New PTAB Rules, New Key Cases and Emerging Trends – Strategic Implications for PTAB Proceedings and Appeals

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I. New PTAB rules, new PTAB cases, and emerging trends at the PTAB

In September of 2011, the Leahy-Smith America Invents Act (AIA) was signed into law. In addition to changing priority laws from first-to-invent to first-inventor-to-file, the AIA also introduced new post-grant proceedings, administrative adjudications of patentability designed to be more trial-like than examinational. Included in the new post-grant proceedings are Inter Partes Review (IPR), Covered Business Method Review (CBMR), and Post-Grant Review (PGR). As of July 31, 2016, 4859 IPR, 470 CBMR, and 30 PGR petitions had been filed. Of the institution decisions on 3410 IPR petitions, the PTO reports that 1738 trials have been instituted (51%); 1086 of those trials have been completed, with only 158 trials leaving all claims intact (14% of Final Written Decisions). Similarly, of the institution decisions on 372 CBMR petitions, 206 trials have been instituted (55%); 134 of those trials have been completed, with only 3 trials leaving all claims intact (1% of Final Written Decisions). Furthermore, as of June 20, 2016, of the 16 decisions considering institution of PGR, 11 have instituted a PGR with 2 recently reaching a final decision, both canceling all claims.

The high rate of trial institution and finding of claim unpatentability has raised numerous complaints that these proceedings are unfair to patentees. Many of these complaints are based on the difference in claim construction and lowered burden of proof to establish invalidity in post-grant proceedings as compared to district court litigation. Although those aspects of post-grant proceedings remain in place, new rules in effect as of May 2, 2016, as well as both Board and Federal Circuit decisions, have attempted to address some of the perceived unfairness. New rules provide greater latitude for patentees to introduce evidence earlier in proceedings to avoid institution. New rules also include expanded page allowances for motions to amend claims, and recent decisions provide closer consideration of the burdens and requirements placed on patentees wishing to amend claims. Although it is too early to determine whether these rule changes and decisions have in fact changed the rates of institution or claim cancellation, they do provide additional tools to patentees at various points during post-grant proceedings and should
be considered by both petitioners and patentees when developing strategies for attacking and defending claims in post-grant proceedings.

II. New Federal Circuit decisions on PTAB cases and emerging trends at the Federal Circuit

Probably the most high-profile decision involving post-grant proceedings this year was the United States Supreme Court’s decision in *Cuozzo Speed Technologies, LLC v. Lee.*

*Cuozzo* clarified two important issues regarding post-grant procedures: (1) a Patent Trial and Appeal Board (PTAB) institution decision is not appealable after a final written decision and (2) the United States Patent and Trademark Office (PTO) had the authority to adopt the broadest reasonable interpretation claim construction standard. Although the Supreme Court’s *Cuozzo* decision was instrumental in answering two divisive issues within the patent community, the Federal Circuit has been shaping many procedural aspects of post-grant practice since it started hearing the appeals of these cases in February of 2015.

One of the issues before the Federal Circuit this year was the ability to amend claims during IPR proceedings. The AIA grants a patent owner the right to file one motion to amend the patent by canceling a challenged claim or proposing a reasonable number of substitute claims. In an early final decision that the PTAB deemed “informative,” the *Idle Free* Board issued requirements, pursuant to 35 U.S.C. § 316(a)(9), for amending claims including: a presumption that only one substitute claim is required for each challenged claim, the amendment must respond to each ground of unpatentability, and the amendment must not enlarge the scope of the claim. Following these standards, patentees have faced an uphill battle with the PTAB when seeking to amend their claims. The recent *Nike* decision clarified that the patent owner need only show patentability of the new claims over the “material prior art that Patent Owner makes of record in the current proceeding pursuant to its duty of candor and good faith to the Office” and not “over prior art not of record but known to patent owner” as set forth in *Idle Free.*

In the Federal Circuit’s recent *Veritas* decision, it vacated and remanded the PTAB’s denial of Veritas’s motion to amend, finding it was arbitrary and capricious. The PTAB insisted that to amend the patent owner must discuss whether each newly added feature was separately known in the prior art, and denied the motion to amend after finding Veritas only discussed the newly added feature in combination with other known features.
Circuit reversed, finding that describing the combination was not meaningfully different from describing what is new about the proposed claims.\textsuperscript{17}

The Federal Circuit will be taking on the issue of claim amendments more fully soon, as it has recently granted \textit{en banc} review in \textit{In re Aqua Products} to address two questions: “(a) When the patent owner moves to amend its claims under 35 U.S.C. § 316(d), may the PTO require the patent owner to bear the burden of persuasion, or a burden of production, regarding patentability of the amended claims as a condition of allowing them? Which burdens are permitted under 35 U.S.C. § 316(e)? (b) When the petitioner does not challenge the patentability of a proposed amended claim, or the Board thinks the challenge is inadequate, may the Board \textit{sua sponte} raise patentability challenges to such a claim? If so, where would the burden of persuasion, or a burden of production, lie?”\textsuperscript{18}

