

Trends From 2 Years Of AIA Post-Grant Proceedings

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It has now been two years since the America Invents Act created new procedures for third parties to challenge the validity of issued patents in a contested validity trial in the U.S. Patent and Trademark Office before its Patent Trial and Appeal Board. Specifically, on Sept. 15, 2012, the AIA replaced inter partes re-examinations with a set of new proceedings — inter partes review, covered business method patent review and post-grant review. The second year conclusively demonstrated that these post-grant validity trial procedures have radically changed the patent litigation landscape. Such challenges have become ubiquitous and quite successful.

Part 1 of this article will review the statistics regarding IPRs, now that we have two years of data. It will also discuss some of the developments, a number of them unexpected, such as the volume of filings and the use of IPRs in the biotech/pharma space. In Part 2, we will review tips and strategies for success during IPRs, as well as describe the downside risks to filing an IPR petition.



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Background

Congressional reports stated that the new validity challenge procedures of the AIA were put in place in order to allow bad patents (i.e., invalid patents) that were mistakenly issued by the USPTO to be addressed early and efficiently. To this end, IPRs have already provided a game-changing impact for businesses being accused of infringing a questionable patent — with challengers winning over 70 percent of the final decisions. Indeed, an overwhelming majority of IPRs are filed by defendants involved in concurrent litigation.

The IPR, PGR and CBM procedures to challenge validity are hybrid proceedings that introduce litigation tools, such as limited discovery, motion practice and hearings to USPTO validity proceedings, where the validity issues are decided by more patent and technical savvy finders of fact — the PTAB — rather than a lay jury. These proceedings are resolved far quicker than typical district court litigation: They are designed to be completed within one to one and a half years from institution. Statistics show that the PTAB has stuck to this relatively fast timeframe, with IPR proceedings being completed within one year of institution.

Furthermore, a successful petition to initiate a post-grant validity trial carries with it a strong argument that concurrent patent infringement litigation should be stayed. If a stay is granted, this can prove very efficient and cost-effective for the defendant/petitioner, as the costs of defending against the infringement claim are delayed until the patent validity issue is resolved, and may never have to be addressed if the patent is found to be invalid. Finally, the costs for these proceedings are far less than traditional district court litigation.

The legal standards are also favorable to petitioners as compared to district court litigation. In order to institute a review, the petitioner must establish that there is a reasonable likelihood of success that at least one claim will be invalidated. Petitions have met this standard in a high percentage of the filings thus far. In addition, the standard by which a challenger must prove invalidity in these USPTO validity proceedings is lower than in a court proceeding, because there is no presumption of validity.

Notably, during these patent office proceedings, claims are to be given their broadest reasonable construction, which may be potentially broader than a construction that a court would give to a claim under the applicable standards for construing claims in light of the specification and prosecution history. For these reasons, IPR, PGR and CBM proceedings provide an attractive option to challenging patent validity in a district court litigation.

A Game-Changer

One of the now infamous statements about the post-grant trial system was made by recently retired Federal Circuit Chief Judge Randall Rader: At the patent office, “[y]ou have 7,000 people giving birth to property rights,” while in the PTAB, there will soon be as many as 300 administrative patent judges “acting as death squads, killing property rights.”[1] We have also heard it called tantamount to malpractice not to file an IPR in every case. These extreme statements give one an immediate flavor that the new post-grant trial procedures are living up to the intention that they would be a game changer.

The ramifications of these procedures extend beyond litigation to patent licensing, monetization, valuation, prosecution strategies and decisions about patent filing and maintenance. A new strategic piece clearly has been added to the chess board. However, the choice of when and how to use the post-grant validity trial procedures, the risks of using them, and the downside of using them are all issues that still need to be mastered.

