

I N S I D E T H E M I N D S

The Impact of Recent Patent Law Cases and Developments

*Leading Lawyers on Analyzing Changing
Standards, Reviewing New Case Law, and
Updating Client Strategies*

2014 EDITION



ASPATORE

©2014 Thomson Reuters/Aspatore

All rights reserved. Printed in the United States of America.

No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, except as permitted under Sections 107 or 108 of the U.S. Copyright Act, without prior written permission of the publisher. This book is printed on acid free paper.

Material in this book is for educational purposes only. This book is sold with the understanding that neither any of the authors nor the publisher is engaged in rendering legal, accounting, investment, or any other professional service. Neither the publisher nor the authors assume any liability for any errors or omissions or for how this book or its contents are used or interpreted or for any consequences resulting directly or indirectly from the use of this book. For legal advice or any other, please consult your personal lawyer or the appropriate professional.

The views expressed by the individuals in this book (or the individuals on the cover) do not necessarily reflect the views shared by the companies they are employed by (or the companies mentioned in this book). The employment status and affiliations of authors with the companies referenced are subject to change.

For customer service inquiries, please e-mail West.customer.service@thomson.com.

If you are interested in purchasing the book this chapter was originally included in, please visit www.west.thomson.com.

Inter Partes Review: Is It
Working to Make the Patent
System Better?

Cyrus A. Morton

Partner

Robins Kaplan Miller & Ciresi LLP



ASPATORE

Introduction

While I am a registered patent attorney, the bulk of my career has focused on litigation and the reexaminations that often go along with patent cases. Under the America Invents Act (AIA), the largely separate worlds of patent prosecution and patent litigation have collided—we now have litigation in the patent office! This is but one of a myriad of dramatic changes to the patent system in the past few years.

In my view, the patent bar in general is struggling to keep up. In the case of patent office trials, we are not even sure which attorneys handle which proceedings anymore. Can patent prosecutors take depositions? Can litigators amend patent claims? And while we are all trying to absorb everything that has happened, many more “reform” bills are pending in Congress. There is little question in my mind that we are trying to change too many things too rapidly. And the changes, coming from Congress, the US Patent and Trademark Office (USPTO), the Federal Circuit, and the Supreme Court cannot possibly be coordinated. The AIA has not even been fully implemented yet—never mind fully applied and interpreted by the courts—and yet drastic changes to the AIA and the rest of the patent system are already being proposed. In short, these are challenging times for lawyers and their clients.

In this chapter, I focus on one major area of change—patent office “trials” created by the AIA for challenging the validity of issued patents. These are not trials in the way we normally think of trials, but they comprise a series of briefs, limited discovery, and an oral hearing (generally just lawyer argument) that is collectively called a “trial.” Explaining everything there is to know about filing petitions or all the differences between *inter partes* review (IPR), covered business method review, and post-grant review is beyond the scope of this chapter. Rather, my goal is to explain some the major things we have learned in the first year these procedures have been available and place that in context.

Specifically, in the AIA, Congress created *inter partes* review to replace *inter partes* reexamination (IPRex). These procedures are very different, and it is difficult for outside lawyers to rely on their experiences to determine what to do with these new procedures. It is perhaps even more difficult for in-

house counsel—attorneys who understand patent law, but may not have time to be fully familiar with IPR—to decide whether IPR is the right tool for them. But, with a basic understanding of how IPR is playing out differently than IPReX, one can begin to draw from experience and at least make an educated guess about whether an IPR is right for you. The reader will also likely form an opinion as to whether we need to make more dramatic changes to the patent system, particularly to address questionable patents, or whether we should at least wait and see what IPR can do.

