

December 10, 2014

Post-Grant for Practitioners

Top 10 Issues from the PTAB Currently on Appeal



Karl Renner

John Dragseth

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Webinar Series

- I. Overview of Webinar Series
- II. Statistics
- III. Top 10 Issues for the Coming Wave of Federal Circuit Appeals from the PTAB
 - i. Can institution decisions be directly appealed?
 - ii. Can Institution Decisions be Challenged at All?
 - iii. What happens to redundant grounds at institution?
 - iv. Can the Board apply the BRI standard to Post-Grant Proceedings?
 - v. Will the Federal Circuit reverse any denials of motions to amend?
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 - vii. Can § 101 used to invalidate claims in a CBM Proceeding?
 - viii. What will the Federal Circuit do with appeals from litigation stays?
 - ix. Will mandamus be available for anything?
 - x. How does *Chenery* apply to alternative affirmance grounds?
 - xi. Make Sure You Avoid Waiver

Overview

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- Where? ... see invitation
- How often? ... monthly
- When? ... 2nd Wednesday
- Topics? ...
 - Important decisions
 - Developments
 - Practice tips
- Housekeeping
 - CLE
 - Questions
 - Materials
 - <http://fishpostgrant.com/webinars/>

The screenshot shows the website for Fish & Richardson's Post-Grant for Practitioners. The main heading is "Stays, Finality, and Estoppel – Timing a Post-Grant Attack to Maximize Litigation Benefit". Below this, there is a brief description of the topic, a "Register" button, and the date and time of the webinar: Wednesday, November 12, 2014, from 1:00 PM to 2:00 PM ET. The speakers listed are Dorothy Whelan, Neil Banner, and James Honick. At the bottom, there are social media icons for email, a clock, LinkedIn, and Twitter, each with a short description of the benefit.

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Stays, Finality, and Estoppel – Timing a Post-Grant Attack to Maximize Litigation Benefit

PTSD proceedings almost always involve concurrent litigation. The interplay between PTSD proceedings and district court litigation can be complex, and various strategic objectives can be achieved through a PTSD challenge. Join us as we discuss how timing of a PTSD proceeding impacts concurrent litigation.

[Backlog](#) now for the next program in our Post-Grant for Practitioners webinar series.

Wednesday, November 12, 2014
1:00 PM - 2:00 PM ET
Via the web

Speakers:

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Fish & Richardson will apply for 1.0 hour of general CLE credit in most states. If you would like to receive CLE credit, register with your state bar information.

If you have questions, please contact Emma Brown at ebrown@fishr.com.

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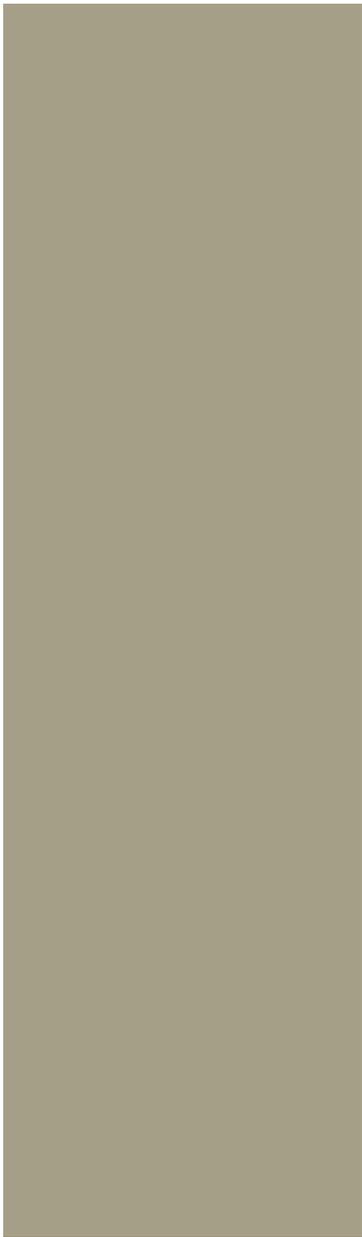
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Statistics



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Statistics (IPR)

- IPR's Filed?
 - **2144** filed through December 4, 2014
 - **102** filed in November 2014
 - Many more than the PTO expected. See General Administrative Trial Final Rules, 77 Fed. Reg. 48612, 48651 (Aug. 14, 2012) (estimating receipt of 470 and 510 AIA petitions in FY 2013 and 2014, respectively)
- Application of Threshold: Reasonable Likelihood of Success
 - IPR continues to be instituted in most petitions evaluated (76% in 2014 v. 87% in 2013)
 - In many cases, however, IPR was ordered on only a subset of the grounds requested

