

## Parallel Patent Proceedings Before the PTAB and Federal Court Post-AIA

Navigating Litigation Stays, Discovery and Settlements Concurrent with PTAB Review

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THURSDAY, MARCH 20, 2014

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

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Today's faculty features:

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**PARALLEL PATENT  
PROCEEDINGS BEFORE THE  
PTAB AND FEDERAL COURT  
POST-AIA**

**PRESENTED TO:  
STRAFFORD LIVE CLE WEBINAR**

**MARCH 20, 2014**

**PRESENTED BY:  
MICHAEL L. KIKLIS  
ERIC W. SCHWEIBENZ**

# AGENDA

- **Background for Presentation**
- **Procedural Differences Between District Courts and PTAB**
  - 35 U.S.C § 101
  - Claim construction
  - Amending claims
- **Litigation Strategies**
  - Estoppel
  - Stays
- **Discovery Implications**
- **Settlement Implications**
- **Patent Validity Implications**

# BACKGROUND: THE AIA

## ■ **America Invents Act**

- Effective as of September 16, 2012
- Very popular and widely viewed as success
- Fast, inexpensive, and lethal
- *Inter Partes* Review (IPR)
- Covered Business Method Patent Review (CBM)

# BACKGROUND: AIA STATISTICS AS OF FEB. 6, 2014

## NUMBER OF AIA PETITIONS

FY	Total	IPR	CBM	DER
2012	25	17	8	
2013	563	514	48	1
2014	399	337	59	3
Cumulative	987	868	115	4

## AIA PETITION TECHNOLOGY BREAKDOWN

Technology	Number of Petitions	Percentage
Electrical/Computer	695	70.4%
Mechanical	156	15.8%
Chemical	75	7.6%
Bio/Pharma	55	5.6%
Design	6	0.6%

# BACKGROUND: AIA STATISTICS AS OF FEB. 6, 2014

## NUMBER OF PATENT OWNER PRELIMINARY RESPONSES

FY	IPR		CBM	
	Filed	Waived	Filed	Waived
2013	237	63	33	2
2014	195	83	35	1

## AIA TRIALS INSTITUTED/DISPOSALS

		Trials Instituted	Joinders	Denials	Total No. of Decisions on Institution	Disposals		
						Settlements	Final Written Decisions*	Other**
IPR	FY13	167	10 <sup>+</sup>	26	203	38	2	1
	FY14	134	1 <sup>+</sup>	41	176	46	14	
CBM	FY13	14		3	17	3	1	
	FY14	17		2	19	5	4	

<sup>+</sup>11 cases joined to 9 base trials for a total of 20 cases involved in joinder.

\*Includes judgment on request for adverse judgment.

\*\*Includes terminations due to dismissals.



# BACKGROUND: THE AIA

## ■ IPRs and CBMs

- Fast – 12 months from institution to final written decision
- Inexpensive – costs a fraction of a patent litigation
- Lethal
  - 15 IPR Final Decisions on the merits – 95% of claims found unpatentable
  - 8 Covered Business Method Patent Review Decisions on the merits – 98% of claims found unpatentable

# BACKGROUND: THE AIA

## ■ IPRs and CBMs

- Easier to kill patent
  - Broad claim constructions (early in proceeding)
  - Lower standard for proving invalidity
- Make a record

# BACKGROUND: THE AIA

## ■ *Inter Partes Review*

- Limited to patents and printed publications
- Restrictions
  - Must initiate within 1 year after service of complaint
  - Prior DJ invalidity challenges bar later use of IPR
- Standard – reasonable likelihood that petitioner would prevail with respect to at least one claim challenged

# BACKGROUND: THE AIA

## ■ Covered Business Method Patent Review

- All statutory defenses allowed: 101, 112, 102, 103
- Virtual automatic stay
- Limited to Covered Business Method Patents – financial product or service, but does not include technological invention
- Must have been sued or charged with infringement
- Standard – more likely than not that at least one claim is unpatentable

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - COURTS

## ■ § 101 Framework

- Determine statutory category that claim fits into: (1) Process; (2) Machine; (3) Manufacture; or (4) Composition of Matter
  - In *Cybersource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366 (Fed. Cir. 2011), court treated computer-readable medium claim as process claim
- Determine whether claim fits into one of three judicially created exceptions to patentable subject matter: (1) laws of nature; (2) physical phenomena; and (3) abstract ideas.
  - CAFC has used several different tests

