

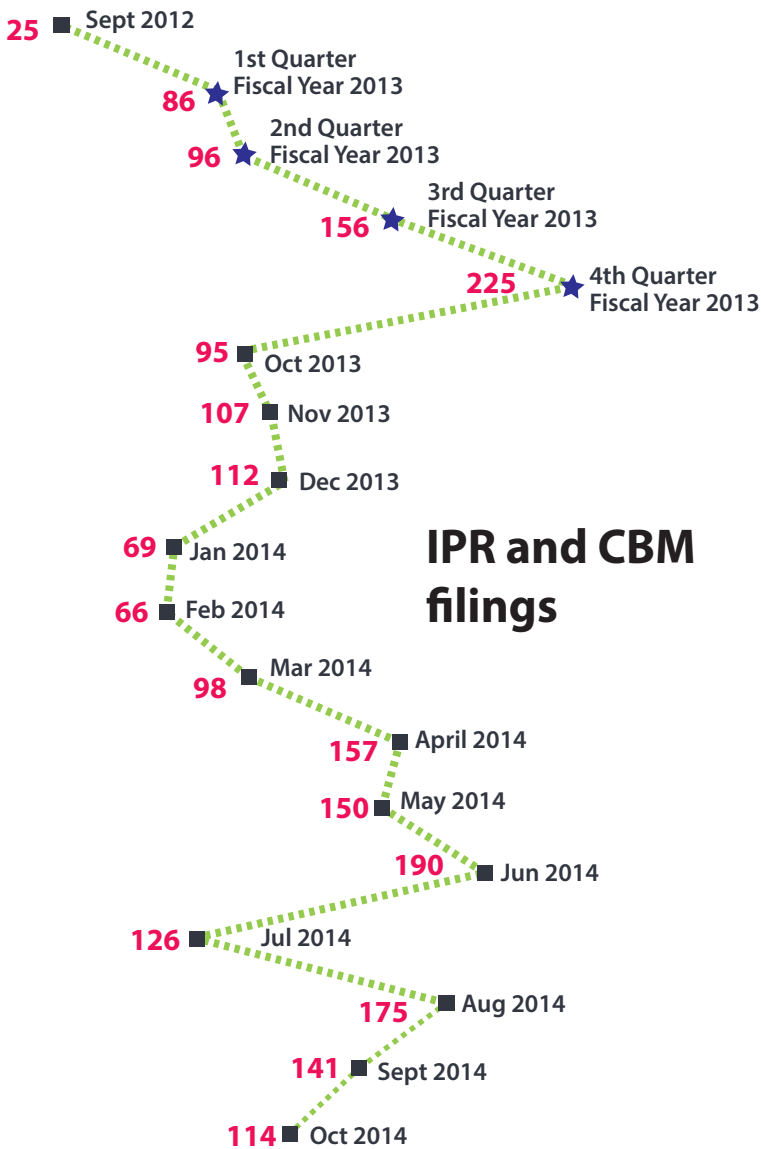


**Two Years Later:
Observations from the
second year of contested
proceedings at the USPTO**

The America Invents Act

September 16, 2014 marks the two-year anniversary of the implementation of the America Invents Act (AIA) and the introduction of the *Inter Partes* Review (IPR), Post Grant Review (PGR), and Covered Business Method (CBM) proceedings before the Patent Trial and Appeal Board (PTAB).

The Sterne, Kessler, Goldstein & Fox team has invested countless hours digesting and analyzing what the AIA means to the practice of patent law and the implications for protecting and enforcing intellectual property rights. With two years of hindsight and experience in all facets of patent office litigation, we are poised to deliver these statistics and our insights on how these proceedings are conducted at the PTAB.



Petitioner Strategy

To maximize success, petitioners should provide focused, well-articulated, factually-supported arguments in the petition. It is crucial that a petitioner carefully consider claim construction and explain the broadest reasonable interpretation of important claim terms in the petition. The PTAB expects this. Petitioners should also be prepared for the patent owner to comment on claim construction in any preliminary response.

