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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Lessons From The 1st Year Of Post-Grant Proceedings

Law360, New York (November 06, 2013, 2:59 PM ET) -- A little over one year ago, the America Invents Act implemented new methods for third parties to challenge the validity of issued patents by having a contested validity trial in the U.S. Patent and Trademark Office. Specifically, the AIA replaced inter partes re-examinations with inter partes reviews (IPR) and added a new proceeding called the post-grant review (PGR). Another new tool is the covered business method review (CBM), which provides a separate means to address the validity of business method patents.

With the implementation of these new post-grant validity trial proceedings, the U.S. patent litigation system has evolved more toward the system used in Europe and elsewhere, where infringement is decided by courts, but issues of validity may be decided by the responsible patent office. Each of the new U.S. post-grant challenge procedures is a hybrid proceeding that introduces litigation tools, such as discovery, motion practice and hearings, to USPTO validity proceedings. This hybrid approach makes IPR, PGR and CBM a more attractive and potentially more effective option to challenging validity than prior re-examination proceedings before the USPTO.

To date, IPR has proven to be very popular. As of Sept. 30, 2013, there have been 523 IPR petitions to the Patent Trial and Appeal Board. The filing rate for the last few months is about 60 IPR petitions per month. Based on the current trend, this number is expected to more than double in the upcoming year, as many would-be petitioners adopt the advantages of an IPR strategy over litigating invalidity in the court.

Most of the early filed cases are now well into the trial phase, and many have been settled or resolved. CBM, albeit more narrowly focused to business method patents, has seen about 57 petitions thus far, a number that is expected to increase. PGR has only a single petition that has been filed, to date primarily because it only applies to newly issued patents that were filed after March 16, 2013.

To date, many articles have been published citing statistics regarding these post-grant challenge procedures. In addition, in connection with its AIA Second Anniversary Forum on Sept. 16, 2013, the USPTO gave a presentation with the following "lessons learned," which provides useful guidance to practitioners and litigants regarding post-grant validity challenges. The USPTO's tips on presentation, claim construction, claim charts, use of experts, obviousness arguments, and discovery are included and examined in the appropriate sections below. We provide our thoughts on strategies and best practices based on the results to date of post-grant validity challenges.

The USPTO as a Validity Forum

Overview and General Standards

The availability of new validity trial procedures at the USPTO was engineered to be an attractive alternative to traditional district court patent litigation. Congressional reports state that the new AIA procedures were put in place to allow invalid patents that were mistakenly issued by the USPTO to be fixed early in their life, before they disrupt an entire industry or result in expensive litigation. IPRs represent opportunity to invalidate a competitor's overly broad patent without a district court proceeding. Petitioners have picked up on this, as IPR's may provide a game-changing impact for businesses accused of infringing a questionable patent.

In proceeding with an IPR strategy, petitioners should be mindful that post-grant proceedings differ from district court litigation in several significant respects.

First, to institute a review, the PTAB need only find a reasonable likelihood of success for invalidating at least one claim. The PTAB has granted review in almost 90 percent of the IPR petitions filed to date.

Second, there is no presumption of validity in proceedings before the USPTO, as contrasted with court proceedings. Like in re-examination, these procedures are a re-examination of validity of the claims by the USPTO. As a result, the required standard of proof for establishing invalidity is lower; all that is required is that invalidity be established by a preponderance of the evidence, as compared to the clear and convincing evidence requirement in district court.

Third, as to the issue of claim construction, during these USPTO proceedings, the relevant standard is for the claims to be given their broadest reasonable construction. This is potentially broader than a construction that would be given by a court under the standards of Vitronics and Phillips.

Further, the PTAB is comprised of patent attorneys familiar with complex technology and are more likely to be impressed by real technical distinctions rather than colorful jury directed presentations. To improve their chances of success in front of the PTAB, petitioners should craft a clear and focused attack.

