1686

IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

UNILOC 2017 LLC,

***Appellant*,**

v.

HULU, LLC, NETFLIX, INC.,

***Appellees*,**

ANDREI IANCU, Director, U.S. Patent and Trademark Office,

***Intervenor*.**

Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2017-00948

BRIEF OF ASKELADDEN L.L.C. AS *AMICUS CURIAE* IN SUPPORT OF APPELLEES

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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

UNILOC 2017 LLC v. HULU, LLC, NETFLIX, INC.

No. 19-1686

CERTIFICATE OF INTEREST

In accordance with Fed. Cir. Rules 29(a) and 47.4, counsel for *Amicus Curiae* Askeladden L.L.C. certifies the following:

1. **The full name of every party or amicus represented by me is:**

   Askeladden L.L.C.

2. **The name of the real party in interest represented by me is:**

   Askeladden L.L.C.

3. **All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:**

   The Clearing House Payments Company L.L.C.

4. **The names of all law firms and the partners or associates that appeared for the party now represented by me in the trial court or agency or are expected to appear in this court are:**

   KILPATRICK TOWNSEND & STOCKTON LLP
   Adam H. Charnes
   Steven Gardner
   Chris W. Haaf

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal.

None

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INTEREST OF AMICUS CURIAE[1]

Askeladden L.L.C. is an education, information, and advocacy organization that, through its Patent Quality Initiative ("PQI"), is dedicated to improving the understanding, use, reliability, and quality of patents in the financial services industry and elsewhere. Through its PQI, Askeladden strives to improve patent quality and to address questionable patent-holder behaviors in a variety of ways, including by submitting amicus briefs that highlight issues critical to patent quality and by petitioning the Patent and Trademark Office to engage in *inter partes* review of certain patents. Askeladden also works to strengthen and support the patent-examination process by coordinating educational briefings on the evolution of technology in financial services.

Askeladden is a wholly owned subsidiary of The Clearing House Payments Company L.L.C. ("The Clearing House"). The Clearing House is a banking association and payments company that is owned by

[1] No counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the amicus curiae or its counsel made a monetary contribution to this brief's preparation or submission.

the world's largest commercial banks and dates back to 1853. The Clearing House owns and operates core payments system infrastructure in the United States. The Clearing House is the only private-sector ACH and wire operator in the United States, clearing and settling nearly $2 trillion in U.S. dollar payments each day—half of all commercial ACH and wire volume. The Clearing House continues to leverage its unique capabilities to support bank-led innovation, including launching the RTP® network, a real-time payment platform that modernizes core payments capabilities for all U.S. financial institutions. As the country's oldest banking trade association, The Clearing House also provides informed advocacy and thought leadership on critical payments-related issues facing financial institutions today. Askeladden pursues its PQI independently of the business and activities of The Clearing House.

In Askeladden's view, a strong patent system is vital to continued innovation in the United States. The health of the patent system depends on, among other things, implementing the reforms contemplated by the America Invents Act ("AIA") to check patent abuse, most notably the *inter partes* review and other post-grant review proceedings designed to allow interested parties to efficiently challenge and invalidate patents that should never have issued. Allowing patent owners to amend and substitute claims in their patents during an *inter partes* review without the Patent and Trial Board ("Board") having reviewed the new claims for patentability under 35 U.S.C. § 101 would invite abuse of the patent system and of the proceedings.

Financial services companies face unfair and unreasonable economic prejudice when patent owners assert invalid patent claims and allege that an important system, method, or software that the company has used and on which it has relied infringes a patent. Such claims, which raise the possibility of substantial liability and significant costs in time and attorney's fees, exert pressure on financial services companies to settle even though the patent claims are invalid. *Inter partes* review provides targets of such actions with an efficient mechanism to challenge the validity of invalid patents. As frequent targets of patent owners asserting low-quality patent claims, financial services institutions have a strong interest in preserving both the efficiency and efficacy of *inter partes* review.

ARGUMENT

Askeladden joins the Director of the United States Patent and Trademark Office ("PTO") and Appellees in urging the Court to affirm the decision of the Board below holding that, in *inter partes* review, the Board may analyze and determine whether substitute claims submitted by a patent owner in a motion to amend comply with the subject-matter eligibility requirements of § 101. (Appx58-59.) This brief sets forth three reasons for affirmance.

