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PTAB Strategies and Insights

Dear ,

The *PTAB Strategies and Insights* newsletter is designed to increase return on investment for all stakeholders looking at the entire patent life cycle in a global portfolio.

This month we tackle three important issues:

1. The heightened threshold for showing motivation to combine
2. An early obit for CBMs
3. The CAFCs use of collateral estoppel in claim construction of indirectly related patents

Our newsletter is designed to explore many issues. And we welcome feedback and suggestions to ensure we are meeting the needs and expectations of all our readers. So if you have issues you wish to see explored within an issue of the newsletter, please reach out to me.

To view our past issues, as well as other firm newsletters, please click here. For our next issue, we look forward to introducing our new logo and newsletter format!

Thank you.

Best regards,
Jason

Editor & Author:

Jason D. Eisenberg

In this issue

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Petitioners Face A Heightened 'Motivation To Combine' Threshold

By: Jason D. Eisenberg

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As noted in last month's article on POPR (Patent Owner Preliminary Response) declarations, the Board is using POPR declarations to deny institution for lack of motivation to combine 80% of the time a denial includes a POPR declaration. And over the last 3-6 months, this same reasoning, no proof of motivation to combine, has crept into more and more final written decisions. But what does the Board mean by "the Petitioner did not supply proof?"
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Looking forward about two years, you may flip through the New York Times obituaries section to find the following:

On September 16, 2020, covered business method (CBM) review, age 8, passed away. Born out of a desire to weed out unscrupulous business method patents, in its early years CBM review enjoyed significant use, allowing the Patent Office to revisit validity of financial-related patents. In its later years, it faced difficulties from uncertainties over its scope and over the consequences of statutory disclaimers. CBM review was proceeded in death by its parent *inter partes* reexamination, and is survived by its parent *ex parte* reexamination and its two siblings: *inter partes* review and post-grant review.
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[i] *Nestlé USA, Inc. v. Steuben Foods, Inc.*, No. 2017-1193 (Fed. Cir. Mar. 13, 2018)
[ii] *Nestlé USA, Inc. v. Steuben Foods, Inc*, 686 F. App'x 917 (Fed. Cir. 2017)

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Clearly, almost all petitions are filed with a supporting declaration of an expert. And almost all experts are found to be competent to testify in the claimed technology. And most experts supply testimony based on their education and experience how and why a person of ordinary skill in the art (POSA) would look to Ref B from Ref A and want to combine. What more is needed?

In the end, it appears that attorney argument supported by expert testimony is not going to be enough going forward for motivation to combine if it is not corroborated by secondary evidence. More is needed from petitioner. This complies with Board rules, i.e., 37 C.F.R. § 42.65, directed to what is required for the Board to provide weight to expert testimony. Namely "[e]xpert testimony that does not disclose the underlying facts or data on which the opinion is based is entitled to little or no weight." The rule has been sitting right there from the beginning, but most practitioners have given it little heed. Rather, we have seen time and again a near parroting of the attorney petition arguments into the declaration, or vice versa, without more.

In some technologies, simply explaining *how and why* a POSA would combine references was enough for the Board. It appears that is no longer the case. We are seeing a trend - from simple mechanical technologies to cutting edge, complex electrical technologies – in which the Board is not taking the petitioner's expert at their word. They want more. So what is more?

From our research of the decisions, "more" appears to be books, articles, other patents, etc. that actually demonstrate that other engineers or inventors have already thought to make the combination. These documents may not be easily authenticated or demonstrated to be prior art, but they are ripe for use as corroboration of an expert's testimony.

So, when these types of sources are used, how does the petitioner keep them from being treated as part of the ground so any difficulty in demonstrating the corroborating evidence is prior art does not affect institution? From our research, it appears the solution is to keep the evidence primarily in the declaration as corroboration of expert testimony. The petitioner can then provide appropriate references to the evidence in the petition.

Looking at the same trend from the Patent Owner's perspective, you need to understand this trend and how best to use it to gain non institution, or if you are already in trial, to receive a favorable final written decision. It would appear the Board is saying that any POPR or POR (Patent Owner Response) lacking attacks of this nature may not be providing the best defense available. And our March 2018 article attests to that. We have even seen a case where Ref A was obvious to combine with Ref B, but Ref B was not obvious to combined in Ref A. Exacting standards are being applied.

In the end, both sides of the "v" need to understand and take advantage of this trend to strengthen petitions and POPRs/PORs alike.

