

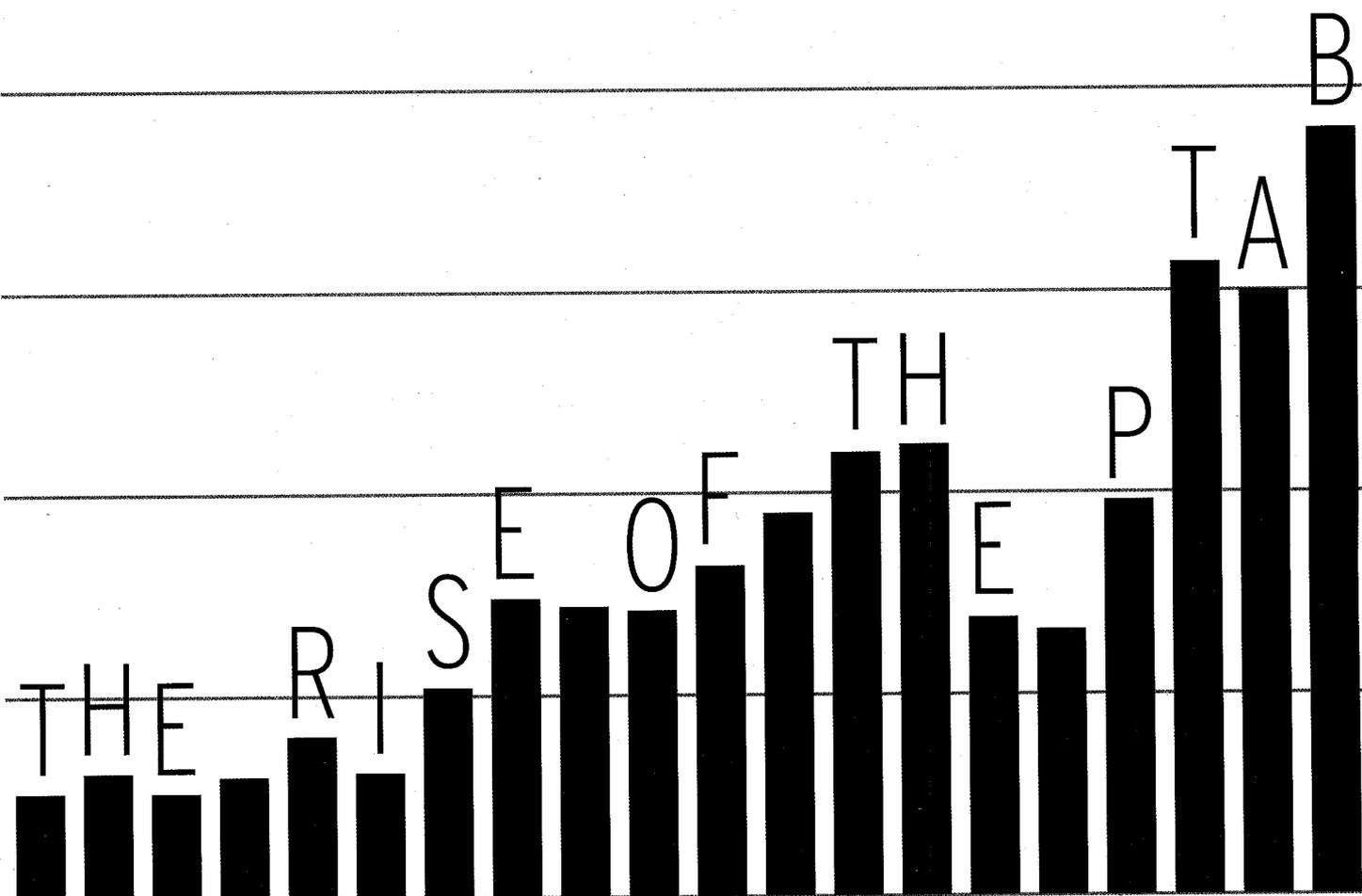
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## HOW INTER-PARTES REVIEW CHANGED PATENT LITIGATION