***Inter Partes* Review: A Fledgling Patent Court**

We are just over a year into the new experiment of patent office trials created by the AIA. As of the time of this writing, there has been only one final determination, and that dealt with a business method and §101 only, not prior art.¹ Thus, while many of us practicing in this space feel that we have learned so much about these new procedures, we actually know almost nothing for certain about how this will play out in the long run. We know the Patent Trial and Appeal Board (PTAB) is granting the vast majority of the petitions and instituting a trial for each, though we have not seen the end results yet. But, given what we have learned, now is a reasonable time to begin considering whether IPR truly is an improvement over IPReX, what open questions remain, and whether we should already be making changes as proposed in pending legislation.

Is IPR Better than IPReX?

Congress created IPReX just over a decade ago in the American Inventors Protection Act. The problems with IPReX have been well chronicled. For instance, despite the “special dispatch” requirement, the process often dragged on for years. As a result, courts became more and more reluctant to grant stays of co-pending litigation. Thus, there were usually no cost savings for defendants. IPReX simply offered another bite at the apple. And a successful challenge under IPReX might be little more than a moral victory because by then the challenger may have already lost in court. There were procedural problems for patent holders, as well, which seemed to stack the deck in favor of the petitioner. First, the decision was based

¹ See *SAP Am. Inc. v. Versata Development Grp. Inc.*, CBM2012-00001, Paper 70 (PTAB June 11, 2013).

entirely on the briefs, and the petitioner got the first and last word. Second, there was no discovery. The patent owner had no opportunity to cross-examine declarants (nor did the petitioner). I do not mean to cast aspersions toward anyone, but most practitioners are aware that lawyers write declarations and can often persuade a well-credentialed expert to sign them. The patent owner also had no ability to seek evidence of secondary indicia of non-obviousness. The new IPR proceedings, by contrast, were heralded as faster and more like litigation, allowing some discovery that would hopefully lead to a fairer result. So far, that is somewhat true. What follows are some of the highlights of what we know so far.

Speed and a Fair Process

The speed of IPR is a clear improvement over IPReX. The IPR process does not take a year (as some would suggest) because it first takes six months from filing to institution of a trial, assuming the PTAB grants the petition. From that moment, the PTAB has one year to reach a final decision. That deadline can be extended by six months, but every time I have heard members of the USPTO or PTAB speak on the topic, they have insisted that they will adhere to the one-year time frame. Thus, eighteen months from filing to a final decision is still a huge improvement over the lengthy and indefinite duration of IPReX.

Stays of co-pending litigation have correspondingly increased, but not by much. At the time of this writing, district courts had granted stays about two-thirds of the time, compared to 57 percent for reexamination. I would have expected the rate to be higher, especially given the broader estoppel provisions. Petitioners who lose at the PTAB are estopped from later challenging the patent in district court on any ground they “raised or reasonably could have raised.”² This was expected to make stays more attractive because the PTAB’s decision is more likely to resolve the validity question. I suspect that stay percentages will increase. Many of the early requests came in cases that had already been pending for some time. As more petitions are filed at the outset of litigation, courts will likely grant more stays. This is a welcome thought for patent challengers because the cost of a fairly serious “trial” at the PTAB is on the order of a few hundred thousand dollars, compared to a few million in district court.

² 37 C.F.R. § 42.73(d) (2012).

The overall IPR procedure also seems like an improvement. Petitioners still get the first word, of course, but they do not get the last. In fact, the patent owner has three written submissions, including the last, to the petitioner's two. And, of course, the procedure ends with an oral hearing for both parties to make their cases in front of a three-judge panel, followed by a written decision, instead of an examiner simply issuing a decision, as in IPRex. That is not to say that none of the examiners handling re-exams were competent to render fair decisions. But being able to present your case to three legally (and often technically) trained people and address their questions and concerns directly provides for a much better process.

