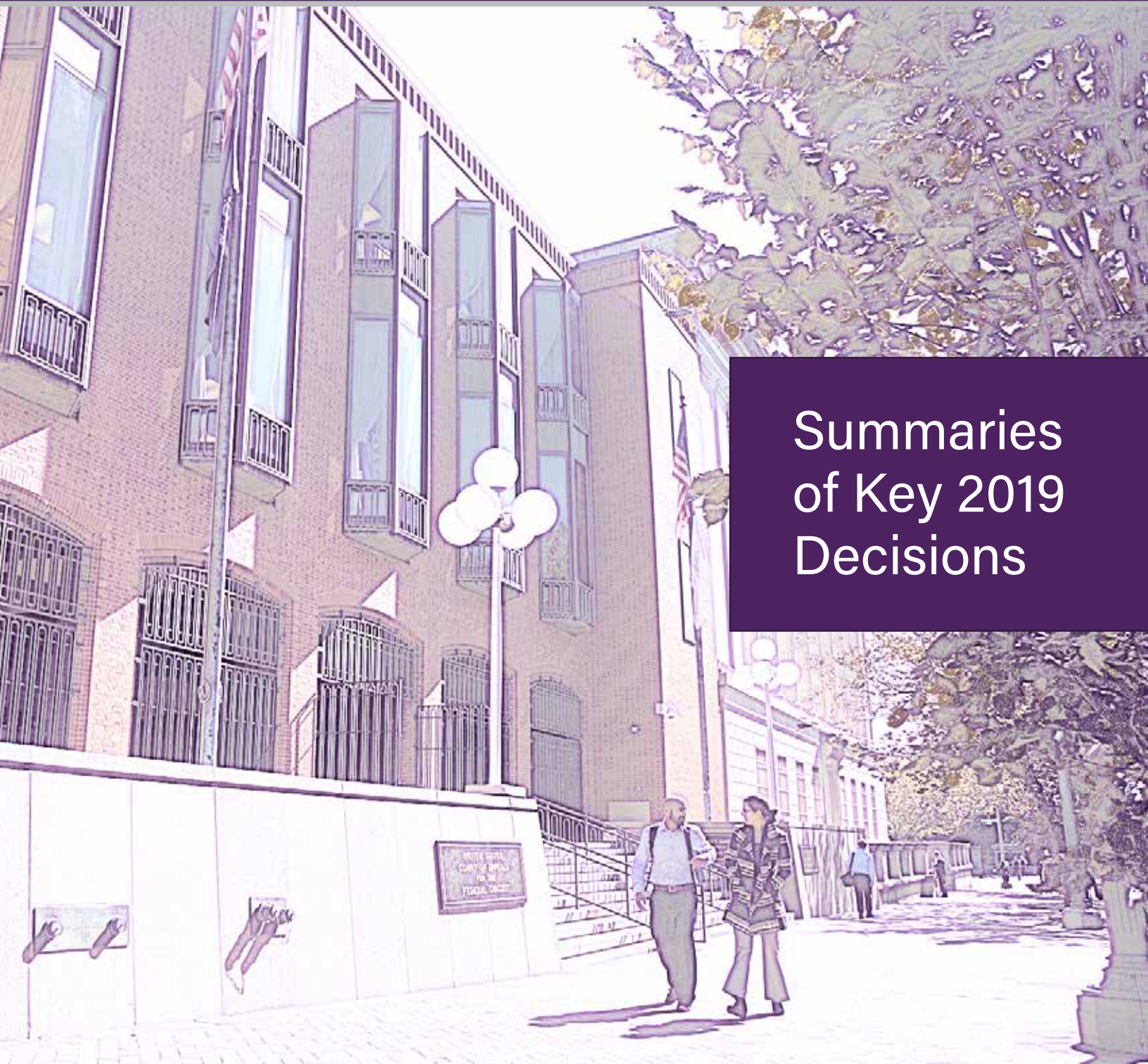


# FEDERAL CIRCUIT APPEALS FROM THE PTAB



## Summaries of Key 2019 Decisions

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## Introduction

In 2019, the U.S. Court of Appeals for the Federal Circuit docketed just over 650 appeals from the U.S. Patent and Trademark Office (USPTO). That is the highest number since the Court started to hear post-American Invents Act (AIA) cases in 2014, breaking the previous record from 2016. Cases from the USPTO, for the fourth straight year, remain the largest contributor to the Federal Circuit's docket. Despite the continued high volume, average appeal pendency for 2019 remains fairly stable at around 15 to 16 months. Notably, appeals taken from federal district courts dropped to their lowest number in the past decade, to around half those taken from the USPTO.

Overall, outcomes for Patent Trial and Appeal Board (PTAB) cases have remained fairly consistent. As in 2018, the Court affirmed about 75% of all decisions, remanded about 20%, and reversed only 5%. The Court's use of Rule 36 summary affirmances remained at over 50%. The remainder of the cases were about evenly split between precedential and non-precedential opinions, at about 20% each. For a more complete summary of statistical trends, see the middle spread of this report.

On the merits, 2019 saw several significant decisions related to PTAB practice and procedure. Most important was *Arthrex*, where the Federal Circuit held that the Administrative Patent Judges constituting the PTAB were unconstitutionally appointed. Stay tuned in 2020 for final resolution of that issue. We chose one Supreme Court case, *Kisor*, even though it did not come from the PTAB, because it touched on the level of deference the Court owes to administrative agencies like the USPTO. The rest of the cases we selected cover important issues such as standing, sovereign immunity, collateral estoppel, constitutionality, and antedating references. After most cases, we list related cases that have further clarified the law on those points.

Developing summaries and statistics, like those on the following pages, is a collaborative process. We thank our co-authors—Byron Pickard, Deirdre Wells, Kristina Caggiano Kelly, Pauline Pelletier, Trey Powers, William Milliken, and Anna Phillips.

Thank you for your interest. Please feel free to reach out to either of us if you have questions or want to discuss the current state and future of Federal Circuit appeals.

Best regards,



**Jon E. Wright**  
Co-Chair, Appellate Practice



**Michael E. Joffre**  
Co-Chair, Appellate Practice



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**Arthrex v. Smith & Nephew, 941 F.3d 1320 (Fed. Cir. 2019)**

BY WILLIAM H. MILLIKEN

***The court held that APJs' appointments were unconstitutional and remedied the constitutional violation by severing the portion of the Patent Act that prevents the Secretary of Commerce from removing APJs from service without cause.***

Arthrex appealed a final written decision from an *inter partes* review (IPR) where the Patent Trial and Appeal Board (PTAB) found all challenged claims of its patent anticipated. On appeal, Arthrex argued for the first time that the appointment of Administrative Patent Judges (APJs) to the PTAB violates the Appointments Clause of the U.S. Constitution and, therefore, the final decision should be vacated. A unanimous panel of the Federal Circuit (Judge Moore, joined on the panel by Judges Reyna and Chen) agreed. The court held that APJs' appointments were unconstitutional and remedied the constitutional violation by severing the portion of the Patent Act that prevents the Secretary of Commerce from removing APJs from service without cause. That remedy changed the status of the APJs from "principal officers" to "inferior officers," which cured any Appointments Clause violation. The court then remanded the case to the PTAB for a hearing before a new panel of APJs.