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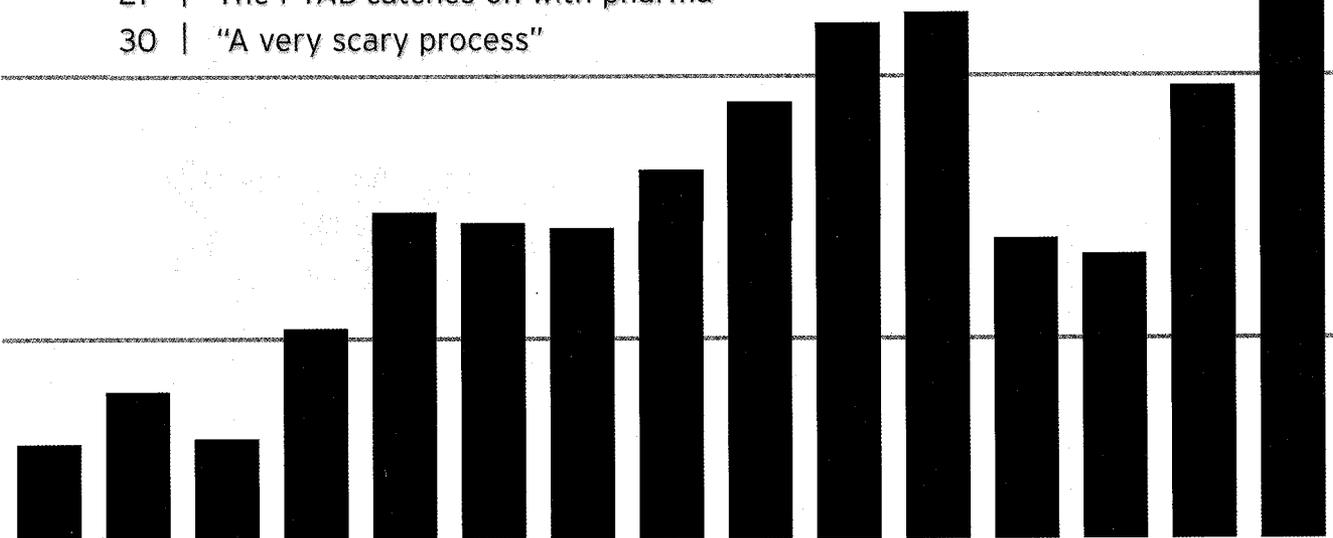
COPYRIGHT  
REFORM: A  
GLOBAL VIEW

**COVER STORY**

**22 | How the PTAB is changing US litigation**

Patent owners and their counsel were caught by surprise at the success of the PTAB. It is changing again

- 22 | The surprising rise of the PTAB
- 27 | The PTAB catches on with pharma
- 30 | "A very scary process"



**FEATURES**

**INDIA**

**16 | How to handle India's patent working requirements**

The working requirement in the Indian Patents Act is one of several provisions unique to the jurisdiction that raise concerns about patent holders. Mohan Dewan explains the reasoning behind the requirement and how to navigate its intricacies

**INTERNATIONAL**

**19 | Copyright at the crossroads**

Legislators and courts all over the world are grappling with the challenge that new technology poses to copyright norms. James Nurton summarises the latest developments and examines why some feel reform is vital

**EUROPE**

**34 | What the CJEU's ruling in *Apple* means for retailers**

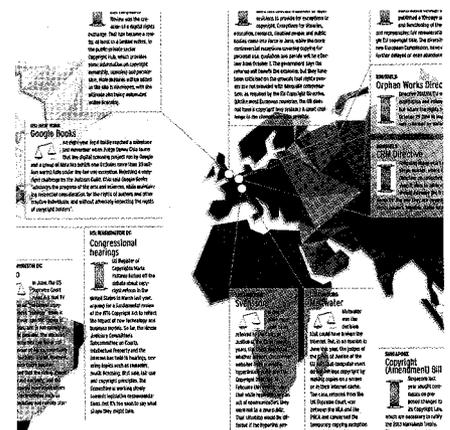
Geert Glas and Niekke Vanavermaete explain how retailers can protect their store layouts with trade marks

