

## PTAB At 5: Part 4 — At The Intersection Of PTAB And Courts

By **Michael Specht** and **Jonathan Tuminaro**

September 14, 2017, 1:44 PM EDT

Sept. 16 is the fifth anniversary of the establishment of the U.S. Patent and Trademark Office Patent Trial and Appeal Board. To mark this milestone, attorneys at Sterne Kessler Goldstein & Fox PLLC have written a series of articles discussing the significance the PTAB has had on the practice of intellectual property law.

The first installment explored the topic from patent owners' and petitioners' perspectives. The article considered the lessons learned from the first five years of the new trial-like PTAB proceedings created by the America Invents Act, with an emphasis on the surprises, the reality versus original expectations, and the prominent issues that have been addressed.

The second article discussed several insights learned from PTAB challenges that should be considered when developing an effective "prep and pros" strategy geared toward surviving PTAB scrutiny. The strategies take into account both a global outlook and the advances in big data that need to be considered when developing IP portfolios in the PTAB era.

The third article analyzed statistics from more than 250 judgments and over 120 issued opinions deciding Federal Circuit appeals of post-grant proceedings. The data reveals how the court has addressed those appeals and, conversely, how those appeals are affecting the court.

Finally, the fourth article discusses the intersection of PTAB and district court jurisdiction as it relates to patent invalidity challenges. While there are many considerations and issues associated with the intersection of PTAB and district court invalidity challenges, the article addresses key aspects that impact practitioners.

### Introduction

Congress passed the Leahy-Smith America Invents Act in September 2011 with the lofty goals of "improving patent quality and providing a more efficient system for challenging patents that should not have issued," as well as "reducing unwarranted litigation costs."<sup>[1]</sup> One of the primary vehicles for achieving these goals was the creation of United States Patent and Trademark Office post-grant



Michael Specht



Jonathan Tuminaro

proceedings — post-grant reviews, inter partes reviews and covered business method reviews — that could be used to challenge the validity of a patent. These post-grant proceedings were intended to “eliminate the inter partes reexamination system and replace it with a new post-grant review system at the USPTO that [would] give third parties a quick, inexpensive, and reliable alternative to district court litigation to resolve questions of patent validity.”[2] To implement this new post-grant review system, Congress established the Patent Trial and Appeal Board, which began operations in September 2012.

Upon the fifth anniversary of this PTAB-driven post-grant review system, the intersection between PTAB proceedings and district court proceedings has gained clarity through rule clarifications and decisions from the PTAB, the Federal Circuit and the U.S. Supreme Court. Whether the AIA’s lofty goals — providing a quick, inexpensive and reliable alternative to challenging patent validity — are to be ultimately achieved rests largely in the ability of counsel to effectively navigate this intersection. Although a comprehensive analysis of the many considerations and issues associated with the intersection of PTAB and district court invalidity challenges is well beyond the scope of this article, this article addresses a few key considerations.

### Staying District Court Litigation Pending PTAB Reviews

Securing stays of district court litigation pending a PTAB review is one of the most critical intersection considerations. Securing a stay will almost always result in a significant reduction in litigation costs through a more cost-effective and speedy resolution of a patent dispute. Staying a district court litigation in favor of a PTAB proceeding will at least defer and often times will significantly reduce or eliminate most of the potential district court litigation costs.

Moreover, numerous factors make assessing the validity of a patent before the PTAB more desirable than doing so within a district court. These factors include a more favorable claim construction standard (i.e., broadest reasonable interpretation[3] v. Phillips standard),[4] a more favorable evidentiary standard (i.e., preponderance of the evidence v. clear and convincing), very limited discovery, limited motions practice, a more definitive and reliable schedule, and judges that have a more nuanced understanding of patents and technology than the typical district court judge. And even if a patent survives a PTAB challenge, the challenge can significantly reduce the issues to be addressed before a district court or can stimulate an early settlement. While the first two factors favor a party challenging a patent, the remainder of the factors can be in the best interest of the patent owner and/or the challenger.

As shown in the following table, district court litigation stays pending PTAB challenges have consistently been issued at a very high rate with nearly 70 percent of stay requests being either partially or fully granted.

**Table 1: District court litigations stayed pending PTAB challenges**

Outcome	2012	2013	2014	2015	2016	2017	Total
Granted	50%	66%	60%	64%	67%	62%	63%
Partial	17%	9%	8%	8%	5%	6%	7%
Denied	33%	25%	32%	28%	28%	32%	29%
n	6	157	340	365	356	216	1440

In determining whether to grant a stay, courts have typically looked at three primary factors: (1) the stage of the litigation; (2) whether a stay will simplify issues in the district court case; and (3) whether the stay would unfairly prejudice one party over the other. Using this calculus, factor (2) almost always favors a stay and factor (3) is very fact-dependent. For example, typically, if the plaintiff is a nonpracticing entity, this factor will favor issuing a stay. Thus, the key controllable factor is factor (1).