- CBM's Filed?
 - **262** filed through December 4, 2014
 - **13** filed in November 2014
- Application of Threshold: More Likely Than Not
 - CBM also instituted in vast majority of Petitions evaluated (72% for 2014 v. 82% for 2013)
 - Here too, CBM is often ordered on only a subset of petitioned grounds and/or claims

Statistics (Final Written Decisions)

- FWD's on the Merits Issued So Far
 - IPR: **130** through December 4, 2014
 - CBM: **13** through December 4, 2014
- Most have found all challenged claims unpatentable
- One motion to amend claims granted to date

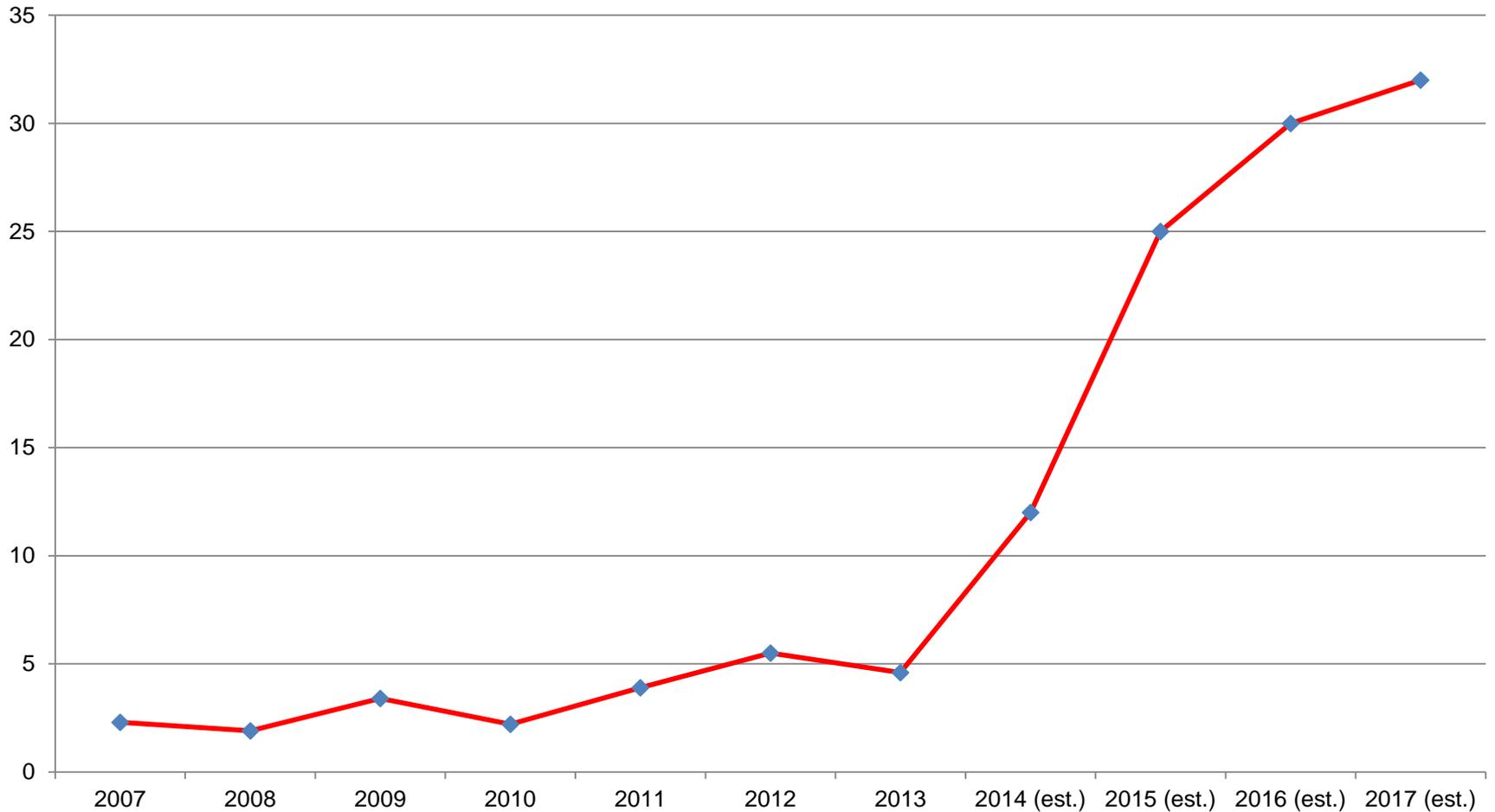
Stays (Statistics)

