

Changing Patent Litigation in the U.S.— The Impact of the America Invents Act and Other Developments

MIPLC Lecture Series

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- Developments in US Patent Litigation and Strategy in Light of:
 - The America Invents Act and resulting USPTO Post-Grant Proceedings
 - Developments in US Patent Law as a Result of Significant Supreme Court and Federal Circuit Decisions

USPTO Post-Grant Proceedings

Inter Partes Review

- **Basis**: anticipation and obviousness (102 and 103) based upon patents and printed publications
- **Standard to Initiate**: reasonable likelihood that at least one claim of the patent is unpatentable
- **Burden of Proof**: preponderance of the evidence
- **Timing**: during enforceability of the patent; if infringement suit filed, within one year after complaint is served

Post Grant Review

- **Basis**: any grounds of unpatentability, including Sections 101, 102, 103 & 112; only available for filed on/after 3/16/13
- **Standard to Initiate**: more likely than not at least one claim of the patent is unpatentable
- **Burden of Proof**: preponderance of the evidence
- **Timing**: must be filed within 9 months after grant

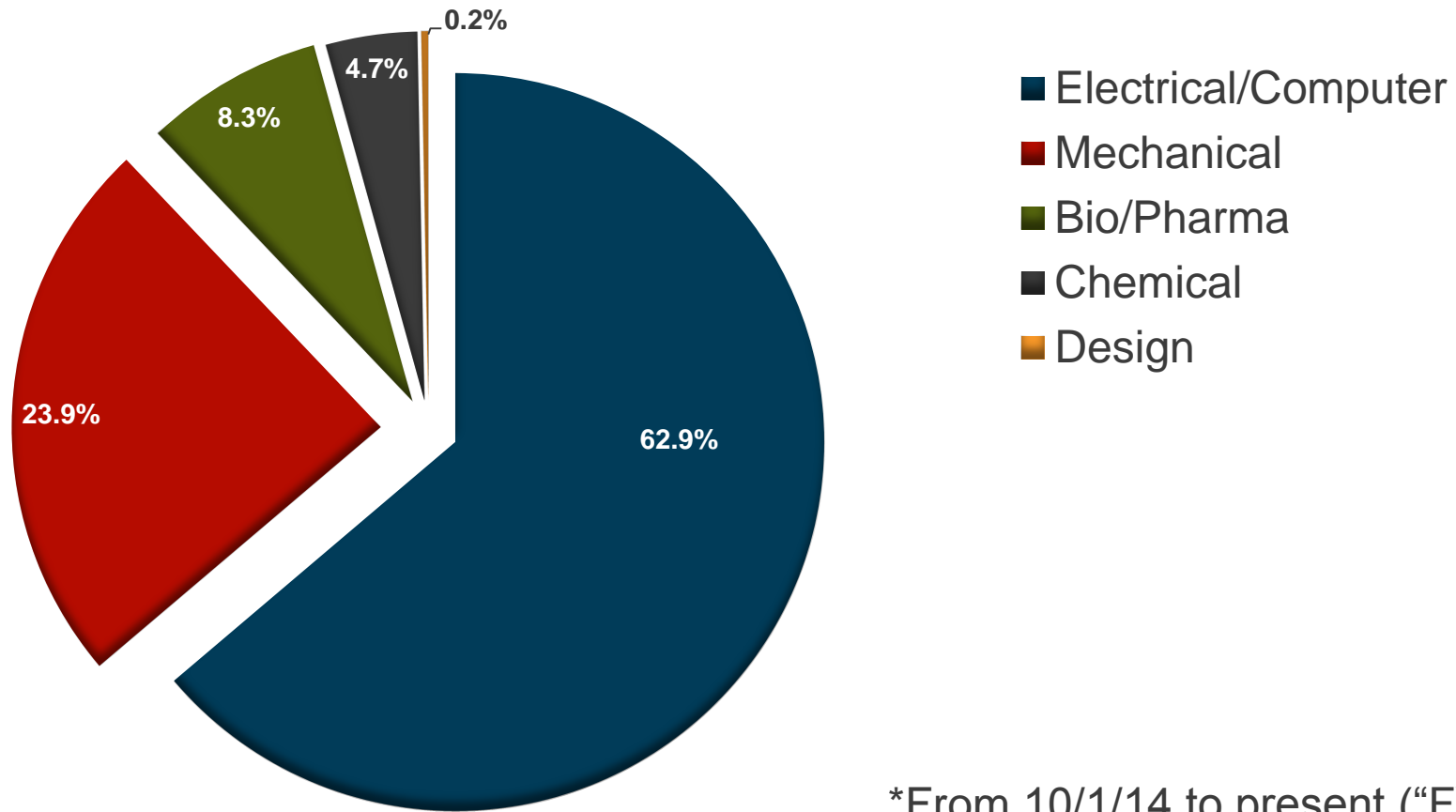
Covered Business Method

- **Basis**: method or process claim related to a financial product/service. Petitioner must be sued or charged with infringement
- **Standard to Initiate**: more likely than not at least one claim of the patent is unpatentable
- **Burden of Proof**: preponderance of the evidence
- **Timing**: during enforceability of the patent; but only available if you have been sued or threatened.

AIA Trial Statistics: Total Petitions Filed

- As of May 14, 2015, the USPTO received a total of 3,225 AIA Petitions:
 - 2,894 IPRs
 - 344 CBMs,
 - 6 PGRs, and
 - 11 Derivations.

AIA Trial Statistics: Technology Breakdown of Petitions*



*From 10/1/14 to present (“FY15”)

AIA Trial Statistics:

Instituted Trials / Settlements / Final Written Decisions*

	Instituted Trials	Denials	Percent Instituted	Settlements	Final Written Decisions
IPR	1,227	452	73%	511	358
CBM	160	57	74%	60	46
PGR	-	-	-	2	-
DER	0	3	0%	0	0