**ITALY**

**36 | The innumerable lives of a patent in Italy**

A recent rule change in Italy enables patents to be modified at any stage during litigation. Licia Garotti explains why it has been criticised, and sets out some strategies for patent owners

**19 | Copyright around the world**



CONTENTS CONTINUED OVERLEAF >>>

# The surprising rise of the PTAB

Patent owners have been shocked at how popular IPR proceedings at the PTAB have proven. As the USPTO mulls over changes and the Federal Circuit braces itself for a deluge of appeals, **Michael Loney** reports on how the PTAB is likely to evolve

**I**f anyone doubts there has been a fundamental change in the US patent landscape since September 16 2012 they are wrong.” So says Robert Sterne, director at Sterne Kessler Goldstein Fox. That was the day – exactly a year after the America Invents Act (AIA) was signed into law and created the Patent Trial and Appeal Board (PTAB) – that new proceedings for inter partes review and covered business method review became available to those seeking to invalidate a patent.

Companies were initially cautious about filing petitions with the PTAB. Sixteen cases were filed in September 2012, followed by 29 in October, the first full month of the proceedings. But around the middle of 2013, interest in filing petitions at the PTAB started booming – reaching a monthly high so far of 190 in June 2014. By the end of July this year 1,763 petitions had been filed at the PTAB, according to statistics from patent litigation tracking firm DocketNavigator.

No one saw this coming. “The reason that the change is so fundamental is that the level of the embrace in the defence bar exceeds anyone’s expectations,” says Sterne. According to Sterne, the thinking in Congress and at the USPTO when the AIA was being drafted was that the number of filings would be similar to that near the end of the old inter partes re-examination system established in 1999. Some 281 inter partes re-examination filings were made in 2010 and 374 in 2011. In contrast, 795 petitions were made at the PTAB in 2013, and 856 had been made in 2014 up to the end of July alone.

## “Caught with their pants down”

It turns out patent challengers are speed freaks. The biggest difference between the old inter partes re-examination and the new inter partes review is that the proceedings have a strict deadline. A written decision must be issued within a year of the petition being instituted. This means – unlike re-examination, which had no deadline and could last five years or more – the PTAB is an attractive option for companies that have been accused of infringing a patent. If they can invalidate the patent before going to court, it is game over.

“The ability to get a favourable result in a short timeframe for challengers has been a huge advantage and is changing the landscape of how patents are being litigated,” says Scott McKeown, leader of the post-grant patent team responsible for electronics, wireless communications, software and computer-related inventions and business methods at Oblon Spivak McClelland Maier & Neustadt.

