

# Federal Circuit Review of IPR and CBM Proceedings

Howard T. Markey IP Inn of Court

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# FEDERAL CIRCUIT REVIEW OF IPRS/CBMS

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## Timeline

- September 2012: First IPR/CBM petitions filed
- April 2014: First Federal Circuit precedential IPR/CBM decisions (mandamus/interlocutory appeal)
- February 2015: First Federal Circuit precedential decision reviewing final written decision (*Cuozzo*)

## Overall Results

- Most decisions are non-precedential and/or Rule 36 summary affirmances.
- ~80% complete affirmance rate / ~10% partial affirmance
- 42 precedential CAFC decisions.

# ISSUES ADDRESSED IN PRECEDENTIAL DECISIONS REVIEWING PTAB ACTION

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- Scope of Federal Circuit's authority to review IPR decisions
- Scope of Estoppel
- Broadest reasonable interpretation standard
- Motions to amend
- Definition of "covered business method"
- Constitutionality of IPRs
- PTO's rulemaking authority over IPRs
- Late submission of evidence during IPR proceedings



# OTHER MAJOR ISSUES ADDRESSED BY PRECEDENTIAL DECISIONS OF IPR/CBM APPEALS

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- Survey of Section 101 law
- Proof required for 102(e)
- Sufficiency of argument/evidence required to show obviousness
- Secondary considerations
- Public accessibility of prior art

# SCOPE OF FEDERAL CIRCUIT REVIEW

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## 35 U.S.C. § 319

- Provides Federal Circuit with jurisdiction to hear IPR appeals.
- Similar statutes exist for CBMs and PGRs.

## Administrative Procedure Act (“APA”)

- Basic law governing judicial review of administrative actions.
- Applies to judicial review of final written decisions.
- Presently does not apply to institution decisions due to *Cuozzo* and related cases.

# (NON-)REVIEWABILITY OF ISSUES DECIDED IN INSTITUTION DECISIONS

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## Institution Decisions are not appealable

(a)Threshold.— The Director may not authorize an inter partes review to be instituted unless **the Director determines** that the information presented in the petition filed under section 311 and any response filed under section 313 shows that there is a **reasonable likelihood that the petitioner would prevail** with respect to at least 1 of the claims challenged in the petition.

...

(d)No Appeal.— The determination by the Director **whether to institute** an inter partes review under this section **shall be final and nonappealable**.

35 U.S.C. § 314(d)

# APA STANDARDS OF REVIEW

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PTAB grounds for reversal:

- “arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law”
- “in excess of statutory jurisdiction, authority, or limitations”
- “without observance of procedure required by law”
- “unsupported by substantial evidence”

5 U.S.C. § 706.

# FEDERAL CIRCUIT APPLICATION OF THE APA JUDICIAL REVIEW STANDARDS

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“We review de novo the ultimate determination of obviousness and compliance with legal standards, and we review underlying factual findings for substantial evidence.”

*Veritas Tech’s LLC v. Veeam Software Corp.* \_\_\_ F.3d \_\_\_ (August 30, 2016)



# WHAT DOES SUBSTANTIAL EVIDENCE MEAN TO THE FEDERAL CIRCUIT?

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“Substantial evidence ‘means such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.’ *Consol. Edison Co. v. NLRB*, 305 U.S. 197, 229 (1938)

*In re: Magnum Oil Tools Int’l, Ltd.*, \_\_\_ F.3d \_\_\_ (Fed. Cir., July 25, 2016).

“Substantial evidence is something less than the weight of the evidence but more than a mere scintilla of evidence.”

*In re: Warsaw Orthopedic, Inc.*, \_\_\_ F.3d \_\_\_ (Fed. Cir., August 9, 2016) (indirectly quoting *Consolidated Edison*).

# FEDERAL CIRCUIT REVIEW OF PTAB IS HIGHLY DEFERENTIAL

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“We may affirm an agency ruling if we may reasonably discern that it followed a proper path, even if that path is less than perfectly clear.”

*Ariosa Diagnostics v. Verinata Health, Inc.*, 805 F.3d 1359, 1365 (Fed. Cir. 2015)

“[T]his court ‘sit[s] to review judgments, not opinions.’ . . . And while the Board conflated two different legal concepts . . . it nevertheless made sufficient factual findings to support its judgment that the claims at issue are not invalid.”