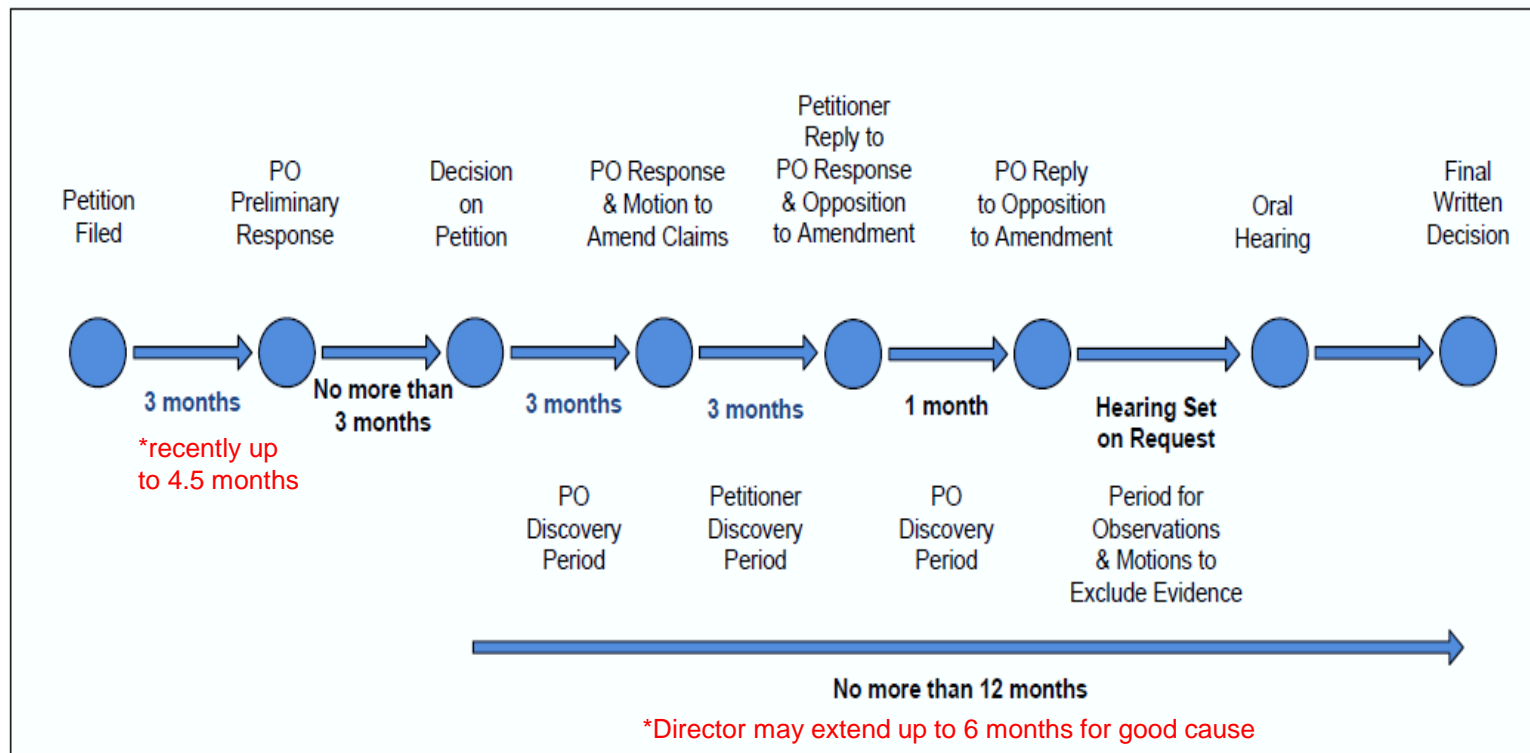
*As of May 14, 2015

- For final IPR cases:
 - 62%: All claims found unpatentable
 - 21%: At least one (but not all) claims found unpatentable
 - 17%: All claims survived

- For final CBM cases:
 - 71%: All claims found unpatentable
 - 21%: At least one (but not all) claims found unpatentable
 - 7%: All claims survived

(As of February, 2015)

IPR/PGR/CBM Timeline



- 3-month period for patent owner's preliminary response runs from the date that the PTAB issues a notice of filing date. 37 C.F.R. 42.107(b). Due to the large number of filings, the PTAB recently has taken up to 6 weeks to issue the notice, extending the overall timeline.

- USPTO judges have scientific background.
- Goal of USPTO is to determine what is patentable; whereas, goal of a district court is to resolve a dispute between the parties.
 - As a result, the USPTO judges are focused on the technology, the patent claims and the features of the prior art.
 - District Court judges are more focused on resolving the dispute and juries may not understand the technology.

- All cases resolved with 18 months of institution.
 - Although the USPTO Director has discretion to extend for an additional 6 months, this authority has not been utilized to date.
- Limited discovery. Motions for additional discover granted only approximately 10% of the time.
 - The effect is that litigation costs are kept low when compared to district court.
- Decision whether to institute is not appealable.
 - The Federal Circuit recently held that decisions to institute or not are not appealable. There may be a limited ability to file a mandamus petition.
 - If there is a decision not to institute, the petitioner can still challenge the claims in district court – BUT there may be consequences.
- Invalidity battles moving from district court to the USPTO.
 - Defendants sued for infringement file an IPR at the USPTO and seek a stay of the district court action in order to reduce overall costs and obtain a quicker decision on liability.

