

The Post-AIA Battleground For Patent Challenges

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The implementation of the America Invents Act, which began on Sept. 16, 2012, ushered in a new age for patent law. The impact of the AIA has reverberated across all technological sectors and fundamentally changed the way the patent community approaches prosecution, licensing, enforcement and monetization. For example, the AIA created a new post-grant regime that has inexorably altered the patent landscape. Few predicted the full magnitude and reach of the AIA's impact.

Driven mostly by the proliferation of inter partes review proceedings, the new post-grant regime overwhelmed many it caught off-guard. Inter partes review replaced inter partes re-examination, but the similar-sounding names disguise the significant differences between the two proceedings. A reluctance of potential challengers to use inter partes re-examination was one impetus to the AIA. After inter partes re-examination was introduced in 2000, a scant 26 inter partes re-examination requests followed in the first four years. In contrast, less than four years after enactment of the AIA, more than 5,000 petitions have been filed.

The prevalence of post-grant proceedings has fundamentally disrupted the modus operandi of patent litigation. Because of the burden of proving invalidity in district court, patent cases were often won and lost on questions of infringement. Not so post-AIA. IPRs have become the new litigation defense norm. Validity of asserted patents is not just being fought in the district courts, but patentability is also fought at the U.S. Patent and Trademark Office, often before the issue is reached in the district court because of a stay of the court proceeding. The AIA post-grant regime was designed, at least in part, to make it easier to weed out "bad" patents asserted by "patent trolls," but the benefits of the new system extend to all petitioners — no matter the strength of the patent. Those benefits have attracted accused infringers and caused the PTO to become the new forum of choice for assessing the strength of a patent. But with the new forum comes new rules and uncertainty.

Patent owners have had to quickly adapt their enforcement strategy to the new terrain of this post-AIA battlefield. The statutory presumption of validity — once enjoyed by patent owners and abhorred by alleged infringers — does not apply to patents challenged before the PTO. The broader claim construction standard at the PTO opens the door to a wider gambit of potential prior art. Refusal by the PTO to recognize common-law equitable doctrines, such as assignor estoppel, allows



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inventors to challenge the patentability of their own inventions after they've been assigned to others. And, at least in the short term, the limited precedent to guide parties and the Patent Trial and Appeal Board through administrative procedure have infused the proceedings with a degree of unpredictability that often leaves both patent owners and petitioners anxious and uncertain.

Moreover, post-grant proceedings at the PTAB are not merely a "lightweight" version of a district court patent challenge. The PTAB judges are well versed in technology and are intimately familiar with the patent laws. Arguments and styles that may resonate with a district court judge or jury risk falling flat at the PTAB. And counsel that is not accustomed to the PTAB's intense, technically detailed interrogation of nuanced patentability issues may find itself flat-footed at oral argument. These differences between PTAB proceedings and district court, as well as the fast pace of the proceedings, have allowed AIA post-grant proceedings to quickly embody a high ground for anyone wanting to challenge a patent — with accused infringers often preferring to fight the patent battle at the PTO rather than in district court.

Feeling that they were at a tactical disadvantage, patent owners have advocated for leveling the playing field. For example, patent owners pointed out that the PTAB makes the decision to institute a post-grant proceeding without the benefit of any testimonial evidence by the patent owner. In response, the PTO promulgated new rules to allow submission of testimonial evidence from the patent owner before an institution decision. Some doubt, however, that this change will have much practical effect, because the PTAB resolves all questions of disputed fact in favor of the petitioner for the purposes of the institution decision of the PTAB trial.

Patent owners have also expressed concern that the PTAB has imposed too high of a standard for allowing claim amendments in post-grant proceedings. Indeed, the PTAB has granted only handful of motions to amend. But patent owners' concerns have not gone unnoticed. The PTO issued guidance in hopes of improving that statistic, though it is not yet clear that such guidance has meaningfully changed matters for patent owners. The Federal Circuit has also recently chimed in. In *Veritas Techs. LLC v. Veeam Software Corp.*, the Federal Circuit vacated a denial of a motion to amend, finding the PTAB's denial arbitrary and capricious. The Federal Circuit has also taken up the amendment issue for en banc rehearing in *In re Aqua Products*.

Patent owners also lament the procedural structure that permits petitioners the last word along with the ability to introduce new evidence. See *Genzyme Therapeutics v. Biomarin Pharma*. Some patent owners have also questioned whether the PTAB has applied an unreasonably high standard in assessing objective indicia of nonobviousness. In practically all cases, the PTAB has not found sufficient nexus to allow it to give any patentable weight to such objective indicia, whereas in the district court it would be fully assessed by the court. Many patent challengers, however, "bank on" the expectation that the PTAB will apply the patent laws more rigorously than will some district court judges.