*Intelligent Bio-Systems v. Illumina Cambridge*, 821 F.3d 1359, 1367 (Fed. Cir. 2016)

# PTAB'S CLAIMS TO ADDITIONAL DISCRETION ARE SUBJECT TO SCRUTINY

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*In re Magnum*, \_\_\_ F.3d \_\_\_ (Fed. Cir. 2016)

- “[W]e find no support for the PTO’s position that the Board is free to adopt arguments on behalf of petitioners that could have been, but were not, raised by the petitioner during an IPR. Instead, the Board must base its decision on arguments that were advanced by a party, and to which the opposing party was given a chance to respond.”

# PTAB'S CLAIMS TO ADDITIONAL DISCRETION ARE SUBJECT TO SCRUTINY

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*Ethicon Endo-Surgery, Inc. v. Covidien LP* (Newman, J., dissenting from denial of en banc review)

- The current practice of assigning the same PTAB panel to both institute and conduct an *inter partes* review is not only contrary to the statute, **but has the taint of prejudice**. Many commentators, including the amici curiae in this case, point to the PTO's own statistics as evidence of prejudice, calling the merits phase "a largely rubber-stamp proceeding." 3M, *et al.* Br. at 3. **Whatever the merit of these criticisms, the numbers do not bode confidence.**

# PTAB'S CLAIMS TO ADDITIONAL DISCRETION ARE SUBJECT TO SCRUTINY

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*Shaw Industries v. Automated Creel Systems, Inc.*, \_\_\_ F.3d \_\_\_ (Fed. Cir. 2016) (Reyna, J., concurring).

- **“The PTO’s claim to unchecked discretionary authority is unprecedented.** It bases this claim on the statute that makes institution or denial of *inter partes* review “final and nonappealable.” See 35 U.S.C. § 314(a), (d). Regardless of appealability, administrative discretion is not and never can be “complete” because it is always bounded by the requirement that an agency act within the law and not violate constitutional safeguards.”

# CONSTITUTIONAL ISSUES

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- IPRs do not violate Article III of the constitution or the 7<sup>th</sup> amendment right to jury trial.
  - *MCM Portfolio LLC v. HP Co.*, 812 F.3d 1284 (Fed. Cir. 2015) (Cert denied.)
  - Issue still pending at USSC (*Cooper v. Square*).
- The use of the same panel for institution and final decisions does not violate due process.
  - *Ethicon Endo-Surgery, Inc. v. Covidien, Inc.*, 796 F.3d 1312 (2015) (cert pending on whether use of same panel violates the IPR statutory mandates).

# IPR/CBM ESTOPPEL

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# SCOPE OF IPR ESTOPPEL

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35 U.S. Code § 315(e)

- “The petitioner in an inter partes review of a claim in a patent under this chapter that results in a final written decision under section 318(a) . . . may not assert . . . that the claim is invalid on any ground that the petitioner **raised or reasonably could have raised** during that inter partes review.”
- Also applies to real-party-in-interest and privies