As an initial matter, the panel rejected the argument of the government (appearing as intervenor) that Arthrex forfeited its Appointments Clause challenge by failing to raise the issue to the PTAB. The panel noted that the Supreme Court had previously addressed Appointments Clause challenges raised for the first time on appeal and that "[t]imely resolution" of the issue was important given the "wide-ranging effect [of the court's holding] on property rights and the nation's economy." The court also explained that Arthrex had no incentive to raise the constitutional issue to the PTAB because the PTAB lacked the authority to hold its own appointment scheme unconstitutional. The court stated, however, that "the impact of this case [is] limited to those cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal."

Turning to the merits, Title 35 § 6(a) provides for the appointment of APJs by the Secretary of Commerce, in consultation with the Director of the U.S. Patent and Trademark Office. Arthrex argued that this appointment structure was unconstitutional because APJs are "principal officers" that, under the Appointments Clause, U.S. Const., art. II, § 2, cl. 2, may be appointed only by the President with the advice and consent of the Senate. "Inferior officers," in contrast, may be appointed by the President alone, by the courts, or by heads of departments like the Secretary of Commerce.

The Federal Circuit agreed with Arthrex and held that APJs were principal officers. In reaching this holding, the court analyzed three factors that the Supreme Court has deemed relevant to an officer's constitutional status: "(1) whether an appointed official has the power to review and reverse the officers' decision; (2) the level of supervision and oversight an appointed official has over the officers; and (3) the appointed official's power to remove the officers."

The first factor, the court held, indicated that APJs enjoy principal-officer status because the Director has no ability to "single-handedly review, nullify or reverse a final written decision issued by a panel of APJs." The PTAB issues final decisions on behalf of the executive branch, and the power to review those decisions lies only with the Federal Circuit. The court rejected the argument that the Director's ability to convene the Precedential Opinion Panel and to designate certain decisions as precedential provided him with the requisite oversight of APJs. The Director, the panel explained, is nonetheless unable to "control[] or influence[] the votes" of any other judge.

Turning to the second factor, the court concluded that “[t]he Director exercises a broad policy-direction and supervisory authority over the APJs.” In reaching this conclusion, the panel noted the Director’s ability to (i) issue regulations and policy directives concerning *inter partes* review; (ii) designate decisions as precedential; (iii) institute *inter partes* review; (iv) designate the panel of judges who decides each IPR; and (v) control APJs’ pay.

Finally, the court held that APJs were subject to the removal restrictions set forth in 5 U.S.C. § 7513(a). That section provides for removal of federal employees “only for such cause as will promote the efficiency of the service” and only upon written notice of the specific reasons for removal (with the employee having the right to appeal the removal to the Merit Systems Protection Board). These removal restrictions, combined with the APJs’ ability to render final decisions that are not subject to the Director’s review, convinced the court that APJs were principal officers that must be appointed by the President with the advice and consent of the Senate. Since APJs were appointed not by the President, but by the Secretary of Commerce, their appointments were unconstitutional.

To remedy the constitutional violation, the panel determined to sever and invalidate the removal restrictions applicable to APJs. The result is that the Secretary can now remove APJs without cause. Stripping APJs of these removal protections, the court held, rendered them inferior as opposed to principal officers.

The court then vacated and remanded the PTAB’s decision without reaching the merits. On remand, the court held, “a new panel of APJs must be designated and a new hearing granted.” The court emphasized that there was “no constitutional infirmity in the institution decision” because the Director had statutory authority to institute the IPR under 35 U.S.C. § 314. The court also left to the PTAB’s discretion whether to allow additional briefing or reopen the record on remand.

Arthrex, Smith & Nephew, and the government have each petitioned for rehearing en banc. The full court will likely decide in early 2020 whether to hear the case en banc.

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## RELATED CONSTITUTIONAL ISSUES

- *Celgene Corp. v. Peter*, 931 F.3d 1342 (Fed. Cir. 2019) (retroactive application of IPR proceedings to pre-AIA patents is not an unconstitutional taking under the 5th Amendment)

***Regents of the Univ. of Minn. v. LSI Corp.*, 926 F.3d 1327 (Fed. Cir. 2019)**

BY WILLIAM H. MILLIKEN

LSI and Ericsson petitioned for *inter partes* review (IPR) of several patents owned by the University of Minnesota (UMN). UMN moved to dismiss each IPR based on state sovereign immunity. The Patent Trial and Appeal Board (PTAB) concluded that state sovereign immunity applied in IPR proceedings, but found that UMN had waived its immunity when it sued LSI and Ericsson in district court for infringement of the challenged patents. UMN appealed. The Federal Circuit held that the IPR could go forward, concluding that state sovereign immunity does not apply in IPR proceedings.

The court began its opinion by describing the history and purpose of post-grant proceedings like IPRs. Generally speaking, the court explained, Congress established these procedures because it wished “to enlist the assistance of third parties to identify relevant prior art so as to address the lack of public trust and confidence in the patent system’s ability to weed out bad patents in initial ex parte examination.” The court also emphasized the resource constraints facing the U.S. Patent and Trademark Office when it conducts the initial examination process.

On the merits, the Federal Circuit rejected UMN’s sovereign-immunity argument, relying on its holding in *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals* that tribal sovereign immunity does not apply in IPRs. The *Saint Regis* court based this holding on three factors that indicate that IPRs are more like agency enforcement actions (in which sovereign immunity does not apply) than Article III court proceedings (in which sovereign immunity does apply). First, the Director, a politically accountable executive actor, decides whether to institute review. Second, the PTAB can continue to a final written decision even if the petitioner or patent owner elects not to participate in the IPR. Third, IPR procedures are different from those employed in civil litigation; instead, they are more akin to those used in agency enforcement proceedings. These three factors discussed in the *Saint Regis* case, the court concluded, “are equally applicable to state sovereign immunity” as they are to tribal sovereign immunity.

The Federal Circuit also “read the Supreme Court’s holding in *Oil States [Energy Services, LLC v. Greene’s Energy Group, LLC]*, 138 S. Ct. 1365 (2018), that IPR evaluation of patent validity concerns ‘public rights,’ as supporting the conclusion that IPR is in key respects a proceeding between the government and the patent owner.” That conclusion, in turn, suggested that state sovereign immunity does not apply in IPRs because “sovereign immunity does not bar proceedings brought by the United States.”

The Federal Circuit concluded its analysis by rejecting two arguments that UMN offered to distinguish tribal sovereign immunity from state sovereign immunity. First, UMN had argued that Congress has plenary authority to abrogate tribal sovereign immunity, whereas Congress cannot abrogate state sovereign immunity pursuant to its Article I powers. The court rejected this argument because *Saint Regis*’s analysis did not “rest[] on the authority of Congress to abrogate tribal sovereign immunity.” Second, UMN argued that, in the state-sovereign-immunity context, there is a presumption that immunity applies in proceedings “anomalous and unheard of when the Constitution was adopted.” The court rejected this argument because “it was well understood at the founding . . . that the executive could provide a forum for resolving questions of patent validity.”



Finally, all three members of the panel (Judges Dyk, Wallach, and Hughes) joined a statement of “additional views,” which concluded that IPR proceedings “are in substance the type of *in rem* proceedings to which state sovereign immunity does not apply.” The court analogized IPRs to *in rem* bankruptcy proceedings involving discharge of a debt owed to the state, reasoning that, in both types of proceedings, (i) the court’s jurisdiction premised on the *res*, not the state or its officers; (ii) the petitioner does not seek monetary damages from the state; (iii) the tribunal does not make any binding determination regarding the liability of one party to another; and (iv) the state is not required to participate in the proceedings.