- Page Limits Make Amendments Within the IPR Process Unrealistic
- Split / Parallel Proceedings in the USPTO and District Courts
- Race to the Federal Circuit – The Tortoise and the Hare?
 - *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330, 1347 (Fed. Cir. 2013) (Final decision from PTO of unpatentability renders District Court action on those claims moot)
 - *In re Baxter Int’l, Inc.*, 678 F.3d 1357, 1364 (Fed. Cir. 2012) (The PTO and district courts “take different approaches in determining validity and on the same evidence could quite correctly come to different conclusions.”) (District Court finding that claims are not invalid not binding on PTO)
 - *SAP Am., Inc. v. Pi-Net Int’l, Inc.*, IPR2013-00194, Paper No. 56, at 3 (P.T.A.B. May 23, 2014) (“[A]n affirmance of the district court’s decision that the subject patents are invalid could terminate the subject [IPR] proceedings, or an appeal of the outcome of the subject proceedings”)

Unintended Consequence? Using the Post-Grant Proceedings as an Investment Tool

- Hedge Funds have been taking a short position on a pharmaceutical company's stock and then filing an IPR petition to invalidate a patent.
- Pharmaceutical companies are particularly vulnerable because of the value of their patents.
- Kyle Bass – hedge fund director - has pledged to challenge patents on numerous medications, accusing drugmakers of misusing the patent system to keep drug prices high. See https://www.youtube.com/watch?v=V_5aPP5T8ek
- The first two IPRs filed by Bass targeted patents covering a multiple sclerosis drug produced by Acorda Therapeutics. Acorda's stock prices dropped after each of the filings: by 9.7% on Feb. 10 and 4.8 % on Feb. 27.
- The provision in the AIA that allows anyone to file an IPR petition has been criticized as it allows parties to invalidate a patent for any purpose.