First, the AIA mandates that the Board "issue a final written decision with respect to the *patentability* of any patent claim challenged by the petitioner and any new claim added" in *inter partes* review. 35 U.S.C. § 318(a) (emphasis added). Patentability includes, among other things, subject-matter eligibility under § 101. Indeed, the very title of § 101 is "Inventions patentable," and § 101 falls within Part II and Chapter 10 of Title 35 of the United States Code—Chapter 10 is titled "Patentability of Inventions." Under the plain language of the AIA, the Board thus had a statutory obligation to consider the subject-matter eligibility of the proposed amended claims in the IPR here.

Second, reversing the Board's decision would lead to a number of unintended and unwanted consequences. These include allowing parties to manipulate the PTO by inserting *ineligible* claims during an *inter partes* review that could not have been included (or that were rejected) during the initial prosecution of the patent. In such circumstances, review for subject-matter eligibility would not occur until after the patent were amended, through post-grant review or district court litigation, and only after the patent had reissued with new claims that had never been properly reviewed for all aspects of patentability. There is simply no way Congress intended to allow a patent owner to insert a patent claim that the Board can plainly see is ineligible under § 101 using the *inter partes* review process.

Third, Askeladden believes that ensuring that patent claims comply with the subject-matter eligibility provisions of 35 U.S.C. § 101 is critically important to appropriately incentivizing and rewarding innovation in the United States. The financial services industry has a particular interest in maintaining the efficacy of *inter partes* review as a tool to invalidate patents claiming ineligible business practices because such patents are frequently leveraged to attack long-standing practices in the industry. Accordingly, Askeladden joins the Director and Appellees in asking the Court to affirm the Board's decision below.

I. The Board Was Required by Statute to Consider the Patent-Eligibility of Uniloc's Proposed Substitute Claims in the IPR.

The plain language of the AIA requires that the Board review proposed amended claims in an IPR for all aspects of patentability, including subject-matter eligibility under § 101. The AIA provides that the Board in an *inter partes* review must "issue a final written decision with respect to the patentability of any patent claim challenged by the petition and any new claim added under section 316(d)." 35 U.S.C. § 318(a). As discussed in detail by both Intervenor (Int. Br. at 14-15) and Appellees (Appellees' Br. at 10-12), "patentability" has a uniform and settled meaning that includes compliance with the subject-matter eligibility requirements of § 101.

This Court held that "[e]xcluding § 101 considerations from the ameliorative processes in the AIA would be a substantial change in the law as it is understood." *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1330 (Fed. Cir. 2015); *see also id.* ("[A]s noted by the USPTO, both our opinions and the Supreme Court's opinions over the years have established that § 101 challenges constitute validity and patentability challenges.”). The *Versata* court thus concluded that “[i]t would require a hyper-technical adherence to form rather than an understanding of substance to arrive at a conclusion that § 101 is not a ground available to test patents under either the [post-grant review (“PGR”)] or § 18 processes.” *Id.* Indeed, the very title of § 101 is “Inventions patentable,” and § 101 falls within Part II and Chapter 10 of Title 35 of the United States Code—Chapter 10 is titled “Patentability of Inventions.”

Uniloc argues that § 311(b) “ties the ‘patentability’ determination by the Board in its final written decision [only] to the grounds raised under section 102 or 103 in the petition.” (Uniloc Br. at 14.) Section 311(b) provides that: “A petition 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).

Section 311(b), by its terms, applies to a request in a petition and petitioner, but not to other aspects of the proceedings, or the PTO, or even to the petitioner relative to other aspects of the proceedings. Indeed, the plain language of § 311(b) refutes Uniloc's argument that this provision also applies to claim amendments raised in *inter partes* reviews. This provision applies only to a "*request to cancel as unpatentable* 1 or more claims of a patent…." *Id.* (emphasis added). It therefore applies to an *existing claim* of a patent at the time IPR was instituted, but simply has no application to a potential substitute claim that the patent owner seeks to add by amendment. And such claims were at issue in this case: after institution of the IPR, Uniloc made a contingent motion to amend seeking "to replace claims 1, 22, and 25 with substitute claims 26-28." (Uniloc Br. at 3; Appx310.)