Given that courts are more likely to issue a stay earlier in the litigation, a defendant should aggressively move to seek a stay as soon as possible and prudent. As such, a defendant should always aggressively conduct an invalidity analysis to assess very early whether a strong PTAB challenge can be prepared. If so, the defendant/petitioner should file a PTAB challenge as early as possible and similarly file its motion to stay the litigation nearly simultaneously, depending on the particular court. While many courts will not institute a stay until a PTAB trial is instituted, some courts will institute a stay sooner and others will hold the motion in abeyance until an institution decision occurs. Following such an approach will increase the likelihood that a defendant/petitioner will secure a stay, thereby very likely decreasing litigation costs and potentially driving settlement.

### **Avoiding Litigation Based on the Possibility of PTAB Challenges**

Ideally from a defendant’s perspective, litigation is avoided altogether and without a PTAB challenge. Although PTAB challenges remain significantly less costly than district court litigation, avoiding PTAB trial costs is preferred. Prior to filing a lawsuit, many potential plaintiffs seeking to assert patents against a party will identify the potential patents for assertion through a demand letter or some other means. Often a potential defendant can avoid the litigation or significantly reduce the settlement amount with an aggressive response that identifies strong invalidity positions and threatens the filing of a PTAB challenge. A strong response is particularly helpful when the potential plaintiff is a nonpracticing entity, in that nonpracticing entities often do not want strong prior art to be made publicly known and do not want their assertion program delayed by the existence of a PTAB challenge.

To make such a response successful, it is important to identify strong prior art that demonstrates the invalidity of the claims and to highlight the experience level and reputation of the inside or outside counsel providing the response. Responses to potential patent assertions may include simply identifying strong prior art, providing invalidity claim charts, and/or providing draft PTAB challenge petitions — often referred to as “pocket IPRs.”

**Table 2: PTAB Institution and Cancellation Rates**

	2013	2014	2015	2016	2017	Total
<b>Proceeding Institution Rate</b>	83%	76%	67%	67%	64%	69%
<b>Claim Institution Rate</b>	76%	65%	60%	60%	57%	62%
<b>Instituted Claims Cancelled at Final Written Decision</b>	-	83%	88%	76%	65%	79%

As shown in the above tables, while PTAB claim institution and cancellation rates remain high, they have been declining. Among the reason for this decline is the significant growth in firms that attempt to provide PTAB counseling. More than 800 law firms have represented parties in PTAB challenges, and the majority of these firms (more than 70 percent) have handled fewer than 10 cases as lead counsel. Many firms simply do not know the specifics of PTAB practice, which is very quickly evolving with an ever-increasing number of PTAB decisions and frequent Federal Circuit decisions addressing PTAB challenge

matters. Therefore, experienced PTAB counsel is key in having a potential plaintiff take the PTAB challenge threat seriously, thereby helping to avoid and reduce potential litigation.

### **Preparing a Patent Lawsuit in the Post AIA PTAB-Challenge Environment**

As shown above, institution and claim-cancellation rates in PTAB challenges have significantly decreased over the past five years. While there are many explanations for this decrease, one explanation is that parties asserting patents in a district court action are better vetting their patents for validity. Historically, parties seeking to bring a patent lawsuit often focused extensively and sometimes nearly exclusively on whether an infringement read existed. The conventional wisdom was that if a plaintiff could demonstrate infringement, then a skilled litigator could emphasize the complexity of a patent's technology and could convince a district court judge or a jury, under the clear and convincing evidence standard, that the validity of the patent claims should be confirmed. As a result many of the patents that were subject to early PTAB challenges did not have particularly strong claims, resulting in very high claim institution and cancellation rates. As PTAB practice has matured, parties have revisited this thinking and more emphasis is placed on vetting the validity of patents before asserting them. This vetting may go so far as to have counsel conduct significant invalidity analysis and even to prepare PTAB challenges of potential assertion patents.

The need for patents that can survive or at least provide the perception that they can survive a PTAB challenge requires parties to improve their preparation and prosecution strategies with potential PTAB challenges in mind. The bottom line is that most companies must strengthen the quality of their patents or they simply will not have patents that are strong enough to assert in a post-AIA environment. In a post-AIA, PTAB environment this requires practitioners to develop claim sets with varying scope and ensure that significant technical and/or scientific detail exists within the claims — not just within the specification. Practitioners must also build prosecution histories that are clean and clearly highlight the key allowable features.