Comparison of USPTO Post-Grant Proceedings and EPO Oppositions

U.S. Post-Grant Proceedings

Cheaper alternative to challenge the validity of a patent than traditional litigation

Conducted by 3 PTAB judges

Must disclose real parties in interest

Cannot be filed by patent owner

PGR filed within 9 months of grant

Patent owner has opportunity to amend claims

Completed within 18 months from filing

Filing fee: \$23,000-\$30,000

Estoppel

Settlements allowed although PTAB can decide merits

EPO Opposition

Same

Conducted by 3 examiners in Opposition Division

Can be filed by “straw man”

Same

Opposition must be filed within 9 months of publication in European Patent Bulletin

Same

On average, completed within 34 months from filing

Filing Fee: €775

No estoppel regarding later litigation in member countries

Same

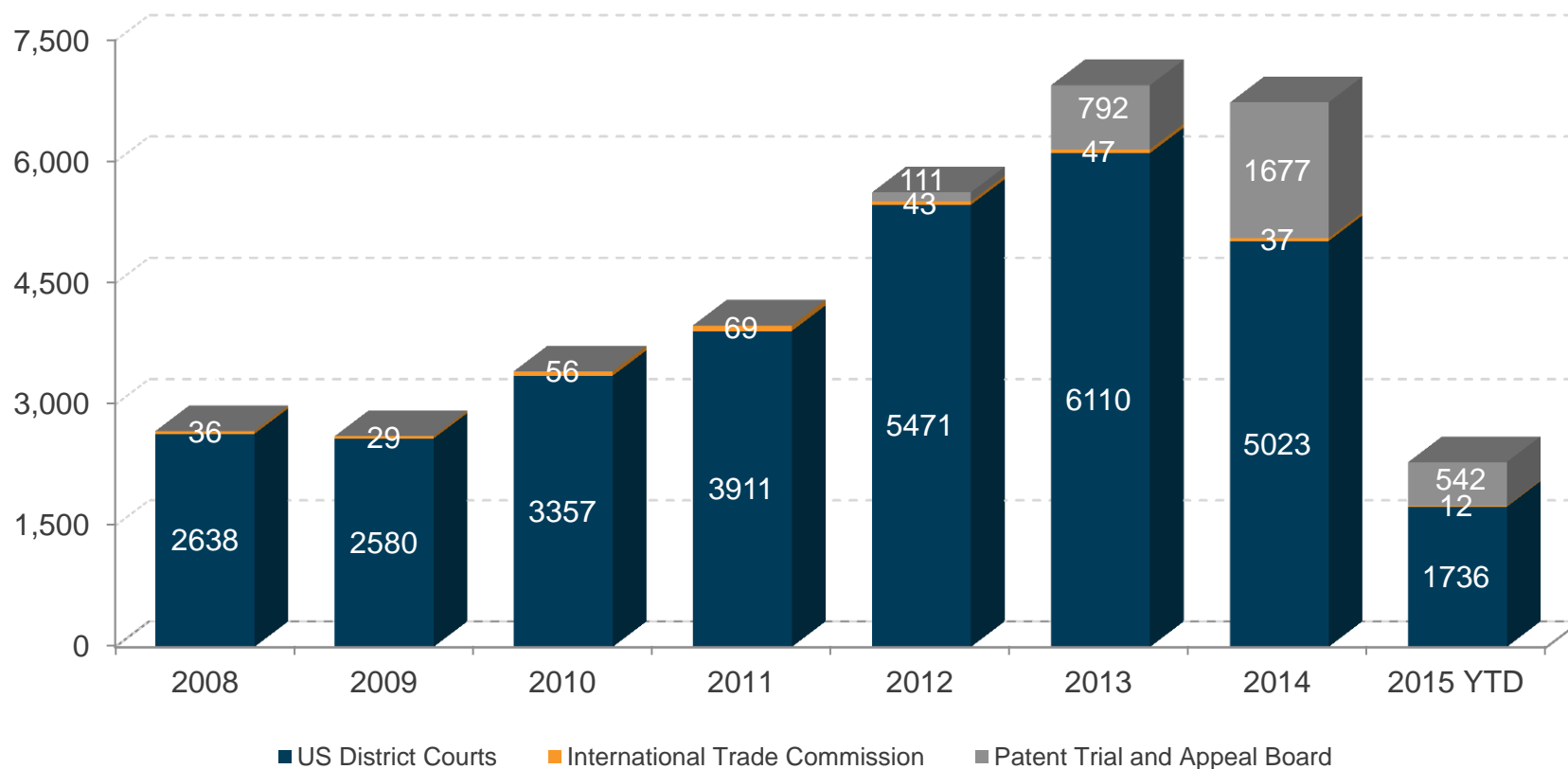
AIA – Post Grant Review – Unintended Consequences?