When the Board reviews a proposed amendment, in effect it is reviewing a new claim. In other words, when presented with an amendment, the Board is not just adjudicating the IPR dispute before it, but in a practical sense is functioning as a patent examiner. And, as noted above, in this role the AIA directs the Board to act in this fashion by "issu[ing] a final written decision with respect to the patentability of … any new claim added under section 316(d)." 35 U.S.C. § 318(a).

Uniloc acknowledges that § 311(b), "considered in isolation," may not limit the grounds of unpatentability that can be raised in response to substitute amended claims presented in a motion to amend, and falls back on "the full context of the AIA" and this Court's plurality decision in *Aqua Products, Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017), as support for its position. (Uniloc Br. at 15.) These assertions, however, are meritless. The remainder of the AIA says nothing that would expand the application of § 311 beyond the existing claims of the patent.

Further, Uniloc misreads *Aqua Products*. The only holdings of that case are that "(1) the PTO has not adopted a rule placing the burden of persuasion with respect to patentability of amended claims on the patent owner that is entitled to deference; and (2) in the absence of anything that might be entitled to deference, the PTO may not place that burden on the patentee." *Aqua Prods., Inc.*, 872 F.3d 1327-28. The burden of persuasion in IPRs is not at issue in this appeal.

Because the Board did not err in reviewing the proposed amended claims for subject-matter eligibility under § 101 (and in fact was required to do so), this Court should affirm the Board's decision.

II. Permitting Substitute Claims to Issue Without Review for Subject-Matter Eligibility Would Lead to Unintended and Unwanted Results Including Gross Inefficiency and Opportunities for Abuse.

"With its enactment of the AIA in 2011, Congress created IPRs to provide 'quick and cost effective alternatives to litigation.'" *Aqua Prods.,* 872 F.3d at 1298 (quoting H.R. Rep. No. 112-98, pt. 1, at 48 (2011)). In doing so, Congress created a workable mechanism for substituting claims in an IPR (through a motion to amend) that is consistent with the functions and capabilities of the Board, including maintaining *inter partes* review as an efficient and cost-effective tool for invalidating low-quality patents. *See* 35 U.S.C. §§ 316, 318. But if Uniloc's position is endorsed by this Court, IPRs will result in many substitute claims that are untested and likely invalid with respect to the subject-matter eligibility requirements of § 101. Uniloc's brief is noticeably silent about why Congress would allow an amendment to be added to a patent without review under § 101. It is impossible to imagine that Congress intended to allow patent owners to obtain new patent claims through an IPR that they never could have obtained through regular examination. And it is equally impossible to imagine that Congress intended for the amendment process during IPR to be less stringent than regular examination.

Uniloc contends that this outcome is untroubling because amendments can be challenged in an infringement action in district court. (Uniloc Br. at 11.) That is a wholly inadequate substitute for administrative review, before adoption, by the PTO. To begin with, it is inconsistent with the AIA. Section 318(b) provides 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." 35 U.S.C. § 318(b). Thus the IPR statute itself specifically contemplates that the Board make a determination that any new or amended claims were "patentable." But if Uniloc were correct, the certificate would issue *without* a determination of patentability under § 101. This would turn on its head Congress's central purpose in adopting the AIA: That IPRs would "ensure that the poor-quality patents can be weeded out through administrative review rather than costly litigation." 157 Cong. Rec. S5409 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer). As Uniloc would have it, IPRs could *introduce* "poor-quality patents" that would be "weeded out" only through "costly litigation."

Second, Uniloc ignores the adverse consequences of adding by amendment claims that are unpatentable under § 101, even if they are later invalidated in district court. It is widely recognized that "invalidly issued patents . . . impose significant costs on society," such as impeding competition and innovation and leading to "supracompetitive pricing and diminished quantity." Michael D. Frakes & Melissa F. Wasserman, *Does the U.S. Patent and Trademark Office Grant Too Many Bad Patents?: Evidence from a Quasi-Experiment*, 67 Stan. L. Rev. 613, 620 (2015); *see also* Jay P. Kesan, *Carrots and Sticks to Create a Better Patent System*, 17 Berkeley Tech. L.J. 763, 767–68 (2002). There is no reason to believe that Congress intended to require the Board to issue amendments that are invalid under § 101 and subject competitors to enforcement of those patents until such time as they are invalidated in a patent infringement action in district court.