Targeted Technologies

The IPR petitions filed thus far have covered a wide range of technologies, including design, mechanical, electrical, chemical, bio-tech and software. Almost 70 percent of petitions have been in the electronics or computer fields, with less than 8% in the biological or pharmaceutical fields. Currently, petitions against design patents are granted nearly 100 percent of the time, while the other fields tend to be more in line with the 90 percent average petition grant rate. Software appears to be the outlier, with petition grant rates hovering around 80 percent.

Cost

The filing fee for an IPR or PGR is \$23,000 or \$30,000, respectively (plus additional fees for challenging more than 20 claims). Most commentators have pinned the total legal costs of an IPR proceeding in the \$150,000 to \$300,000 range, depending on complexity and amount of discovery. This is less than one tenth the cost of traditional patent litigation.

Stay of Litigation

Another factor pushing the filing of IPRs is the likelihood of obtaining a stay of a litigation on the same patent pending the completion of an IPR. Given that in a traditional lawsuit, all issues are moot if the patent is invalidated, it can prove to be very cost effective for defendants to stay litigation in favor of an IPR proceeding. A stay effectively delays the cost of defending against the infringement claim until the patent validity issue is resolved, rather than spending money defending both invalidity and infringement claims simultaneously.

Currently, more than 80 percent of IPRs are filed by parties who are involved in concurrent litigation. To date, more than 70 percent of requested motions to stay in concurrent litigation are granted, representing a willingness by judges to grant a stay until the IPR proceeding is completed.

Moreover, the Federal Circuit recently allowed a final finding of invalidity from a re-examination proceeding to moot a district court action that was in the late stage of determining an injunction. Notably, the district court had reached an opposite result from the USPTO and had determined that the patent was not invalid. See Fresenius USA Inc. v. Baxter Int'l Inc., 721 F.3d 1330 (Fed. Cir. 2013). This demonstrates the powerful substantive impact of a finding of invalidity by the USPTO on a pending litigation.

Shortened Timeline

Timing is also a critical consideration for any would-be petitioner. IPRs are designed to be completed within one to one and a half years. This timeframe is considerably shorter than litigation or other proceedings within the USPTO, which can span several years.

Strategic Considerations

Discovery

The USPTO provided the following lessons learned on discovery:

- Requests for specific documents with a sufficient showing of relevance are more likely to be granted whereas requests for general classes of documents are typically denied
 - A mere possibility that discovery request will lead to something useful is insufficient to meet the “necessary interests of justice” standard. 35 USC 316(a)(5)
 - Requests must not be overly burdensome given the expedited nature of PTAB trials
 - The PTAB will take into account whether a party seeking information can reasonably obtain the information sought without need for discovery
- The following five-factor test is used to evaluate requests for additional discovery in IPRs. (See *Garmin v. Cuozzo*, IPR2012-00001, Paper 26 (USPTO PTAB July 18, 2013)):
 - Is there more than a possibility and mere allegation that something useful might be found?
 - Does the request merely seek early identification of the opponent’s litigation position?
 - Can the party requesting discovery generate the information?
 - Are the Interrogatory questions clear?
 - Are the requests overly burdensome to answer?

Currently, the PTAB’s compliance to its strict deadlines is evidenced by just a 14 percent success rate for motions requesting additional discovery and 10 percent for rehearing requests. Clearly, this is not broad-based litigation discovery. Those familiar with arbitration proceedings might find the discovery more analogous to those proceedings where the arbitrators usually want to understand and be convinced the discovery is necessary and not more burdensome than relevant.

In addition, the PTAB has cited the one-year statutory requirement to complete trial as a basis for limiting discovery, arguments, exhibits, etc. Thus, it is critically important that patent owners and petitioners plan their discovery strategy ahead of time and streamline it to be as simple as possible for

the PTAB to consider arguments, thus, increasing the chances of a desirable result.