- Applies only to patents filed after March 16, 2013 – limited data
- To date, fewer than 10 have been filed; only 5 accepted
- Limited upside; big downside
 - Estoppel on all defenses in future District Court action – 102, 103, 101, 112

Changing U.S. Court Litigation

Patent Court Filings in the U.S.

U.S. District Court filings dropped approximately 18% from 2013 to 2014.



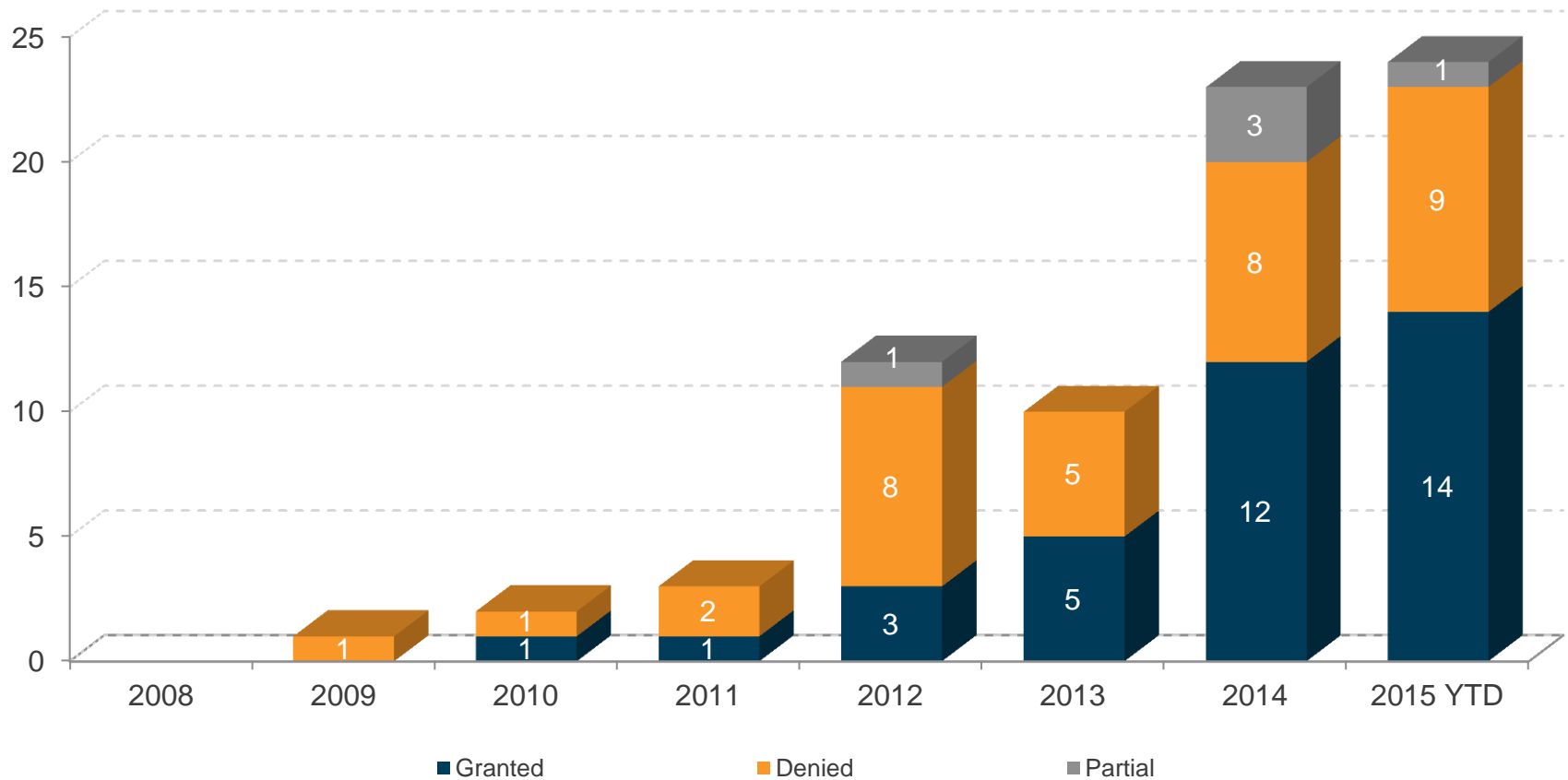
(as of April 23, 2015)