- Frequently updated listing of district court orders related to motions to stay is provided on our post-grant website, fishpostgrant.com/stays
- Webpage contains a tally of motions for stay granted and motions for stay denied, and provides the court orders
- Most motions for stay continue to be granted

What Does these Statistics Mean for the Federal Circuit?

- The Federal Circuit will see a flood of new appeals
 - FY 2013: the Federal Circuit had 1259 total appeals filed
 - 448 (36%) were district court patent infringement actions
 - 113 (9%) were PTO appeals
 - FY 2014: the Federal Circuit had 1491 total appeals filed
 - 566 (38%) were district court patent infringement appeals
 - 238 (16%) were PTO appeals
 - Over 1,000 post-grant proceedings will reach final written decision in the next year
- The chance of success on PTO appeals has been very low historically
 - Reversal rate has ranged from 8-14% over the past 5 years.
 - Most result in summary affirmances under Rule 36.

of PTO Appeals Argued per Month at Federal Circuit



What Issues Do This Wave of Appeals Raise?

1. Can institution decisions be directly appealed?
2. Can institution decisions be challenged at all?
3. What happens to redundant grounds at institution?
4. Can the Board apply the BRI standard in post-grant proceedings?
5. Will the Federal Circuit reverse any denials of motions to amend?
6. How do you define “CBM,” and can the Federal Circuit review it?
7. Can § 101 be used to invalidate claims in a CBM proceeding?
8. What will the Federal Circuit do with appeals from litigation stays?
9. Will mandamus be available for anything?
10. How does *Chenery* apply to alternative affirmance grounds?

Can institution decisions be
directly appealed?

Can Institution Decisions be Directly Appealed?

St. Jude v. Volcano, 749 F.3d 1373 (Craig)

- Institution denied under 35 U.S.C. § 315 because outside 1-yr window
- Fed Cir held that 35 U.S.C. § 314 prevents appeals from refusals to institute
- Reserved question of whether institution decision can be challenged after an IPR is instituted and completed
- See also *In re Dominion Dealer Solutions*; *In re Procter & Gamble Co.*

ZOLL Lifecor v. Philips (non-prec) (John x8)

- Institution denied under 35 U.S.C. § 312 and § 315
- ZOLL argues that its appeal is not under § 314, and § 314 is explicitly limited to appeals “under this section.”
- Fed Cir holds appeal indistinguishable from *St. Jude*
- Cert petition is pending

Can Institution Decisions be Challenged at All?

Can Institution Decisions be Challenged at All?

In re Cuozzo Speed Techs., Docket 2014-1301

- First IPR final written decision ever. Argued on November 3 to Judges Newman, Clevenger, and Dyk.
- Cuozzo (patentee) is mad that the IPR was instituted on grounds that differed from those requested by Garmin.
- Garmin (petitioner) argues that decision is “final and nonappealable” under Section 314
- Government agrees, and says only Constitution-violating decisions at institution can be challenged.

Versata v. Lee/SAP, Docket 2014-1145, -1194

- First CBM ever. Versata appeals from finished CBM and from APA lawsuit in E.D. Va.
- PTO extends its position that institution decisions are unreviewable.
- Judge Plager says: “You’ve just written off a couple centuries of law called *ultra vires*.”

What happens to redundant grounds at institution?

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Redundant Grounds (at institution)

- PTAB says (see Liberty Mutual, CBM-2012-00003) it need not institute on “redundant” grounds
- Cites to 35 U.S.C. § 326(a)(11) (stating that post-grant should be complete in a year) and § 326(b) (stating that Director should establish regulations that take into account efficiency and time limits)
- 37 CFR § 42.1 and § 42.20(c)

“Moot” Grounds (at final decision)

Can the Board apply the BRI
standard to Post-Grant
Proceedings?

Can the Board apply BRI to Post-Grant Proceedings?