Another issue the Federal Circuit has considered in the past year is the proper standard of review for these proceedings. The AIA defined the petitioner’s burden of evidentiary proof as “by a preponderance of the evidence.”\textsuperscript{19} This differs from the “clear and convincing evidence” burden of proof that exists in the district courts.\textsuperscript{20} Upon review, the Federal Circuit reviews the conclusions of law de novo and the findings of fact from an administrative board’s decision for substantial evidence.\textsuperscript{21} The Federal Circuit recently denied a motion for rehearing \textit{en banc} to consider whether a less deferential standard should be used.\textsuperscript{22} The lower burden of evidentiary proof before the PTAB combined with the deferential standard of review before the Federal Circuit generally makes it easier for a patent to be canceled through post-grant proceedings than civil actions.\textsuperscript{23}

The Federal Circuit’s decisions have also provided guidance on strategies for prevailing on an appeal. Claim construction remains a place where PTAB decisions may be vulnerable. In \textit{Cutsforth}, the Federal Circuit reversed the PTAB because it found no reasonable fact finder could have found that a prior art reference anticipated the given claim element where the PTAB’s claim language was unreasonable and not justified by the specification.\textsuperscript{24} The court explained that remand was not required because there was no anticipation under the correct claim construction and the PTAB only instituted on anticipation grounds.\textsuperscript{25} The court has also vacated and remanded the PTAB in other cases for unreasonable claim constructions.\textsuperscript{26}

Additionally, evidence must support the PTAB’s decision or the Federal Circuit will reverse or vacate and remand. In \textit{Arendi}, the Federal Circuit reversed the PTAB’s obviousness
finding because it found that the PTAB misused “common sense” to conclude that it would have
been obvious to supply a missing limitation in the prior art reference to arrive at the claimed
invention. While the court recognized that “common sense, common wisdom, and common
knowledge” may be considered in analyzing obviousness, it found their use was inappropriate in
that case. First, the court explained, “common sense is typically invoked to provide a known
motivation to combine, not to supply a missing claim limitation.” The court distinguished the
Perfect Web case where common sense was invoked to supply a limitation that was admittedly
missing from the prior art, explaining that the limitation in question was unusually simple and
the technology particularly straightforward, as the missing claim limitation in Perfect Web—step
D of steps A-D—“was nothing more than an instruction to repeat steps A, B, and C until a
particular quantity of email was sent in accordance with the claim.” Finally, the court explained
that references to “common sense” “cannot be used as a wholesale substitute for reasoned
analysis and evidentiary support, especially when dealing with a limitation missing from the
prior art references specified.” The court did not remand the case for further findings from the
PTAB, finding that the record demonstrated that the petitioner failed to meet its burden of
establishing unpatentability.

Likewise, in Black & Decker, the Federal Circuit reversed in part the PTAB’s finding that
some claims were obvious where the PTAB failed to adequately state why a person of ordinary
skill in the art would have modified the prior art. The court stated that use of language such as
“suggests” and “would have known” were not sufficient reasoning without further explanation.
In Pride Mobility, the Federal Circuit reversed in part where the lone prior art reference to a
claim element taught a decidedly different feature. Namely, the prior art reference taught a
planar, non-perpendicular arrangement while the claim required a perpendicular arrangement.

The PTAB’s decision must also be clear, or the Federal Circuit will vacate and remand. The Federal Circuit reversed a particularly error-filled PTAB decision in its recent In re Magnum
Oil Tools decision. (The case is an In re decision because the Director of the PTO intervened to
defend the PTAB’s decision after the patentee and petitioner settled following the PTAB’s
decision denying rehearing.) The Federal Circuit found the PTAB erred in shifting the burden of
proof on obviousness from the petitioner to the patent owner. The court explained that the
petitioner always carries the burden of persuasion on the issue of invalidity, and rejected the
PTO’s argument that institution alone shifts the burden of production from the petitioner to the
patentee. The court also rejected the PTO’s argument that the patentee should have raised objections with the Board’s decision in a request for rehearing, noting that there is no such requirement. The Federal Circuit further found the PTAB erred when it failed to articulate a sufficient rationale for why a skilled artisan would have sought to combine the asserted prior art to achieve the claimed invention. The court also concluded that the PTAB’s decision was premised on a legally incorrect standard for assessing obviousness, and the PTAB’s factual findings regarding the alleged motivation to combine lacked substantial evidence. Thus, the court reversed the PTAB’s decision.

