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THE NEW PATENT-CHALLENGE PROCEDURES AT THE PATENT TRIAL AND APPEAL BOARD

*By Adam Kelly**

Patent controversies are no longer solely the province of technology companies and patent trolls. Many businesses, big and small alike, have recognized the tremendous value that patents deliver and have incorporated patent registration and enforcement into their revenue-generating strategies. While disputes between patent owners and challengers historically have been resolved in federal court, that framework has shifted in recent years with the passage of the Leahy-Smith America Invents Act (AIA). Among other changes to the patent system, the AIA allowed the establishment of alternative mechanisms within the U.S. Patent and Trademark Office to resolve patent validity disputes. Those PTO mechanisms have increasingly become the battleground for contesting patent validity challenges as more parties shift their disputes away from federal court.

Signed into law by President Barack Obama in September 2011, the AIA was intended to amend and reform federal patent law to bolster innovation, reduce inefficient litigation in the courts and harmonize American patent law with international laws. (For background and legislative history of AIA, along with the text of the bill (Public Law 112-29), see USPTO resources available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/resources>.) In addition to establishing a “first inventor to file system,” the AIA empowered the PTO to establish mechanisms for resolving patentability disputes through a newly created Patent Trial and Appeal Board. The PTAB — now comprised of more than 200 administrative patent judges — came into effect in September 2012 and immediately began to review petitions challenging patent validity. The board’s work encompasses four separate classes of proceedings, which differ in procedural respects — including when a challenge may be brought and what arguments may be advanced — and subject matter.

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First, the AIA provides for Inter Partes Review (essentially, a reincarnated version of the pre-AIA inter partes re-examination procedure), which has emerged as the hottest means for challenging patent validity. Under the amended IPR procedure, at any time between patent issuance and expiration, a challenger may base an attack on existing publications or issued patents (otherwise known as “prior art”). 35 U.S.C. § 312. The second proceeding is Post-Grant Review. PGR offers a new way to challenge patent validity, but it is only available for patents issued under the AIA’s first-inventor-to-file system. And the challenger must seek review within nine months of the patent’s issuance. 35 U.S.C. § 321.

The AIA also created a transitional program to review “covered business method” patents -- the so-called CBM review. These patents “claim[] 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,” but are not for “technological” inventions. AIA § 18, (d)(1). The patentability of “business methods” is currently uneasily following the U.S. Supreme Court’s (post-AIA enactment) decision in *Alice Corp. v. CLS Bank Int’l.*, 134 S. Ct. 2347 (2014). In *Alice*, a unanimous Court held that patents for a computer-implemented, electronic escrow service for facilitating financial transactions were invalid, reasoning that the claims were drawn to an abstract idea. Using a computer to implement that abstract idea was not enough to transform the invention into something patentable. CBM review creates a dedicated space for contesting the types of patents such as those in *Alice*, which normally relate to software and other automated processes operating within the financial services sector. But it also includes restrictions on a petitioner’s qualifications and, as an expressly transitional program, it comes with a sunset clause specifying a 2020 self-repeal date. See AIA § 18(a)(1)(B), (a)(3). Finally, the AIA



provides for a fourth class of proceeding, not specific to any type of patent, called “Supplemental Examination,” which creates another forum for patentees to correct deficiencies in their patent(s). 35 U.S.C. § 257.

These PTAB proceedings contemplate two stages of examination: a petition stage and a trial stage. The different PTAB proceedings require different standards to progress from petition to trial. For example, for an IPR proceeding, there must be a “showing that there is a reasonable likelihood that a petitioner would prevail with respect to at least one of the claims challenged.” 35 U.S.C. § 314. Based on recent available statistics, more than 2,200 IPR petitions had been filed as of November 30, 2015, with just under half (49 percent) of those petitions instituted at the trial stage. See Patent Trial and Appeal Board Statistics (November 30, 2015), p. 9, available at <http://www.uspto.gov/sites/default/files/documents/2015-11-30%20PTAB.pdf> (accessed on March 24, 2016).

