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PERSPECTIVE

High Court Could Shake Up Patent Review

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In *Cuozzo Speed Technologies v. Lee*, the U.S. Supreme Court will consider whether inter partes review (IPR) — a post-2011 administrative proceeding for challenging patent validity — will adopt a narrower claim interpretation standard currently used by U.S. district courts. The decision could significantly affect how technology companies evaluate third-party patents and the extent to which IPR proceedings are employed in the future as an alternative to district court litigation.

The 2011 Leahy-Smith America Invents Act (AIA) created IPR proceedings as a quick, lower cost alternative to challenge patents than patent litigation. As such, IPRs represent a shift toward simplified review of patents, which was a particularly welcome response to the increasing litigation threat posed by nonpracticing entities (NPEs), or so-called “patent trolls,” who commonly demand exorbitant license fees for weak patents. But IPRs are not limited to attacking patents owned by NPEs; they are increasingly being used by IP-savvy tech companies, particularly in California, to challenge competitor patents, increase leverage in ongoing disputes, or provide freedom-to-operate for fledgling technologies.

In a typical IPR proceeding, a petition is filed explaining to the U.S. Patent and Trademark Office (USPTO) why the patent should be declared invalid based on what was already in the public domain — commonly referred to as the “prior art.” Once filed, the patent owner is permitted to respond to the petition in an optional preliminary response. The USPTO then decides whether or not to “institute”

the proceeding and, if so, on what grounds. By statute, the decision on whether or not to institute is final and non-appealable, although the non-appealability of the institution decision is a secondary issue before the Supreme Court in *Cuozzo*.

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Once instituted, the patent owner cross-examines petitioner’s experts by way of deposition. A substantive response is then filed by the patent owner articulating why the patent should be maintained over the prior art. Although rarely granted, the patent owner may also submit a motion to amend the claims to better distinguish the invention over the prior art. Afterwards, the petitioner is permitted to cross-examine the patent owner’s experts, followed by the filing of a reply brief. An oral hearing is then held before a panel of three administrative patent judges, and a final written decision on the validity of the patent is issued a few months later. In IPR proceedings, the petitioner may only base its invalidity arguments on earlier patents or printed publications, and both sides have limited discovery and short timelines, with a decision issuing within 12 months of institution.

One downside to filing a petition for IPR is that if the petitioner loses, it is estopped from later litigating invalidity on any ground that was raised or reasonably could have been raised during the IPR. The gamble has paid off for most: For all instituted IPRs that were completed as of May 15, 2016, all patent claims were deemed invalid or

disclaimed 54 percent of the time, and one or more patent claims were affirmed as valid only 16 percent of the time. The remaining 30 percent ended in settlement.

One reason for the favorable petitioner results is that patent claim terms are currently interpreted in IPR proceedings under the “broadest reasonable interpretation” (BRI) standard, which makes them more susceptible to attack. In district court litigation, in contrast, patents are generally construed, where possible, more narrowly so as to preserve their validity. For example, if a claim could be interpreted to cover two different embodiments, one of which is in the prior art, it is more likely that the claim is going to be invalidated in an IPR than in a district court proceeding. In addition, arguments made by the applicant during patent prosecution, e.g., distinguishing the claimed invention from the prior art, are more likely to be considered limiting in a district court proceeding so as to narrow the claim scope.

In *Cuozzo*, the Supreme Court will decide whether IPRs should continue to apply the USPTO’s BRI standard or adopt a narrower, court-like standard. If they retain the current standard, the difference could result in inconsistent validity decisions for a patent between the USPTO and district court — a result which Chief Justice John Roberts indicated during oral argument would be a “very extraordinary animal.” Despite the attraction of increased consistency, the AIA’s statutory basis for IPRs did not expressly mandate a change in the USPTO’s standard, which has been historically used in other types of USPTO proceedings. Based on arguments from the other justices during oral argument, however, it appears that the Supreme Court

will defer to the USPTO on this claim construction issue and affirm the BRI standard.

Why is this case important for California technology companies? If the Supreme Court finds for the USPTO on both issues, patents will remain more easily challenged in IPR proceedings, and IPR practice should continue to flourish. The decision will thus play a large role in determining the realistic availability of IPR proceedings as a litigation alternative to invalidating third-party patents. This should provide some degree of solace concerning future license demands from NPEs. In addition, outside the IPR context, if the BRI standard is affirmed, it will provide technology companies with greater options in internally evaluating the validity of third-party patents from a freedom-to-operate perspective. This, in turn, may provide technical companies more room to operate in the face of an otherwise concerning competitor patent portfolio, resulting in increased overall competition and follow-on research.

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