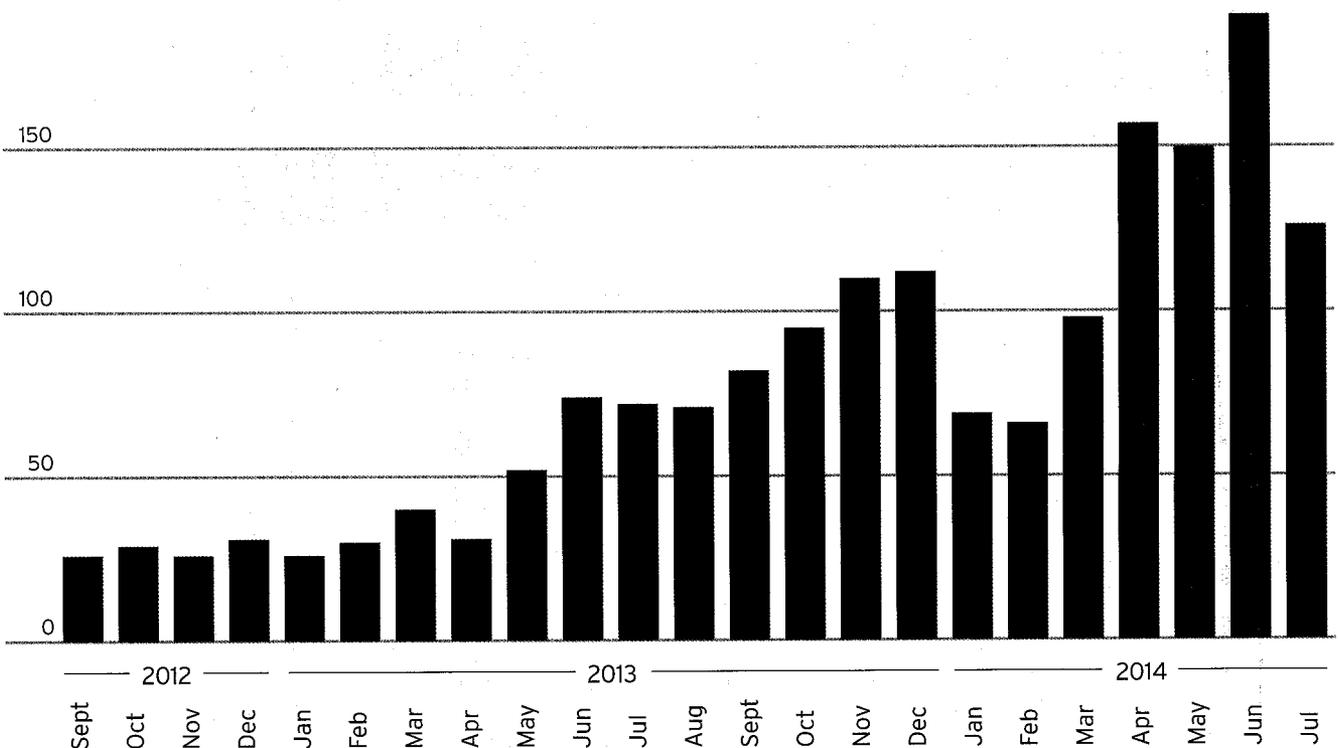
Patent owners are worried. They did not anticipate how potent a weapon the new AIA proceedings would become. “Firms that have traditionally relied on patent litigation were caught with their pants down, frankly,” says McKeown. A shift in the balance of power has occurred. Patent owners find themselves having to adjust to a new game that they would not have anticipated when drafting the claims for their patents – and not only firms that are viewed popularly as trolls.

“You are a patentee you are not happy at all,” says McKeown. “These proceedings were touted by Congress as: ‘Let’s get rid of these patent trolls.’ But it is hard to do that without turning the tables on all patentees. That’s a struggle not only at PTAB but in all the legislative proposals.

“Now you have got legitimate innovators that have spent millions of dollars developing patent portfolios that were designed to be enforced in a district court where all the proceedings benefit the patentee. If you had to err in one direction in drafting claims you always wanted the broadest claims possible because it is much

## New IPR and CBM filings by month

200



Source: DocketNavigator

more difficult to invalidate a patent than it is to prove you don't infringe it. So the game has been for patentees to get the broadest claims possible but that leads you right into this new bear trap that is the PTAB."

Sterne at Sterne Kessler estimates there will be between 1,500 and 2,000 of these proceedings a year, which is four or five times what was expected. Petition filings picked up once it was clear that the percentage of institutions was very high. He says that patent owners are facing a success rate of less than 50%, putting some of their best IP assets in danger.

"That means that you can have the most valuable patent, which has been through the most unbelievable litigation scrutiny and survived, and it can be taken in front of this PTAB and on average you are going to see at least 50% of your claims go down," he says. "What people don't want to acknowledge a lot is that the patents that are being brought in front of the proceeding are not the poor patents, the weak patents, the economically insignificant patents. These are the really valuable patents, because most of the patents that are being challenged are in parallel litigation in the courts or at the ITC."

It was assumed that the PTAB would be a technology industry forum. While technology patents do dominate, Sterne says that patent owners in all industries are worried. "I think a lot of big patent owners thought that their patents were going to be off limits because they are these big well established companies and they are not patent trolls," he says. "Boy, are they experiencing sticker shock. They can't believe that some of their best crown jewels are subject to the same scrutiny in these proceedings as the worst troll. On the other side the accused infringer bar is ecstatic. They have got a game changer situa-

tion and they know it. Who would have thought that this system would become a mechanism for the defence bar to essentially stop every patent suit and force it into the patent office?"