Post-Grant Trials by the Numbers — The Explosion

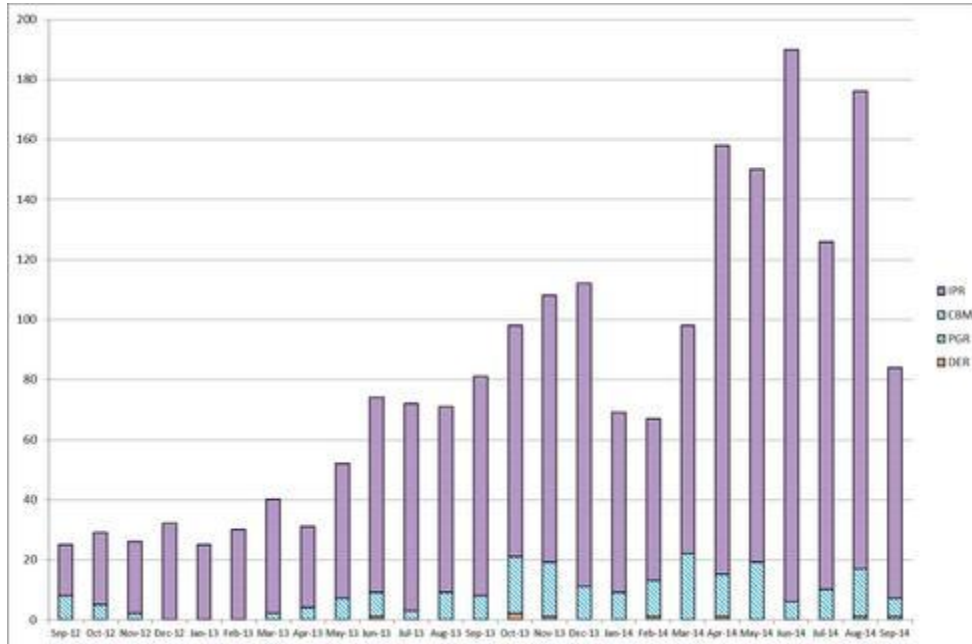
The USPTO has been updating statistics on post-grant trial proceedings very diligently.[2]. In the first year of post-grant trial proceedings, 87 percent of petitions to start a proceeding were granted. That rate has dropped to 76 percent in the second year.

The first PTAB final decisions on granted petitions came out this year. In the early decisions (first 26), the win rate for cancellation of all claims was 85 percent for IPR and 100 percent for CBM. This has cooled down a bit. In 126 final decisions (as of Sept. 11, 2014), petitioners have succeeded in having the PTAB cancel all challenged claims in 65 percent of the cases. The USPTO recently provided the following chart that gives a more nuanced view of the success rate, including terminations on the merits and other terminations, possibly in response to criticism that the post-grant trial proceedings have tipped the balance too far in favor of the petitioners:



Note that according to this chart, the rate at which the PTAB is instituting trials on contested petitions has also decreased in the last quarter, from 82 percent to 70 percent on IPR petitions and from 79 percent to 72 percent on CBM petitions.

In the first calendar year, about 600 petitions were filed. In the second year, close to 1,500 petitions have been filed thus far. This is well beyond the initial projection by the USPTO of 420 petitions per year. The monthly filing chart on the USPTO website shows this dramatic increase:



The breakdown of petition filings by technology area is as follows:

- Electrical/Computer (1,432): 71.8 percent
- Mechanical (308): 15.5 percent

- Chemical (134): 6.7 percent
- Bio/Pharma (112): 5.6 percent
- Design (8): 0.4 percent

Significant Developments

This section discusses a number of significant developments based on our review of PTAB proceedings and decisions in the two years since the inter partes review process was initiated.

1. Who is filing?

Recent trends indicate that IPRs are being increasingly used as a tool to challenge validity by biotechnology and pharmaceutical companies.[3] Chief among the advantages to proceeding with an IPR may be speed. In the popular forums for pharmaceutical litigation, Delaware and New Jersey, time to trial is approximately three years, almost twice the time it takes for an IPR decision.

2. Discovery

Approximately 250 motions for additional discovery or to compel discovery have been filed. Statistically, such motions have a 50/50 chance of prevailing. However, when one reads the decisions, it shows that very limited additional discovery is being granted. The most successful arguments are for discovery of items referred to in the petition or in the patent owner's reply. A preliminary showing of relevance is required. See, e.g., *Square Inc. v. REM Holdings 3 LLC*, IPR2014-00312 (PTAB Sept. 15, 2014)(IPR2014-00312 (PTAB))("We are not persuaded that Patent Owner has shown more than a possibility or mere allegation that this type of request would result in evidence "both that there is commercial success, and that the thing (product or method) that is commercially successful is the invention disclosed and claimed in the patent" or "a sufficient relationship between that which is patented and that which is sold.").

The decisions on discovery motions mostly rely on a precedential decision of the PTAB in *Garmin International Inc. et al. v. Cuozzo Speed Technologies LLC.*, IPR2012-00001, Paper 20, Order Authorizing Motion for Additional Discovery at 2-3 (Feb. 14, 2013). Garmin sets forth a five-factor test that looks at (1) probability, not possibility, of gaining useful information; (2) a request for something more than litigation positions (e.g., contentions); (3) availability of the information without discovery; (4) easy of understanding what is sought; and (5) the burden in terms of time, money and human resources.

