

# CHISUM PATENT ACADEMY®

## Takeaways from Our Seattle 2016 Seminars

On August 4-5 and 8-9, 2016 the [Chisum Patent Academy](#) held two advanced patent law roundtable seminars at the historic Mayflower Park Hotel in Seattle, Washington. In addition to covering recent “blockbuster” court decisions, our primary focus was “The Brave New World of IPR.” We emphasized repeatedly that the law and procedure of inter partes review is a moving target. The Federal Circuit reaffirmed that on Friday, August 12, when it granted rehearing en banc in one of the IPR claim amendment cases analyzed during our seminar, *In re Aqua Products*, 823 F.3d 1369 (Fed. Cir. May 25, 2016). The rehearing seeks to resolve questions about the proper burdens of persuasion and production when a patentee proposes substitute claims under 35 U.S.C. §316(d). Click [here](#) for a link to the order granting rehearing en banc. Claim amendments in IPRs and the *Aqua Products* decision are further detailed below.

To spark interactive discussion, our seminar groups were limited to ten persons. Treatise authors and educators [Donald Chisum](#) and [Janice Mueller](#) led each of the discussion sessions. Experienced patent litigators and prosecutors from law firms and corporations in Seattle, Portland, Vancouver, Palo Alto, Boulder, Boston, and Hyderabad participated:



August 4-5, 2016 Seattle Seminar Attendees



August 8-9, 2016 Seattle Seminar Attendees

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## Here’s our recap of the takeaways from the seminar:

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### Session I: “2016 Blockbuster Supreme Court and Federal Circuit Decisions”:

Kicking off each seminar with our traditional “Blockbusters” session, we concluded that the Supreme Court’s June 2016 decision in *Halo Elecs. v. Pulse Elecs.*, 136 S. Ct. 1923 (2016), is likely its most pro-patent decision since the 1980 landmark, *Diamond v. Chakrabarty*. Revisiting

the law on enhanced damages and willful infringement for the first time in over 100 years, the *Halo* Court reminded us that enhanced damages are fundamentally a penalty on those whose infringement amounts to “egregious” misconduct. The federal district courts’ discretion to enhance damages under such circumstances should not be constrained by formalistic multi-part tests (e.g., as set forth in the Federal Circuit’s 2007 en banc decision in *Seagate Techs.*), which allowed willful infringers to escape enhancement with relative ease.

Not all the Supreme Court’s recent patent decisions are equally patentee-friendly. The Court handed the USPTO a major victory in *Cuozzo v. Lee*, 136 S. Ct. 2131 (2016), its first decision dealing with the America Invents Act-implemented inter partes review (IPR) proceeding. The Court roundly rejected the view of those who see IPR as a “surrogate” for district court litigation. Rather, Congress designed IPR as a “hybrid proceeding,” not only for resolving disputes between parties about patentability but also to protect the public’s interest in seeing that “patent monopolies” are kept in check. Authored by Justice Breyer (who also brought us *Mayo v. Prometheus*), the majority opinion in *Cuozzo* affirmed, first, that IPR institution decisions are not reviewable on appeal to the Federal Circuit, at least absent PTO “shenanigans” such as pervasive Due Process problems or institution grants based on grounds like indefiniteness that go beyond the statutory scope of IPR. Second, the Court broadly validated the agency’s authority to promulgate rules governing IPRs, including in particular the use of the controversial “broadest reasonable construction” (BRC) standard for claims in IPRs. Despite extremely limited opportunities to amend claims in IPRs, the *Cuozzo* majority insisted that the BRC standard “as a general matter [is] not unfair to the patent holder in any obvious way.” The Court also posited that the BRC standard encourages applicants to draft claims narrowly, thus preventing patents from “tying up too much knowledge . . . .”