Others are more measured about the effect on patent owners. Terry Rea, partner at Crowell & Moring, who was acting and deputy director of the USPTO until November last year, agrees that it is not only the worst patents that are coming before the board. "But if you have got a good strong solid patent I really don't think you have any reason to be concerned because the Patent Office wants to uphold the patentability of the claims if at all possible," she says. "After all, they issued those initial claims."

David Kappos, partner at Cravath Swaine & Moore and director of the USPTO when the AIA was being drafted, believes the PTAB has been a great success, giving fast, accurate decisions. While Kappos says the PTAB is going through "growing pains", he believes the proceedings are good for patent owners too, as they provide a quick, inexpensive way to find out if patents are solid. "You've seen this in some cases that have been decided recently in which claims have been supported and affirmed by the PTAB," he says. "The AIA post-grant provisions are very good for patent owners who have strong patents because they are a great way to have a gold stamp of approval from the PTAB. Once that's happened your applicable claims are all but beyond challenge in any court proceeding."

### Willing to change

Everyone, including the PTAB itself, is still adjusting to the new world. "It very much is still in a case of evolution right now," says Rea. "What I like to tell people is a year from now

## AIA petition dispositions, as of August 11 2014

		Trials instituted	Joinders	Percent instituted	Denials	Total number of decisions on institution
IPR	FY2013	167	10	87%	26	203
	2014 YTD	449	13	76%	149	611
CBM	FY2013	14		82%	3	17
	2014 YTD	62	1	72%	25	88
DER	2014 YTD	-	-	0%	3	3

Source: USPTO

we could be looking at a very different landscape.”

The USPTO looks likely to adapt the PTAB's practices. Concerns have been raised by patent owners about the limited discovery, inability to amend claims and other concerns. They argue that the system is too unfairly weighted in favour of challengers.

The concerns have not gone unnoticed. In April and May, the USPTO conducted a nationwide listening tour. In June, it published a federal register request for comments. Written comments must be received by September 16 this year. The USPTO outlined 17 questions for consideration including issues such as claim construction standard, motion to amend, patent owner preliminary response, obviousness, real party in interest, discovery, multiple proceedings, extension of the one-year period to issue a final determination and the use of live testimony. Live testimony has only been allowed in one case so far, while only one motion to amend claims has been granted.

Kappos is certain there will be changes. He says when the rules were being created the USPTO was interested in revisiting them and making some mid-course adjustments once it was clearer what was working and not working. “And sure enough to the great credit of the agency about a year and a half in they are doing exactly what they need to be doing,” he says. “I am 100% confident they will make some changes from what they learn from the input they are getting. I wouldn't be surprised if some adjustments are made in the areas of permitting claim amendment and discovery.”

Former USPTO deputy director Rea is also certain there will be some changes. “They are well aware that the system is not operating in the manner anticipated by the entire user community,” she says. The most popular change would be making it easier to make amendments to claims. This may not be possible in the short term, however, because of the PTAB's daunting workload.

“There is such a flood of filings right now that it is possible they would have a difficult time handling these claim amendments and keeping to the 12 month timeframe requested by Congress,” she says. “So I don't know if that will be remedied in the short term but I think in the long term it would be best if a provision could be developed to allow amendment of the claims by the patent owner, especially early in the proceedings.”

The 15-page limit for amending claims causes big problems because that amount of space for most applications is “woefully insufficient”, says Rea. The one motion to amend that

has been granted so far – to the Department of Agriculture – came in unusual circumstances because it was unopposed and was more like a settlement in practice. Observers are sceptical more will follow.

Others would like more of a chance to point out inaccuracies by the other party in the proceedings. “One of the concerns we have is the nature of the proceeding is the petitioner goes first, the patent owner goes second, then there are rebuttals,” says Karl Renner, principal in the Washington, DC, office of Fish & Richardson and co-chair of its post-grant practice group. “Someone has to go last but give the other party five pages so they can correct inaccuracies.”