# SCOPE OF IPR ESTOPPEL

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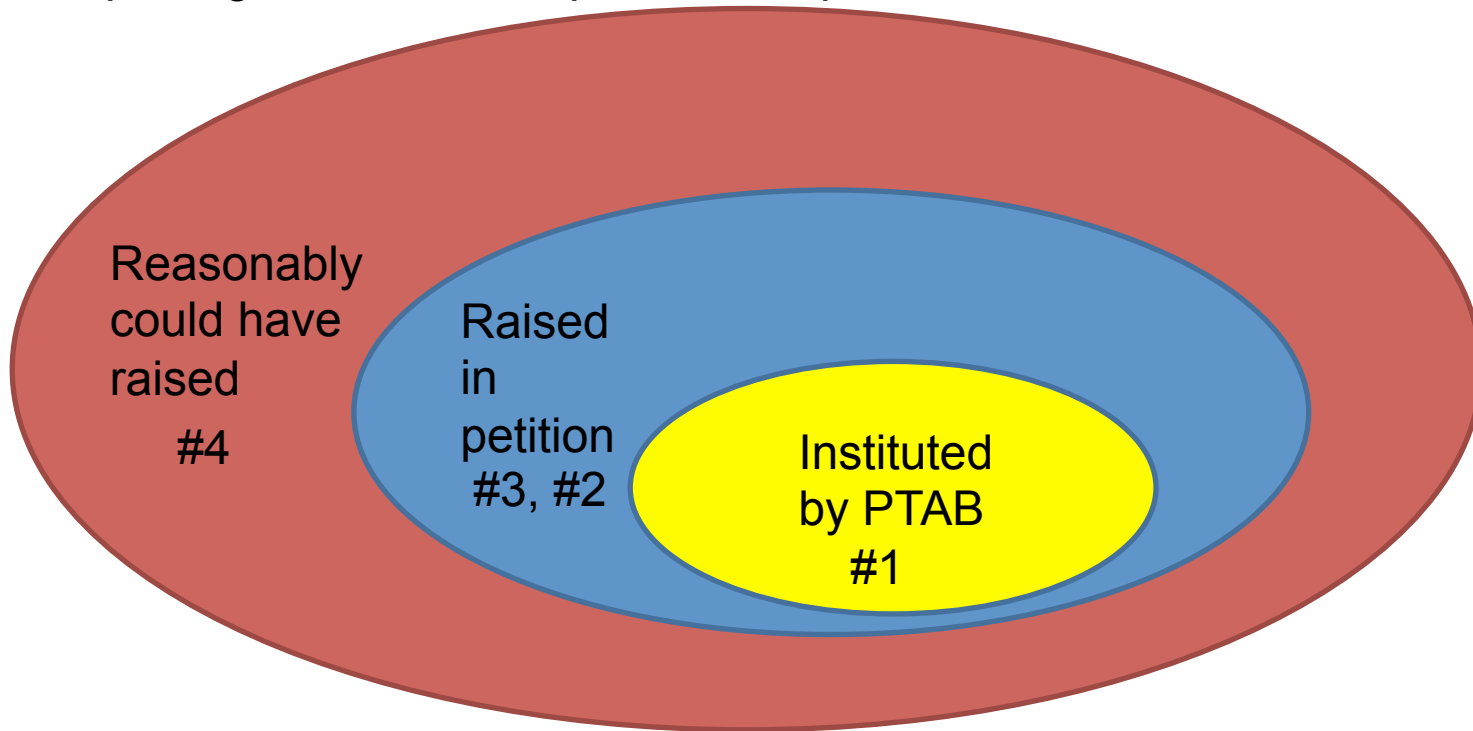
*Shaw Industries v. Automated Creel Systems, Inc.*, 817 F.3d 1293 (Fed. Cir. Mar. 23, 2016).

- Grounds not instituted by the PTAB on the basis of redundancy will not be subject to estoppel in later proceedings
- “[T]he IPR does not begin until it is instituted. ... Thus, Shaw did not raise — nor could it have reasonably raised — the Payne-based ground *during* the IPR.”



# SCOPE OF IPR ESTOPPEL

- Interpreting *Shaw*: a fact-specific exception?



Hypo:

Assume that you could have raised prior art references #1-4, but only raised #1-3 in the petition. The PTAB denied #3 on the merits, denied #2 as redundant, and instituted IPR on #1. Then the PTAB issued a final decision rejecting #1. Which reference(s) can you use at the district court?

# SCOPE OF IPR ESTOPPEL

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*Rembrandt Social Media v. Facebook, Inc.*, 640 Fed.Appx. 943 (Fed. Cir. Feb. 25, 2016).

- **Jury verdict of invalidity on Reference #1 while IPR pending**
- **While verdict was on appeal, FWD issued confirming validity over Reference #2 and #3**
- **Rembrandt** (patent holder): Estoppel prevents Facebook from maintaining invalidity position on appeal because there has been a FWD on Facebook’s IPR and Reference #1 “reasonably could have been raised” therein.
- **Facebook** (accused infringer): § 315(e)(2) only applies at the district court or ITC level; on appeal the only issue is whether the jury’s verdict is supported by substantial evidence.
  
- **WHO SHOULD WIN?**

# SCOPE OF IPR ESTOPPEL

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Many more issues including...