Petitioners should also be sensitive to proposing cumulative grounds of rejection. In many cases, the PTAB has considered cumulative rejections redundant and refused to address them at trial. If a petitioner proposes more than one ground for obviousness, the PTAB is more likely to adopt multiple grounds if the petitioner articulates a meaningful distinction between the apparent redundancies. For example, explain how each provides a different approach to solve a stated problem.

The PTAB will not fill in missing information on the petitioner's behalf. The trial provides little chance to bolster or remedy gaps in a proposed ground of unpatentability. It is therefore crucial to properly construct claims and couple that with a thorough, factually-supported showing of unpatentability.

An expert declaration should explain the underlying technology, and support technical conclusions made through the attorney's arguments. Declarations accompanying a petition are expected to enhance rather than merely parrot the petition's positions. Declarations should include corroborating evidence where possible. Claims charts may also maximize a declaration's usefulness. While the PTAB rarely strikes evidence, it will typically indicate the weight it believes the evidence should have.

(1) Preliminary Response

This is the patent owner’s opportunity to address the petition before the PTAB rules on whether to institute a trial. It is not supposed to be a full-blown defense; the Trial Practice Guide sets forth suggested areas that a preliminary response should cover.

1. Standing – e.g., why the petitioner is statutorily barred from pursuing the review, whether the petition lists the correct real party(s) in interest, and in CBM, whether the patent is eligible for that proceeding;
2. Claim construction – e.g., whether the petitioner’s interpretation for the challenged claim is unreasonable;
3. Defects in proposed grounds – e.g., an asserted reference is not prior art, the art lacks a material limitation found in all independent claims, the art teaches away from the challenged claims, or the petitioner failed to consider secondary considerations of nonobviousness of record in original prosecution;
4. If the proceeding is a PGR or CBM that raises § 101 grounds, a rebuttal of that threshold issue.

Broadly speaking, the preliminary response should focus on (1) why no proceeding should be instituted, (2) claim construction, (3) dispositive defects in any proposed ground of unpatentability, and (4) other issues that would cause the PTAB to restrict the scope of the trial, such as arguments that the proposed grounds are redundant. Based on trial institution decisions over the first two years, these are the most effective issues to focus on in the preliminary response. Absent a clear defect in the *prima facie* case supporting a proposed ground for unpatentability, the PTAB is usually not responsive to attempts to argue the merits of the case. This is especially true because declaratory evidence is forbidden at the preliminary response stage, so the PTAB has only the attorney argument to consider.

Keep in mind that while the preliminary response is optional, it is the patent owner’s only chance to impact the PTAB’s decision whether to institute trial. Absent a compelling strategic reason, patent owners should not forgo this opportunity.

Patent Owner Strategy

Once a petitioner files a petition for review of a patent, the work shifts to the patent owner. There are two phases:

- (1) The pre-trial phase in which the patent owner may file an optional “preliminary response,” and
- (2) The trial phase, if the PTAB institutes a review, in which the patent owner must respond to the petition in view of the institution decision.

(2) Patent Owner Response

When the PTAB institutes trial, it does so on a claim-by-claim and ground-by-ground basis. In almost every case, the PTAB also provides a preliminary claim construction. Thorough and effective responses follow the following principles:

1. Read the trial decision carefully to determine where the PTAB may need the most clarification.
2. Clearly address each adopted ground of unpatentability in view of the PTAB’s claim construction – the PTAB rarely changes its claim construction positions between initiation and final written decision.
3. If the PTAB erred in its construction, then also argue an alternate construction and explain why the claims are patentable in view of that construction – this preserves the issue for appeal.
4. The most persuasive responses are backed by evidence, usually in the form of one or more declarations.
5. The most persuasive declarations are, in turn, backed up by supporting evidence such as reference works, peer-reviewed articles, tests and the like.
6. Take full opportunity to depose and test the strength of the petitioner’s expert.

Following these principles will give patent owners the best chance at preserving claims.