### Putting down their guns

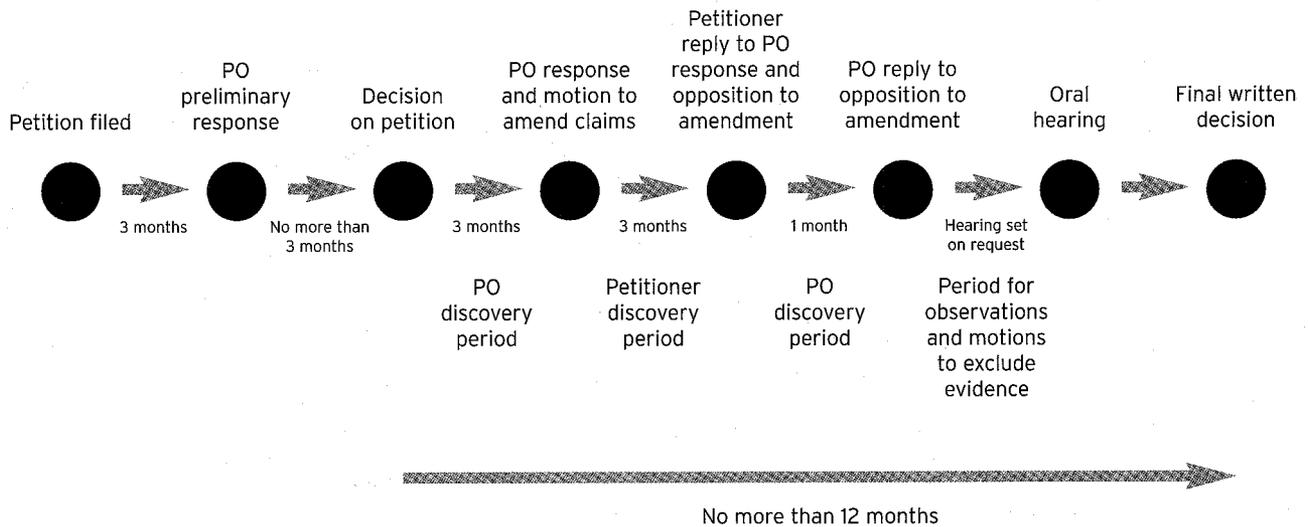
The PTAB had about an 87% institution rates for inter partes review in 2013, leading to accusations of an anti-patent bias. The most famous comment made about the PTAB came from then Federal Circuit Chief Judge Randall Rader, who referred to the board's panels as “death squads” in October last year. “At that snapshot in time, that impression was probably valid,” concedes Rea. “But that was fairly early in the proceedings. I think as things probably move along we will see fewer trials being instituted and we will likely see more claims survive the trial proceedings and be considered patentable in the final written opinion.”

In 2014, the institution rate is down to about 76%. McKeown at Oblon Spivak points out that institution rates were actually higher under the old inter partes re-examination regime, at about 95%. However, a similar number of PTAB petitions will have been filed in the first two years of the proceedings as were filed in the whole 19-year history of inter partes re-examination (1,919).

Sterne – who represents both petitioners and patent owners in PTAB proceedings and is editor-in-chief of the Patent Office Litigation handbook – believes the Board is becoming less draconian. “They are feeling a lot of pressure I believe about how many very valuable patent claims are going down and how much people are so worried,” he says. “So I think that the Board is bending over backwards a little bit in certain cases to find claims patentable. That's speculation some people have mentioned to me and I think there is some merit to that.”

With an increasingly caseload, the PTAB is under a lot of pressure to meet its statutory deadline. Missing the deadline is not an option. Under the AIA, the Board can take an additional six months on top of the 12 month deadline after a peti-

## Trial timeline



Source: USPTO

tion is instituted in special circumstances. McKeown at Oblon Spivak thinks it inevitable that trial schedules will be pushed out to the 18-month maximum allowed.

"If the numbers keep coming in the way they have, will they start switching some to an 18-month schedule? I haven't heard any plans to do that but that is on something that could happen down the road," he says.

Kappos is sceptical. "I don't think you'll see the PTAB slipping past 12 months. They take that mandate very seriously. You will see more judges being brought in, which is obviously a smart thing. I think you'll also see more instances of what we've seen a few times recently of the PTAB taking advantage of the flexibility it was given by Congress to say we're just not going to take this one because it has already had plenty of discussion in front of a district court or the Federal Circuit or because there are way too many issues being raised or too much prior art being raised. I think you'll see the PTAB using that flexibility as one of its tools to avoid getting caught up in what are just a small percentage of requested proceedings that could occupy a massive amount of time."