The *Alice* Decision – One Reason Why Filings May Have Dropped

- Drawing on its tests from *Bilski* and *Mayo*, the Supreme Court applied a two-part test to *Alice*'s computer implemented method of mitigating settlement risk:
 - Does the claim recite a patent-ineligible exception (law of nature/abstract idea/natural phenomena)?
 - If so, does the claim contain “something more” than merely the routine or conventional application of the ineligible exception – something that “transforms” the ineligible subject matter into patentable subject matter – good example – *Myriad*
 - Implementing a method claim on a general purpose computer will not transform an “abstract idea” into patent-eligible subject matter.
- Many software patents may be subject to attack under Section 101 as ineligible subject matter.
- A Section 101 challenge in district court can be filed based on the pleadings (answer and complaint) and before any discovery. This makes the challenge very inexpensive and quick.
- Patent owners may be more cautious when determining whether to enforce their patents in district court.

- The two most instructive cases so far post-*Alice* give a view of both dies of the line:
 - *Ultramercial v. Hulu*, 772 F.3d 709 (Fed. Cir. 2014)
 - Claims showing an advertisement before delivering web-based content held ineligible because they simply required the routine implementation of an abstract idea.
 - *DDR Holdings v. Hotels.com*, 773 F.3d 1245 (Fed. Cir. 2014)
 - Claims to e-commerce website emulation held eligible because “the claimed solution is necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.”

Motions Based on § 101 – Motion for Judgment on the Pleadings, or Motion to Dismiss



(as of April 23, 2015)