- PTO says yes:
 - Broad rule-making authority under 35 U.S.C. §§ 2 & 316(a)(4)
 - BRI standard has long been used, and the reasons apply equally here
 - Patentee has ability to amend
 - No presumption of validity
 - Need to apply it to make AIA's provisions regarding combining various proceedings effective
- Patentees say no:
 - No ability to amend as a practical matter
 - Adjudicatory trials in IPR are different than examination proceedings
- Several pending appeals present this issue, including *Cuozzo*, *Versata*, and *Microsoft/Proxyconn*

Will the Federal Circuit reverse any denials of motions to amend?

PTO's Standards for Motions to Amend

- Motions to amend are permitted in limited circumstances under 35 U.S.C. § 316(d) and 37 C.F.R. § 41.121:
 - Any motion must cancel at least one claim and substitute reasonable number of substitute claims
 - Substitute claims cannot be broader or introduce new matter
 - Motion to amend must be filed with patent owner response
- Additional requirements laid out in *Idle Free Systems v. Bergstrom, Inc.*, IPR2012-00027, Paper 26 (June 11, 2013):
 - Patentee bears burden of showing the substitute claims are patentable
 - Motion must identify specific features in substitute claims and present sufficient “technical facts and reasons about those feature(s), including construction of new claim terms”
 - Patentee must analyze specific technical disclosure of closest prior art
 - Conclusory statements by counsel aren't sufficient—need an expert
 - Limited to a 15-page, double-spaced, 14 point font motion
- Only 1 motion to amend granted so far. *Int'l Flavors & Fragrances Inc.*, IPR2013-00124, Paper No. 12 (PTAB May 20, 2014).

Federal Circuit Review of Motions to Amend

- Standard of review is likely abuse of discretion
 - Section 316(a)(9) gives the PTO authority to regulate motions to amend, so its regulations will get substantial deference
- Some patentees who had motions to amend denied in early IPR proceedings are complaining that the PTO did not give them adequate notice of how stringent the standard would be
 - In *Microsoft Corp. v. Proxyconn, Inc.*, CAFC No. 14-1542, -1543, the patentee argues denials of motions to amend must be limited to the grounds in 37 C.F.R. § 41.121(b)(2), and that *Idle Free* goes too far
 - The PTO argues that the regulation is just exemplary, not exhaustive
- Other patentees may object to their inability to amend later in the proceedings if additional invalidity arguments surface after institution
- The *Versata* panel suggested that the PTO has broad discretion, given the short timeframe to complete post-grant proceedings.

How do you define “CBM,” and can the Federal Circuit review it?

Versata Will Substantially Impact CBM Appeals

- Appeal from the PTO's first CBM proceeding
- The patent (6,553,350) covers a method and apparatus for determining the appropriate product price to offer to a particular purchaser.
- The PTAB instituted on both 101 and 102 grounds, but the final written decision invalidated all claims on 101 only.
- Many issues were briefed including:
 - Can the Federal Circuit actually review if the patent is a CBM?
 - Is *Versata's* patent a "covered business method"?
 - Is 101 a permissible ground of rejection in a CBM proceeding?
- The appeal was argued on December 3, 2014 to Judges Newman, Plager, and Hughes.

Does the Federal Circuit Have Jurisdiction to Review Whether a Patent is a CBM?

- The PTO says it does not:
 - Decision to institute is “final and nonappealable.” 35 U.S.C. § 324(e).
 - Similar to *St. Jude*, this is a complete bar to attacking any aspect of the institution decision
 - At the final written decision stage, all that matters is whether the claims are patentable.
- Versata says that it does:
 - If the PTO is wrong on whether the patent is a CBM, the whole proceeding is *ultra vires*
 - Section 324(e) simply postpones the time for review to final written decision (i.e., prevents interlocutory appeals)
 - But note the asymmetry here: an unsuccessful petitioner cannot appeal a finding the patent was not a CBM, but a patentee can appeal a finding it is
- Comments at Oral Argument:
 - Judge Plager was concerned about being completely unable to review
 - Multiple Judges were concerned that Versata was asking them to revive what might otherwise be an invalid patent based on procedure

Is Versata's Patent a CBM?

- The PTO says yes:
 - The AIA defines “covered business method” as “a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.” AIA § 18(d)(1).
 - The AIA directs the PTO to issue regulations on the “technological inventions” exception. AIA § 18(d)(2).
 - PTO asks if “the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution.” 37 C.F.R. § 42.301(b).
 - Versata's patent is for operations used in “financial product or service” because it involves “monetary matters,” i.e., pricing.
 - Technology exception doesn't apply because skilled artisan could perform the claimed method with pen and paper, and organizing data into hierarchies was akin to creating organizational management charts.