UMN petitioned for certiorari, but the Supreme Court denied the petition in January 2020.

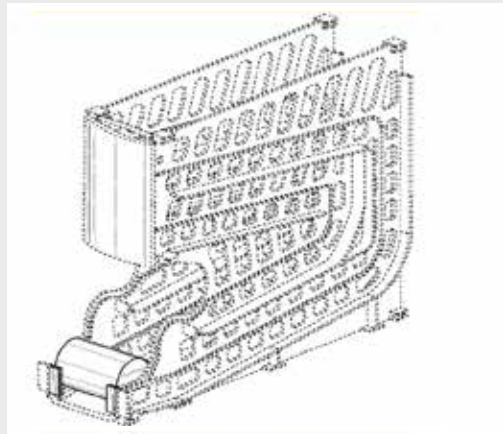
*The Federal Circuit also “read the Supreme Court’s holding in Oil States [Energy Services, LLC v. Greene’s Energy Group, LLC, 138 S. Ct. 1365 (2018)], that IPR evaluation of patent validity concerns ‘public rights,’ as supporting the conclusion that IPR is in key respects a proceeding between the government and the patent owner.”*

**Campbell Soup Company v. Gamon Plus, Inc.**, 939 F.3d 1335 (Fed. Cir. 2019)

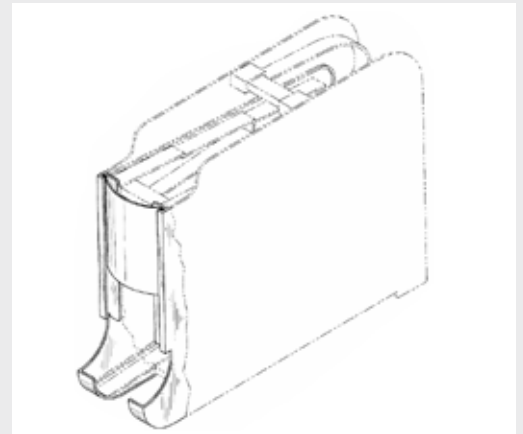
BY DEIRDRE M. WELLS

Campbell Soup petitioned for *inter partes* review (IPR) of Gamon's design patents D612,646 and D621,645. The Patent Trial and Appeal Board (PTAB) instituted the IPR and determined that Campbell Soup did not establish unpatentability because it had not set forth a prior art reference that was similar enough to the claimed design to constitute a proper primary reference, as required for a design patent obviousness inquiry. With respect to the Linz reference, the PTAB found that the Linz prior art was not a proper primary reference in part because the claimed design includes a can but Linz does not disclose a can, or any cylindrical object. The PTAB said that adding a hypothetical can to Linz in order to make Linz a primary reference is improper. The PTAB likewise found that the second reference Campbell Soup used, Samways, also did not qualify as a proper primary reference.

The design claimed in the '646 patent and shown in Linz are reproduced below.



'646 patent



Linz

Campbell Soup appealed the final written decision to the Federal Circuit, which vacated and remanded the case to the PTAB. The court first set forth the relevant obviousness inquiry: “[i]n the design patent context, the ultimate inquiry under section 103 is whether the claimed design would have been obvious to a designer of ordinary skill who designs articles of the type involved.” The court then explained that the fact finder must first find a single reference to serve as the primary reference whose design characteristics are basically the same as the claimed design. The court stated that if a primary reference exists, related secondary references may be used to modify it.

With respect to Linz, the Federal Circuit found that substantial evidence does not support the PTAB's finding that Linz is not a proper primary reference simply because it did not include the claimed can. The court stated that the parties do not dispute (1) that the claimed designs in the challenged patents and Linz's design are for dispensing cans, (2) that a can would be used in the system, and (3) that Linz's design is made to hold a cylindrical object. On those undisputed facts the court vacated the PTAB's finding with respect to Linz and remanded the case. With respect to Samways, the Court affirmed the PTAB's finding that Samways is not a proper primary reference.

Notably, Judge Newman dissented from the majority's opinion on Linz, stating that the insertion of a can or cylindrical object into Linz in order to make it "basically the same" as the claimed design was improper. According to Judge Newman, "[o]nly after a primary reference is found for the design as a whole, is it appropriate to consider whether the reference design may be modified with other features, selected to match the patented design."

*The Federal Circuit found that substantial evidence does not support the PTAB's finding that Linz is not a proper primary reference simply because it did not include the claimed can where it is undisputed that a can would be used in the Linz system.*

**Arctic Cat Inc. v. GEP Power Prod., Inc.**, 919 F.3d 1320 (Fed. Cir. 2019)

BY PAULINE M. PELLETIER

GEP Power Products, Inc. petitioned for *inter partes* review (IPR) of two patents owned by Arctic Cat Inc. directed to an electrical-connection box for distributing power to various electrical components, including components of a personal recreational vehicle. During the IPR, Arctic Cat sought to remove one of the asserted references as prior art on the basis that it had conceived and diligently reduced the claimed invention to practice before the effective date of the reference. In support of its argument, Arctic Cat offered a declaration from an employee and the sole inventor listed on the patents. The declaration included a timeline of important emails during the relevant months.

In considering this evidence of diligence, the Patent Trial and Appeal Board (PTAB) concluded that the timeline lacked a “sufficiently detailed explanation of events occurring between the bookend communications.” The PTAB criticized the declaration for not adequately accounting for approximately half of the days during the critical period. It also faulted Arctic Cat’s declaration for providing “conclusory explanations, which lack specifics as to facts and dates.” Ultimately, the PTAB declined to find diligent reduction to practice due to insufficiently explained gaps during the critical period.

***“[T]he Board’s analysis rested on too rigid a standard, and the record establishes diligence under the correct standard.”***

Arctic Cat appealed the PTAB’s findings on diligence, among other issues. With respect to whether the PTAB applied an appropriate standard for evaluating the evidence of diligence, the Federal Circuit sided with Arctic Cat. The court held that “the Board’s analysis rested on too rigid a standard, and the record establishes diligence under the correct standard.” Specifically, the court held that the declaration showed that the inventor was persistent in moving progress of reduction to practice through multiple states in a timely manner. The court noted that product specifications and test protocols went through five revisions in only five months and, during the identified gaps in the inventor’s personal activity, the invention was being tested by a third party hired for that purpose. The court further explained that a lack of diligence, unreasonable delay, or abandonment cannot be inferred from putting the invention into someone else’s hands for needed testing and awaiting test results for a short period commensurate with the testing needed, at least where oversight was diligent. Here, the court found that the evidence confirmed that the inventor exercised diligent oversight, pressing for progress and requesting that he be kept apprised of the status of the various stages of testing in a timely manner. Ultimately, there was no substantial evidence of any meaningful inattention to the task of reducing the invention to practice.

Because it found Arctic Cat’s evidence of diligence sufficient, the Federal Circuit held that the reference had been antedated and was no longer prior art. Accordingly, the court reversed the PTAB’s determinations of unpatentability relying on that reference. To the extent the PTAB relied on the reference solely as background, the court remanded to allow the PTAB to evaluate whether those findings rested on consideration of that reference as prior art. The court did not disturb any findings of unpatentability that did not rely on the antedated reference as prior art.