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - COURTS

- ***Ultramercial v. Hulu* (Fed. Cir. 2013)**
  - Method claims for distribution of products over Internet
  - Motions to dismiss – “[I]t will be rare that a patent infringement suit can be dismissed at the pleading stage for lack of patentable subject matter” because of the presumption of validity
  - Clear-and-convincing standard applies to § 101 inquiry:
    - “[A]ny attack on issued patent based on a challenge to the eligibility of the subject matter must be proven by clear-and-convincing evidence”
    - “Analysis under § 101, while ultimately a legal determination, is rife with underlying factual issues”

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - COURTS

- ***Ultramercial v. Hulu* (Fed. Cir. 2013)**
  - Factual issues
    - Search for limitations that narrow or tie claims to specific applications
    - Does patent embrace a scientific principle or abstract idea?
    - Determination of “routine, well-understood, or conventional” steps?
    - Scope of preemption – how much of field is tied up?
  - Judicially created exceptions to patentable subject matter should be applied narrowly
  - CAFC addressed abstract ideas:
    - Test – “[D]oes the claim cover only an abstract idea, or instead does the claim cover an application of an abstract idea?”
    - “A court cannot go hunting for abstractions by ignoring the concrete, palpable, tangible limitations of the invention the patentee actually claims”

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - COURTS

- ***Ultramercial v. Hulu* (Fed. Cir. 2013)**
  - Fed. Cir. addressed *meaningful* limitations:
    - “The relevant inquiry is whether a claim, as a whole, includes *meaningful* limitations restricting it to an application, rather than merely an abstract idea”
    - All patents pre-empt some future innovation – “Pre-emption is only a subject matter problem when a claim pre-empts all practical uses of an abstract idea.”
    - A claim is meaningfully limited if it requires a particular machine or a particular transformation of matter.



# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - COURTS

- ***Ultramercial v. Hulu* (Fed. Cir. 2013)**
  - Fed Cir. Addressed *Mayo*'s so-called "Point-of-Novelty" Test:
    - "[P]rinciples of patent eligibility must not be conflated with those of validity. . . ."
    - "[T]he Supreme Court's reference to "inventiveness" in *Prometheus* can be read as shorthand for its inquiry into whether implement the abstract idea in the context of the claimed invention inherently requires the recited steps"

# PROCEDURAL DIFFERENCES:

## 35 U.S.C. § 101 - COURTS

- ***Ultramercial v. Hulu* (Fed. Cir. 2013)**
  - “It was error for the district court to strip away these limitations and instead imagine some ‘core’ of the invention.”
  - Court reviewed the specification and stated: “Viewing the subject matter as a whole, the invention involves an extensive computer interface.”
  - In response to argument that “the software programming necessary to facilitate the invention deserves no patent protection,” the court cited to *Alappat*: “programming creates a new machine”
  - “[T]he claimed invention is not so manifestly abstract as to override the statutory language of section 101.” Citing *Research Corp.*, 627 F.3d at 869.

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - COURTS

- ***Ultramercial v. Hulu* (Fed. Cir. 2013)**
  - Judge Lourie’s abstractness analysis in his concurrence:
    - (1) identify fundamental concept, and
    - (2) look at balance of claim to determine whether additional limitations “narrow, confine or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself.”

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - COURTS

- ***Accenture Global Servs. v. Guidewire Software (Fed. Cir. 2013)***
  - Claims at issue:
    - Claims 1–7 (system claims)
    - Claims 8–22 (method claims)
  - District court:
    - Granted Guidewire’s Motion for Summary Judgment
    - Holding – The system and method claims were invalid under 35 U.S.C. §101
  - Accenture appealed the ruling only as to system claims
    - Therefore, method claims were conclusively invalid

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - COURTS

- ***Accenture Global Servs. v. Guidewire Software* (Fed. Cir. 2013)**
  - CAFC affirmed district court's determination
    - Majority – Judges Lourie and Reyna
  - Majority held that system claims were invalid for two reasons
    - Compared system claims to invalid method claims
      - Using the plurality opinion in *CLS Bank*, majority "compare[d] the substantive limitations of the method claim and the system claim to see if the system claim offers a 'meaningful limitation' to the abstract method claim, which has already been adjudicated to be patent-ineligible."
      - "The system claims are simply the method claims implemented on a system for performing the method"
    - Analyzed system claims using "two-part test of *CLS Bank*"
      - "[I]dentified the abstract idea of the claim"
      - Applied a "preemption analysis"
      - "Accenture's attempts to limit the abstract concept to a computer implementation and to a specific industry thus do not provide additional substantive limitations to avoid preempting the abstract idea of system claim"