Is Versata's Patent a CBM?

- Versata says no:
 - PTO's approach is too broad because everything in today's economy involves money.
 - The limitation of "financial product or service" must mean something narrower, namely "products or services from the financial sector— things involving banks, brokerages, holding companies, insurance firms, and their industry-specific products and services."
 - The technological exception applies because Versata's patent addressed the prior art problem of dealing with vast amounts data in a quick and efficient manner, and it claims a software solution.

What is at Stake Over CBM Definition?

- If the determination is reviewable, there is a chance the PTAB might invalidate the claims but have its decision vacated on appeal as *ultra vires* regardless of the merits.
- The CBM process has advantages over IPR:
 - More potential grounds to invalidate—can use 112 and (maybe) 101
 - Statutory process for seeking a stay pending CBM and a guaranteed right to appeal if stay is denied.
 - Narrower estoppel provision (precludes district court litigation of only grounds actually raised in the CBM)

Can § 101 used to invalidate
claims in a CBM Proceeding?

Can Section 101 Be a Ground for CBM?

- CBM statute permits review based on any ground in 35 U.S.C. §§ 282(b)(2) and (b)(3). See 35 U.S.C. § 321(a).
 - Section 282(b)(2) covers “invalidity of the patent or any claim in suit on any ground specified in part II as a condition of patentability.”
 - Section 282(b)(3) refers to sections 112 and 251.
- The issue is whether § 101 is a “condition of patentability.”
 - PTO says it must be—otherwise, it would not be a defense in infringement litigation.
 - Versata points out that only §§ 102 & 103 are titled “Conditions for Patentability,” not § 101.
 - Some prior cases suggest it is:
 - *Aristocrat Techs. Australia Ltd. v. Int’l Game Tech.*, 543 F.3d 657, 661 & n.3 (Fed. Cir. 2008); *Dealertrack, Inc. v. Huber*, 674 F.3d 1315, 1330 n.3 (Fed. Cir. 2012).
 - But others suggest it might not be:
 - *MySpace, Inc. v. GraphOn Corp.*, 672 F.3d 1250 (Fed. Cir. 2012) (Plager, J., joined by Newman, J.)

What will the Federal Circuit do with appeals from litigation stays?

AIA Provision for Stays Pending CBM Review

Section 18 of the AIA sets out a four-factor test for a stay and makes the district court's decision immediately appealable:

(b) REQUEST FOR STAY.—

(1) IN GENERAL.—If a party seeks a stay of a civil action alleging infringement of a patent under section 281 of title 35, United States Code, relating to a transitional proceeding for that patent, the court shall decide whether to enter a stay based on—

- (A) whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial;
- (B) whether discovery is complete and whether a trial date has been set;
- (C) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and
- (D) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.

(2) REVIEW.—A party may take an immediate interlocutory appeal from a district court's decision under paragraph (1). The United States Court of Appeals for the Federal Circuit shall review the district court's decision to ensure consistent application of established precedent, and such review may be de novo.

Federal Circuit Has Uniformly Favored Stays

All 3 decisions so far have held a stay is appropriate:

1. *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307 (Fed. Cir. 2014) (Newman (dissent), MOORE, Chen) (reversing Judge Gilstrap's denial of stay as an abuse of discretion)
2. *Benefit Funding Systems LLC v. Advance America Cash Advance Centers, Inc.*, 767 F.3d 1383 (Fed. Cir. 2014) (PROST, Lourie, Hughes) (affirming stay order by Judge Stark)
3. *Versata Software, Inc. v. Callidus Software, Inc.*, ___ F.3d ___, 2014 WL 6485022 (Fed. Cir. Nov. 20, 2014) (CHEN, Mayer, Linn) (reversing Judge Robinson's denial of stay and finding clear error on all four factors)

- Standard of review: no need to resolve because the stay denial was an abuse of discretion
- Enormous potential simplification/reduction in litigation burden
 - District court may not question PTAB's institution decision when assessing these factors. Must assume claims will more likely than not be invalidated.
 - CBM would review all claims of the sole patent
 - Patentee had moved to amend claims in CBM
 - Fact some prior art is not in CBM does not defeat simplification
- Case in early stages as of the time stay motion was filed
 - Court has discretion on whether to wait for PTAB to institute to consider stay motion, but cannot use intervening progress of litigation to deny stay later
- Little prejudice to patentee from a stay
 - Withholding of prior art from CBM proceeding might sometimes prejudice plaintiff, but, here defendant learned of it only after filing CBM
 - Direct competition can weigh against stay, but insufficient evidence here
 - Failure to seek preliminary injunction suggests no prejudice to patentee
- Note: CAFC issued a stay order pending appeal a month after district court denied it and once the PTAB had instituted CBM review