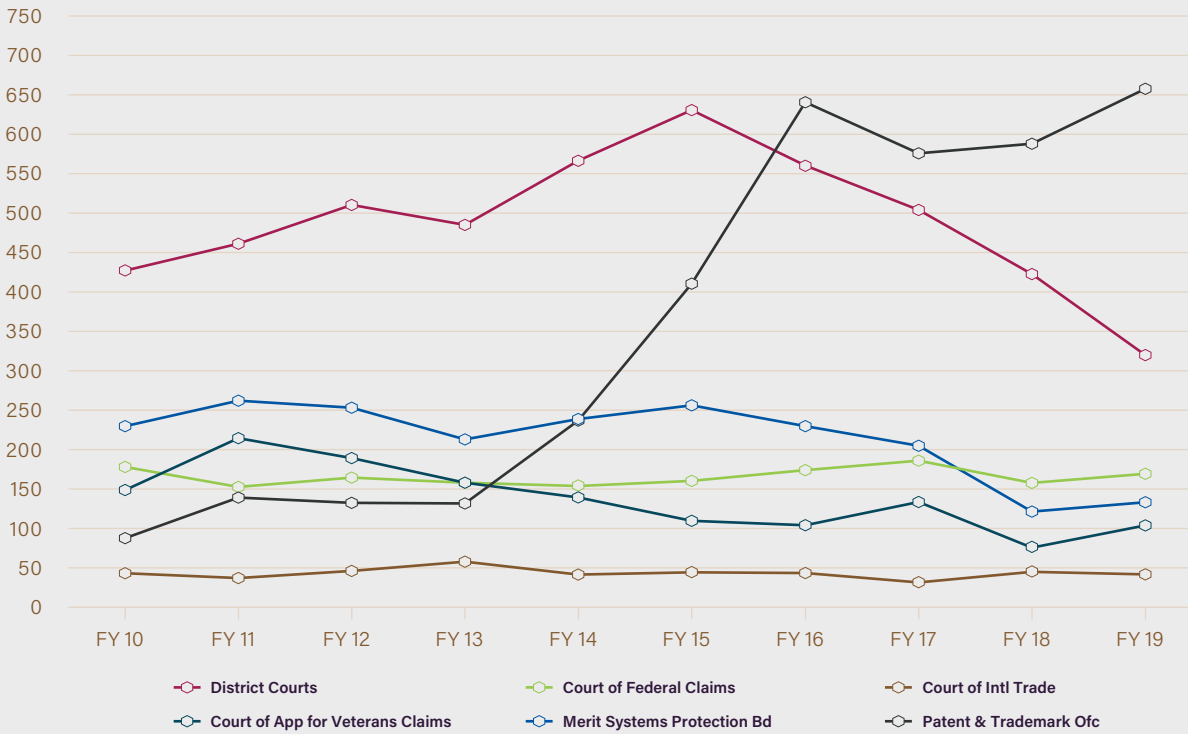
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## RELATED CASES

- *ATI Technologies ULC v. Iancu*, 920 F.3d 1362, 1372 (Fed. Cir. 2019) (holding that the PTAB applied too stringent a legal standard for diligence and the PTAB's reasoning in its final decision was deficient because it failed to identify any evidence that fell outside the scope of the claims, as the PTAB had asserted, nor did the PTAB identify any delays or gaps in activity)
- *Kolcraft Enters., Inc. v. Graco Children's Prods., Inc.*, 927 F.3d 1320 (Fed. Cir. 2019) (affirming the finding of failure to corroborate evidence because the photographs attached to the inventor declaration were undated and failed to indicate authorship; metadata could have sufficed but was not of record and inventor deposition testimony discussing it was not independent corroboration)

## United States Court of Appeals for the Federal Circuit

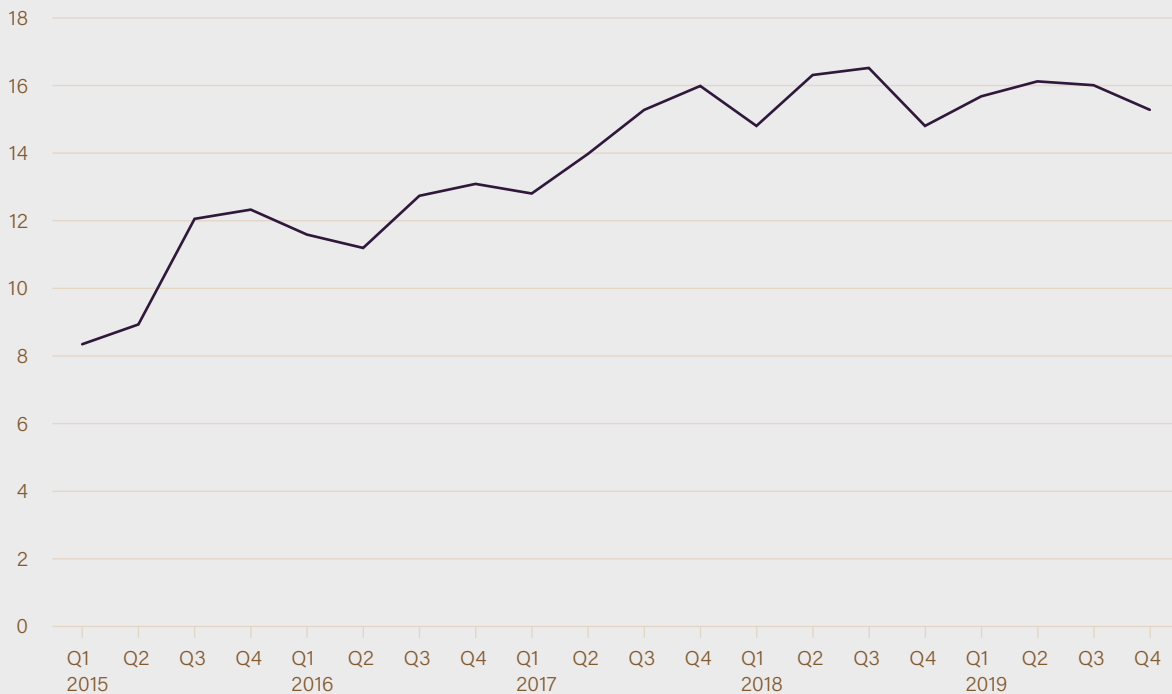
### Origin of Appeals Filed



The steady decline in district court patent appeals that began in FY16 continued in FY19, while appeals from the USPTO nudged up to their highest level ever.