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - COURTS

- **Accenture Global Servs. v. Guidewire Software (Fed. Cir. 2013)**
  - Dissent – Chief Judge Rader
  - Disagreed with majority for two reasons:
    - *CLS Bank* lacks precedential value
      - “[N]o part of *CLS Bank*, including the plurality opinion, carries the weight of precedent. The court’s focus should be on Supreme Court precedent and precedent from this court.”
    - Disagreed that “Accenture’s failure to appeal the invalidation of the method claims estops it from arguing that the elements contained there (and shared by the system claims) are directed to patent-eligible subject matter.”
  - Chief Judge Rader would have held that the “claimed systems present patent-eligible subject matter”
  - Noted that *CLS Bank* has done nothing to clarify issue of what makes an idea abstract

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - PTAB

- **PTAB Approach – *SAP America, Inc. v. Versata Development Group, Inc.* (CBM2012-00001)**
  - Claim 17 – a method of determining a price
  - Claim 27 – a computer-implemented method of determining a price
  - Claims 26 and 28 – computer-readable storage media claims implementing the methods of Claims 17 and 27
  - Claim 29 – “apparatus” for determining a price including computer program instructions capable of performing the same method steps recited in Claim 27
  - PTAB analyzed all claims together

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - PTAB

- **PTAB Approach – *SAP America, Inc. v. Versata Development Group, Inc.* (CBM2012-00001)**
  - “The key question is, therefore, whether the claims do significantly more than simply describe the law of nature or abstract idea.”
  - The abstract idea: “determining a price using organizational and product group hierarchies, which are akin to management organizational charts.”
  - Having found an abstract idea, “we must further analyze Versata’s claims to determine whether they incorporate sufficient meaningful limitations. . . .”



# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - PTAB

- **PTAB Approach – *SAP America, Inc. v. Versata Development Group, Inc.* (CBM2012-00001)**
  - Mental steps test: “while the challenged claims are drafted to include computer hardware limitations, the underlying process . . . could also be performed via pen and paper.”
  - General purpose computer: “The claimed invention . . . requires only routine computer hardware and programming.”
  - Additional meaningful limitations: “the additionally claimed steps . . . are well-known, routine, and conventional steps.”

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - PTAB

- **PTAB Approach – *CRS Adv. Tech., Inc. v. Frontline Tech. Inc.* (CBM2012-00005)**
  - Holding – All challenged claims (method and system) are unpatentable under § 101
  - “[T]he terms ‘one or more computers,’ ‘website,’ and ‘communication link’ at issue in this case do not impose meaningful limits on the challenged claims’ scope.”
  - Compared technology limitations to those of:
    - *SiRF Tech., Inc. v. Int’l Trade Comm’n*, 601 F.3d 1319 (Fed. Cir. 2010)
    - *Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335 (Fed. Cir. 2013)
    - *Dealertrack, Inc. v. Huber*, 674 F.3d 1315, (Fed. Cir. 2012)
    - *Bancorp Servs. v. Sun Life Assurance Co.*, 687 F.3d 1266 (Fed. Cir. 2012)
    - *Accenture Global v. Guidewire Software*, 728 F.3d 1336 (Fed. Cir. 2013)
  - Note: PTAB did not discuss/use *CLS Bank* decision

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101 - PTAB

- **PTAB Approach – *Interthinx, Inc. v. CoreLogic Solutions, LLC* (CBM2012-00007)**
  - Found all claims (method claims) unpatentable:
    - Patent Owner: Under M-O-T, “the computer plays a necessary and vital role to the development and storage of the predictive and error models.”
      - PTAB: “Although the preamble recites a computer implemented process, none of the claim elements, with the possible exception of the ‘storing’ limitations, specifically recites a relationship to the computer.”
    - Patent Owner: “[T]he claims pass the Federal Circuit’s ‘mental process test’ because they ... cannot be performed entirely manually or in the human mind.”
      - PTAB: “However, the claims ...do not tie necessarily these steps to a computer or a particular application.”
    - Patent Owner: “[T]he claims satisfy the “abstract idea” test for patentable subject matter because, rather than being tied preemptively to a field of use, they are narrowly tied to a specific application”
      - PTAB: “A claim is not patent eligible if, instead of claiming an application of an abstract idea, the claim instead is drawn to the abstract idea itself.”