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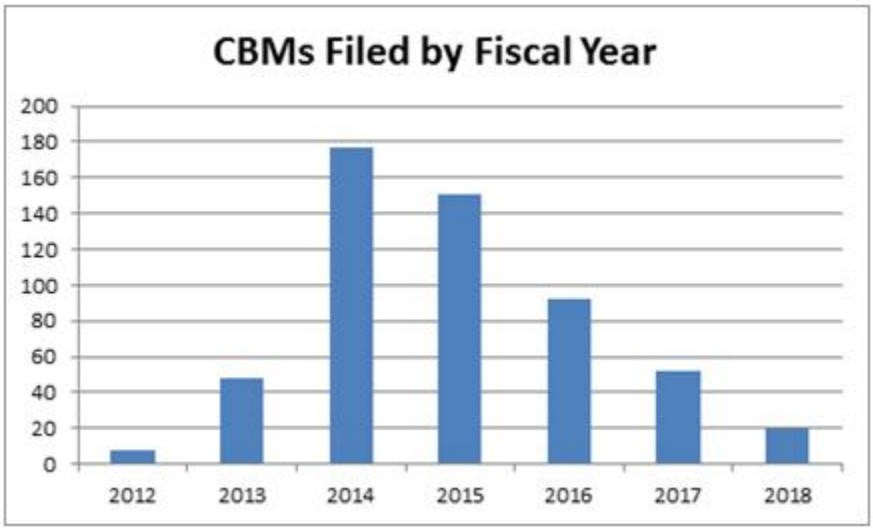
CBM review was fated to die young. Congress slated the procedure's expiration when it was established in the America Invents Act of 2011. Before the AIA, many perceived that the Patent Office had issued a large number of so-called business method patents that, in light of later Supreme Court decisions on statutory subject matter and obviousness, had dubious validity. Addressing this concern, Congress took the unprecedented step of singling out patents of a particular subject matter for a special transitional review process. This transitional review process, called CBM review, offers a wider scope of possible challenges for those patents and lower estoppels, along with more liberal timing requirements and heightened stay provisions.

Attracted by the special provisions for CBM, it was, for a while, popular among petitioners. If a patent was arguably financially related, CBM review made an attractive option for alleged infringers, particularly if time bars for IPR had already passed. In 2014, CBM's filings peaked at just shy of 180 per year. After the first few years, however, filings tapered off significantly.



So what happened? The decline can largely be attributed to how courts have answered two questions. First, what is a business method patent? The statute and implementing rule left vague the standard for determining whether a patent is eligible for CBM review. Relying on legislative history, the PTAB initially took a liberal view. The PTAB stated that CBM review would be "broadly interpreted and encompass[es] patents claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity."[i] The term "financial", the PTAB explained, "is an adjective that simply means relating to monetary matters."[ii] But, as cases worked their way to appellate courts, the Federal Circuit pushed back on this reading. For example, the Federal Circuit said, "The patent for a novel lightbulb that is found to work particularly well in bank vaults does not become a CBM patent because of its incidental or complementary use in banks."[iii] Even a patent's disclosure of financial features in its specification, the Federal Circuit explained, may not be enough to qualify it as a CBM patent.[iv] Now, the PTAB requires that a CBM patent have a much tighter relationship between any allegedly financial aspects and the patent claims. This has reduced the number of patents eligible for CBM review.

The universe of patents that can be challenged via CBMs shrinks again when one considers that almost none explicitly recite financial limitations in every claim. Clever patent owners, seeking to avoid CBM review, have tried to statutorily disclaim those financial claims. This raises a question: if a patent owner files a statutory disclaimer of its financial claims after a petition is filed, is the patent still a CBM patent? The PTAB takes the position that it is not and refuses to institute in that circumstance.[v] Essentially, if any of the asserted claims are nonfinancial, a patent owner can avoid institution using a statutory disclaimer of its financial claims and litigating infringement on its nonfinancial claims. This makes CBM much less attractive for alleged infringers.

Some commentators also argue that the drop off in CBM petitions is due to the fact that the lowest quality patents have already been invalidated, that potential petitioners are waiting to file until the sunset date gets closer, or that business method patent owners are more wary of asserting their patents in the first place. Regardless, CBM filings have slowed to a dribble. At its current rate, the PTAB will receive less than 30 petitions in fiscal year 2018. Unless this trend changes, CBM, it appears, will die quietly.

Or will it? Several weeks ago, the House Judiciary Committee's Subcommittee on Courts, Intellectual Property, and the Internet held a hearing to address this issue and to examine whether the CBM program should be made permanent, and possibly expanded. The hearing came on the heels of a GAO report assessing effectiveness of the CBM program. The GAO report found that "stakeholders agree that the CBM program has reduced litigation, and many see value of maintaining aspects of the program."[vi] The report also found that the "CBM program has decreased the value of business method patents" and "stakeholders generally agreed the CBM program has had positive effects on innovation and investment."[vii]

With emerging innovations in the financial area, particularly in the areas of mobile payments and blockchain, should CBM review be allowed to live at least through adolescence? Maybe. In the end, under this backdrop, policymakers are struggling to strike the right balance between incentivizing

innovation and maintaining patent quality, and to determine whether the CBM should live on or be allowed to perish.