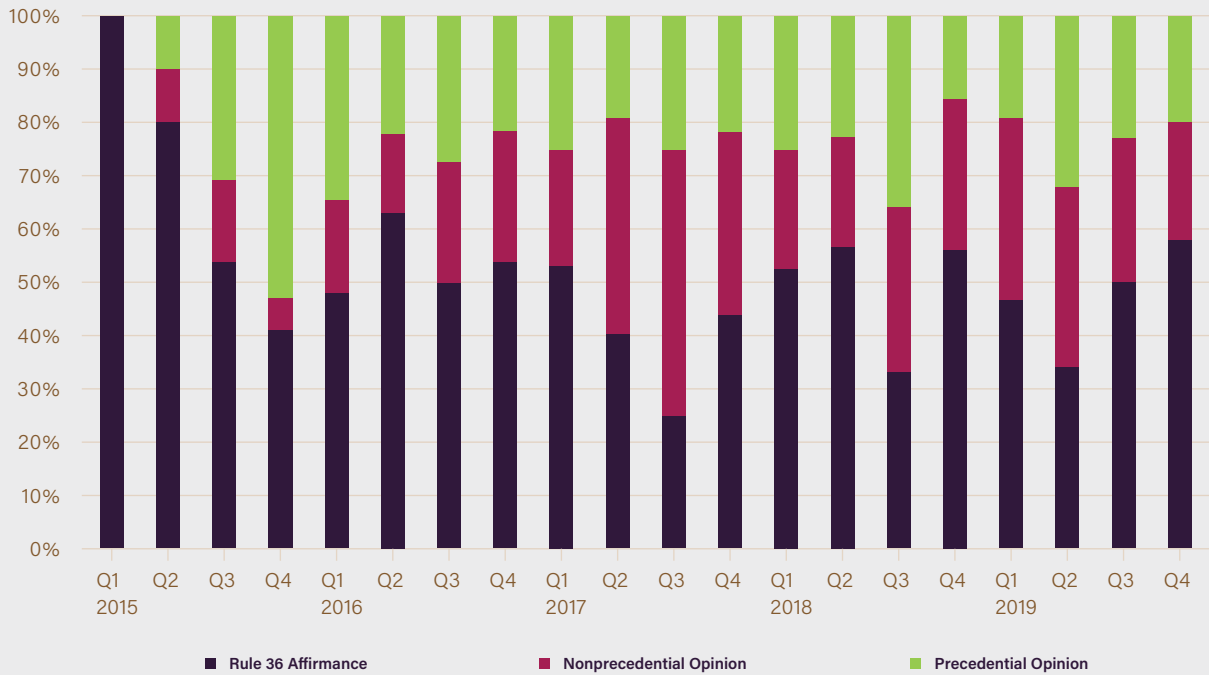
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## Total AIA Appeal Pendency in Months



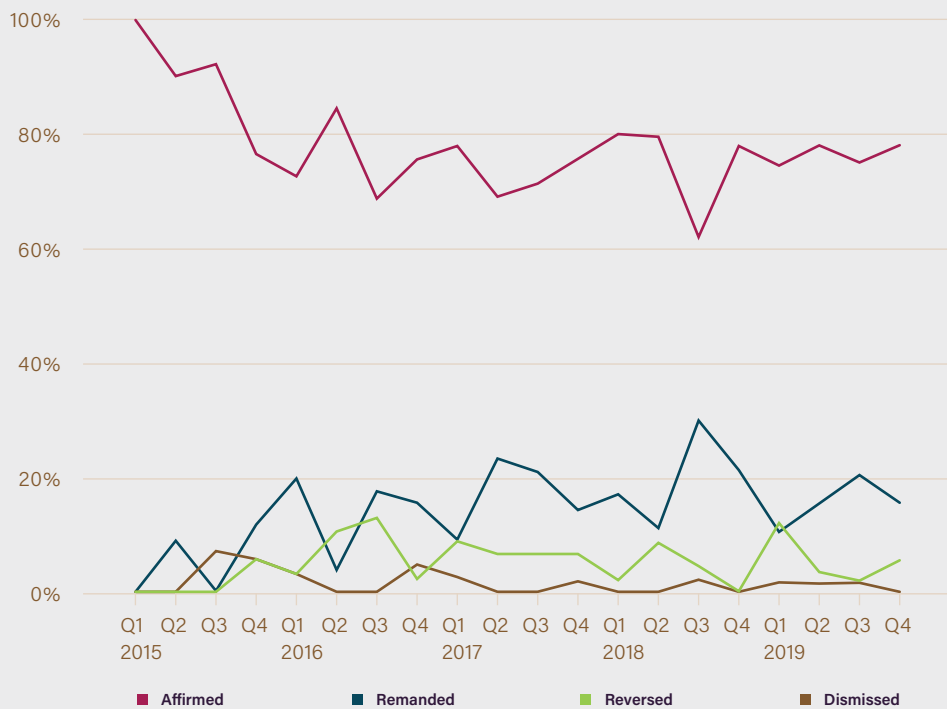
PTAB/AIA appeal pendency from docketing to opinion continued to hold steady in 2019, with the Federal Circuit having had several years to adjust to its new normal caseload.

## AIA Appeal Disposition Type



47% of the Federal Circuit's PTAB/AIA appeal decisions were Rule 36 summary affirmances in 2019, about the same share as in the previous year.

## Outcomes of AIA Appeals



Overall in 2019, 76% of PTAB/AIA decisions were affirmed, 16% were remanded, 6% were reversed, and 2% were dismissed. The affirmance rate has checked in between 73% and 76% for each of the last four years.

**AVX Corp. v. Presidio Components, Inc., 923 F.3d 1357 (Fed. Cir. 2019)**

BY PAULINE M. PELLETIER

*The government action at issue in an IPR is different from other types of government action that could give rise to competitor standing.*

AVX Corporation, a company that manufactures and sells a variety of electronic components including capacitors, petitioned for *inter partes* review (IPR) of Presidio Components, Inc.'s patent directed to single-layer ceramic capacitors. Presidio manufactures and sells a variety of ceramic capacitors. AVX and Presidio are competitors in the market for capacitors. Following a trial on patentability, the Patent Trial and Appeal Board (PTAB) issued a final written decision holding some claims of Presidio's patent unpatentable but others not unpatentable based on AVX's challenge. Only the petitioner AVX appealed the PTAB's decision to the Federal Circuit. On appeal, the patent owner Presidio moved to have the appeal dismissed on grounds that AVX lacked standing under Article III of the Constitution.

The Constitution limits the grant of the "judicial power" to "Cases" or "Controversies." Thus, any party that appeals to the Federal Circuit must have standing under Article III before the court can consider the merits of the case. Article III standing requires among other things a non-speculative, concrete injury in fact resulting from the challenged action. For example, patent owners have such an injury because they stand to lose their intellectual property.

Presidio argued that AVX, as the petitioner below, lacked such a concrete injury based on the PTAB's upholding some claims of Presidio's challenged patent. Seeking to rebut this contention, AVX submitted a declaration by its general counsel describing AVX's business and its competitive relationship with Presidio. The declaration also explained the history of litigation between the parties, including four prior district court actions alleging infringement of various capacitor patents. In one of these prior actions, AVX was required to pay roughly \$3.3 million in damages and was enjoined from selling a capacitor found to infringe a Presidio patent not involved in the appeal. AVX argued that the costs of that litigation were even higher due to the loss of customer goodwill and the reluctance of customers to purchase potentially infringing products. AVX cited one customer who refused to buy a capacitor due to the risk of future injunction. AVX stated that it perceived a substantial risk of future litigation with Presidio over the patent challenged in IPR, which along with the estoppels resulting from the IPRs, should be sufficient to confer standing for AVX to appeal the PTAB's decision.

The Federal Circuit rejected AVX's arguments and concluded that it lacked standing to appeal. Specifically, the court held that the estoppel resulting from the IPR does not, itself, constitute an injury sufficient to confer Article III, a conclusion that had been set forth in prior decisions of the court. The court expressly declined to decide, however, whether those estoppels have effect if the petitioner is unable to appeal an adverse determination. With respect to AVX's alleged injury based on its competitive relationship with Presidio and history of litigation, the court concluded that the government action at issue in an IPR is different from other types of government action that could give rise to competitor standing, e.g., where the action directly impacts the pricing in the market. Here, by contrast, the government action is the upholding of specific patent claims that give the patent owner a right to exclude others from practicing the invention. Because AVX had not averred that it has a present or non-speculative interest in engaging in conduct even arguably covered by the patent claims at issue, it lacked standing.