The PTAB must also provide adequate notice. In SAS, the Federal Circuit vacated in part and remanded because the Board adopted a new claim construction in the final written decision that differed from the claim construction in the institution decision, thus depriving the party of notice. In Dell, the court likewise vacated in part and remanded because the PTAB adopted a new claim construction without affording patent owner proper notice.

III. Changes to Post-Grant Rules Provide Patent Owners and Patentees with New Tools

Among a number of new rules taking effect May 2, 2016, the rule having the greatest possible effect on rates of institution was a rule allowing patent owners to submit supporting evidence alongside a patent owner’s preliminary response. This supporting evidence can be, for example, declaration evidence. Such declaration evidence has been used for a variety of reasons, including (1) to disqualify prior art by swearing behind a reference (based on a pre-AIA patent), (2) rebutting a petitioner’s experts proposed claim construction, or (3) presenting a rationale why a claim feature is lacking or why a person of skill in the art would not combine references in the manner claimed.

To date, it is unclear whether filing of a declaration of an expert alongside a Patent Owner’s Preliminary Response affects outcomes of proceedings. As recognized in 37 C.F.R. § 42.108, “[t]he Board’s decision will take into account a patent owner preliminary response where such a response is filed, including any testimonial evidence, but a genuine issue of material fact created by such testimonial evidence will be viewed in the light most favorable to the petitioner solely for purposes of deciding whether to institute an inter partes review.” In early filing since patentees could submit such evidence, of the 26 proceedings in which such additional, new evidence was submitted, 17 of those proceedings resulted in an instituted trial (65%). Although a
small data set, this is comparable to current institution rates for all post-grant proceedings when settlements are discounted, with a total of 1738 trials instituted against 1010 petitions denied and 22 adverse judgments entered (or a 63% institution rate).

However, there have been cases in which it appears a patent owner’s submitted declaration assisted in avoiding trial institution. For example, in a series of IPRs filed by Illumina against Cornell Research Foundation, the PTAB denied institution after granting the petitioner leave to file a reply brief.\(^{44}\) The Board considered both parties’ evidentiary submissions and indicated that the petitioner’s arguments relied on hindsight. In considering a particular claim limitation requiring “differences of at least 25% between capture oligonucleotides on adjacent positions on a solid support”, the patent owner submitted an expert declaration critiquing the arguments provided by the petitioner regarding how that 25% difference would be calculated, and disputing that such a requirement is present in the prior art. The Board found that the patent owner’s expert declaration persuasive, and decided that the Petition relied improperly on hindsight and denied institution of trial. Accordingly, even in cases where material facts are in dispute, submission of an expert declaration may allow a patentee to avoid trial institution.

Patent owners have increasingly utilized this new provision to submit evidentiary declarations alongside preliminary response. Of the eligible preliminary responses filed in May, under 24% included an accompanying declaration. However, patentees adopted a strategy of early introduction of evidence, with over 45% of petitions in June having an accompanying declaration. It is expected that this trend of increasing inclusion of declaration evidence at the preliminary response stage will continue, so long as the added costs of developing such evidence is outweighed by any perceptible chance that a patent owner will be able to avoid trial institution, which results in substantially higher overall costs as compared to the pre-institution costs.

As a strategy in response to such declaration evidence, a petitioner can seek to file a reply to the patent owner’s preliminary response. However, to date the PTAB has authorized only a limited number of replies, with only 11 such replies being filed in association with proceedings filed after May. This is likely because a Petition must show “good cause” to file such a reply.\(^{45}\) The PTAB has indicated that such “good cause” may arise in situations where new evidence comes to light after the filing of a petition or a legal argument of first impression is made by the patent owner.\(^ {46}\) Such new evidence could, in theory, be evidence of an earlier invention date,
evidence that a patent owner obtains the benefit of an earlier priority date, or evidence or arguments regarding that which may be known to one of skill in the art. A reply seeking merely to rebut or address statements made by a patent owner’s declarant may not be allowed; for example, in *Xactware*, the PTAB denied the petitioner’s request to file a reply, indicating that “identifying and evaluating statements or misstatements of the facts and law are well within the purview of the Panel of Judges assigned to these proceedings.”

In addition to patent owner declarations, the May 2016 rules changed claim construction for patents that will expire during the expected pendency of the proceeding. Specifically, either party may request a district court-type claim construction approach to be applied if that party certifies that the patent will expire within 18 months of a Notice of Filing Date Accorded from the PTAB.

The May 2016 rules also include a number of minor changes for both patentees and petitioners. Page limits have been changed to word limits, resulting, anecdotally, in improved readability of petitions, responses, and motions. Additionally, the due date for exchanging demonstrative exhibits has changed, from five days to seven days prior to the hearing.