- If you use a datasheet in IPR, are you subsequently estopped from using the actual product (subject of datasheet) as prior art in district court?
  - *Star Envirotech, Inc. v. Redline Detection, LLC*, No. SACV 12-1861-JGB (DFMx), 2015 WL 4744394 (C.D. Cal. Jan. 29, 2015)
  - *Clearlamp, LLC v. LKQ Corp.*, Case No. 12 C 2533 (N.D. Ill. Mar. 18, 2016)
- Who else, beyond the petitioner, is bound by the estoppel (e.g., what are the contours of privity and RPII)?
- Estoppel as against patent applicant/owner. 37 C.F.R. § 42.73(d)(1).

“A patent applicant or owner is precluded from taking action inconsistent with the adverse judgment, including obtaining in any patent: (i) A claim that is not patentably distinct from a finally refused or canceled claim....”

# MOTIONS TO AMEND

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# Amendment of the Patent in IPR

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## **35 U.S.C. § 316(d)**

- Patent owner may file 1 motion to amend the patent by:
  - (A) Canceling any challenged patent claim; and/or
  - (B) For each challenged claim, propose a reasonable number of substitute claims

## **Reasons for Denial:**

- **37 U.S.C. § 42.121 – form and procedure**
  - Not responsive to ground of unpatentability involved in trial
  - Format – include claim listing and show changes clearly
  - Amendment enlarges patent’s claim scope or introduces new matter
  - Lack of support in the original or earlier-filed disclosure of the patent for each claim that is added or amended
- **37 U.S.C § 42.20(c)**
  - Failure of moving party to meet the “burden of proof to establish that it is entitled to the requested relief.”

# Amending Claims in IPR Proceedings

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- Motion to amend **timely** filed after conferring with the Board
- **Claim Scope:** no broadening & no new matter
- **Written Description Support:** support in original disclosure and/or priority application(s)
- **Contingency of Substitution:** claim-by-claim basis
- **Claim Interpretation of New Claim Terms:** Identify added feature and specify the technical facts and reasoning about those feature(s) to show it's patentable over the prior art (of and not of record but known to PO)
- **Establishing Patentability\*\*\***

*Idle Free Sys. v. Bergstrom*, IPR 2012-00027  
*Int'l Flavors & Fragrances v. U.S.A.*, IPR 2013-00124

# Amending Claims in IPR Proceedings

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- **Establishing Patentability:**
  - For each added feature, set forth specific evidence re: basic knowledge and skill of a person of ordinary skill in the art
  - Discuss the state of the art, pre-existing knowledge and prior art
    - Discuss whether the added feature was known in combination with the other elements
  - Distinguish over prior art of record and prior art known to the patent owner
    - Technical expert declaration or testimony
    - Journal articles
  - Identify the closest prior art and distinguish

*Idle Free Sys. v. Bergstrom*, IPR 2012-00027  
*Int'l Flavors & Fragrances v. U.S.A.*, IPR 2013-00124

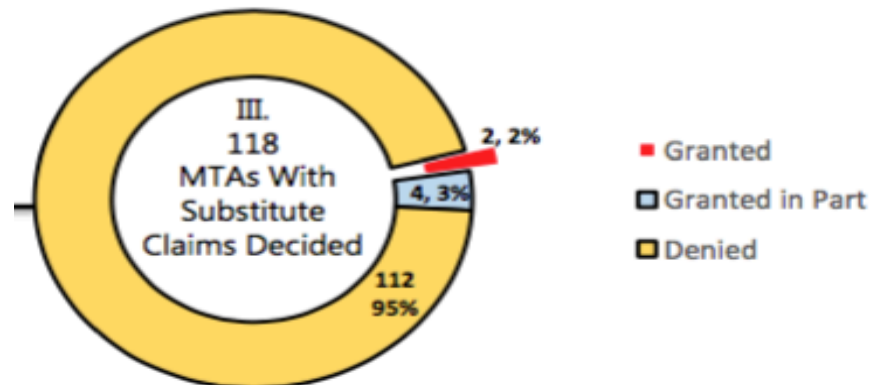


# PTAB – MOTION TO AMEND STUDY

As of April 30, 2016:

- Board instituted and completed 1539 trials out of 4850 petitions filed
- Patent Owners filed motion to amend in 192 of the 1539 completed trials (12%); 34 MTAs in 743 pending trials (5%)
  - 118 of the 192 completed trials (61.46%) decided a MTA requesting to substitute claims

How Many Motions to Amend Substituting Claims Are Granted?