Versata Software v. Callidus Software

- Rejects categorical rule that CBM must challenge all asserted claims to simplify the issues, although challenging all claims is more persuasive
- CBM need not include all possible invalidity issues to warrant a stay
- Court must assess stage of the case as of the date the stay motion is filed, not when it is decided (which may be months later)
- No evidence of improper tactics
- Burden of litigation factor must be analyzed by looking forward not backward—and, here, future resources would be saved by a stay

Benefit Funding v. Advance America

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- Standard of review: Acknowledges it might either be *de novo* or abuse of discretion but does not resolve which applies
- Sole issue was whether the order was improper because the PTAB is allegedly not authorized to conduct CBM review on section 101 grounds
 - *Versata* may decide the merits of that issue
- Federal Circuit rejected this argument as an improper collateral attack on the PTAB's decision to institute

Will mandamus be available for anything?

Will mandamus be available for anything?

Mandamus is rare for the Federal Circuit

- Court typically follows the rule that, if an issue can be addressed later on appeal, then no mandamus
- So privilege has been the only mandamus issue at the court
- But it broke from that for venue decisions because there was a perception that the system was broken and because venue decisions are not easily challenged at the end of a case
- So....what issue might fit that mold?

No Mandamus Petitions Granted So Far

- Mandamus not available to challenge institution decisions
 - *In re Dominion Dealer Solutions, LLC*, No. 14-109 (mandamus not available to challenge denial of IPR given *St. Jude*)
 - *In re P&G Co.*, No. 14-121 (mandamus not available to challenge grant of IPR either)
 - *In re Board of Trustees of Univ. of Illinois*, No. 14-122 (same)
 - *In re Versata Development Group*, No. 14-131 (no mandamus to challenge institution of CBM proceeding)
- Mandamus not available to review procedural rulings that can be challenged with the final written description
 - *In re Redline Detection*, No. 14-102 (denying review of PTAB's refusal to admit supplemental expert declaration)
 - *In re Telefonaktiebolaget*, Nos. 14-127, -128, -129 (denying review of PTAB's refusal to grant additional discovery on a privity issue without prejudice to possibly considering after final written decision)

How does *Chenery* apply to alternative affirmance grounds?

Chenery Sometimes Restricts a Reviewing Court to the Agency's Stated Grounds of Decision

“[A] reviewing court, in dealing with a determination or judgment which an administrative agency alone is authorized to make, must judge the propriety of such action solely by the grounds invoked by the agency.”

SEC v. Chenery Corp., 332 U.S. 194, 196 (1947).

“The Board's judgment must be reviewed on the grounds upon which the Board actually relied. Alternative grounds supporting the Board's decision generally are not considered.”