IV. **Other Recent PTAB Decisions**

Recent PTAB decisions shed further light on two areas of possible defense for patentees seeking to preserve validity of their patents. In *Innopharma*, the Board considered evidence of secondary considerations as being persuasive in upholding the validity of two patents. Although in most cases the PTAB has concluded that patentees have difficulty establishing a nexus between the patented product and the relevant secondary considerations, in this case, evidence of unexpected results and commercial success was found persuasive by the Board, and the petitioner admitted that the drug considered regarding both types of evidence embodied the patent claims.

The second area of recent attention relates to motions to amend claims. The PTAB released a study on April 30, 2016 regarding efficacy of motions to amend. The PTAB study illustrates that of the motions that are decided substantively, 95% (a total of 116 motions) are denied. Trends show that fewer motions will be filed in 2016 than in 2015, which itself represented a 35% drop from 2014. This stems from the difficult burdens required of a patentee, which are to be reconsidered in *In re Aqua Products* (as discussed above). One particular burden
required of the patentee is to establish that the “proposed substitute claim is patentable over the prior art of record, and over prior art not of record but known to the patent owner.” However, earlier this year, the Board clarified that each reference need not be discussed individually in the patentee’s motion to amend, stating, “[a] patent owner meets its duty of candor and good faith by grouping prior art references together according to their particular teachings without having to make a presentation on each and every reference giving rise to that same teaching.”

V. Conclusion

Post-grant patent challenges remain a successful tool for petitioners to invalidate patent claims due to the high rate of trial institution and, ultimately, claim cancellation. Although many PTAB decisions are affirmed on appeal, the Federal Circuit has closely reviewed the proceedings to ensure that the PTAB judges are applying statutes and regulations properly, and that USPTO rules are proper. Furthermore, the USPTO has adopted new rules designed to adjust for perceived unfairness to patentees. Although it is unclear whether the new rules and appellate review will adjust outcomes of post-grant proceedings in patentees’ favor, adjusted burdens, motion requirements, and evidentiary procedures should be considered by both patentees and petitioners when assessing strategy and merits of post-grant proceedings.

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6 When a petition is denied on procedural grounds, as opposed to on the merits, the PTO counts that as a denial. The PTO also counts multiple petitions joined as one matter instituted, while multiple non-joined petitions denied are counted separately as multiple matters not instituted. Thus, the PTO’s reported numbers show a lower substantive institution rate than would be shown if all petitions were counted separately and procedural denials not counted.


8 Id.

9 Id.

10 No. 2015-446, 2016 U.S. LEXIS 3927 (June 20, 2016).
While the PTAB’s decision to institute may be unreviewable, the Federal Circuit does have “jurisdiction to review determinations made during institution that are subsequently incorporated into the Board’s final written decision.” In re Magnum Oil Tools Int’l, Ltd., No. 2015-1300, 2016 U.S. App. LEXIS 13461, at *11 (Fed. Cir. July 25, 2016); see also Versata Dev. Grp., Inc. v. SAP Am., Inc., 793 F.3d 1306, 1315 (Fed. Cir. 2015).


Microsoft Corp. v. i4i Ltd. P’ship, 564 U.S. 91, 131 S. Ct. 2238, 2242 (2011).

Microsoft Corp. v. Proxyconn, Inc., 789 F.3d 1292, 1297 (Fed. Cir. 2015).

Merck & Cie v. Gnosis S.P.A., 820 F.3d 432 (Fed. Cir. 2016)


SAS Inst., Inc. v. ComplementSoft, LLC, Nos. 2015-1346, 2015-1347, 2016 U.S. App. LEXIS 10508, at *20 (Fed. Cir. June 10, 2016) (“What concerns us is not that the board adopted a construction in its final written decision, as the board is free to do, but that the board ‘change[d] theories in midstream’.”).

Dell Inc. v. Acceleron, LLC, 818 F.3d 1293, 1301 (Fed. Cir. 2016) (“In this case, the board denied Acceleron its procedural rights by relying in its decision on a factual assertion introduced into the proceeding only at oral argument, after Acceleron could meaningfully respond.”).

37 C.F.R. § 42.107(a).

See, e.g., IPR2016-00755, IPR2016-00608.

See, e.g., IPR2016-00622.

See, e.g., IPR2016-00559.

See, e.g., IPR2016-00549, Paper 15 (PTAB August 8, 2016) at 15-16.

37 C.F.R. § 42.108(c).


Id.

See, e.g., 37 C.F.R. §§ 42.100, 42.200, 42.300.

37 C.F.R. 42.70.


Nike Inc. v. Adidas AG, 812 F.3d 1326, 1350 (Fed. Cir. 2016).