Almost No Discovery

Discovery in IPR, however, is not what many thought it would be. Yes, declarants can be deposed. However, the PTAB still appears to have a dim view of the value of cross-examination, let alone the live testimony deemed essential in our court system for judging credibility. For instance, the Office Patent Trial Practice Guide has a specific provision for presenting deposition testimony that is taken after the last paper is filed. As with all other issues arising outside of the ordinary course of the proceedings, one must first file a motion for leave to file a motion for observation of the cross-examination. Assuming it is even allowed, the Practice Guide provides:

Each observation should be in the following form:

In exhibit ____, on page ____, lines ____, the witness testified _____. This testimony is relevant to the ____ on page ____ of _____. The testimony is relevant because _____.

The entire observation should not exceed one short paragraph. The Board may refuse entry of excessively long or argumentative observations (or responses).³

It is hard to question the need for clarity and efficiency in these proceedings. But it is equally hard to imagine that credibility can be judged when this rule is followed. Not only is there no video, but the cold

³ Office Patent Trial Practice Guide, 77 Fed. Reg. 48768 (2012) codified at 37 C.F.R. § 42 (West).

transcript itself can barely be characterized. There still seems to be a considerable risk that the PTAB will not be able to judge which expert is applying the correct analysis in a case that depends on the opinions and credibility of experts.

The oral hearing is similar. Again, the PTAB is just not interested in a great deal of live testimony. The Practice Guide states that “the Board does not envision that live testimony is necessary at oral argument. However, parties may file a motion for live testimony in appropriate situations.”⁴ Unlike IPReX, the PTAB must allow you to depose the declarants, but it does not have to listen to what they say.

Those hoping for discovery into areas such as secondary indicia of non-obviousness will be even more disappointed. “Routine discovery” is limited to exhibits, depositions of declarants, and the murky “information that is inconsistent with a position advanced by a party.”⁵ For “additional discovery” to be granted “in the interests of justice,” the PTAB has issued a set of standards that are difficult to meet.⁶ The factors are:

1. *More than a Possibility and Mere Allegation*: The mere possibility of finding something useful, and mere allegation that something useful will be found, are insufficient to demonstrate that the requested discovery is necessary in the interest of justice. The party requesting discovery should already be in possession of evidence tending to show beyond speculation that in fact something useful will be uncovered.
2. *Litigation Positions and Underlying Basis*: Asking for the other party’s litigation positions and the underlying basis for those positions is not necessary in the interest of justice. The Board has established rules for the presentation of arguments and evidence. There are a proper time and place for each party to make its presentation. A party may not attempt to alter the Board’s trial procedures under the pretext of discovery.
3. *Ability to Generate Equivalent Information by Other Means*: Information a party can reasonably figure out or assemble without a discovery

⁴ *Id.* at (M).

⁵ 37 C.F.R. § 42.51 (2012).

⁶ See *Garmin Int’l Inc. v. Cuozzo Speed Techs.*, IPR2012-00001, Paper No. 26 (PTAB Mar. 5, 2013).

- request would not be in the interest of justice to have produced by the other party. In that connection, the Board would want to know the ability of the requesting party to generate the requested information without need of discovery.
4. *Easily Understandable Instructions*: The questions should be easily understandable. For example, ten pages of complex instructions for answering questions are prima facie unclear. Such instructions are counter-productive and tend to undermine the responder's ability to answer efficiently, accurately, and confidently.
 5. *Request Not Overly Burdensome to Answer*: The requests must not be overly burdensome to answer, given the expedited nature of *inter partes* review. The burden includes financial burden, burden on human resources, and burden on meeting the time schedule of *inter partes* review. Requests should be sensible and responsibly tailored according to a genuine need.⁷

The PTAB has applied these factors strictly to deny all but one request for additional discovery. Perhaps the most surprising of the factors is the first one: "more than a possibility and a mere allegation." As the Board further explained, "The party requesting discovery should already be in possession of evidence tending to show beyond speculation that in fact something useful will be uncovered." *Id.* at 6. In other words, a party must already have some of the information it seeks, or it cannot have additional discovery. This is especially difficult when a party seeks to discover information solely in the possession of the opposing party. Information such as sales showing commercial success and documents showing a nexus to the claimed invention do not seem obtainable. Similarly, copying evidence will not be discovered. Of course, one could not discover secondary indicia of non-obviousness in an IPReX either, but there was a much greater chance that evidence would be discovered in co-pending litigation that was not stayed.