By contrast, challengers seeking PGR and CBM proceedings must demonstrate “it is more likely than not that at least one of the claims challenged in the petition is unpatentable or [makes] a showing that the petition raises a novel or unsettled legal question that is

important to other patents or patent applications.” 35 U.S.C. § 324. Similar to IPRs, CBM petitions currently enjoy about a 49 percent chance of advancing to the trial stage. See PTAB Statistics, p. 10. Due to the small number of patents issued under the first-inventor-to-file system, no PGR petitions have been instituted yet. See *id.*, p. 11. Notably, the PTAB’s decision whether to institute proceedings is not appealable — although that same issue has been accepted by the U.S. Supreme Court for review this term. In *Cuozzo Speed Technologies, LLC v. Lee*, No. 15-446, the Court will hear arguments on 1) whether the court of appeals erred in holding that, in an IPR proceeding, the PTAB may construe claims in an issued patent according to their broadest reasonable interpretation rather than their plain and ordinary meaning; and 2) whether the court of appeals erred in holding that, even if the board exceeds its statutory authority in instituting an IPR proceeding, the board’s decision whether to institute an IPR proceeding is judicially unreviewable.



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Once the PTAB institutes a review proceeding, an IPR, PGR or CBM will proceed at the trial stage in an adversarial fashion presided over by a three-judge panel. Panels exert a heavy hand in directing the parties' conduct; the AIA promotes efficiency and requires that the PTAB wrap up proceedings within 12 months from their inception date, although a six-month extension for good cause is available. 35 U.S.C. §§ 316 and 326.

The PTAB has issued rules to streamline procedures and parties' conduct, including setting page limits to the parties' briefs, restricting the number of expert witness declarations or live testimonies, and limiting motion practice. The PTAB's judges tend to be active in the proceedings and receptive to parties' efforts to keep cases moving, such as by conducting telephone conferences on short notice.

Substantively, petitioners in these proceedings bear the burden of proving unpatentability only by a preponderance of the evidence — a *lower* standard than the clear and convincing evidence standard required before a district court. 35 U.S.C. § 316. Another key difference is that the standard applied to patent claims before the PTAB is the “broadest reasonable interpretation,” not the “plain and ordinary meaning” standard employed before a district court. 37 C.F.R. § 42.100(b). (This issue is also on appeal to the U.S. Supreme Court in *Cuozzo*.) These standards result in about 70 percent of all instituted claims being found unpatentable in IPR trials reaching final written decisions, and about 81 percent in CBM trials reaching final written decisions. *See* PTAB Statistics, p. 9, 10. As for supplemental examination, if the PTAB determines that the patentee has raised a “substantial new question of patentability,” the board will institute an ex parte re-examination, a pre-existing procedure from before the enactment of the AIA.

Whether you're a patent owner or a challenger, these new proceedings should be part of your overall IP planning and strategy. For example, if your business is accused of infringing a

patent issued before March 16, 2013, the date of the first-inventor-to-file system according to the AIA, an IPR or a CBM could be part of your arsenal, depending on the nature of the patent. In these proceedings, both the burden of proof and the claim construction threshold for patent invalidity is lower (at least for now, until the Court says otherwise later this term). On the other hand, if you find yourself defending your patent in an IPR, you may launch an ex parte re-examination proceeding to enjoy somewhat more relaxed rules to amend your patent if needed. Whatever the procedural posture, consider the financial and strategic costs. These proceedings come with front-loaded costs — in particular, significant USPTO fees and associated attorney fees. But those costs are still generally lower than those you would incur in the district court. Other strategic “costs” may include whether the estoppel effects created by these proceedings may result in strategic disadvantages in later USPTO, district court or ITC actions. *See also* 35 U.S.C. § 315 for IPR, 35 U.S.C. § 325(e) for PGR and AIA § 18(a)(1)(A) for CBM.

Between September 2012 and November 2015, the PTAB received a combined 4,232 petitions for IPR, PGR and CBM review — and the proliferation of cases shows no indication of declining anytime soon. *See also* USPTO AIA Trial Statistics, FY2016 (November 2015), p. 2, available at <http://www.uspto.gov/sites/default/files/documents/2015-11-30%20PTAB.pdf> (accessed on January 5, 2016). As with any new proceeding and new administrative board, questions as to legality and rule-making authority of the PTAB are bound to occur. Once the dust settles, the PTAB will retain authority over these proceedings and the signals indicate that the PTAB could become another mainstream patent dispute forum. For an increasing number of businesses, across a range of industries, being well-versed in PTAB proceedings could be critical to ensuring the most robust and cost-efficient strategy for protecting your patents — or for effectively busting others' patents.