Settlement / Termination

Unlike its reexamination predecessor, IPR proceedings may be terminated by joint motion where the parties reach a settlement agreement. Over the past two years the PTAB has encouraged early settlement and termination of proceedings. Consider the following principles:

1. Although the statutory provision governing settlement (35 U.S.C. § 317) on its face applies only to instituted proceedings, the PTAB has also terminated cases prior to institution in view of settlement.
2. After institution, the earlier the parties can file a joint motion to terminate, the better the chance of complete termination.
3. The PTAB is not a party to the settlement. While it can terminate a proceeding with respect to a petitioner, it may continue a proceeding as to the patent owner, at its discretion.
4. The PTAB will require submission of the full and unredacted settlement agreement, and any collateral agreements, even when the proceeding is in the pre-institution phase. But upon request, the PTAB will treat the agreement as business confidential information and keep it separate from the file.

Some parties have expressed concern that settlement agreements may be available to another government agency, or upon a showing of good cause. While some uncertainty surrounds what would constitute "good cause," in our view the PTAB wants to encourage settlement and will cautiously guard that standard.

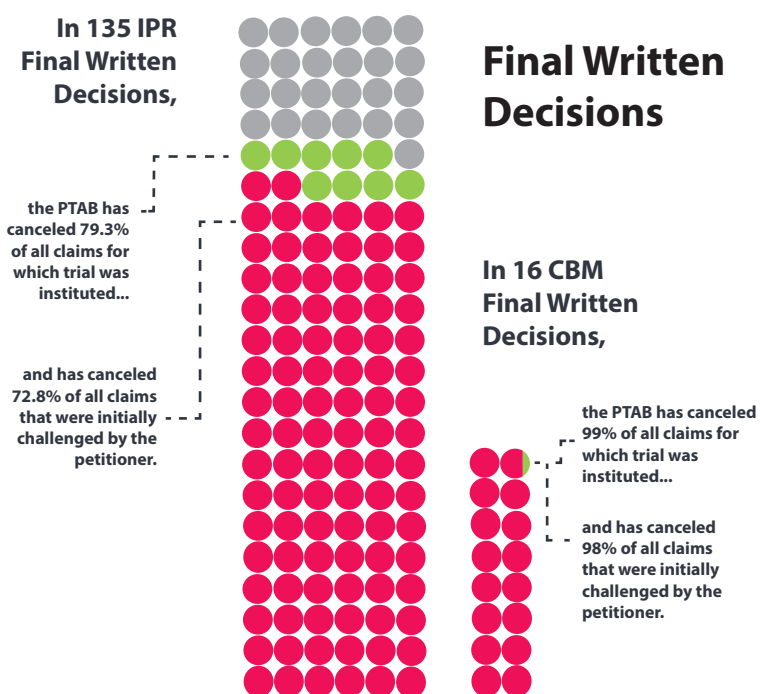
Motions to Seal

The statute requires the PTAB to make these proceedings available to the public (35 U.S.C. §316(a)). Over the first two years, the PTAB has taken that statutory mandate very seriously. Unlike district court litigations or ITC investigations, any submission of confidential material in an IPR must be accompanied by a Motion to Seal. The motion must establish good cause and the PTAB reviews the motions closely. A *de minimus* showing will not be sufficient; and absent good cause, a party should not expect to keep submissions confidential.

Upon receipt of a Motion to Seal, the PTAB will weigh the public interest in open proceedings versus the need to keep a document secret. If the motion is denied, the parties will have the opportunity to expunge the documents from the record. And even if the motion is granted to submit material under seal, the papers will be made public 45 days after termination of the trial unless there is Motion to Expunge (Rule 56;77 Fed. Reg. 48612, 48623). Therefore, parties should plan ahead if they have confidential documents, and understand it is not guaranteed that they can be kept secret.

In short, parties should avoid submitting relevant material that must be kept confidential. If the material is relevant to patentability, the PTAB will want the material to be public. If the material is not relevant, don't submit it. Motions to seal take considerable time and effort by the parties and PTAB. If they are not undertaken with sufficient consideration and care, they can waste valuable time and resources.

As a final matter, do not forget to file a protective order. The best practice is to simply use the PTAB's order, which is set forth near the end of the Trial Practice Guide. The PTAB will not simply adopt an in-place protective order from a parallel litigation or ITC investigation.