The Federal Circuit in July 2016 issued its en banc decision in *Medicines Company v. Hospira, Inc.*, No. 2014-1469, 2016 WL 3670000. Remarkably, *Medicines Company* marks the first time in its history that the Circuit has decided an en banc case directed to the on sale bar of 35 U.S.C. §102(b) (pre-AIA). Authored by Circuit Judge O’Malley for a unanimous court, the *Medicines Company* opinion went to painstaking lengths in support of its holding that the patentee-supplier transaction at issue had *not* triggered the on sale bar. Although both the patentee “MedCo” and its contract manufacturer Ben Venue Labs. received commercial benefits related to the invention prior to the critical date, such is not the proper test. Rather, as the Supreme Court directed in *Pfaff v. Wells*, the question is whether the claimed invention was the subject of a commercial offer for sale (and was ready for patenting) before the critical date. In *Medicines Company*, the subject of the pre-critical date sale was the supplier’s manufacturing services to make “validation batches” of a drug product, not a sale of the patented drug product itself. Importantly (though not dispositively), the patentee provided the active pharmaceutical ingredient to its contract manufacturer Ben Venue, and title to the drug product did not transfer away from the patentee until after the critical date. Although Ben Venue’s preparation of the validation batches allowed the patentee to stockpile large quantities of the product while awaiting FDA approval, the Circuit held that stockpiling, without more, does not trigger the on sale bar. Although a number of *amici* asked it to resolve the question, the en banc court did not need to reach the perennially contentious issue whether an actual reduction to practice necessarily ends experimental use. Notably, the *Medicines Company* case involved the pre-AIA version of §102, and thus the en banc court did not address the important but uncertain question about the meaning of “on sale” under the America Invents Act. The Federal Circuit will confront that issue in the pending appeal of *Helsinn Healthcare v. Dr. Reddy’s Labs*, No. CV 11-3962 (MLC), 2016 WL 832089 (D.N.J. Mar. 3, 2016).

This session used recent Federal Circuit decisions to examine in detail the two main issues addressed in *Cuozzo*: (1) IPR institution decisions and their reviewability; and (2) the broadest reasonable construction standard for claims challenged in IPRs.

(1) *Appellate Review*. Section 314(d) of 35 U.S.C. provides: “The determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.”

Applying that language, the Supreme Court in *Cuozzo* confirmed that a PTAB institution determination itself was not appealable. It left open, however, what types of issues concerning statutory limits on IPR that the PTAB resolved in instituting an IPR could be reviewed by the Federal Circuit on appeal from the PTAB’s final decision.

The *Cuozzo* opinion was unfortunately vague. It emphasized that “at a minimum,” the PTAB’s core determination of the merits under Section 314(a), that is, whether a petition established a reasonable likelihood that one or more claims was unpatentable, was not reviewable. The reviewability bar extended to the PTAB’s application of “related” statutes, such as the Section 312(a)(3) requirement that an IPR petition set forth grounds of unpatentability “with particularity.” However, *Cuozzo* also suggested that a court *could* review arguments that a petition so failed to give notice as to create a “due process” “problem with the entire proceeding” or that the PTAB had acted “in excess of statutory jurisdiction.”

We carefully studied the Federal Circuit’s relevant pre-*Cuozzo* decisions. Most are likely still “good law.” That would include decisions reviewing the PTAB determination that a patent meets the statutory definition of a “covered business method” so as to be subject to the CBM form of post-grant review (*Versata Development Group, Inc. v. SAP America, Inc.*, 793 F.3d 1306 (Fed. Cir. 2015)), and whether the PTAB had authority to render a final decision on fewer than all the claims a petition challenged when the PTAB had instituted review on only some of the challenged claims (*Synopsys Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309 (Fed. Cir. 2016); *compare Harmonic Inc. v. Avid Technology, Inc.*, 815 F.3d 1356 (Fed. Cir. 2016), and *HP Inc. v. MPHJ Technology Investments, LLC*, 817 F.3d 1339 (Fed. Cir. 2016)).