The PTAB's first decision granting additional discovery was a situation where a petitioner's expert relied on lab notebooks, including testing, so the patent owner was allowed to see the lab notebooks.⁸ Absent similar, highly compelling circumstances, parties should not expect to receive discovery.

⁷ *Id.* at *6-7.

⁸ See *Coming Inc. v. DSM IP Assets B.V.*, IPR2013-0043-50, 52 & 53, Paper No. 34 (PTAB July 16, 2013).

The PTAB's position is worth exploring further with a hypothetical: Imagine a scenario involving actual copying where the patent owner sues, and the infringer immediately files an IPR alleging obviousness and obtains a stay of the litigation. The Federal Circuit has repeatedly stated that secondary indicia must be considered in an obviousness case, but it seems almost certain that the PTAB will deny any discovery into copying. Copying is rarely done in the open, of course, so it is unlikely the patent owner will be in possession of evidence tending to show copying. If the patent owner loses the trial, the district court case will be dismissed, and the copyist's actions will go undiscovered.

For those who thought that these new AIA trial-like procedures would allow for more discovery, this result seems unacceptable. But the PTAB has been firm in its position and has clearly chosen efficiency over discovery. This is unlikely to change absent a challenge at the Federal Circuit, which is sure to come.

Broad Estoppel

Estoppel is another area that garnered significant attention before the first IPR filing and is receiving even more attention now. In the old IPRex, losing petitioners were estopped from later relying on the same prior art they raised in the re-exam. This rarely came into play because about 95 percent of the petitions were accepted, and each would then slowly progress over many years. And for the proceedings that concluded, the more common result was cancellation of the claims. There simply were not many instances where an IPRex concluded in the patentee's favor, and where the challenger, still facing infringement allegations in district court, could no longer rely on that prior art for invalidity. Now, in IPR, the estoppel has been expanded. A losing petitioner cannot later rely on any patent or printed publication she raised or reasonably could have raised in the petition. It remains to be seen what difference this will make.

I note initially that it has not slowed the rate of filings. There were 483 IPRs and fifty-three covered business method reviews (CBMs) in the first year. (CBMs are a related type of proceeding especially for business method patents.) That total slightly exceeds the number of IPRex the previous year. This continues a long-running trend of parties increasingly challenging patents at the

patent office. The trend has also continued even though these USPTO proceedings are more likely to result in a stay of litigation and are scheduled to be complete in eighteen months (although the estoppel probably does not actually take effect until after the exhaustion of all appeals). Thus, it is much more likely that an estoppel from IPR will actually affect the challenger's options in district court, as compared to IPRex. When the IPR is over, and the patent owner wins, there may still be pending litigation. It has not happened yet, of course, but it will.

The bar is becoming more concerned about this now in light of the way the PTAB is handling petitions. It is still granting more than 80 percent of the petitions. But, in another clear attempt at streamlining and efficiency, it is limiting the number of grounds that pass the petition phase.⁹ The PTAB announced its view that it would not handle petitions with "redundant" grounds. In other words, the Board will not address two anticipation grounds for multiple references if those references disclose essentially the same thing and anticipate, or not, in the same way. Similarly, the Board sees no need for two obviousness combinations where each secondary reference supplies the same missing element in the same way. Accordingly, in decision after decision, the PTAB is narrowing the petition down to the fewest grounds possible.

The PTAB certainly feels the need to do this to meet its statutory deadlines. But now, the challenger is limited to few avenues of attack, without really knowing for sure which one is best. Indeed, the Board will chastise a challenger bringing seemingly redundant grounds. But the Board will also construe the claims, which any practitioner will know can have an effect on what prior art challenges are the best. In addition, if the litigation is not stayed, the defendant can challenge validity in district court in parallel with IPR. But it will be difficult to assert prior art where the Board denied the grounds, whether the reason was redundancy or not.