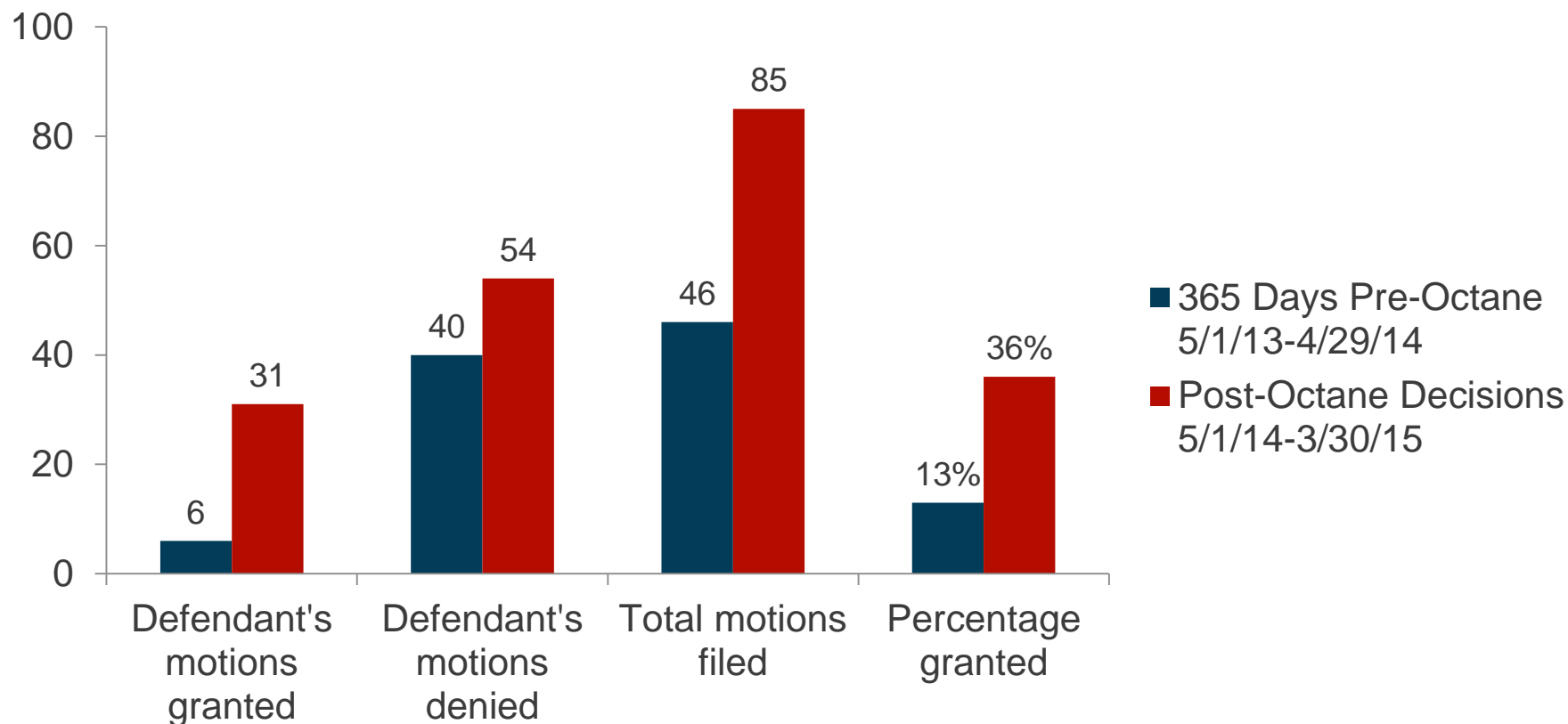
Development in Remedies Law Impacting US Patent Litigation

- Injunctions – both preliminary and permanent injunctions harder to win:
 - *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006)
 - *Apple Inc. v. Motorola Inc.*, 757 F.3d 1286 (Fed. Cir. 2014)
- Damages – erosion of “back of the envelope” techniques; clear focus on “smallest saleable unit”
 - *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308 (Fed. Cir. 2014)

Octane / Highmark Decisions – New Downside Risk for Patent Trolls?

- In *Octane Fitness*, the Supreme Court expanded the situations in which a district court could award attorney’s fees under 35 U.S.C. § 285
 - “An ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is ‘exceptional’ in the case-by-case exercise of their discretion, considering the totality of the circumstances.”
 - **BUT: *Highmark* made it more difficult for the Federal Circuit to reverse**
- Fee requests increased noticeably in 2014 (114, compared to 60-80 annually in prior years, per Docket Navigator)

Defendants' Motions for Attorney Fees Post-Octane Fitness



- Grant of attorney fees to defendants post-Octane rose from 13% to 36%.
- Number of motions for attorney fees filed by defendants post-Octane rose 84%.

- Patent reform legislation is pending in both the House and the Senate.
- Senate Bill —The PATENT Act.
- House Bill —The Innovation Act.
- The focus is abusive patent litigation. AIPLA's Economic survey shows that as of 2013, the median litigation costs for a patent infringement suit with at least \$1 million at risk ranges from \$2-5.5 million. NPEs have taken advantage of this by suing many parties in the hope of obtaining many settlements.
- Key provisions of both:
 - Loser pays; loser pays costs of litigation. This allows a party to litigate and have the costs reimbursed.
 - More detailed complaints. Must identify claims infringed.
 - Staged discovery. Discovery delayed until initial dispositive motions filed or Markman hearing.
 - Disclosure of patent ownership.

Questions?