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## RELATED STANDING CASES

- *Gen. Elec. Co. v. United Techs. Corp.*, 928 F.3d 1349 (Fed. Cir. 2019) (dismissing an IPR petitioner's appeal on grounds that the purported competitive injuries based on perceived limitations on the ability to market turbo engine products potentially covered by the patent were too speculative and the competitive relationship with the patent owner alone was insufficient)
- *Amerigen Pharm. Ltd. v. UCB Pharma GmbH*, 913 F.3d 1076 (Fed. Cir. 2019) (finding that an IPR petitioner had standing to appeal because its Abbreviated New Drug Application had received tentative approval by the Food & Drug Administration and the listing of the challenged patent in the Orange Book was delaying the ability of the petitioner to launch its generic product)
- *Samsung Elecs. Co. v. Infobridge Pte. Ltd.*, 929 F.3d 1363 (Fed. Cir. 2019) (finding that an IPR petitioner had standing because it licensed the patent as part of a standard-essential patent pool and suffered an injury because under the terms of the license, the petitioner would collect higher royalties for its own patents in the pool if the patent at issue was rendered invalid)
- *Momenta Pharm., Inc. v. Bristol-Myers Squibb Co.*, 915 F.3d 764 (Fed. Cir. 2019) (dismissing appeal because the IPR petitioner no longer had a cognizable injury given that it had publicly announced that it was abandoning development of the corresponding biosimilar product and was thus no longer engaging in activity that could give rise to a claim of infringement)
- *Mylan Pharm. Inc. v. Research Corp. Techs., Inc.*, 914 F.3d 1366 (Fed. Cir. 2019) (finding that three petitioners that joined an IPR relying on the exception to the one-year bar had standing to appeal because even though they were joined, the joinder and appeal provisions of the AIA treated them as "parties" with a right to appeal an adverse decision by the PTAB)
- *Sony Corp. v. Iancu*, 924 F.3d 1235 (Fed. Cir. 2019) (holding that a patent owner had standing to appeal an adverse decision by the PTAB even though the petitioner withdrew and the underlying district court litigation had settled, concluding that there was still a live controversy between the patent owner and the PTO regarding whether the PTAB erred in its determination)

**Kisor v. Wilkie**, 588 U.S. \_\_\_, 139 S. Ct. 2400 (2019)

BY ANNA G. PHILLIPS

James Kisor, a Korean War Veteran, asked the Supreme Court to overrule a longstanding presumption that courts defer to an executive agency's reasonable interpretation of its own regulation, a principle known as *Auer* deference. The Court relied on *stare decisis*, among other principles, to uphold the *Auer* rule, ultimately vacating the judgment of the Federal Circuit and remanding for further proceedings.

Mr. Kisor sought retroactive disability benefits from the Department of Veterans Affairs (VA) for post-traumatic stress disorder (PTSD) incurred in 1982 due to his military service. Mr. Kisor had applied for disability benefits in 1982, but was denied based on a psychiatric evaluation finding he did not suffer from PTSD. In 2006, Mr. Kisor moved to reopen his claim, and a new psychiatric report found that he suffered from PTSD. Mr. Kisor was awarded benefits as of 2006, not the date of his original application in 1982. The Board of Veterans' Appeals ("Board") agreed that Mr. Kisor's benefits could not be awarded retroactively based on its interpretation of an agency rule that retroactive benefits could not be granted unless the veteran produced "relevant official service department records" that were not considered in the initial denial. While Mr. Kisor produced two new service records, the Board determined they were not "relevant" because they did not relate to the reason for the denial—Mr. Kisor's lack of PTSD. Mr. Kisor appealed the decision. The Federal Circuit affirmed based on *Auer* deference and the Board's interpretation of the VA rule. The Supreme Court granted certiorari.

Justice Kagan delivered the Court's judgment and opinion, in which Chief Justice Roberts and Justices Ginsburg, Breyer, and Sotomayor joined. Justice Gorsuch, writing separately, concurred in the judgment, with Justices Thomas, Alito, and Kavanaugh joining in certain portions of the Gorsuch concurrence.

First, the Court explained when *Auer* deference applies. The presumption applies only when the regulation-at-issue is "genuinely ambiguous." If a court, having exhausted all "traditional tools" of interpretation, such as examining the text, structure, history, and purpose of a regulation, cannot determine the meaning of the regulation, then deference to the agency's interpretation may come in to play. If there is no uncertainty as to the regulation's meaning, then there is no reason to apply *Auer* deference. Further, the agency's interpretation must be (1) reasonable; (2) the official position of the agency; (3) within the agency's substantive expertise; and (4) reflect "fair and considered judgment." Courts must make an independent inquiry into the reasonableness of the agency's reading before affording the agency's interpretation weight. Part of that inquiry rests on whether the position offered by the agency is one derived from those who are "understood to make authoritative policy in the relevant context," and whether the interpretation creates "unfair surprise" or is a "convenient litigating position," both of which are unacceptable.

Second, and perhaps most importantly, the Court concludes that *stare decisis* "cuts strongly" against overruling *Auer*. *Auer* deference has a long history, going back 75 years or more. Traditionally, courts follow precedent, and any departure requires "special justification." Yet, none of Mr. Kisor's arguments present the special circumstances required to stray from longstanding precedent. Moreover, the notion an agency receives deference in interpreting

its own rules is a premise that pervades administrative law. To overturn *Auer* would create too much uncertainty in many areas of law, including the “settled” rules of interpreting agency regulations.

Finally, the Court addressed the circumstances of Mr. Kisor’s case. Mr. Kisor’s case rested on the Board’s interpretation of “relevant” records, who interpreted “relevant” to mean new records pertaining to the basis of the VA’s initial denial of benefits. The Federal Circuit affirmed based on *Auer* deference. The Court criticized the appeals court, determining the Federal Circuit erred by declaring the regulation ambiguous without making an effort to independently interpret the regulation, and by assuming that *Auer* deference should apply. Instead, the Federal Circuit should have considered whether the Board’s interpretation was reasonable and officially reflected the VA’s view on the matter. Accordingly, the Court vacated and remanded.

Justice Gorsuch wrote separately to express his opinion that *Auer* deference should be overruled. Highly critical of the majority opinion, Justice Gorsuch expressed all the reasons why the doctrine should not stand. First, he pronounced that the limits the majority placed on the *Auer* rule kept it on “life support” and there was little difference between the limits constraining its application and “overruling it entirely.” In practice, these limits reduce the *Auer* rule to nothing more than the *Skidmore* rule, which allocates weight to the agency’s interpretation to the extent it is reasonable and persuasive. Second, Justice Gorsuch expressed that *Auer* deference evolved from dicta and was never meant to become a presumption forcing judges to “subordinate their own views about what the law means” to those of a political agency. Third, he declared that the rule is squarely in contradiction with the Administrative Procedure Act, which requires courts to resolve any disputes over interpretation of an agency rule; if the court adopts an agency’s interpretation out of deference, the court is not deciding the meaning of the regulation. Fourth, the *Auer* doctrine defies the separation of powers because it necessarily requires the judicial branch to share power with executive agencies. Finally, Justice Gorsuch questions whether *stare decisis* even applies given the narrow holding in *Auer v. Rollins*, the case for which the *Auer* doctrine is named, because the case is limited to emergency price controls during wartime. He further remarked that the way the majority “remodeled” the *Auer* rule seemingly ignores the principles of *stare decisis*.