3. Case Management

The PTAB judges have maintained a one year to trial from grant of a petition to initiate an IPR or CBM. Accordingly, they have been strict about page limits and extensions of time. For example, only 16 motions to exceed page limits were granted (and five granted-in-part) out of 68 requests. Requests for reconsideration on decisions to initiate (or not to initiate) an IPR or CBM have all been denied.

4. Stay of Litigation?

Stays of litigation have been granted at a high rate in district court cases when an IPR or CBM is initiated. In 398 cases, a stay was granted in 247, denied in 68, denied without prejudice in 48, and granted-in-part and denied-in-part in 33. Thus, blanket stays were only fully denied in 17 percent of the cases. The cases denied without prejudice mostly were cases where an IPR or CBM petition was filed but not yet

granted. The decisions granted-in-part reflect a variety of reasons: waiting until after claim construction; conditions on parties not part of the IPR/CBM to agree to estoppel; additional patents in suit not subject to the IPR/CBM; and/or time limits on the stay or periodic reports on the status of IPR/CBM.

Requests for stays filed before there is a decision to institute the IPR or CBM are usually denied or deferred until after that decision issues.

Based on a review of stay decisions, the stage of the litigation is a very important factor.

Compare *Destination Maternity Corp. v. Target Corp.*, (E.D. Pa. Mar. 24, 2014) (“Target filed its motion to stay the litigation in this case pending the resolution of the petitions for inter partes review. At the time Target filed its motion to stay, fact discovery was not complete and expert discovery and depositions had not begun.”) and *Semiconductor Energy Laboratory Co. Ltd. v. Chimei Innolux Corp.*, (C.D. Calif. Dec. 19, 2012) (granting stay in middle of discovery period when claim construction was not yet briefed) with *Personal Audio Inc. v. Togi Entertainment Inc.*, Case No. 2:13-VC-13 (E.D. Tex. 2014) (denying stay filed at very advanced stage in litigation — after discovery and Markman Hearing. Court denied stay based on speculative benefit that IPR would invalidate claims, the late timing, rejecting the argument that a stay will not prejudice plaintiff because it is a nonpracticing entity) and *Intellectual Ventures I LLC et al v. Canon Inc. et al.*, 1:13-cv-00473 (D. Del. Sept. 9, 2014) (“With fact discovery essentially complete at bar, defendants focus on the costs of engaging in expert discovery and claim construction. The court is addressing these burdens in the context of its pretrial management process. Until otherwise persuaded, the court remains convinced that completing pretrial preparations is, in the long term, the most efficient way to resolve disputes, whether through settlement, a motion practice, or trial. It is speculative at best to characterize severing and staying the patents undergoing inter partes review as promoting these same efficiencies.”).

In the some cases, a stay was denied because the patent was asserted against multiple defendants and only one filed for IPR or CBM. *Personal Audio, Inc. v. Togi Entertainment, Inc.*, Case No. 2:13-VC-13 (E.D. Tex. 2014) (“The estoppel agreed to by Defendants is a far cry from the true estoppel that would normally arise from an IPR proceeding, and is essentially illusory given that Defendants retain the right to assert invalidity challenges in this proceeding in an otherwise unlimited fashion, including challenging validity with references that the PTAB considered — but rejected — as a basis for instituting inter partes review.”). The concern expressed by such courts is that the other defendants will not be subject to estoppel from the IPR on their validity defenses. However, the counterpoint is that if the IPR leads to invalidity the case against the many defendants will be over.

The Federal Circuit has also forced a stay of a CBM on mandamus. *VirtualAgility Inc. v. Salesforce.com Inc.*, 759 F.3d 1307 (Fed. Cir. 2014) (it was error for the district court to review the merits of the initiation of the CBM by the PTAB). It should be noted that certain statutory provisions for CBM, which do not exist in the comparable IPR statute, favor a stay. It will be interesting to see if the Federal Circuit will also force stays of litigation pending IPR in particular circumstances.

5. Motions to Amend Claims

Unlike prior inter partes re-examinations, where the claims can be freely amended and additional claims easily added, amendments to claims in IPRs were intended to be more limited. Specifically, in an IPR the patent owner has an opportunity to “file 1 motion to amend the patent in 1 or more of the following ways: (a) cancel any challenged patent claim,” and “(b) For each challenged claim, propose a reasonable number of substitute claims.” 35 U.S.C. § 316(d)(1).