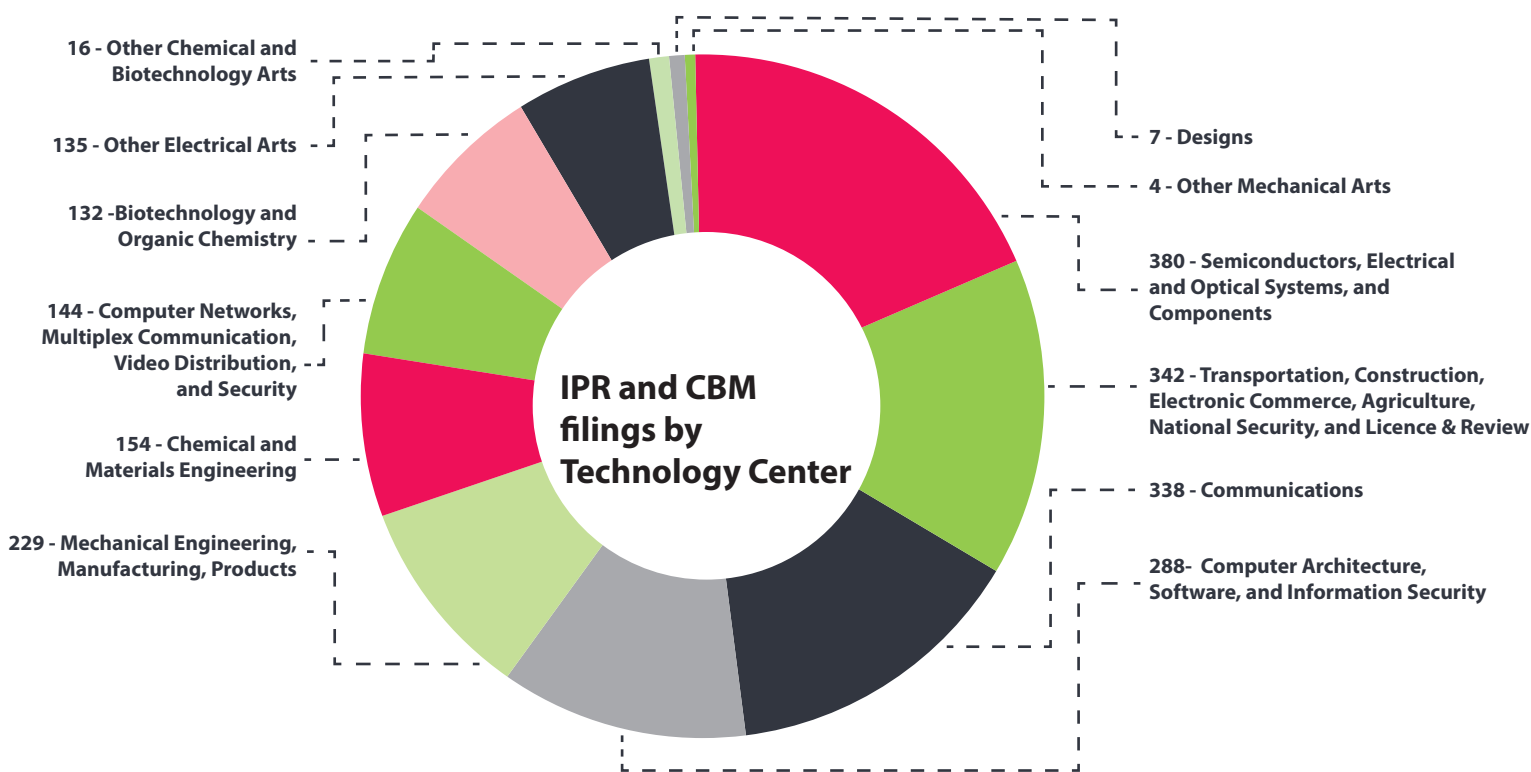


Motions to Exclude

The Federal Rules of Evidence apply to IPR, CBM and PGR proceedings. A Motion to Exclude must be founded on timely filed evidentiary objections. Either party is given 10 business days after trial institution to object to any evidence that was submitted in pre-trial filings. For every submission after institution, a party has five business days to serve the opposing party with an evidentiary objection. These objections, which are served but not filed, act as a placeholder for a party to file a Motion to Exclude later in the trial. A party may respond to any timely served objections and attempt to cure noted defects.