# PROCEDURAL DIFFERENCES: 35 U.S.C. § 101

- **Tips for using § 101 as a defense**
  - Uncertainty in state of law
    - Make a good factual record
    - Make a good legal record
  - Has the window closed for raising it in a motion to dismiss?
  - Use defense at the district court or the PTAB?
    - Speed
    - Collateral estoppel
    - Chances of success

# PROCEDURAL DIFFERENCES: CLAIM CONSTRUCTION

## ■ District Courts

- Provide claim construction briefing schedule
  - E.D. Texas – opening claim construction briefs due about 8 months after Initial Case Management Conference
  - N.D. Cal – opening claim construction briefs due about 5.5 months after Initial Case Management Conference
  - *Markman* hearing
  - District Court issues claim construction opinion
- Standard
  - “[O]rdinary and customary meaning” *Phillips v. AWH Corp.* (Fed. Cir. 2005)
  - Construes patent in light of claim language, specification, prosecution history, and, if necessary, extrinsic evidence

# PROCEDURAL DIFFERENCES: CLAIM CONSTRUCTION

## ■ PTAB

- Petitioner challenging claims must identify at least “[h]ow the challenged claim is to be construed.”
  - Provide statement that claim terms take on ordinary or customary meaning
  - Point out any claim terms that have special meaning and definition in specification
  - Patentee not required to propose any claim constructions
- Standard
  - “broadest reasonable construction in light of the specification in which it appears.” 37 C.F.R. § 42.100(b).
    - Applies even if district court has already construed same claims
  - Expired patents

# PROCEDURAL DIFFERENCES: CLAIM CONSTRUCTION

- **PTAB Review's Effect on District Court Proceedings**
  - APJs have experience in construing claims and prior art
    - May lead district court to show deference to PTAB analysis
  - District Court can compare arguments made at PTAB with those made in litigation
  - The arguments/analysis of PTAB proceeding may influence claim construction arguments in district court

# PROCEDURAL DIFFERENCES: CLAIM CONSTRUCTION

- **District Court's Effect on PTAB Proceedings**
  - PTAB will carefully consider claim construction and related arguments from parallel Dist. Ct. proceedings – *SAP v. Versata*
    - However, because of different claim construction standards may not adopt



# PROCEDURAL DIFFERENCES: CLAIM CONSTRUCTION

- **Must Present Majority of Case in Petition**
  - Patent owner may reveal claim construction within 3 months after filing petition in patent owner's preliminary response
  - PTAB construction at 6 months
  - Motion to amend claims will occur by 9 months
- **Speed of the PTAB proceeding makes argument coordination challenging if district court action proceeds in parallel**

# PROCEDURAL DIFFERENCES: AMENDING CLAIMS

- **Amending Claims During PTAB Review – Motion to Amend - 37 C.F.R. § 42.121(a)**
  - A patent owner may file one motion to amend a patent, but only after conferring with PTAB
    - Due date: Unless due date is provided in PTAB order, a motion to amend must be filed no later than the filing of patent owner response.
    - Scope: A motion to amend may be denied where:
      - (i) The amendment does not respond to a ground of unpatentability involved in the trial; or
      - (ii) The amendment seeks to enlarge the scope of the claims of the patent or introduce new subject matter.
    - A reasonable number of substitute claims: A motion to amend may cancel challenged claim or propose reasonable number of substitute claims
    - Presumption is only one substitute claim needed to replace each challenged claim, and it may be rebutted by a demonstration of need

# PROCEDURAL DIFFERENCES: AMENDING CLAIMS

- **Amending Claims During PTAB Review – Content- 37 C.F.R. § 42.121(b)**
  - A motion to amend claims must include a claim listing, show the changes clearly, and set forth:
    - The support in the original disclosure of the patent for each claim that is added or amended; and
    - The support in an earlier-filed disclosure for each claim for which benefit of the filing date of the earlier filed disclosure is sought.

# PROCEDURAL DIFFERENCES: AMENDING CLAIMS

- **Amending Claims During PTAB Review – Additional Motion to Amend - 37 C.F.R. § 42.121(c)**
  - In addition to the requirements set forth in paragraphs (a) and (b) of this section, any additional motion to amend may not be filed without Board authorization. An additional motion to amend may be authorized when there is a good cause showing or a joint request of the petitioner and the patent owner to materially advance a settlement. In determining whether to authorize such an additional motion to amend, the Board will consider whether a petitioner has submitted supplemental information after the time period set for filing a motion to amend in paragraph (a)(1) of this section.