Motions to amend in an IPR must also identify and distinguish the closest prior art and establish a prima facie case of patentability of the proposed claims under 35 U.S.C. §§ 102 and 103. This must be done for all known prior art, not just the prior art identified in the petition. While these rules appear to still provide reasonable opportunity to amend, in practice, motions to amend claims have been denied at an extremely high rate. Of 91 motions to amend, only 28 have been granted and four granted-in-part.

6. Settlement of Post-Grant Trial Proceedings

Under the rules, post-grant challenge proceedings can be terminated by settlement between the parties. However, several decisions have denied terminating a post-grant proceeding when the trial was close to the hearing. This is unexpected. At a recent conference attended by one of the authors, David Kappos, the director of the USPTO when the legislation allowing for post-grant validity trials was passed, stated that he was surprised by this since settlement should be favored.

7. Appeals

As of Sept. 11, 2014, 62 post-grant trial decisions have been appealed to the Federal Circuit.[4] This is a very high rate of appeal, since there have only been 126 final decisions and many of those are not yet ripe for appeal. The timing for appeal has not been reached in many of the other decisions.

It remains to be seen how PTAB decisions after a validity trial will be treated by the Federal Circuit. Appellate review of agency decisions is usually de novo review for legal issues and based on an abuse of discretion standard for factual determinations. 5 U.S.C. § 706. Determinations of patent invalidity can involve both issues of law and fact. If the Federal Circuit has a high reversal rate, this will leave a specter of uncertainty that could radically change the current significant impact these proceedings.

Furthermore, if the Federal Circuit gets several hundred or more appeals each year from post-grant trial proceedings, what will this do to its docket? Will Congress authorize additional resources for the Federal Circuit?

The Federal Circuit has already ruled that decisions of the PTAB to institute or not institute a post-grant trial proceeding are not appealable. This gives the PTAB final say on what cases it takes.

Commentators also expect that some petitioners may not have standing to appeal decisions. By statute, any person may file a petition for a post-grant trial proceeding, but only parties facing a case or controversy may be a party to an appeal. Thus, defensive aggregators, consumer protection organizations or other parties who cannot infringe a patent may have standing issues if they seek to appeal a final PTAB decision to the Federal Circuit.

8. Use of Adverse Decisions or Rulings From IPR in District Court

Thus far, courts have reached inconsistent conclusions as to whether IPR can be used as evidence in related litigation. Compare *Universal Electronics Inc. v. Universal Remote Control Inc.*, 8-12-cv-00329 (C.D. Calif. April 21, 2014, Order) (“Defendant argues that introducing evidence of the PTO’s rejection of Defendant’s inter partes review petition would be irrelevant because the legal standards applicable to an inter partes review are different than those that apply here, and that it would increase the complexity of the trial and confuse the jury. Any potential confusion can be addressed by appropriate jury instructions on the standard of proof applicable to patent invalidity defenses and counterclaims.”) with *NXP B.V. v. Research in Motion LTD. et al.*, Case No. 6:12-cv-00498 (M.D. Fla. Mar. 25, 2014) (“The

court finds that the evidence would be highly prejudicial to plaintiff and confusing to the jury, and defendants are thus precluded from offering evidence of the pending inter partes review process.”) and Personalized Media Comm. v. Zynga, Inc., Case No. 2:12-CV-00068-JRG-RSP (E.D. Tex. Nov. 8, 2013)(“The Court finds that while the pending Inter Partes Review may have some relevance (see Commil USA, LLC v. Cisco Sys., Inc., 720 F.3d 1361, 1368 (Fed. Cir. 2013)), the Court finds that the danger of undue prejudice is extremely high, and that the danger of unfair prejudice cannot be mitigated simply by the use of a limiting instruction.”).

If a denial of an IPR or CBM petition under the more liberal PTAB invalidity standard is used against a defendant, this could be very harmful. This clearly is a risk the defendant must consider when filing a petition for IPR or CBM.

9. Negative Claim Construction That Could Adversely Affect Litigation

In decisions instituting or denying a post-grant trial proceeding, as well as in final determinations, the parties and PTAB discuss claim construction. This can lead to unpleasant surprises for petitioners or patentees if a construction they want for other reasons, such as noninfringement, is ruled on by the PTAB. It remains to be seen what deference will be given to PTAB claim construction determinations by district courts. While the standards for claim construction are different (broadest reasonable construction in the PTAB compared to a more detailed process in district court), it may be relevant if the broadest reasonable construction given by the PTAB implies a noninfringement defense or if prior art is ruled out under the broadest reasonable construction while infringement is not.