When filing a Motion to Exclude the moving party should support the proposed exclusion with the applicable federal rule, along with case law demonstrating that similar documentations have been excluded in the past under similar circumstances. The opposing party should respond with case law of its own supporting the admissibility of its evidence.

The decision to pursue a Motion to Exclude should be carefully considered since the PTAB has set rigorous standards for evidentiary exclusion. The PTAB rarely excludes evidence in a final decision, and it does not appear to use the motions as a means of narrowing the evidence considered. During the past two years, the PTAB's rulings have defined what it considers misuse of the Motion to Exclude. The motion should not be used to challenge the sufficiency or weight of the evidence to prove a particular fact; this should be done in substantive responses and replies. A Motion to Exclude is also not intended as a vehicle to challenge the proper scope of a paper or evidence. Parties seeking to resolve issues related to scope should contact the PTAB.



Motions for Additional Discovery

The discovery period in IPR and CBM proceedings is substantially shorter than that in district court litigation. Parties may agree to additional discovery between themselves, or may move for additional discovery. There have been only 80 Motions for Additional Discovery decided in the past two years. These motions are granted only when the movant shows that the requested additional discovery is in the "interests of justice" (§ 42.51 (b)(2)). The party moving for additional discovery is required by the PTAB to present factual evidence or support backing its request. In post-grant review cases, such as CBM, the parties need only show good cause, and are limited to evidence directly related to factual assertions by either party in the proceeding.

Motions to Amend

A Motion to Amend is typically contingent on the rest of the proceeding. In other words, the PTAB will not consider the Motion unless the patent owner is unsuccessful in defending the original claim, or chooses not to defend an original claim. The PTAB will not issue decisions on Motions to Amend until the final written decisions are complete.

A patent owner may file a Motion to Amend, but only after conferring with the PTAB. The Motion may cancel or propose a reasonable number of substitutions to the original patent claims. According to the precedent established by the PTAB's ruling in the *Idle Free Systems, Inc. v. Bergstrom Inc.* IPR (IPR2012-00027) a challenged claim can be replaced by only one substitute claim "in the absence of special circumstances."

In contrast to reexamination practice, the scope of allowable amendments is even narrower. For example, if a patent owner proposes a substitute claim it must be the original claim plus an additional limitation that narrows the scope of the claim. Removal of features from a claim is prohibited. The burden to establishing patentability of proposed substitute claims rests with patent owners. It must present arguments and accompanying evidence that is sufficient to convince the PTAB that the proposed substitute claim is patentable not just over the prior art of record, but also over all the art of which the patent owner is aware

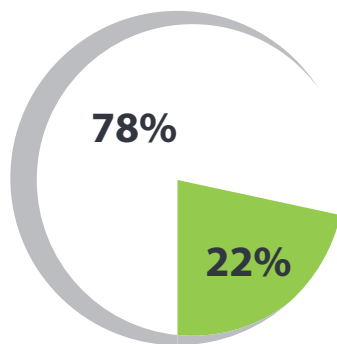
Antidating Art / Disqualifying Art

A patent owner can provide declaratory evidence to antedate or disqualify art. But it cannot do so in the optional preliminary response, which does not allow for testimonial evidence. This means that a patent owner can only first present such evidence after trial has been instituted. In such a case, the patent owner must proceed through a full trial – and face a 12-18 month cloud over its patent – before it can obtain a final decision that the art relied upon in a petition was not, in fact, prior art to the challenged claims.

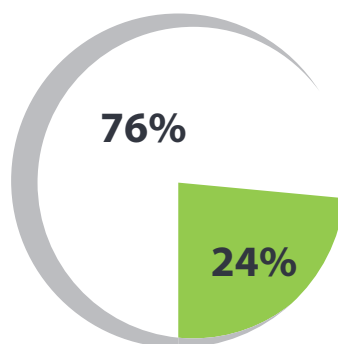
Trial Institution

IPRs and CBM reviews have different standards for instituting a trial. In an IPR, there must be "a reasonable likelihood" that at least one of the claims challenges is unpatentable. A CBM is instituted if the petitioner shows that the claim is "more likely than not" unpatentable. A total of 809 IPR trials and 88 CBM trials have been instituted.