# LITIGATION TACTICS: ESTOPPEL

- ***Inter Partes Review***
  - Cannot assert any ground of invalidity that it raised or reasonably could have raised
    - Only applies if IPR reaches a final written decision

# LITIGATION TACTICS: ESTOPPEL

- **CBM Review**
  - Estoppel only applies to what was actually raised
    - Only applies once PTAB has renders final written decision

# LITIGATION TACTICS: STAYS

- **CBM – Factors Considered**
  - Whether stay will simplify issues and streamline trial
  - Whether discovery is complete
  - Whether stay will unduly prejudice moving party
  - **Whether stay will reduce the burden of litigation**
- **May immediately appeal adverse decision on stay to CAFC**
- **Implementation by District Courts**
  - Likely to grant if filed after CBM has been instituted by PTAB
    - D. Del and E.D. Tex have denied if not yet instituted

# LITIGATION TACTICS: STAYS

- **IPR – Factors Considered**
  - Stage of litigation
  - Potential to simplify issues
  - Potential prejudice to patent owner if granted
- **Implementation by District Courts**
  - Courts are likely to grant stays
    - As of January 22, 2014 – 98 granted and 43 denied
  - More likely to grant stays after PTAB has instituted IPR
    - But have denied for being too late
    - Advisable to review judge’s previous rulings



# LITIGATION TACTICS: STAYS

- **Implementation by District Courts (N.D. Cal.)**
  - 18 granted, 6 denied in part granted in part, 3 denied
    - Heavily consider whether litigation at early stage
    - Has required that all defendants agree to be bound by estoppel – they may not assert in the suit that the claim is invalid on any ground that party requesting IPR could have raised/reasonably raised during IPR. *Pi-Net Int'l, Inc.*, No. 12-cv-09458, -4959, -4962, Oct. 3, 2013

# LITIGATION TACTICS: STAYS

- **Implementation by District Courts (E.D. Tex.)**
  - 8 granted, 3 denied without prejudice, 3 denied
    - Granted stay where all defendants stipulated to be estopped from asserting invalidity as to the references which the PTO agreed to consider.
    - Non-petitioner defendants could raise references that were not included as part of the IPR.
    - All defendants could still maintain that asserted claims are invalid under 35 U.S.C. § 112. *Unifi Sci. Batteries, LLC*, 12-cv-224, -223, -225, -221 (Jan. 14, 2014).

# LITIGATION TACTICS: STAYS

- **Implementation by District Courts (D. Del.)**
  - 6 granted, 2 denied in part granted in part, 2 denied, 1 ruling deferred
    - Has applied limited estoppel where all defendants who were not actually IPR petitioners agreed to be estopped from asserting any obviousness combinations that were actually presented to the PTO, but allowing defendants to re-assert anticipatory references. *In re Bear Creek Tech.*, 12-md-2344 (Jul. 17, 2013).

# DISCOVERY TACTICS: PTAB

- **Limited discovery including depositions of fact or expert witnesses**
  - Entitled to routine discovery
    - Includes all exhibits cited
    - Deposition of party's witnesses/declarants
    - Relevant information inconsistent with position taken
  - May request additional discovery by motion

# DISCOVERY TACTICS: PTAB

## Additional Discovery

- Parties may agree between themselves (37 CFR § 42.51(b)(2))
- For IPR – 35 U.S.C. § 316 (A)(5) “such discovery shall be limited to . . . what is otherwise necessary in the interest of justice”
- For PGR – 35 U.S.C. § 326 (A)(5) “such discovery shall be limited to evidence directly related to factual assertions advanced by either party in the proceeding”
  - PTAB Rules of Practice, at 49 - While a good cause standard requires a party to show a specific factual reason to justify the needed discovery, under the interests-of-justice standard, the Board would look at all relevant factors. Specifically, to show good cause, a party would be required to make a particular and specific demonstration of fact. Under the interests-of-justice standard, the moving party would also be required to show that it was fully diligent in seeking discovery and that there is no undue prejudice to the non-moving party. In contrast, the interests-of-justice standard covers considerable ground, and in using such a standard, the Board expects to consider whether the additional discovery is necessary in light of the totality of the relevant circumstances.