Obviously, there is much for the challenger to consider regarding estoppel. IPR is a different world from IPRex where you could bring as many challenges as you liked and the examiner would likely proceed on

⁹ See *Liberty Mut. Ins. Co. v. Progressive Casualty Ins. Co.*, CBM2012-00003, Paper No. 7 (PTAB Oct. 25, 2012).

most of them. It is also different in that you could easily hold back art from an IPReX to use in district court. Now, ultimately, that art will not be usable in court if the IPR trial is lost. The cumulative effect of all of this is probably to force an accused infringer to decide whether invalidity is the best defense and whether the patent office is the best venue. Given the continuing increases in filings, it appears defendants are often answering those questions with “yes” and choosing to try the new procedure despite the estoppel risk. That could change, depending on how the final determinations look, once the PTAB actually starts issuing its decisions.

Claim Amendments

Another major difference between IPR and IPReX is the ability of the patent owner to amend its claims, though much is still unknown about the effects. In IPReX, a patent owner could amend claims to her heart’s content as long as those claims were not broadened overall. And the patent owner could add many new claims. IPR is quite different.¹⁰ In general, the patent owner must make a motion to amend. The motion must explain within fifteen pages precisely how the amendment responds to the challenge and often must explain how the amendment distinguishes over all art, or even the knowledge of one skilled in the art, as known to the patent owner. Of course, the amendment can only be narrowing, and the claim may not be broadened in any way. Finally, one can “substitute” a new claim for an old, generally on a one-to-one basis. In other words, simply adding a new claim set is not allowed.

The overall purpose for these limitations stems from the fact that the new proceedings are adjudicative in nature, and not simply continued prosecution. Thus, if the challenged claims are unpatentable, the only option for the patent owner is to narrow them in a specific and well-explained way to achieve patentability. And the challenger has every incentive to police the process and every opportunity to oppose the amendment. As the PTAB has explained, if you want to change the structure of your claims, file a continuation, reissue or re-exam because you cannot do it in an IPR.

¹⁰ See *Idle Free Systems Inc. v. Bergstrom Inc.*, IPR2012-00027, Paper 26 (PTAB June 11, 2013).

These restrictions on amendments may seem fine until one again considers the estoppel implications. If the patent owner loses, she is then estopped from pursuing any claim before the patent office that is not patentable distinct from the challenged claims. In other words, your continuation portfolio may die with a loss on one claim. How this will actually be applied remains to be seen because, like so many things in the new world of IPR, it has not happened yet.

Finally, even though claim amendments are severely restricted, the PTAB still applies the broadest reasonable interpretation (BRI) standard when interpreting patent claims, rather than the plain meaning—or correct meaning—a district court should apply. For patent owners, this sets up a daunting challenge. The PTAB applies the BRI and preponderance of evidence standards. And the ability to amend or add claims is greatly restricted. Add to that the PTAB’s proclivity to stay concurrent re-exams and patentee estoppel in pending re-exams and continuations, and the patent owner has a tough hill to climb.¹¹ The PTAB may yet show us more flexibility somewhere in this labyrinth, but for now it feels as if it is “all or nothing” on one IPR for the patent holder—colloquially, win or go home. Whether this is an improvement over IPReX clearly depends on whether you are more often the patent holder, or the patent challenger.

Conclusion

The reader should appreciate by now that even though President Obama signed the AIA on September 16, 2011, it is still in its infancy. To the extent IPR and other trial-like proceedings were put into place to address a perceived lack of quality in some issued patents and the expense of litigation and nuisance settlements surrounding these patents, we do not know how well the AIA is working yet. It may prove to be a better system than we had before for eliminating poor patents and adding value to the better patents. Most people would probably agree that should be the goal. In my view, Congress and the courts should give the new procedure time to breathe before enacting further changes to address the same perceived problems.