*Kisor* could be seen as limiting the power of *Chevron* deference, a parallel doctrine to the *Auer* rule that dictates the level of judicial deference given to agency interpretations of statutes. Yet, Chief Justice Roberts and Justice Kavanaugh each wrote separately to clarify that the Court’s decision to uphold *Auer* has no bearing on *Chevron* deference. Thus, the holding in *Kisor* is limited only to the level of judicial deference given to agency readings of its own regulations.

In sum, *Kisor* confirms that the *Auer* doctrine survives, but the various opinions suggest that the strength and applicability of the *Auer* rule may wane.

***Kisor confirms that the Auer doctrine survives, but the various opinions suggest that the strength and applicability of the Auer rule may wane.***

***Honeywell International Inc. v. Arkema Inc.*, 939 F.3d 1345 (Fed. Cir. 2019)**

BY BYRON L. PICKARD

***...the Board erred by rejecting Honeywell's request to file a motion for leave to petition the Director for a Certificate of Correction based on Honeywell's failure to "show that [the] requirements of 255 have been met.***

Honeywell owns U.S. Patent 9,157,017, which claims automotive air-conditioning systems. The application to the '017 patent had originally described and recited claims for fluoroalkane compounds for use in refrigeration systems. During prosecution, Honeywell, in a preliminary amendment, deleted those original claims and replaced them with 20 new claims directed to automotive air-conditioning systems, which were admittedly different subject matter than the original claims. Honeywell, however, did not amend its priority claim to incorporate certain sister applications that disclosed the automotive-air-conditioning subject matter. The '017 patent issued on October 13, 2015, listing a priority chain of applications dating as far back as 2002.

Four months after issuance, Arkema filed two petitions for post-grant review (PGR) of the '017 patent. PGR is only available against patents with an effective priority claim on or after March 16, 2013. Arkema argued that the '017 patent was nevertheless eligible for PGR because the listed priority applications did not provide written-description support for the issued claims, meaning the '017 patent had an effective priority date of March 26, 2014, the filing date of the application that directly led to the '017 patent. The Patent Trial and Appeal Board (PTAB) agreed that the '017 patent was eligible for PGR and instituted trial.

Following institution, Honeywell sought the PTAB's permission to file a motion for leave to request a certificate of correction to amend its priority claim to include earlier applications that disclosed automotive air-conditioning systems. The PTAB held two telephonic hearings on this request and ultimately rejected Honeywell's request to file the motion because "[t]his is not a typographical or clerical error. It's been also failed [*sic*] to show that the minor character prong has been met." The PGRs proceeded to a combined Final Written Decision, where the PTAB found the claims of the '017 patent were unpatentable. Honeywell appealed the PTAB's decision denying it leave to file the motion to request a certificate of correction.

On appeal, the Federal Circuit rejected, out of hand, Arkema's argument that the PTAB's denial of Honeywell's request or authorization to file a motion for leave was not reviewable on appeal. The court then concluded that the PTAB had abused its discretion in denying Honeywell this authority to file its requested motion.

In so doing, the Federal Circuit pointed out there is a three-step process for a patentee to pursue a certificate of correction once a PGR is instituted. First, the patentee must seek authorization to file a motion for leave. Second, if granted, the patentee may file a motion for leave asking the PTAB to cede its jurisdiction so the patentee may petition the Director for certificate of correction. And, third, if the motion is granted, the patentee may petition the director for a certificate of correction. The court stated that the statute does not allow the PTAB to decide the ultimate issue whether a certificate of correction is appropriate because it is of a "minor character" or "occurred in bad faith." Rather the authority to make those determinations resides in the Director and has not been delegated to the PTAB.

The Federal Circuit decided that the PTAB abused its discretion in denying authority to Honeywell to file the requested motion on the basis that Honeywell had not shown in its request for authorization that the substantive requirements for the issuance of certificate of



correction were not met. Principally, the PTAB erred by assessing the substantive merits of Honeywells' to-be-filed motion on the slim basis of two conference calls, without assessing the motion itself. When the PTAB denied Honeywells' request, it did not have the benefit the substance of Honeywells' proposed certificate of correction nor any evidence as to whether Honeywells' failure to amend its priority claim during prosecution was inadvertent and made in good faith. The court found that the PTAB erred by requiring Honeywell to show it would have met the substantive requirements of entitlement to certificate of correction before filing a motion for leave. Finally, the PTAB erred by assuming the Director's authority to decide the merits of whether Honeywell was entitled to a certificate of correction.

As a remedy, the Federal Circuit vacated the PTAB's final written decision and remanded the case requiring the PTAB to authorize Honeywell to file the requested motion and to decide that motion consistent with the Office's regulations.

**Papst Licensing GMBH & Co. v. Samsung Elec. Am., Inc.**, 924 F.3d 1243 (Fed. Cir. 2019)

BY MICHAEL E. JOFFRE

*issue preclusion in  
general applies to  
PTAB decisions*

Samsung successfully petitioned for *inter partes* review (IPR) of several of Papst's patents, including U.S. Patent No. 9,189,437. Prior to the Patent Trial and Appeal Board (PTAB) finding the claims of the '437 patent unpatentable as obvious, however, it had found two related patents that shared the same specification unpatentable as well. Papst voluntarily dismissed its appeals on the two related patents before oral argument.

In the appeal on the '437 patent, the Federal Circuit held that Papst's arguments were barred by issue preclusion. Issue preclusion is a common law doctrine that prevents a party to a lawsuit or agency action from re-litigating an issue once it has been decided in a previous case. The rationale behind the doctrine is prevention of legal harassment and prevention of abuse of legal resources. The court first explained the general rule that "[w]hen an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim."

Turning to the facts here, the Federal Circuit held that issue preclusion in general applies to PTAB decisions once those decisions become final if the other requirements of issue preclusion are met. The court then held that issue preclusion applied in the '437 patent appeal because the prior proceedings on the related patents resolved against Papst materially identical issues of claim construction as applied to identical prior art, and because those determinations were essential to the PTAB's prior decisions.

The *Papst* decision clarified that petitioners or patent-holders may wish to reconsider when and how they should dismiss IPRs on related patents in the future, if they want to avoid issue preclusion.

***Henny Penny Corp. v. Frymaster LLC***, 938 F.3d 1324 (Fed. Cir. 2019)

Henny Penny petitioned for *inter partes* review (IPR) of Frymaster's U.S. Patent 8,497,691. The '691 patent relates to deep fryers and describes a system for measuring the state of cooking oil degradation with a "total polar material" (TPM) sensor. The Patent Trial and Appeal Board (PTAB) determined that the challenged claims were not unpatentable. Henny Penny appealed.

In affirming the PTAB's decision, the Federal Circuit relied heavily on 35 U.S.C. § 312(a)(3) which states that the petition must identify "with particularity[] each claim challenged [and] the grounds on which the challenge to each claim is based. . . ." The court reasoned that the PTAB properly held Henny Penny to the obviousness theory articulated in its petition and properly disregarded petitioner's new obviousness theory first advanced in its reply.