The PTAB is in the midst of a hiring frenzy. In 2011 the Board in total had 70 judges. By August 14 this year, the PTAB had 214 members with a goal of adding a further 20 by October. The AIA Trial Section is now up to about 85 judges.

"As they grow the Board and increase the size of the trial section, how will they maintain the quality?" asks McKeown. "Even now, given the number of proceedings that are coming in, I am starting to see differences in quality across various panels. Panels that would entertain teleconferences, for example, between the parties on different topics are now trying to force those disputes to be resolved by the parties and they are a little more reluctant to get on calls.

"So there have been some changes, but it hasn't gotten to the breaking point yet. I don't even think it is close, but it is something that could occur in the next year," says McKeown. The PTAB does not appear to be taking chances to cut corners. Rea at Crowell & Moring says that the Board has been "most gracious" in a few cases where there have been inadvertent fil-

ings with minor errors. "They didn't just terminate the proceeding at that point against whatever party made a minor transgression," she says. "I am pleased the PTAB recognises the human element in all this. They are overwhelmed and I think they are working incredible hours but they are not going to take the easy way out. They really want to do the right thing and make a fair decision for the business community and the user community."

Rea believes the PTAB will be able to cope but may have to make changes to how it conducts some of their procedures. "One of them may be that there will be fewer petitions that will advance to trial procedures," she says.

Renner at Fish & Richardson also praises the job the Board is doing under pressure: "They have done a remarkable job of not showing that they are overburdened yet are hiring judges at an unprecedented pace. They have somehow done that without being late and putting people in positions where don't know what talking about. The criticism of inconsistency is all unfair."

### Over to the Federal Circuit

The biggest unknown is how the Federal Circuit will react to – and cope with – the deluge of cases coming its way from the PTAB. Sterne estimates that about 25% to 30% of PTAB proceedings will be settled, while the rest will go to appeal.

"We are going to see a huge overload at the Federal Circuit shortly," he says. "This is a total change in the enforcement landscape in the US. If the Federal Circuit gets really jammed up, which it could because it could be having 800 to 1,500 appeals a year on top of its normal appeals, you could see a very dramatic delay at the Federal Circuit. They cannot increase their staff or the number of judges without Congressional action. Congress will not do that for a lot of reasons."

Sterne says that some patent owners are concerned that the Federal Circuit will be so overloaded that they will be "merely rubber stamping" the PTAB decisions in most cases. A further complication could arise if the Federal Circuit remands

cases back to the PTAB. This could mean that the PTAB process does not turn out as quick as people think, especially if the Board itself starts slipping on its 12-month deadline.

"Nobody's seen that yet but it is possible and the statute didn't contemplate that," says Sterne. "The Federal Circuit remands cases to the district court and to the Patent Office in normal prosecution. If they decide the PTAB made a mistake, they're not going to correct the mistake. They're going to send it back. If they remand a case, can you imagine the additional time delay that is going to occur?"

Renner at Fish & Richardson believes the Federal Circuit will take issue with some of the PTAB's decisions, however: "The place the Federal Circuit is going to have some things to say is claim construction and the PTAB's approach to construing claims. Some of this looks suspect. Claim terms have to be read by somebody skilled in the art and it is hard to put yourself in those shoes. That is the most ripe place for appeal. The likelihood of them reversing on claim construction is high."

### The parallel race

Another tension is the relationship between the PTAB and the district courts. This has been most prominent in the granting of motions to stay in district courts while PTAB proceedings take place. "There has long been a tension between the district court trying to give patent owners a day in court and the USPTO trying to give a voice to people opposed to a patent," says Renner. "What is new is that the proceeding is now so fast."

According to Oblon Spivak, about 75% of motions to stay have been granted in full, granted in part or granted with stipulations. In a keenly-anticipated decision in July, the Federal Circuit ruled that the Eastern District of Texas was wrong not to stay infringement proceedings in *VirtualAgility v Salesforce* pending the conclusion of a PTAB covered business method review. This was viewed as potentially making it easier to get stays in so-called rocket docket courts. The Federal Circuit slapped down the district court for trying to determine what the outcome of the PTAB review would be.