# DISCOVERY TACTICS: PTAB

- **Additional Discovery – “Interests of Justice” - IPR2012-00001 – *Garmin v. Cuozzo*, Paper No. 26, March 5, 2013**
  1. More Than A Possibility And Mere Allegation – Party requesting discovery should already possess evidence tending to show beyond speculation that in fact something useful will be uncovered
  2. Litigation Positions And Underlying Basis – Asking for other party’s litigation positions and underlying basis for those positions is not necessary in the interest of justice
  3. Ability To Generate Equivalent Information By Other Means – Information a party can reasonably figure out or assemble without a discovery request would not be in the interest of justice to have produced by the other party
  4. Easily Understandable Instructions
  5. Requests Not Overly Burdensome To Answer – Burden includes financial burden, burden on human resources, and burden on meeting the time schedule of IPR. Requests should be sensible and responsibly tailored according to a genuine need

# DISCOVERY TACTICS: DISTRICT COURTS

- **Much broader scope of discovery**
  - “Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party’s claim or defense” –
    - Does not have to be admissible at trial, just reasonably calculated to lead to admissible evidence.
  - Entitled to more information via interrogatories, depositions, etc.
  - Longer period of time to gather information
  - More expensive

# SETTLEMENT IMPLICATIONS

## ■ IPR/CBM Proceedings

- “The parties may agree to settle any issue in a proceeding, but the Board is not a party to the settlement and my independently determine any question of jurisdiction, patentability, or Office practice.” 37 C.F.R. § 42.74(a).
  - *Interthinx, Inc. v. Corelogic Solutions, LLC*, CBM2012-00007
    - Board terminated involvement of Petitioner, but independently decided to independently proceed to a final written decision.
    - Found that *res judicata* and collateral estoppel did not limit Board’s ability to decide the challenges at issue
    - Cancelled challenged claims as unpatentable

## ■ District Court Proceedings

- Settlement ends the litigation



# PATENT VALIDITY: IMPLICATIONS

## ▪ *Inter Partes Review*

- Only invalidity arguments under 35 U.S.C. §§ 102 and 103 – patents and printed publications
- Preponderance of evidence standard

## ▪ **CBM Review**

- Can rely on any statutory defense: §§ 101, 102, 103 and 112
- Preponderance of the evidence standard

## ▪ **District Court Proceedings**

- May rely on any form of prior art
- May rely on all arguments, including 35 U.S.C. §§ 101 and 112
- Clear-and-convincing evidence needed to invalidate a claim

# PATENT VALIDITY: IMPLICATIONS

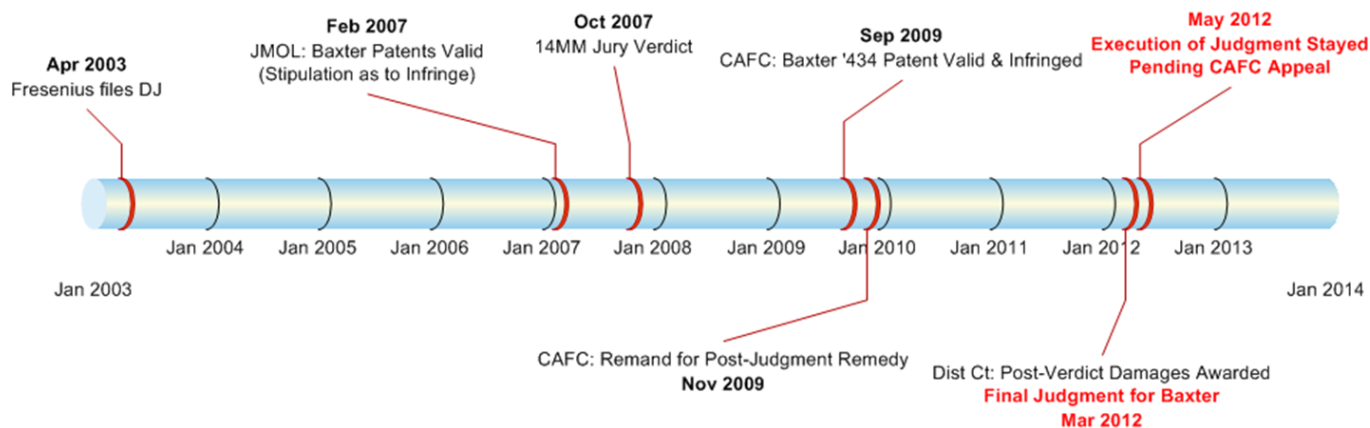
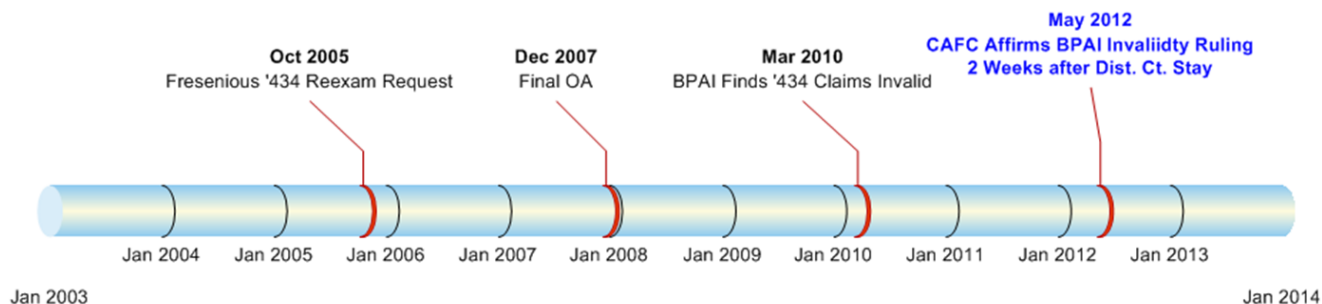
- ***Fresenius USA v. Baxter, No. 2011-cv-1334, -1355 (Fed. Cir. July 2, 2013)***
  - Technology: '434 patent directed to a hemodialysis machine with an integrated touch screen interface
  - Brief Chronology:
    - Fresenius brings DJ suit against '434 patent
    - Judgment against Fresenius – '434 not invalid and infringed
    - While litigation pending, reexamination determined that all asserted claims invalid
    - Post-judgment damages remain pending
    - Fresenius argues that Baxter no longer has cause of action