One line of Federal Circuit decisions seems questionable after *Cuozzo*. Sections 315(a)(1) and Section 315(b) of 35 U.S.C. bar IPR based on a prior suit concerning the patent by or against the petitioner or a privy. The Federal Circuit has held that Section 314(d) barred it from reviewing PTAB decisions on the Section 315 time-bars. *E.g.*, *Achates Reference Publishing, Inc. v. Apple Inc.*, 803 F.3d 652 (Fed. Cir. 2015). However, the Section 315 time-bars involve factual and legal issues totally unrelated to the Section 314 determination on unpatentability. Thus, based on *Cuozzo*, the Federal Circuit *should* review legal conclusions made in PTAB institution decisions that concern the time-bars, such as whether a voluntary dismissal of a suit nullifies the effect of the suit. *See Shaw Industries Group, Inc. v. Automated Creel Systems, Inc.*, 817 F.3d 1293 (Fed. Cir. 2016).

(2) *Broadest Reasonable Construction*. In *Cuozzo*, the Supreme Court liberally confirmed the PTO’s authority to adopt rules dictating use of a “broadest reasonable construction” (BRC) standard for claims rather than the more balanced, “ordinary meaning” standard courts used. The Court did not elaborate on the parameters of the BRC standard. Nor did it comment on whether the Federal Circuit’s en banc *Phillips* decision was the correct one for court-type claim constructions. *See Phillips v. AWH Corp.*, 415 F.3d 1303, 1314 (Fed. Cir. 2005). The Court recognized that application of BRC could cause the PTAB to invalidate a claim that a court would hold not invalid, but was not unduly concerned by that possibility.

We used three recent Federal Circuit decisions to explore whether, in practice, the two claim

interpretation standards were significantly different. The decisions suggested: only rarely!

The Federal Circuit held PTAB claim constructions to be unreasonable when they (1) varied from ordinary meaning without support in a patent's specification, *Straight Path IP Group, Inc. v. Sipnet EU S.R.O.*, 806 F.3d 1356 (Fed. Cir. 2015), or (2) were supported only by the broadest, abstract dictionary definition cited by a party that happened to cover the most embodiments in the specification. *PPC Broadband, Inc. v. Corning Optical Communications RF, LLC*, 815 F.3d 747 (Fed. Cir. 2016).

Notably, one decision did uphold a BRC even though it was broader than a proper *Phillips* claim construction. *PPC Broadband, Inc. v. Corning Optical Communications RF, LLC*, 815 F.3d 734 (Fed. Cir. 2016) (decided the same day as *PPC* above). The patent required electrical "continuity" between a post and a nut in two loosely connected portions of a structure. The PTAB construed "continuity" as requiring only a spatially continuous connection between the post and the nut and held the claim invalid in light of prior art showing such continuity. The Federal Circuit agreed with the patent owner that the proper *Phillips* construction of "continuity" required a temporally continuous connection. That was the usual ordinary meaning of "continuity" as "uninterrupted," and it conformed to a "fundamental purpose" of the invention--to maintain continuity despite a loose connection. However, a variant ordinary meaning was "uninterrupted in space, as, for example a continuous line." That meaning had some support in the patent's specification, which referred to a "continuous ground path." Hence the BRC stood.

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### **Session Three: "Inter Partes Review II: Claim Amendments and Procedural Fairness"**

In the third session, we looked in detail at Federal Circuit decisions on two key topics involved in IPR: claim amendments and procedural fairness.

(1) *Claim Amendments*. Our study of the decisions on amendments, beginning with *Microsoft Corp. v. Proxyconn, Inc.*, 789 F.3d 1292 (Fed. Cir. 2015), and leading to *In re Aqua Products*, 823 F.3d 1369 (Fed. Cir. 2016), *vacated and rehearing en banc granted* (Aug. 12, 2016), revealed fundamental problems with the PTO's rules and the PTAB's application of them. In practice, the PTAB had rarely allowed an amendment. Thus, we were not surprised when, three days after our seminars ended, the Federal Circuit granted en banc review in *Aqua Products*. The en banc Federal Circuit may well be inclined to loosen the restrictions on amendments. But the PTO could potentially respond by resorting to its express rule-making powers to clarify the standards for amendment. Any such rule would receive "*Chevron*-deference," as the Supreme Court discussed in *Cuozzo*.