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[i] *SAP America, Inc. v. Versata Development Group, Inc.*, CBM2012-00001, Paper 36, 21-22 (citing 77 Fed. Reg. 48734, 48735).
[ii] *Id.* at 23.
[iii] *Unwired Planet, LLC, v. Google Inc.*, 841 F.3d 1376, 1382 (Fed. Cir. 2016).
[iv] *Id.*
[v] *Facebook, Inc. and Instagram, LLC v. Skky, LLC*, Case CBM2016-00091 (PTAB Sept. 28, 2017) (Paper 12).
[vi] https://www.gao.gov/assets/700/690595.pdf, p. 34.
[vii] https://www.gao.gov/assets/700/690595.pdf, p. 36-37.

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Steuben Foods owns the '013 and '468 patents, which claim priority to the same provisional patent application, but are not directly related (e.g., as continuation, continuation-in-part, or divisional). The patents have some common disclosure, including 16 common figures. The '468 patent, however, includes significant additional disclosure, including 19 figures that are not in the '013 patent. Nevertheless, both patents define "aseptic," stating that "'aseptic' will refer to the FDA level of aseptic."

Nestlé filed petitions for *inter partes* review of the '013 and '468 patents in August 2014 and November 2014, respectively. The Board instituted two separate proceedings to review the patents. The construction of "aseptic" was at issue in both proceedings. The '013 patent proceeding advanced to final written decision first, with the Board issuing its decision in December 2015. In the '013 patent decision, the Board construed "aseptic" to mean "aseptic to any applicable United States FDA standard, and in the absence of any such standard, aseptic assumes its ordinary meaning of free or freed from pathogenic microorganisms," and found that Nestlé had failed to prove that the challenged claims (18-20) were unpatentable.

The Board issued the '468 patent final written decision in June 2016. In this decision, the Board accorded "aseptic" the same construction as it did in the proceeding involving the '013 patent. It held that Nestlé had shown that three of the four challenged claims were unpatentable, but failed to prove that the other challenged claim was unpatentable.

Nestlé appealed both Board decisions, advancing similar arguments in both appeals that the Board's construction of "aseptic" was incorrect. The Federal Circuit decided the '013 patent appeal first. In *Nestlé I*, the Federal Circuit vacated the Board's construction of "aseptic," finding that binding lexicography in the '013 patent's specification controlled the construction of this term, and thus remanded to the Board for further proceedings.[iii]

In *Nestlé II*, the Federal Circuit again vacated the Board's construction of "aseptic" and remanded to the Board for further proceedings.[iv] But instead of repeating the *Nestlé I* analysis, the Court

relied on collateral estoppel, ruling that Steuben Foods "had a full and fair opportunity to litigate the issue" (i.e., construction of "aseptic") in *Nestlé I*, and thus collateral estoppel attached to protect Nestlé and obviate the need to revisit the issue.[v]

Critically, despite the fact that the patents are only loosely related, the Federal Circuit in *Nestlé II* ruled that neither party "pointed to any material difference between the two patents or their prosecution histories that would give rise to claim construction issues in this appeal different from those raised in the prior appeal."[vi] And it emphasized that Federal Circuit "precedent makes clear that collateral estoppel is not limited to patent claims that are identical. Rather, it is the identity of the *issues* that were litigated that determines whether collateral estoppel should apply."[vii] So because the '468 patent provided the same definition of "aseptic" as the '013 patent, the Federal Circuit in *Nestlé II* could have simply applied the same rationale as *Nestlé I* and held that binding lexicography controls the construction of "aseptic" in the '468 patent. It did not, instead applying collateral estoppel to resolve the issue.

Both Patent Owner and Petitioner need to heed the Court's warning regarding indirectly related patents for three reasons. First, it serves as a reminder that collateral estoppel applies in administrative proceedings, such as *inter partes* reviews. Second, it sends a message to practitioners that the Federal Circuit is unwilling to revisit an issue that was, in a prior appeal, fully and fairly litigated by the party raising the issue, even when addressing indirectly related patents. Finally, this case reinforces that the same or similar terms in indirectly related patents (e.g., not related as continuation, continuation-in-part, or divisional) may still carry the same meaning. But the Court also provided guidance to rebut collateral estoppel in these situations: identify material differences between the patents or their prosecution histories that would warrant different constructions.

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[i] *Nestlé USA, Inc. v. Steuben Foods, Inc.*, No. 2017-1193 (Fed. Cir. Mar. 13, 2018).
[ii] *Nestlé USA, Inc. v. Steuben Foods, Inc*, 686 F. App'x 917 (Fed. Cir. 2017).
[iii] *Nestlé I*, slip op. at.
[iv] *Nestlé II*, slip op. at 4.
[v] *Id*., at 3-4.
[vi] *Id*., at 3.
[vii] *Id*., at 4 (internal citations omitted).

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