Finally, Uniloc's position, if adopted by the Court, would significantly deter the use of the IPR mechanism. Possible petitioners will hesitate to file petitions because of the risk that patent owners could use the IPR proceedings to obtain otherwise invalid substitute claims. Even if these claims survived as "patentable" only for a brief period, the potential for abuse is significant. There is simply no reason to believe Congress intended this outcome.

III. The Financial Services Industry Has a Substantial Interest in Maintaining the Efficacy of *Inter Partes* Review as a Tool for Challenging the Validity of Patents.

Inter partes review was established to provide a more efficient vehicle to test the validity of issued patents in the PTO and to invalidate the patents that should not have issued, particularly those patents that have served as the basis for meritless infringement actions against financial services and technology companies that provide the hardware and software upon which the global economy relies.

Members of the financial services industry spend significant time and resources on innovation and frequently seek patent protection for their own important advances in the financial services space. It is thus in the interest of and of great importance to the financial services industry to ensure that only high quality patents are issued. The financial services industry has for many years experienced patent litigation based on patents that claim longstanding financial or business practices that are abstract ideas performed using computers. The issuance of such patents leads directly to costly and wasteful litigation that is detrimental to economic progress and actual innovation—a practice that will only increase if the Court adopts Uniloc's position.

A 2015 study using citations to academic literature as a measure of patent strength found that "[f]inance patents tend to cite fewer academic publications than do non-finance patents," and that the difference is more pronounced when citations to leading journals are considered. Josh Lerner, *et al.*, *Financial Patent Quality: Finance Patents After State Street*, Harvard Bus. Sch., Working Paper No. 16-068, at 3 (2015), http://www.hbs.edu/faculty/Publication%20Files/16-068_702dabb8-70c5-4917-a257-75dc8b0c4f6b.pdf. The study also found that "finance patents are litigated more often and more intensely" and that "finance patents with more academic citations had less litigation." *Id.* at 4. In other words, weaker financial patents are more likely to be litigated than stronger financial patents notwithstanding that "[t]he same effect was not seen for non-finance patents." *Id.*

Abusive patent owners that prey on the financial services and other industries will not hesitate to bring infringement actions alleging infringement of their substitute claims that survive *inter partes* review. The patents were weak in the first place because their value derived largely from their ability to provide a basis for an assertion of infringement and the associated costs that the alleged infringer must incur to defend against the allegations of infringement. With substitute claims that are subject to review only under §§ 102 and 103, those weak patents will continue to provide a basis for threatened or actual meritless infringement litigation that must be litigated or settled by accused defendants.

The experience of the financial services industry demonstrates the seriousness of the risk associated with the possible re-emergence of such patents challenged in *inter partes* review. Financial services institutions have faced a steady stream of dubious infringement actions threatening basic and essential business practices, such as providing mobile banking to customers through smartphone applications. The emergence from *inter partes* review of patents having new *but ineligible* claims would have far reaching and harmful consequences because it would increase the number of patents available for abusive efforts to extract settlement payments from participants in the financial services industry, thereby increasing the risk and expense of litigation and challenging the availability of well-established and highly valuable financial products and services.

CONCLUSION

For these reasons, the Court should affirm the decision of the Patent Trial and Appeal Board.

Respectfully submitted,

Dated: October 18, 2019

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CERTIFICATE OF COMPLIANCE WITH TYPE-VOLUME LIMITATION, TYPEFACE REQUIREMENTS AND TYPE STYLE REQUIREMENTS

1. This brief complies with the type-volume limitation of Federal Rules of Appellate Procedure 29(a)(5) and 32(a)(7)(A) and Federal Circuit Rules 29(a)(5) and 32(b).

The brief contains 2,970 words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(f) and Federal Circuit Rule 32(b).

2. This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6).

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Dated: October 18, 2019

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