An IPR statute (Section 316(d)) expressly provides that a patent owner "may file 1 motion" to amend and that the PTO may permit "additional motions." Congress authorized the PTO to adopt rules setting "standards and procedures for allowing the patent owner to amend ...." (Section 316(a)(9)). The PTO duly adopted rules, which, inter alia, allowed the PTAB to deny a motion to amend "where" the amendment either (1) did "not respond to a ground of unpatentability involved in the trial," or (2) enlarged claim scope. (37 CFR § 42.121(a)).

Soon after IPR came into force in September 2012, the PTAB began imposing requirements for amendments beyond the minimum requirements stated in the statute and rules. In *Idle Free Systems, Inc. v. Bergstrom, Inc.* (June 11, 2013), designated "representative" by the PTAB, one requirement was that the patent owner establish that amended or substitute claims were patentable over the prior art of record in the IPR *as well as* the prior art of which the patent owner

was otherwise aware. Later, the PTAB issued a second representative decision, *MasterImage* (July 15, 2015), which clarified that the *Idle Free* reference to “prior art known to the patent owner” meant only the prior art that the patent owner made of record in the current IPR pursuant to its IPR Rule 11 duty of candor, “in light of the Motion to Amend.”

A chain of Federal Circuit panel decisions upheld the PTAB practice on denying amendments. In *Proxyconn*, the court rejected an argument that the PTO’s Rule 121 set forth an exclusive list of reasons for denying an amendment. The PTO’s Rule 20(c), which governs motions generally, requires a movant (here, the patent owner) to establish entitlement to the relief sought by the motion. The court also held that the PTAB could require the patent owner to show patentability of substitute claims over not only the prior art specifically cited against the claims to be replaced but also all prior art “of record” in the IPR, including prior art the petitioner had cited against other claims. In *Prolitec, Inc. v. ScentAir Technologies, Inc.*, 807 F.3d 1353 (Fed. Cir. 2015), the court extended *Proxyconn*, allowing the PTAB to require that the patent owner show unpatentability over prior art that was not of record in the IPR but was cited in the original prosecution of the patent. In *Nike, Inc. v. Adidas AG*, 812 F.3d 1326 (Fed. Cir. 2016), the court held that a PTAB panel had erred in requiring a patent owner to show in some detail that substitute claims were patentable over all prior known to the patent owner. *Nike* noted that the PTAB panel had acted before the Board’s clarification in *MasterImage*.

In approving placement of the burden of proving patentability of amended or substitute claims on a patent owner, neither *Proxyconn* nor *Prolitec* addressed Section 316(e), which provides (emphasis added): “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.” In *Synopsys Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309 (Fed. Cir. 2016), the majority held that Section 316(e) was limited to the patent’s claims upon which IPR was instituted and did not extend to amended or substitute claims. Judge Newman dissented. In *Nike*, the court, per Judge Chen, confirmed Section 316(e)’s inapplicability. He noted that Section 316(a)(9) gave the PTO specific authority to establish standards for amending a patent. It also directed the PTO to ensure that information a patent owner submitted in support of an amendment be made public. That indicated that a patent owner carried “an affirmative duty to justify why newly drafted claims-- which, unlike the issued claims, had never been evaluated by the PTO--should be entered into the proceeding.”

(2) *Procedural Fairness*. We studied a line of cases that addressed arguments by both patent owners and petitioners that PTAB panel decisions denied the requirement of procedural fairness, as guaranteed by both the Administrative Procedure Act and the constitutional right to due process (notice and opportunity to respond). The arguments were based on PTAB reliance on (or refusal to consider) prior art and evidence not specifically set forth in the petition for IPR or in the PTAB’s institution decision.

We found important lessons for both petitioners and patent owners on how to draft petitions, patent owner responses, and petitioner replies. We concluded that inter partes review (along with its younger sibling, post-grant review) was truly a new mode of resolving patentability issues, bearing some features of litigation and some of prosecution. In requiring considerable “front-end” preparation and only limited opportunities to introduce new theories and evidence during the proceeding, IPR most closely resembled the PTO interference proceeding that the America Invents Act prospectively abolished.