Filing Fewer Grounds of Rejection

The USPTO offers the following lessons learned as to drafting a petition:

- Conclusions need to be supported by sound legal analysis and citations to evidentiary record
- It is better to provide detailed analysis for a limited number of challenges than to identify a large number of challenges for which little analysis is provided
- Claim charts are not sufficient by themselves; they must be explained.
- Claim charts should contain pinpoint references to the supporting evidence

One challenge to a petitioner is deciding on the scope of the petition for IPR. This is a challenging strategic decision since the petitioner is estopped from later raising any invalidity challenge to the subject patent in litigation on any ground that “reasonably could have been raised.” 35 U.S.C. § 315(e). However, if cumulative or less strong grounds are raised, the PTAB has no qualms about accepting the stronger grounds for the IPR and rejecting the others. Thus far, the PTAB has granted trial on almost 50 percent of the grounds raised and has initiated a proceeding on almost 90 percent of the claims challenged.

Petitioners with several strong grounds will need to consider how to best present them so they are not rejected as cumulative or because one is presented as better. Of course, if a ground for invalidity is presented in an IPR and not accepted by the PTAB as part of the IPR, this will allow the petitioner to argue that it was not a ground subject to estoppel, but the patent owner may try to use the taint of the PTAB rejecting the ground to show it is weak.

Further, in the ideal situation, the challenger will have one ground that applies to all claims of the patent that may be assertable against the petitioner by the patent owner. Great skill will be required to make the key decisions on what grounds to use and how to present them.

Obviousness

The USPTO lessons learned regarding obviousness are:

- The question of obviousness is resolved based on underlying factual determinations identified in Graham, including differences between claimed subject matter and the prior art.
- Petitioners should address the specific teachings of the art relied upon rather than rely upon what others have said.
- Parties should address whether there is a reason to combine art and avoid conclusory statements such as “It would have been obvious at the time of the priority date of the challenged patent to incorporate a widget as disclosed by references AAA, BBB, CCC, DDD or EEE into FFF’s widget.” See MPEP § 2143(A), (C).

At first blush, some may criticize the above lessons learned as suggesting that a “motivation to combine” is required, despite the abolishing of this as an absolute requirement by the U.S. Supreme Court in *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007). However, practitioners experienced in arguing obviousness already know that it is important to explain the combination or other obviousness position by giving evidence of a reason to make the combination or other evidence as to why the claims at issue fail to be anything other than a routine variation over the prior art. Articulating the evidence of obviousness in a persuasive way is crucial regardless of the forum since merely showing each element is separately in the prior art is insufficient to make out an obviousness case.

Retaining an Expert

The USPTO lessons learned regarding experts are:

- Tutorials are helpful especially for complex technologies.
- Expert testimony without underlying facts or data is entitled to little or no weight. 37 C.F.R. 42.65(a) See IPR2013-00022, Paper 43 (denying petition).
- Avoid merely “expertizing” your claim charts/

More than 70 percent of petitions are supported by expert declarations. As a result, patent owners are encouraged to retain experts to rebut the petitioner’s testimony. Both petitioners and patent owners should select an expert carefully, choosing one who is qualified as a person of ordinary skill in the art.

In our experience, experts are best when they can tell the story of the technology leading up to the patent and show that the claims are or are not a real advance. The expert is in the better position to explain the state of the art and what would be viewed as an invention in complex technology.

Focused Arguments and Claim Construction

The USPTO offers the following lessons learned regarding claim construction:

- Claim constructions should be supported by citations to the record that justify the proffered construction and analysis provided as to why the claim construction is the broadest reasonable construction. 37 C.F.R. 42.104(b)(3).
- An example of a failure to provide a sufficient claim construction occurs where claim terms are open to interpretation, but a party merely restates the claim construction standard to be used without further argument or support, e.g., “A claim subject to inter partes review receives the ‘broadest reasonable construction in light of the specification of the patent in which it appears.’” 37 C.F.R. § 42.100(b).

The PTAB has demonstrated a willingness to side with the petitioner’s proposed claim construction. It appears that petitioners have about a 15 percent better chance of getting their petitions granted if their construction is specific and they are not just reciting their entitlement to the broadest reasonable interpretation.