# PATENT VALIDITY: IMPLICATIONS

- ***Fresenius USA v. Baxter (cont'd)***
  - **Issue:** Whether cancellation of claims during reexamination proceeding by the PTO must be given effect in litigation where merits issues finally decided, but some damages issues remain on appeal

# PATENT VALIDITY: IMPLICATIONS

## ■ *Fresenius USA v. Baxter* - Timeline



# PATENT VALIDITY: IMPLICATIONS

- ***Fresenius USA v. Baxter* – Statutory Backdrop**
  - Reexamination statute modeled from Reissue
    - Suit for past infringement only allowable for claims that survive reexamination in “identical” form
  - General Rules:
    - Cancellation of claims = claims void ab initio
      - Patentee loses any cause of action based on canceled claims, pending litigations moot
    - Similarly, cancellation of claims cannot be used to reopen final damages judgment

# PATENT VALIDITY: IMPLICATIONS

- ***Fresenius USA v. Baxter – Baxter’s Argument on Appeal***
  - District Court’s 2007 judgment is “final” and “binding” between the parties and, therefore, has res judicata effect within the pending litigation
  - CAFC:
    - “It is important here to distinguish between different concepts of finality.... We are ... not dealing with finality for purposes of determining the potential res judicata effect of this infringement litigation on another suit. We are concerned instead with whether the judgment in this infringement case is sufficiently final so that it is immune to the effect of the final judgment in the PTO proceedings.”

# PATENT VALIDITY: IMPLICATIONS

- ***Fresenius USA v. Baxter – CAFC Holding***
  - 2007 judgment may have been given preclusive effect in another infringement case between parties, but it was not sufficiently final to preclude application of the intervening final judgment in reexam
    - 2007 judgment did not “end[] the litigation on the merits and leave[] nothing for the court to do but execute the judgment.”
      - Quoting *Mendenhall v. Barber-Green Co.*, 26 F.3d 1573, 1580 (Fed. Cir. 1994).
  - Where the scope of relief remains to be determined, there is no final judgment binding the parties (or the court)
    - Even if liability already established

# PATENT VALIDITY: IMPLICATIONS

- ***Fresenius USA v. Baxter – CAFC Holding***
  - CAFC rejected Baxter’s argument that allowing a PTO determination to control the outcome of pending litigation offends separation of powers, citing *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211 (1995)
    - *Plaut* should not be read to impose restrictions on reopening cases before there is a final judgment ending the case
    - Similarly, *Plaut* recognized that “when a new law makes clear that it is retroactive, an appellate court must still apply that law in reviewing judgments still on appeal that were rendered before the law was enacted, and must alter the outcome accordingly.”