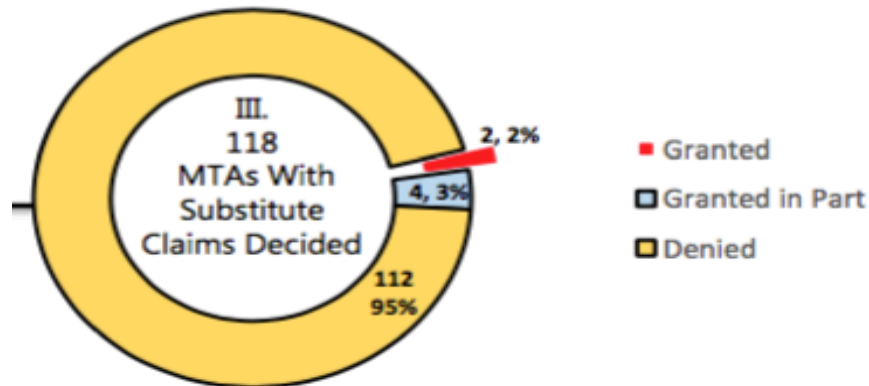
<https://www.uspto.gov/sites/default/files/documents/2016-04-30%20PTAB%20MTA%20study.pdf>

## AUDIENCE QUESTION

Does the high denial rate indicate that there is a problem in the mechanism for amendment?

Does the high denial rate simply reflect the unpatentability of the underlying patents?

How Many Motions to Amend Substituting Claims Are Granted?



**95% - Denied**

3% - Granted in Part

2% - Granted

# FEDERAL CIRCUIT REVIEW

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**The Federal Circuit has repeatedly affirmed that the PTO may place the burden on the patentee to demonstrate patentability**

*Microsoft v. ProxyConn*, 789 F.3d 1292 (Fed. Cir. 2015)

- PTO can lawfully put the burden of proof on the patent owner.

*Nike, Inc. v. Adidas AG*, 812 F.3d 1326 (Fed. Cir. 2016)

- Reaffirming that PTO can place burden to show patentability on patent owner

*In re Aqua Products*, No. 2015-1177, \_\_\_ F.3d \_\_\_ (Fed. Cir. 2016)

- Board did not abuse discretion by not evaluating indicia of non-obviousness and claim limitation arguments that were not raised

# ***IN RE AQUA PRODUCTS ON REMAND***

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Federal Circuit invited parties to address two questions in supplemental briefing

1. Whether PTO can lawfully put the burden of persuasion or production on the patent owner? Which burdens are permitted under Section 316(e)
2. If petitioner does not challenge patentability of new claims, may Board *sua sponte* raise patentability challenges? If so, where would the burden lie?

# ARGUMENTS

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## *Patent Owner*

- § 316(d) only requires that the claims be supported by specification and not broaden scope
- If claims comply, then burden should move to petitioner to challenge patentability as described in § 316(e)
- *Idle Free* violates administrative law

## *PTO*

- Agency is entitled to offer guidance via decisions rather than notice-and-comment rulemaking
- § 316(e) refers to the burden for “an inter partes review instituted under this chapter,” but review was not instituted as to any amended claims

**§ 316(e):** *In an inter partes review instituted under this chapter, the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.*

# AUDIENCE QUESTIONS

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Will the Federal Circuit reject putting the burden on the patent owner?

What if the petitioner has settled or is not concerned about new claims?

What if the PTAB raised art that was not in the record?

# FEDERAL CIRCUIT REVIEW OF CBMS

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# CONGRESSIONAL DEFINITION OF “COVERED BUSINESS METHOD”

AIA § 18(d)(1) defines CBM as

“a patent that claims 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] does not include patents for technological inventions.”

AIA § 18(d)(2) gives PTO authority to define “technological invention.”