10. Quick Determination on Validity Defense

Since petitions to initiate post-grant trial proceedings are either granted or denied in about six months from filing, this can be an early blow to an invalidity case in a litigation. Motorola Mobility LLC v. Intellectual Ventures LLC, Case CBM2014-00083 (denial of CBM patent review and with statement that the PTAB was “not persuaded Petitioner has shown that the claimed subject matter taken as a whole does not recite a technological feature that is novel and unobvious over the prior art.”).

These early adverse determinations can put a litigant in a difficult settlement position and may be damaging to its litigation strategy.

11. Denied Use of Regular Court Procedures Due to IPR

In one case, the court denied without prejudice defendant's motion to focus patent claims and prior art because of pending inter partes reviews and an appeal involving four of the six patents-in-suit. VirnetX Inc. et al v. Apple Inc., 6-12-cv-00855 (E.D. Tex. Aug. 4, 2014 (“[Defendant] requests that the Court enter the Model Order in this case. [Defendant] argues that, with 118 claims and 6 patents, this is precisely the type of patent suit that the Model Order was designed to streamline. ... [Plaintiff] explains that the Model Order’s limit on [defendant's] prior art references in this case is illusory because [defendant's] invalidity case is preserved in the other forums. [Plaintiff] contends that, on the other hand, entering the Model Order would increase the burden on [plaintiff] by forcing it to narrow its claims before their validity is decided. In light of the [related] appeal and IPRs that are currently pending, [defendant's] motion] is denied without prejudice.”).

Thus, how IPR or CBM proceedings may affect overall litigation strategy, including issues like scheduling and litigation case management, has to be considered.

12. Protective Order/Prosecution Bar/Choice of Litigation Counsel

Disputes over whether prosecution bars apply, or should apply, to the post-grant trial proceedings are being litigated. See, e.g., *Prolitec Inc. v. ScentAir Technologies Inc.*, 945 F.Supp.2d 1007 (E.D. Wis. 2013)(despite prosecution bar, patent owner's litigation counsel would be allowed to participate in inter partes review of patents). Courts seem reluctant to bar litigation counsel from post-grant validity trials at the USPTO given the contested nature of the proceeding.

13. Constitutionality

In June 2014, patent licensing company eCharge Licensing LLC and Carl Cooper brought a suit in E.D. Va. claiming that the U.S. Patent and Trademark Office's inter partes review process is unconstitutional because it denies patent holders their right to a jury trial in infringement proceedings. See *J. Carl Cooper and eCharge Licensing LLC v. Michelle K. Lee and the United States Patent and Trademark Office*, No. 1:14-cv-672 (E.D. Va.).

In opposition, the USPTO has argued that patent rights are public rights, and therefore fall within the so-called “public rights doctrine,” which provides that matters involving public rights may be decided by tribunals outside of the Judiciary.[5]

Since prior lawsuits charging the same against ex parte re-examinations have failed, we expect that constitutionality of these proceedings will be affirmed.

14. Cost Estimates

When these post-grant trial proceedings first became available, it was anticipated by many that they would be much less costly than court litigation (e.g., \$200,000 - \$300,000).[6] However, based on discussions with practitioners and parties to these proceedings, some post-grant trial proceedings have been more costly than originally anticipated. This is likely due to the increased importance these proceedings have played in litigation strategy.

In part 2 of this article, we will cover tips and strategies.

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[1] Then-Chief Judge Rader as quoted by Bloomberg BNA in “Rader Regrets CLS Bank Impasse, Comments on Latest Patent Reform Bill” (Oct. 29, 2013).

[2] See <http://www.uspto.gov/ip/boards/bpai/stats/index.jsp>

[3] (See Elfin, Inter Partes Review Process May Overtake District Court as Place to Challenge Pharma

Patents, Bloomberg BNA, August 4, 2013).

[4] See <http://interpartesreviewblog.com/activists-investors-new-breed-ipr-petitioners/#more-601>

[5] (See <http://www.law360.com/articles/545644/patent-licensee-slams-constitutionality-of-ptab-reviews>).

[6] (See, e.g., http://www.swlaw.com/assets/pdf/news/2013/07/08/InvalidatingPatentsThroughInterPartesReview_Barry.pdf).

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