# PATENT VALIDITY: IMPLICATIONS

- ***Fresenius USA v. Baxter – CAFC Holding***
  - If damages issues remain pending, a district court’s finding that an asserted patent is “not invalid” is subject to “reversal” via reexamination
  - In other words, without a final (non-appealable) judgment, a reexamination finding of invalidity can erase a prior damages award
    - Finality means that there is nothing for the court left to do but execute the judgment

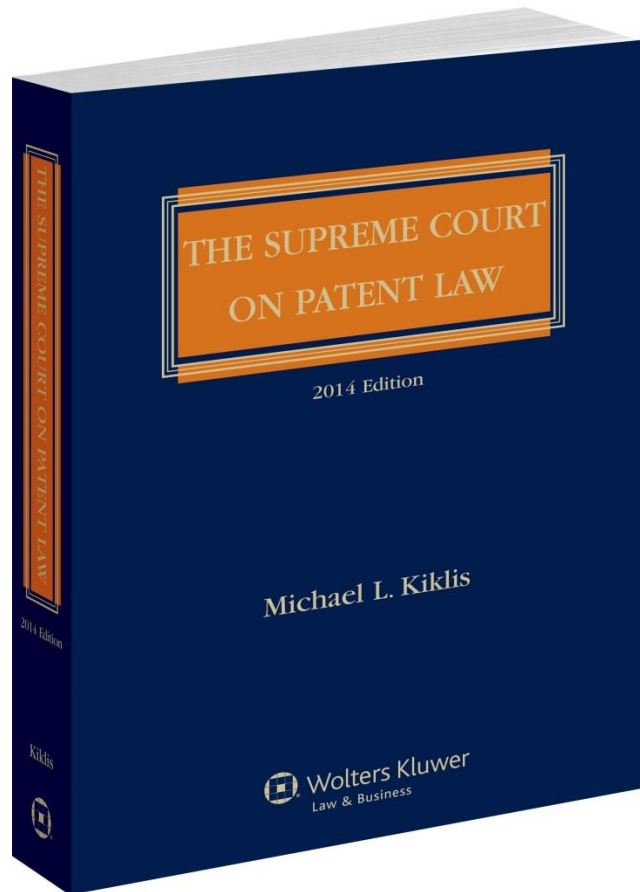
# PATENT VALIDITY: IMPLICATIONS

- ***Versata Software v. SAP America*, 106 USPQ 2d. 1648 (Fed. Cir. 2013)**
  - Technology: computerized pricing engines
    - Versata’s “Pricer” won 35% of bids pre SAP
    - Pricer sales went to zero after SAP entered market
  - At trial: Versata awarded
    - \$260 million lost profits
    - \$85 million reasonable royalties
    - Decision affirmed by CAFC in May 2013
  - CBM:
    - Prior to CAFC litigation decision, SAP sought Covered Business Method Patent Review

# PATENT VALIDITY: IMPLICATIONS

- ***Versata Software v. SAP America*, 106 USPQ 2d. 1648 (Fed. Cir. 2013)**
  - **Jan 2013:** PTAB rejects Versata’s preclusion/estoppel arguments
    - “As the final judgment in the related *Versata v. SAP* litigation is currently on appeal to the Federal Circuit, we hold that the district court’s judgment is not sufficiently firm to be accorded conclusive effect for purposes of 37 C.F.R. 42.302 as it is still subject to reversal or amendment.”
  - **May 2013:** CAFC affirms litigation holding. Remand to consider scope of injunction
  - **June 2013:** PTAB finds asserted claims invalid under 101 as “disembodied concept”
    - SAP asks Federal Circuit to stay the case until Versata appeal completed
  - **Nov 2013:** Versata appeals PTAB decision to Federal Circuit
  - **Jan 2014:** Supreme Court denies litigation *cert.* petition

# ***THE SUPREME COURT ON PATENT LAW***



“In this well organized, readily accessible and highly readable treatise, Michael Kiklis analyzes the serial interventions by the Supreme Court that keep altering the purely statutory patent law as interpreted by the Federal Circuit and understood by patent practitioners. Because these alterations are continuing and even accelerating, practitioners need to anticipate where the Court is headed next if they are to serve their clients well. By stressing trends and explaining dicta for what it may portend, Kiklis provides an invaluable chart for navigating shifting seas.” – **Paul Michel, former Chief Judge, United States Court of Appeals for the Federal Circuit**

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# THANK YOU

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