The cases drew fine lines. For example, in *Belden Inc. v. Berk-Tek LLC*, 805 F.3d 1064 (Fed. Cir. 2015), a petitioner filed a petition with no supporting expert declaration on the issue of obviousness. After a patent owner response with an expert declaration, the petitioner filed a reply with an expert declaration responding to the patent owner’s expert. The patent owner objected,



but the PTAB allowed the reply, cautioning that it must be limited to responding to the patent owner's evidence. The PTAB found some claims patentable, others not. The Federal Circuit held all the claims unpatentable. It rejected the patent owner's argument that it had been denied procedural fairness by allowance of an expert declaration in a reply. The PTAB had afforded the patent owner an opportunity to cross-examine the petitioner's expert and submit comments thereon. The petition itself had been sufficient to establish prima facie obviousness of the claims in light of the cited prior art references. The technology was simple enough that PTAB judges could interpret the references. The petitioner's reply and declaration were considered by the PTAB only as refuting the patent owner's responses on issues, such as the teachings of the prior art references and a motivation to combine references.

On the other hand, in *Redline Detection, LLC v. Star Envirotech, Inc.*, 811 F.3d 435 (Fed. Cir. 2015), the court upheld the PTAB's refusal to allow a petitioner to supplement its petition with an expert declaration, even though the motion to supplement was filed within one month of the PTAB's institution of review and thus complied with the requirements of Rule 123(a). The petitioner lost on the merits because the patent owner's response included an expert declaration stating that there was no motivation to combine references and the petitioner had no expert evidence to refute that statement.

Other cases provided additional contrasting examples. In *Ariosa Diagnostics v. Verinata Health, Inc.*, 805 F.3d 1359 (Fed. Cir. 2015), the court held that the PTAB erred by failing to consider a reference to show the state of the prior art when the reference was referred to in expert declarations accompanying a petition but was not cited as part of the combination of prior art references set forth in the petition and in the PTAB institution determination. On the other hand, in *Intelligent Bio-Systems, Inc. v. Illumina Cambridge Ltd.*, 821 F.3d 1359 (Fed. Cir. 2016), the court held that the PTAB did not abuse its discretion by refusing to consider a petitioner's reply and accompanying expert declaration that set forth a new rationale with new evidence on why a skilled artisan would have been motivated to combine two references. The rationale and evidence were not in the petitioner's petition.

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#### **Session Four: "Inter Partes Review III: Obviousness: Comparing IPR and District Court Litigation"**

In our final seminar session, we turned to the patentability ground most often at issue in an inter partes review: obviousness over prior art patents and publications. The general questions are: has obviousness played differently on the new stage of inter partes review, and, if so, how?

We worked from an outline with abstracts of 12 cases (citations provided below) and had time to examine in detail only a selection of them.

The first two cases (*Circuit Check* and *Allergan*) were selected for comparison purposes. *Circuit Check* involved a jury verdict favorable to a patent owner. A district court overturned the verdict, but the Federal Circuit reversed despite expressing "doubts" about the patent. Deference had to be given to presumed jury findings favorable to the patent owner, including a finding that certain prior art was "not analogous" and that objective evidence was supported. The evidence on those two issues was thin. The seminar participants agreed that a PTAB panel would likely have reached a different result than the *Circuit Check* jury.

The second case (*Allergan*) involved a pharmaceutical patent. The Federal Circuit held that a district court did not err in holding claims to a composition and related method for treating an eye

disease (glaucoma) unobvious even though the claimed composition altered a prior composition only by decreasing the quantity of an active ingredient and increasing the quantity of a preservative. The district court found, first, that the prior art taught away from the claimed composition by discouraging increases in the preservative and, second, that the composition achieved unexpected results in maintaining efficacy despite the lowering of the active ingredient.

*Allergan* might have come out the same way before a PTAB panel, but our discussion of the IPR appeals suggested that the panels were inclined to disagree with patent owner assertions that obviousness over close prior art could be avoided by a “teaching away” argument. That was best illustrated by *Merck*, which was, apparently, the first pharmaceutical patent to be invalidated by an Federal Circuit-affirmed PTAB decision. *Merck* held that a supported finding of no teaching away also provided an implicit finding of the reasonable-expectation-of-success required for obviousness.