Additionally, practitioners must carefully consider continuation practice to best build a real or at least perceived impenetrable wall around key inventions, while providing future flexibility should a patent be the potential target of a PTAB challenge. For example, when vetting patents for potential litigation, having a pending continuation gives the party the ability to use the USPTO's Fast Track procedures to quickly secure one or more additional patents to shore up weaknesses identified in the patent being considered for assertion. Lastly, the Federal Circuit has rendered over 250 judgments and issued over 120 opinions deciding appeals taken from post-grant proceedings. Many of these opinions address fundamental patent issues — obviousness, anticipation, claim construction and the like — and provide important guidance for practitioners to consider when prosecuting patent applications and ensuring that asserted patents have an increased likelihood of surviving a PTAB challenge.

### **Nuanced Considerations at the Intersection of PTAB and District Court Litigation**

Beyond the above considerations there are a plethora of additional nuanced considerations that counsel must be aware of to successfully navigate the intersection of PTAB challenges and district court litigation. Identification and a detailed analysis of each of these nuanced considerations is well beyond the scope of this article. However, example issues that have received much attention include the use and impacts of joinder within a PTAB challenge,[5] motions to amend within PTAB challenges[6] and intervening rights, district court protective order issues, and the impact of statements made in a PTAB challenge on district court litigation.[7]

Additionally, assuming a co-pending district court litigation is not stayed pending a PTAB challenge, there are many considerations related to the timing and burdens across the parallel proceedings. For example, one consideration is determining whether an IPR petitioner has the burden to address objective indicia in the petition if the petitioner learned about the patentee's contentions on objective indicia from a district court case.[8] Another consideration is whether to make claim-construction arguments at the PTAB or reserve them for a district court case. Lastly, a party must consider whether to depose witnesses in a PTAB proceeding or wait for trial testimony from the district court.[9]

---

*Michael D. Specht and Jonathan Tuminaro, Ph.D., are directors at Sterne Kessler Goldstein & Fox PLLC in Washington, D.C.*

*The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.*

[1] H.R. Rep. No. 112-98(I) at 39-40.

[2] S. Rep. No. 110-259 at 20.

[3] See *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131 (2016) (upholding the PTAB's use of the broadest reasonable interpretation standard in AIA trials).

[4] *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005).

[5] 35. U.S.C. §315(c). See, e.g., *Microsoft Corp. v. Proxycorr, Inc.*, IPR2013-00109, Decision Granting Motion for Joinder, Paper No. 15 (P.T.A.B. Feb. 25, 2013). See also, *Zhongshan Broad Ocean Motor Co., et al. v. Nidec Motor Corp.*, IPR2015-00762, Decision Granting Petitioner's Request for Rehearing, Instituting Inter Partes Review, and Granting Motion for Joinder, Paper No. 16 (P.T.A.B. Oct. 5, 2015) and *Skyhawk Techs. LLC v. L&H Concepts, LLC*, IPR2014-01485, Decision Denying Petitioner's Motion for Joinder and Denying Institution of Inter Partes Review, Paper No. 13 (P.T.A.B. Mar. 20, 2015).

[6] See, e.g., *Nichia Corp. v. Emcore Corp.*, IPR2012-00005, Order Regarding Written Description Support for Substitute Claims, Paper No. 27 (P.T.A.B. June 3, 2013); *Idle Free Systems, Inc. v. Bergstrom, Inc.*, IPR2012-00027, Decision on Motion to Amend Claims, Paper No. 26 (P.T.A.B. June 11, 2013) (providing guidance on motions to amend); *Corning Optical Communications RF, LLC v. PPC Broadband, Inc.*, IPR2014-00441, Order on Motion to Amend Claims, Paper No. 19 (P.T.A.B. Oct. 30, 2014). These are identified by the PTAB as representative decisions on motions to amend.

[7] See, *Aylus Networks, Inc. v. Apple Inc.*, 856 F.3d 1353, 1359 (Fed. Cir. 2017) (The Federal Circuit noted that it "must initially determine an issue of first impression for this court: whether statements made by a patent owner during an IPR proceeding can be relied on to support a finding of prosecution disclaimer during claim construction. As explained below, [the Federal Circuit held] that they can.").

[8] See, e.g., *Omron Oilfield & Marine, Inc. v. MD/Totco, a Division of Varco, L.P.*, IPR2013-00265, Decision Denying Request for Rehearing, Paper No. 14 at 3 (P.T.A.B. Feb. 13, 2014); *Merial Ltd. v. Virbac*, IPR2014-01279, Decision Denying Institution of Inter Partes Review, Paper No. 13 at 27 (P.T.A.B. Jan. 22, 2015).

[9] See, e.g., *Ultratec, Inc. v. CaptionCall, LLC*, -- F.3d --, 2017 WL 3687453 (Fed. Cir. Aug. 28, 2017) (holding that the PTAB abused its discretion when it refused to admit expert's trial testimony from a concurrent district court case).

---

All Content © 2003-2017, Portfolio Media, Inc.