Sterne at Sterne Kessler says a "parallel race" problem is created in the cases in which motions to stay are not granted. This can lead to complications. One closely watched case that is an example of this, although under the old regime, is *Fresenius*. In 2009 the Federal Circuit affirmed a district court's ruling that *Fresenius* had failed to prove that Baxter's patent for a

## 10 PTAB milestones

- 1 September 16 2011: The America Invents Act signed into law, including the introduction of new post-grant procedures and the creation of the Patent and Trial Appeal Board
- 2 September 16 2012: The first day the proceedings are available, the first petition for an IPR is filed
- 3 June 12 2013: PTAB finds all five challenged claims invalid in its first CBM review trial *SAP v Versata*, with the Board confirming it will assume the "broadest reasonable interpretation" of a patent
- 4 November 13 2013: PTAB issues first written decision under the inter partes review system, finding in favour of Garmin and invalidating Cuozzo's patents covering LCD technology in *Garmin v Cuozzo*
- 5 December 31 2013: The PTAB ends the year as the third most popular forum for patent litigation (with 792 cases filed, according to Fish & Richardson), behind the Eastern District of Texas (1,512) and the Delaware District (1,337)
- 6 May 20 2014: PTAB grants a motion to amend claims in an inter partes review proceeding for the first time, in *International Flavors and Fragrances v The United States of America*. The government was allowed to substitute 19 new claims to replace the originally patented claims
- 7 June 15 2014: The PTAB hears live testimony for the first time in an inter partes review, allowing patent owner Escort to quiz the inventor of a police radar detector covered by US patent 7,999,721
- 8 July 10: The Federal Circuit reverses district court's denial of stay pending outcome of a covered business method review in *VirtualAgility v Salesforce*
- 9 July 31 2014: PTAB issues first decision designated as "precedential", in covered business method review proceeding *SecureBuy v CardinalCommerce*
- 10 August 5 2014: The first post-grant review petition is filed by LeRose Industries and Toys "R" Us against patent 8,684,420, owned by Choon's Design, the company that makes the popular Rainbow Loom elastic bands

hemodialysis machine was invalid, but remanded the case to address the damages that had been awarded. But while the case was on appeal, the claims on the patent were invalidated by the USPTO in an ex parte re-examination proceeding. This changed the case to a question of whether Baxter could still collect damages for infringement of a patent that was no longer valid. The Federal Circuit ruled it could not.

"Everybody who owns patents is very familiar with this parallel race possibility," says Sterne. "It has made huge changes in the way people are approaching the value of patents in the US, the ability to enforce patents in the US, and the cost and time required to enforce patent in the US – all of which is going against the patent owner."

Patent owners are still getting to grips with the PTAB proceedings then. They are quickly learning what they mean for their business. But Sterne believes the investment community has not fully grasped what a big change has occurred. Patents could be viewed as less of an asset now there is a potent weapon for killing them.

"The big question mark right now is how the investment community in the US is going to react to this new system and to the overall patent landscape that has developed rapidly over the past five years," says Sterne. "The net-net is that the value of patents has gone down in the US, the cost of enforcement, licensing and monetisation has gone up, the uncertainty has gone up, and the time has gone up. The US patent system is no longer the number one patent system worldwide for patent owners like it was 10 years ago. It has dropped compared to countries like Germany where you can get much faster resolution now for much less money. US patent litigation even in these contested proceedings costs millions and millions of dollars. So Germany and other countries around the world are becoming the forum of choice for patent owners."

If this all sounds a bit gloomy, for now the PTAB is proving a great source of business for lawyers as firms rush to invalidate rivals' patents. However, Sterne warns these may be looked back on as the gold rush days for lawyers at the PTAB. "Law firms have never been busier," he says. "But there are people who predict that five years from now – when people are using the patent system a lot less because it just is not cost justified and patent owners are going to be so dissuaded from enforcing their rights that we could see a huge drop off in patent activity in the US – we could see this bonanza turning into a drought in a couple of years."