¹¹ See *CBS Interactive Inc. v. Helferich Patent Licensing LLC*, IPR2013-00033 (Nov. 6, 2012).

The immediate future holds one main thing to watch for: final determinations. The PTAB initially finds there is a reasonable likelihood the claims are invalid, but how often will they ultimately find it is “more likely than not” they are invalid (the preponderance of the evidence standard)? For the related CBM review, the standard to grant the petition is actually “more likely than not”—the same as the final standard. Thus, it would seem that for the final decision to come out differently and for the patent to be upheld, the PTAB would almost have to admit it was wrong to grant the petition in the first place. Obviously, the bar will be looking for any trend in the final decisions to help guide the decision whether to file petitions or stay in court.

After the decisions will come the appeals, and not just on the technical merits, but on the manner in which these procedures are handled. The *SAP v. Versata* case mentioned earlier is already there, with the definition of “covered business method” and the contours of § 101 back in front of the court. As mentioned above, I expect challenges to the scope of discovery and questions on the scope of estoppel. We will also see how much use is made of the third type of trial available only for new patents—post-grant review. In short, all we know now is how the PTAB has begun to handle these proceedings. We do not know how it will finish them or whether the Federal Circuit will agree with the process. So far, IPR seems like an improvement over what we had. But it will take several years before we can start to decide whether it works the way Congress and a multi-faceted public want.

Key Takeaways

- IPR is much faster than IPReX, taking eighteen months instead of untold years. And the procedure appears more balanced, favoring neither side and allowing each to make its full argument.
- Surprisingly, the PTAB allows almost no discovery in IPR. In short, the requestor must already have evidence showing there is more clearly relevant evidence in existence. This could be a problem for patent holders and will likely be the subject of appellate review.
- There is broad estoppel regardless of the outcome. If the patent challenger wins, the patent owner is estopped from pursuing any claim in the USPTO that is not patentable distinct. If the patent

owner wins, the challenger in an IPR cannot use in district court, or the International Trade Commission (ITC), any prior art she raised or reasonably could have raised.

- Claim amendments in IPR are very limited. This is true even though the PTAB still applies BRI, may stay other re-exams where amendments could otherwise occur, and applies the patentee estoppel mentioned above.
- There is only one final determination so far, and that did not even address prior art. It is far too soon to judge the overall effectiveness of IPR or to make drastic changes to the patent system to address the validity of patents.

Cyrus A. Morton is a partner and trial attorney at Robins Kaplan Miller & Ciresi LLP. His complex litigation practice has included an emphasis on patent litigation since 1998. His representation of small companies and inventors has included a number of trial successes, including judgments of \$89 million, \$19 million, \$12 million, and \$7.4 million. He has also successfully defended large companies, such as Medtronic, Liberty Mutual, and Draeger Medical in patent cases.

Mr. Morton is also the chair of Patent Office Trials Group at RKM&C, which focuses on the new procedures for patent office trials on patent validity created by the America Invents Act. His experience as a patent attorney and inventor, combined with his experience handling numerous patent litigation disputes with co-pending reexaminations, makes him ideally suited to lead this practice area.



ASPATORE

Aspatore Books, a Thomson Reuters business, exclusively publishes C-Level executives and partners from the world's most respected companies and law firms. Each publication provides professionals of all levels with proven business and legal intelligence from industry insiders—direct and unfiltered insight from those who know it best. Aspatore Books is committed to publishing an innovative line of business and legal titles that lay forth principles and offer insights that can have a direct financial impact on the reader's business objectives.

Each chapter in the *Inside the Minds* series offers thought leadership and expert analysis on an industry, profession, or topic, providing a future-oriented perspective and proven strategies for success. Each author has been selected based on their experience and C-Level standing within the business and legal communities. *Inside the Minds* was conceived to give a first-hand look into the leading minds of top business executives and lawyers worldwide, presenting an unprecedented collection of views on various industries and professions.



ASPATORE