In its petition, Henny Penny articulated a straightforward obviousness theory: "to modify the system of [reference A] to include the processor and/or sensor as taught by [reference B]." The PTAB then instituted the IPR stating that Henny Penny had articulated sufficient reasons that an artisans would have "modified the teachings of [reference A] by replacing its analyzer with the sensor of [reference B]." *Id.* (emphasis added). In its patent owner's response, however, Frymaster provided technical reasons why such a replacement would have yielded unpredictable and otherwise problematic results.

Faced with these challenging technical reasons for why its petition's "replacement" theory would not have worked, Henny Penny shifted gears in its reply and argued that replacement was unnecessary. Instead, Henny Penny argued that the existing sensor in reference A could have been modified to achieve the claimed limitation. *Id.*

Frymaster objected to Henny Penny's new theory of obviousness. In the IPR's oral hearing, Henny Penny's counsel conceded that its petition only advanced an obviousness theory based on swapping the sensors from the two references, not modifying the existing sensor in reference A. The PTAB thus disregarded the new obviousness theory in its final written decision and found the claims not unpatentable.

On appeal, the Federal Circuit upheld the PTAB's decision to disregard Henny Penny's reply theory of obviousness. The court stated, "an IPR petitioner may not raise in reply 'an entirely new rationale' for why a claim would have been obvious."

The Federal Circuit also went on to agree with the Board that under the petition's original theory of obviousness, substantial evidence supports the PTAB's finding of no unpatentability, largely crediting Frymaster's technical arguments from its patent owner response.

This case is also noteworthy because the PTAB found (and Federal Circuit upheld) Frymaster's objective indicia of non-obviousness for industry praise as supporting the patentability of the claims.

Henny Penny adds to a growing body of law that cautions petitioners to fully pressure test their obviousness rationale before they file an IPR petition. They will not be allowed to argue different obviousness theories later in the proceeding.

BY R. WILSON "TREY"  
POWERS III, PH.D.

***[A]n IPR petitioner may not raise in reply 'an entirely new rationale' for why a claim would have been obvious.***

***Power Integrations, Inc. v. Semiconductor Components Indus., LLC,***  
 926 F.3d 1306 (Fed. Cir. 2019)

BY KRISTINA CAGGIANO KELLY

Semiconductor Components, doing business as ON Semiconductor, petitioned for *inter partes* review (IPR) of several claims of Power Integration's U.S. Patent No. 6,212,079. The Patent Trial and Appeal Board (PTAB) instituted review and after a trial on the merits found the claim at issue to be unpatentable. The PTAB denied Power Integration's claim that the IPR should not have been instituted because Semiconductor Components was statutorily barred from seeking IPR of the '079 patent due to the one year time bar set forth under 35 U.S.C. § 315(b).

On appeal, Power Integrations sought review of the § 315(b) time bar issue. The Federal Circuit vacated the IPR decision as time-barred because Semiconductor Components had merged with an entity against whom the challenged patent was asserted in earlier litigation.

The '079 patent had a long history before the USPTO and federal district court prior to the IPR at issue in Power Integration's appeal. It had been the subject of two *ex parte* reexamination requests filed by adversary Fairchild Semiconductors, as well as district court litigation, a prior appeal to the Federal Circuit, and a subsequent retrial on damages also involving Fairchild.

In November 2015, Fairchild entered into an agreement to merge with ON Semiconductor, but the merger did not close immediately. After the agreement but before the merger went into effect, ON filed several IPR petitions challenging various patents, including the '079 patent, that were being asserted against Fairchild. These petitions were filed and served more than one year after Fairchild had been served with Power Integration's complaint in the litigation involving the '079 patent. The merger closed several months later, a few days before the PTAB instituted review on ON's petitions.

The essential question presented to the PTAB was whether Fairchild and ON were in privity at the time the petitions were filed, such that the time-bar should apply to ON under the language of the statute. Power Integrations argued that the merger agreement contemplated Fairchild's and ON's then-existing common legal interests and the possibility that they would become joint defendants in pending legal proceedings. ON responded that Fairchild had no control over ON at the time that ON chose to file the petitions and did not pay for any aspect of their preparation.

The PTAB rejected Power Integration's arguments, as well as its motion for additional discovery into the timing and nature of the relationship between Fairchild and ON leading up to the filing date for the petitions. The PTAB's main reasoning was that there was no evidence that Fairchild asserted control over ON or the petition. While Fairchild was listed as a real-party-in-interest in the petition, ON filed the petition out of its own interest to be rid of patents asserted against its soon-to-be acquisition.

The relevant portion of the statute provides that "[a]n *inter partes* review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privity of the petitioner is served with a complaint alleging infringement of the patent." On appeal, Power Integrations argued that privity relationships that exist prior to institution, even if they did not exist the time of filing, should be considered in the time-bar inquiry. ON argued that privity should only be considered at the time of filing the petition.

***Any privity that arises up to the time of institution is properly considered in the time-bar analysis, even if no such privity existed at the time an IPR was filed.***

On the merits, the Federal Circuit treated the issue as one of pure statutory interpretation. Both parties argued that the statute was clear and unambiguous, and that it supported their directly contrary interpretations. The court ultimately agreed with Power Integrations that the best reading of the statute requires a consideration of privity that arises after filing the petition but before institution. The court reasoned that the statute barred institution—not filing—of the petition based on the condition precedent that the petition is filed more than 1 year after the date on which a privity was served with a complaint. The court also noted that this decision was consistent with the court's prior treatment of 315(b) as a limitation on the Director's authority to institute review, and not a party's ability to file a petition. The court noted that the agency's interpretation to the contrary was not entitled to Chevron deference, as the agency regulations regarding the time bar did not provide any interpretation on point.

ON also argued that Power Integrations was precluded from challenging the time-bar issues because the PTAB essentially rendered the same time-bar decision against Power Integrations in another proceeding, and Power Integrations did not appeal that decision. The Federal Circuit found that this situation fell within one of the exceptions to the collateral estoppel doctrine, wherein a litigant is not required to appeal an issue if the economic stakes in that case are too low to make an appeal worthwhile.

Parties contemplating mergers should be cautious of the patent litigation status of prospective acquisitions. Any privity that arises up to the time of institution is properly considered in the time-bar analysis, even if no such privity existed at the time an IPR was filed. Of course, where a prospective merger is in the early enough stages to avoid such privity, the motivation to file IPRs challenging patents asserted against a then-competitor may be lacking. As the court itself noted, there is a continuing obligation for petitioners to provide updates to any changes in privity or real-party-in-interest that arise before institution, and observed that parties can control the terms and timing of mergers given the statutorily mandated three-month window for institution decisions.

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## RELATED STANDING CASE

- *Mayne Pharma Int'l Pty. Ltd. v. Merck Sharp & Dohme Corp.*, Appeal No. 2018-1593 (Fed. Cir. June 21, 2019) presented the question of whether amending a Petition after the statutory deadline to add a real party in interest under § 42.5(c)(3)'s late-action rule would violate the statutory time bar. Mayne Pharma argued that correcting an identification of real-parties in interest was the type of correction that could only be effected through § 42.104(c)—and not § 42.5(c)(3)—which causes the petition to lose its filing date. The Federal Circuit held that the PTAB did not err in allowing a Merck to amend its identification of real-parties-in-interest without changing the accorded filing date. In doing so, the Court also made the ancillary holding that the appeal bar of § 314(d) is not jurisdictional. The Court found that it therefore did not need to decide whether the decision to institute despite the late-identified real-parties-in-interest was appealable because there was no reversible error in the decision either way.

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