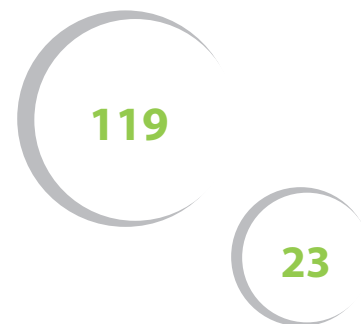
Trial Institution Rates



Trial has been instituted in 809 IPRs and denied in 228

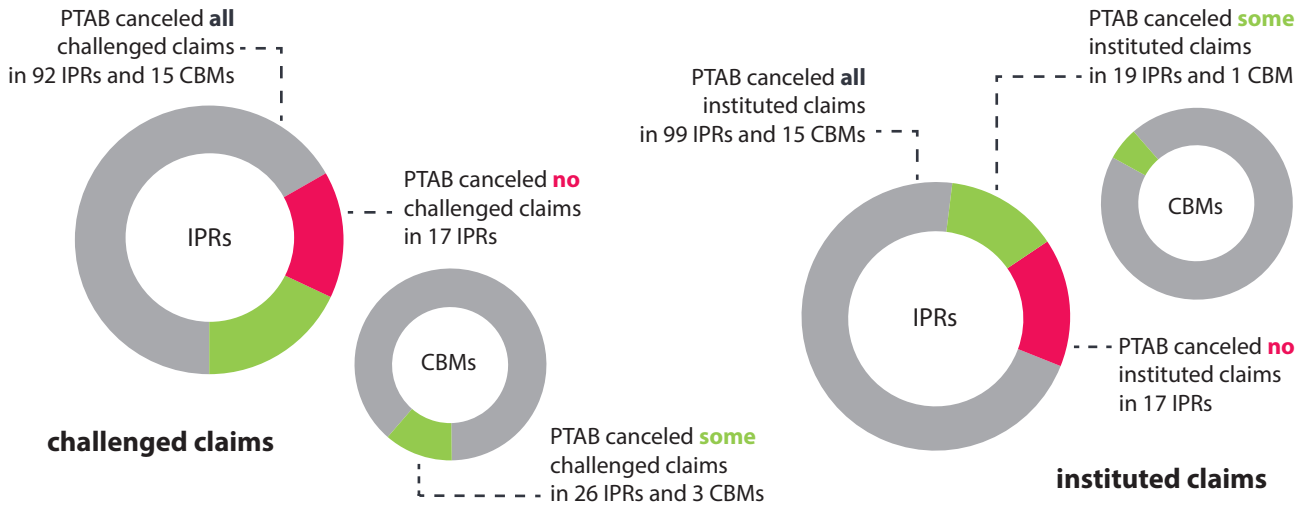


Trial has been instituted in 108 CBM proceedings and denied in 34



Parties reached a settlement prior to a decision on institution in 119 IPRs and 23 CBMs