If the petitioner does not explain the basis for its claim construction in the petition, it abandons whatever control it had over the construction — broadest reasonable construction does not mean that there is no debate over what is reasonable. In the patent owner’s preliminary response, the patent owner can suggest its own construction, to which the petitioner cannot respond. If neither party proposes a construction, then the PTAB may construe the claims as it chooses.

For example, in one decision denying an IPR, the PTAB expressly construed a key claim element using an online dictionary because neither party had submitted a basis for how the key element was to be construed. The PTAB also rejected the petitioner’s obviousness arguments, finding that the petitioner did not clearly articulate the reasoning behind its assertions. Thus, petitioners are advised to provide support for their arguments and a basis for their claim construction.

Preliminary Response

From the petition filing date, patent owners have just 21 days to submit mandatory notice information, which requires the identification of the real parties in interest, lead and backup counsel, service information, and any other related judicial or administrative matter that may affect the IPR proceeding. The patent owner has just 90 days from the notice to file a preliminary response, if they wish to do so. About 83 percent of patent owners have sought to rebut the petitioner's arguments in a preliminary response. The 17 percent who chose not to file a preliminary response had about a 10 percent lesser chance of getting the petition denied in whole.

The decision on whether a preliminary response should be filed has to be based on whether certain grounds raised by the petitioner can be knocked out without discovery, testimony or an expert. This is a good opportunity for the patent owner to try to narrow the proceeding but they should not expect the preliminary response to lead to a complete victory unless the petition is seriously flawed.

Claim Amendments

The IPR framework represents a significant change from the USPTO's practice in ex parte re-examination and the now defunct inter partes re-examination, where the patent owner is given broad rights to amend claims or present new ones. Unlike ex parte re-examination, a patent owner in an IPR proceeding will, in most cases, have only one limited bite at the apple.

For example, as the PTAB explained in *Idle Free Systems Inc. v. Bergstrom Inc.*, IPR2012-00027, Paper 26 (USPTO PTAB June 11, 2013), the patent owner must explain why the new claims are patentable over the cited art. A mere statement that the cited art does not teach or render obvious the proposed new claim will not be deemed sufficient to obtain leave or amend the claims.

Moreover, in *Avaya Inc. v. Network-1 Security Solutions Inc.*, IPR2013-00071, Paper 38 (USPTO PTAB July 22, 2013), the PTAB stated that the patent owner must explain why each new claim is patentable over any other noncited art. The PTAB's decision here clarifies that the patent owner must explain the significance of the proposed new features to be added, from the point of view of a person of ordinary skill in the art.

In another decision, the PTAB stressed that motions to amend must be limited to 15 pages, including the proposed claims. *Innolux Corp. v. Semiconductor Energy Laboratory Co. Ltd.*, IPR2013-00066, Paper 23 (USPTO PTAB July 18, 2013). The PTAB did not deviate from the rule, even when the patent owner pleaded that the text of the new claims would take up most of the motion's pages. The PTAB recommended that the patent owner submit fewer amended claims and pursue the rest by way of ex parte re-examination or reissue.

Thus, amendments in an IPR proceeding should be narrowly tailored to overcome the prior art. Patentees desiring additional claim amendment options should consider instead pursuing re-examination or reissue.

Conclusion

So far, IPR proceedings are proving to be very popular and are now a primary venue for challenging patent validity. The flood of AIA cases has already made the USPTO the nation's third-busiest patent venue behind the District of Delaware and the Eastern District of Texas, and the number of filings continues to accelerate.

With lower costs, a more technically oriented decision-maker, a lower burden of proof, and the promise of quicker results, IPRs can offer real advantages over litigation. Now more than ever, it is extremely

important to make sure that your legal representatives are not only experienced patent practitioners licensed to practice before the USPTO, but also have the litigation savvy necessary to succeed in this new form of adversarial proceedings.

--By Michael J. Kasdan, Joseph M. Casino and Adil Ahsanuddin, Amster Rothstein & Ebenstein LLP

Michael Kasdan and Joseph Casino are partners and Adil Ahsanuddin is an associate at Amster Rothstein in New York.

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