# PTO DEFINITION OF “COVERED BUSINESS METHOD

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37 C.F.R. § 42.301

- (a) *Covered business method patent* means a patent that claims 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.
- (b) *Technological invention*. In determining whether a patent is for a technological invention solely for purposes of the Transitional Program for Covered Business Methods (section [42.301\(a\)](#)), **the following will be considered on a case-by-case basis**: whether 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**.

## CAFC ADDRESSES CBM

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### ***Versata Dev. Group v. SAP America*, 793 F.3d 1306 (Fed. Cir. 2015)**

- CAFC holds the question of whether a challenged patent is a CBM relates to the Board's authority to issue a final decision and, therefore, may be reviewed by the CAFC.
- PTAB and CAFC rejected attempt to limit CBM to “products or services from the financial sector, i.e., banks, brokerages, holding companies, insurance, and similar institutions with a financial focus.”

## CAFC ADDRESSES CBM

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### ***Versata Dev. Group v. SAP America*, 793 F.3d 1306 (Fed. Cir. 2015)**

- Patents disclosed a method and apparatus for pricing products in multi-level product and organizational groups.
- PTAB held that the claims disclose a method and products that “are complementary to a financial activity and relate to monetary matters” and, therefore, relate to “financial products or services.”
- CAFC held this was not arbitrary or capricious.

## CAFC ADDRESSES CBM

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### ***Versata Dev. Group v. SAP America*, 793 F.3d 1306 (Fed. Cir. 2015)**

Re PTO's definition of "technological invention":

- (1) "[T]he requirement that a *technological invention* be novel and nonobvious over the prior art could be said to be rather obvious, and not novel."

To be patentable in the first place, the PTO must have determined that invention was novel and nonobvious.

At the early stage when the PTO is determining whether a patent is a CBM, "there would seem to be little cause to determine what will be one of the ultimate questions if review is granted . . . ."

## CAFC ADDRESSES CBM

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### ***Versata Dev. Group v. SAP America*, 793 F.3d 1306 (Fed. Cir. 2015)**

Re PTO's definition of "technological invention":

- (2) Requirement that a *technological invention* "solves a *technical* problem using a *technical* solution":
  - “Defining a term in terms of itself does not seem to offer much help.”
  - “[N]either the statute’s punt to the USPTO nor the agency’s lateral of the ball offer anything very useful in understanding the meaning of the term ‘technological invention.’”

## CAFC ADDRESSES CBM

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### ***Versata Dev. Group v. SAP America*, 793 F.3d 1306 (Fed. Cir. 2015)**

- PTAB determined that the claim disclosed essentially a method of determining a price, which could be achieved in any type of computer system or programming or processing environment.
- CAFC: “[W]hatever may be the full sweep of the term ‘technological invention,’ the invention [in this case] is essentially not a technological one as that term ordinarily would be understood.”

## CAFC ADDRESSES CBM

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### ***Sightsound Technologies, LLC v. Apple Inc.*, 809 F.3d 1307 (Fed. Cir. 2015)**

- Patents relate to methods for electronic sale and distribution of digital audio and video signals.
- CAFC held patents are “directed to activities that are financial in nature, namely the electronic sale of digital audio” and, therefore, relate to a “financial service.”
- Patents did not claim a “technical invention” because the claims merely recited known technologies to perform a method and the combination of those technologies would have been obvious.

## CAFC ADDRESSES CBM

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### ***Blue Calypso, LLC v. Groupon, Inc.*, 815 F.3d 1331 (Fed. Cir. 2016)**

- Patents relate to peer-to-peer advertising system for mobile devices.
- All of the challenged claims include a “subsidy” or an “incentive” for a subscriber to forward an advertisement to peers.
- PTAB construed “subsidy” as “financial assistance given by one to another.”
- PTAB construed “incentive” as “a reward provided to a subscriber based on an endorsement.”



## CAFC ADDRESSES CBM

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### ***Blue Calypso, LLC v. Groupon, Inc.*, 815 F.3d 1331 (Fed. Cir. 2016)**

- “Patents are directed to methods in which advertisers *financially* induce ‘subscribers’ to assist their advertising efforts.”
- Therefore, patents relate to a “financial product or service.”
- Claims do not represent “technological inventions” because they disclose “nothing more than general computer system components used to carry out the claimed process.”

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