----- Canceled Claim Statistics -----



Scheduling Orders

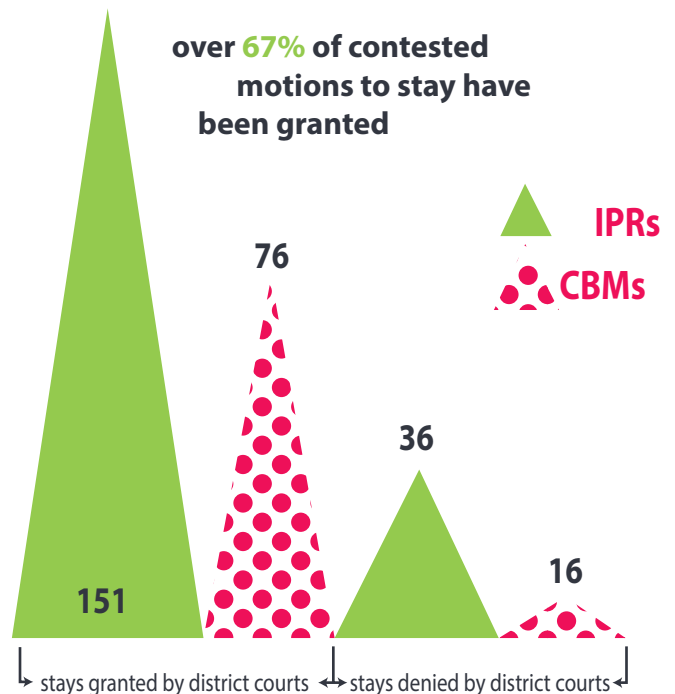
Although the PTAB has a full three months from the filing of a Patent Owner Preliminary Response to institute trial, it may not utilize the full allotment of time. Some trial decisions have been reached in as few as six weeks, while the average time to decision is currently 349 days from institution. Additionally, the PTAB continues to set deadlines shorter than three months for both the patent owner's and petitioner's discovery periods, even though the Trial Practice Guide recommends three month discovery periods. In keeping with its mandate for speedy completion, the PTAB is setting shorter deadlines to ensure it can provide a final written decision within a year.

The Scheduling Order gives a number of due dates that set the course of the trial. The Order explicitly indicates the due dates that can be extended by agreement between the opposed parties. This provides some flexibility for the parties to adjust early deadlines to accommodate depositions, for instance. In instances where both parties agreed to move a flexible due date, the PTAB has accepted those changes without question.

Litigation Stays

District courts have granted roughly 58% of motions to stay in view of reexamination proceedings. The chances of obtaining a stay in view of IPR or CBM proceedings are higher; 67% granted in the first two years. But a majority of district courts elect to wait until the institution of a proceedings before hearing a motion to stay.

To date, 151 stays have been granted (plus 9 granted in-part) pending the outcome of an IPR, compared to 76 stays denied. Regarding the 52 motions to stay in view of CBM proceedings, 36 were granted, one was granted in-part, and 16 were denied.



Joinder

The petitioner may request the PTAB join two or more proceedings within one-month of instituting the proceedings. Joinder most frequently occurs when multiple defendants are being sued on the same patent, or if the issues are almost identical and joinder will produce a similar proceedings.

While typically conducted in the manner above, there are exceptions unique to the PTAB that have come into play. Consider two scenarios where the PTAB has applied Joinder in a broad manner. In the first scenario, petitioner 1 files an IPR. The one-year deadline after service of district court complaint passes (see § 315) and the PTAB institutes trial. In view of the trial decision, the same petitioner files a second IPR with a Joinder Motion one month later. The PTAB has noted that the petitioner cannot use a second petition to cure the mistakes made in the first petition. While the PTAB is unlikely to join if it appears the petitioner is trying to get two bites at the apple this has been permitted in at least one case where Joinder was not opposed. This series of events potentially allows serial IPR petitions on the same patent even after the one-year § 315 bar has passed.

In the second scenario, petitioner 1 files an IPR, petitioner 2, who is co-defendant with petitioner 1 in a co-pending litigation, is already past the one-year deadline. The deadline starts at service of district court complaint, and service dates between co-defendants can differ. If petitioner 1 filed the IPR before the deadline, all co-defendants, even if they are past the one-year deadline can file a second IPR on the same patent with a Joinder request. Not surprisingly, when determining whether joinder is appropriate, the PTAB will consider its ability to conduct the joined proceedings in a just, speedy, and inexpensive manner. In this scenario if Joinder is granted the PTAB often requires there be a single voice from the petitioner's counsel.

Finally, we note that at the two-year point, the PTAB seems to be split on whether the same party may move to join a second IPR trial to a first IPR trial, with some panels taking the stand that joinder allows only for joining of an additional party and not of joining additional grounds by the same party.

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Sterne Kessler is
**a leader in the increasingly significant realm
of post-grant review procedures at the USPTO**
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- *Managing Intellectual Property Magazine*

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MIND + MUSCLE