Though the Federal Circuit has shown a recent trend of taking a closer look at PTAB final decisions, approximately 85 percent of appeals arising from AIA post-grant proceedings result in affirmance of the PTAB. This affirmance is often due to the substantial evidence standard applied to many patentability issues being reviewed by the Federal Circuit. In addition, the Federal Circuit has ruled that many aspects of AIA proceedings are not appealable — shutting the door to disputes regarding statutory bars, joinder and real-party-in-interest issues, etc. This lack of appellate oversight, and the limited precedent arising from the PTAB, has left a host of decisions to potential variability of the individual panel of patent judges in each proceeding. The recent Supreme Court decision in *Cuozzo*, however, may have cracked open the door to more reviewability. For example, the U.S. Supreme Court remanded a Federal Circuit case holding the statutory time bar unreviewable for reconsideration in light of *Cuozzo*. But for now the

Federal Circuit's affinity for affirmance and limited scope of reviewability has, in practical effect, left almost every jurisdictional or procedural decision to the sole discretion of the PTAB.

But not all things are bleak for patent owners. For example, institution rates have seen a decline during the lifespan of the post-grant proceedings, starting off at roughly 87 percent and leveling off over the past two quarters at about 65 percent. But some patent owners strongly dispute that the system is fair because they argue that such a high rate of claim cancellation does not square because the PTAB is usually now reviewing highly valuable and not "bad" patents. Moreover, in recent a Federal Circuit ruling, the court reversed the PTAB's holding that challenged claims were unpatentable and rejected the PTO's argument that the board can properly adopt an argument not made by petitioner. In *re* *Magnum Oil Tools Int'l Ltd.*, No. 2015-1300, 2016 WL 3974202, at *10 (Fed. Cir. July 25, 2016). Moreover, in *Magnum Oil*, the Federal Circuit rejected the PTAB's rubric of burden shifting, stating that the burdens of proof and persuasion always lie with the petitioner. While the pendulum has not swung fully in favor of patent owners, it arguably is moving closer to equilibrium.

Beyond any implications the AIA has had on the likelihood of mounting a successful enforcement action, the proceedings have changed perspectives on monetization. The high likelihood of a stay being granted in a parallel infringement action in the district court has lengthened litigation and increased costs. In contrast, the PTAB has consistently issued its final written decisions in the statutorily-mandated timeframe. But factoring in the appeal process, an instituted post-grant proceeding will likely add three years to the potential recovery of damages in a parallel litigation that has been stayed pending the outcome of the post-grant proceeding. The added delay to any return on investment has shifted the patent enforcement calculus for patent owners. Consequently, patent owners seeking quick relief are increasingly starting to enforce their rights outside the U.S. district courts. For example, by bringing an investigation before the U.S. International Trade Commission, patent owners can avoid some of the risk of a stay pending a post-grant proceeding because of the ITC's sheer speed. Alternatively, patent owners may find it advantageous first to assert claims in foreign jurisdictions, where IPRs don't exist. The changing perceptions of value surrounding patents have made licensing and settlement more difficult to achieve.

The AIA has had one particularly curious effect — the creation of anti-patent trolls. Though IPR petitions are commonly filed by accused infringers involved in litigation, IPRs are not just a shield against attacks from questionable patents. The AIA has seen the creation of business entities that seek to use IPRs as a sword, more directly seeking financial gain without a need for freedom to operate. Publicly, such challenges have drawn the scorn of both industry and the public, but others argue that they serve a useful function if they clear away weak patents. Regardless, despite the hopes of some stakeholders, there appears to be little chance of any imminent change in the law that would prevent such practices. Instead, for-profit enterprises that leverage post-grant proceedings as a part of a profit-generating strategy are simply part of the new, perhaps unforeseen, post-AIA landscape.

Going forward, patent owners and accused infringers alike must consider how to best navigate the post-AIA landscape and its ever-swinging pendulum. We are just starting to see the first patents survive the entire post-grant process. What portends these new battle-hardened patents? Will patents that survive the strictures of post-grant proceedings become "golden" patents? Will district courts fast-track cases that had been stayed for post-grant challenges? How will estoppels be treated by the courts? We have also started to see heavier involvement from the Federal Circuit and even the Supreme Court. Several judges and justices seem genuinely concerned about a propensity for "shenanigans" in post-grant proceedings. Guidance from appellate courts will continue to be important in creating a post-AIA regime under which businesses can operate with some degree of certainty. But all in all, the AIA has

fundamentally changed the patent landscape in the United States in just four short years.

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