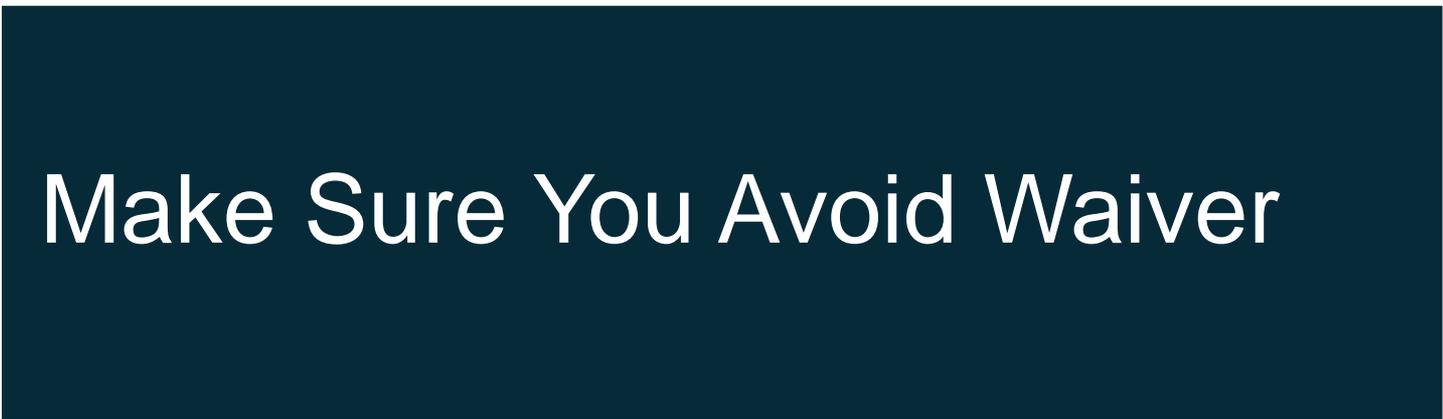
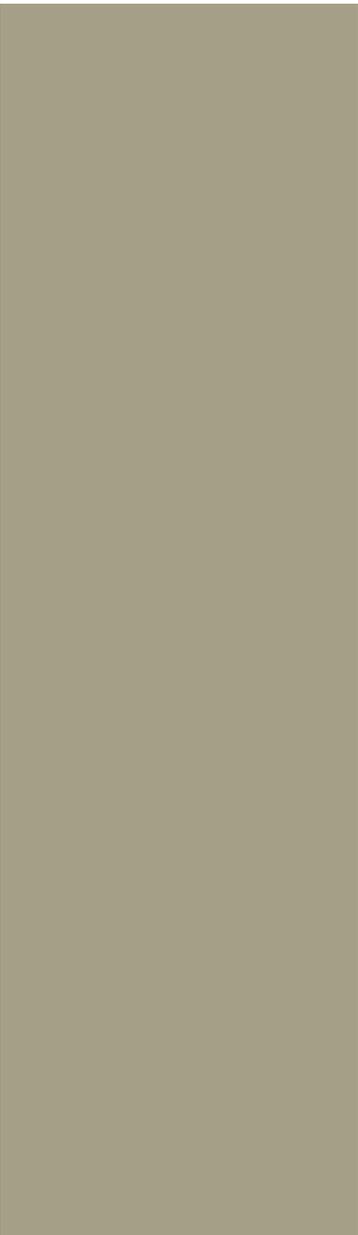
In re Applied Materials, Inc., 692 F.3d 1289, 1294 (Fed. Cir. 2012).

“We may, however, where appropriate, affirm the agency on grounds other than those relied upon in rendering its decision, when upholding the agency's decision does not depend upon making a determination of fact not previously made by the agency.”

In re Comiskey, 554 F.3d 967, 974 (Fed. Cir. 2009).

Chenery Will Apply Equally to Post-Grant Appeals

- The strictness with which *Chenery* is applied will be panel dependent
- The Federal Circuit is more likely to consider alternative bases for affirmance when they present pure legal issues and do not require fact-finding
- It will be difficult to obtain affirmance on an alternate ground that requires new fact-finding (*e.g.*, a different combination of references)
- Rule 36 summary affirmances permit the Court to *sub silentio* affirm on a basis that is not exactly the same as the PTAB's decision.



Make Sure You Avoid Waiver

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Make Sure You Avoid Waiver

- Repeat arguments at every stage
- What about *sua sponte* recognition of evidence by PTAB?
- Make unique legal arguments quickly and cleanly even if PTAB will surely reject them
- Will the Fed Cir find waiver if you don't ask for reconsideration?

- In Fish & Richardson’s initial 7-part webinar series titled “Challenging Patent Validity in the USPTO,” we explored details regarding several of the post grant tools, with 3 sessions dedicated to Inter Partes Review (IPR), and a final session walking through several hypotheticals, to help listeners understand how these apply to common situations.
- Audio and slides for these webinars are posted online at:
<http://fishpostgrant.com/webinars/>
- If you listen to these webinars, you will be well positioned to engage in a conversation over whether and when to use those tools and how to defend against them.

- F&R web sites:
 - Post-Grant for Practitioners: <http://fishpostgrant.com/webinars/>
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 - IPR: <http://fishpostgrant.com/inter-partes-review/>
 - PGR: <http://fishpostgrant.com/post-grant-review/>
 - Rules governing post-grant: <http://fishpostgrant.com/>
 - Post-Grant App: <http://fishpostgrant.com/app/>
- USPTO sites:
 - AIA Main: http://www.uspto.gov/aia_implementation/index.jsp
 - Inter Partes: http://www.uspto.gov/aia_implementation/bpai.jsp

Thank You!

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