The IPR appeals we examined in Session Four were brought by both patent owners (from unpatentability decisions) and by petitioners (from patentability decisions). We identified a potential pattern. In two of the cases (*Belden* and *Redline*), the claims that the PTAB had upheld were ones that had been confirmed or added during a prior ex parte reexamination. We agreed that made some sense. The PTAB judges were giving deference to their PTO reexamination colleagues. That suggested that patent owners who have time to do so might be well advised to use reexamination to shore up the validity of claims in anticipation of a subsequent inter partes review challenge. However, the cases also suggested that the Federal Circuit may be less deferential than the Board to a prior reexamination. Only in one case (*Redline*) did the court affirm the PTAB’s decision.

Of the IPR cases we evaluated, *Redline* was the first outright win for the patent owner in both the PTAB and the Federal Circuit. The petitioner’s loss traced mainly to its failure to file an expert declaration in a timely fashion. That left the declaration of the patent owner’s expert on a key point, whether a skilled artisan would have been motivated to combine prior art references, un rebutted.

In *TriVascular* and *Intelligent Bio-Systems*, the Federal Circuit affirmed PTAB findings of no motivation to combine.

In other cases including *MCM Portfolio*, *Sightsound*, *Merck*, and *Pride Mobility*, the Federal Circuit affirmed Board findings of a motivation to combine.

Mixed results obtained in some cases, such as *Shaw*, with some claims held unpatentable and others patentable.

Lastly, we examined decisions addressing the PTAB’s handling of patent owner evidence on objective evidence (secondary considerations), such as commercial success. In *Ethicon*, the Board did not err in finding the evidence of success of the petitioner’s allegedly infringing product (that is, not the patent owner’s product) did not overcome the strong case of obviousness based on the prior art. On the other hand, in *Nike*, discussed above, the court held that the PTAB erred by failing to consider or even acknowledge the patent owner’s evidence of secondary considerations, to wit, a long-felt, unresolved need in the pertinent industry for the claimed invention.

#### **Case Citations for Session Four: Obviousness: Comparing IPR and District Court Litigation:**

*Circuit Check Inc. v. QXQ Inc.*, 795 F.3d 1331 (Fed. Cir. 2015)

*Allergan, Inc. v. Sandoz Inc.*, 796 F.3d 1293 (Fed. Cir. 2015)

*Belden Inc. v. Berk-Tek LLC*, 805 F.3d 1064 (Fed. Cir. 2015)

*MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015)

*SightSound Technologies, LLC v. Apple Inc.*, 809 F.3d 1307 (Fed. Cir. 2015)  
*Merck & Cie v. Gnosis S.p.A.*, 808 F.3d 829 (Fed. Cir. 2015)  
*Redline Detection, LLC v. Star Envirotech, Inc.*, 811 F.3d 435 (Fed. Cir. 2015)  
*Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023 (Fed. Cir. 2016)  
*TriVascular, Inc. v. Samuels*, 812 F.3d 1056 (Fed. Cir. 2016)  
*Shaw Industries Group, Inc. v. Automated Creel Systems, Inc.*, 817 F.3d 1293 (Fed. Cir. 2016)  
*Pride Mobility Products Corp. v. Permobil, Inc.*, 818 F.3d 1307 (Fed. Cir. 2016)  
*Intelligent Bio-Systems, Inc. v. Illumina Cambridge Ltd.*, 821 F.3d 1359 (Fed. Cir. 2016)

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## Upcoming Chisum Patent Academy Seminars



Seats remains open for the second of our two 2016 D.C. seminars, to be held **October 3-4, 2016** at the offices of Kaye Scholer LLP in downtown Washington, DC. The IPR topics discussed at our Seattle seminars (updated as relevant) will continue to be a primary focus in the D.C. seminars. For additional details and registration information, see our [website](#) or email [info@chisum.com](mailto:info@chisum.com).

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