Insights: Alerts

Interim IPR Results & Litigation – What Happens At The Board May Not Stay At The Board

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The America Invents Acts ("AIA") gives alleged infringers facing an infringement claim a choice—challenge validity in court or in an inter partes review (IPR). Like any choice, consequences have to be considered. The consequences of successfully prevailing are known—the claims are invalidated. For the most part, the consequences of losing the IPR proceeding are also known—the challenger is estopped from challenging the claims "on any ground that the petitioner raised or reasonably could have raised during that inter partes review."[1]

What is not so clear is the consequence of interim results—namely, a Patent Trial and Appeal Board ("Board") institution decision that denies the petition or grants it only in part. Both scenarios happen a lot. Approximately 30% of completed IPR petitions have been denied.[2] And frequency of such denials may be increasing, as approximately 35% of IPR petitions completed in February 2016 were denied.[3] Even when petitions are granted, they may only be "granted in part." The Board takes a "claim-by-claim" approach to institution and its statistics reflect this approach: of 41,602 claims challenged as of February 29, 2016, the Board instituted proceedings on 18,204. In other words, the Board's institution rate on a "claims challenged," rather than petition, basis is only 43% overall.[4]

Many strategic implications flow from this data. But given that many IPR proceedings involve parallel litigation, we want to focus on the following question: what does a court do with the Board's institution decision when the case proceeds to a jury trial?

The patent owner, of course, wants to celebrate her victory and, like all victors, wants to share the good news with the jury. The petitioner, on the other hand, would rather not hear any more about that institution decision, and does not want to overwhelm a, potentially already confused, jury.

Courts, of course, may be sympathetic to one or the other, depending on whether and why the decision is probative of the remaining dispute. The AIA provides little guidance, only noting that decisions denying an IPR petition or instituting trial are "final and nonappealable."[5] To date, district courts address admissibility of the decision through the lens of Fed. R. Evid. 403—balancing probative value versus risk of undue prejudice or confusion. Currently, four district court decisions address admissibility of decisions denying IPR petitions under this standard. The score is tied—two *exclusions* versus two *admissions*.

The Exclusions: In *Wisconsin Alumni Research Foundation v. Apple, Inc.*, the district court precluded WARF from offering the Board's denial of Apple's IPR petition regarding the asserted patent, despite the fact that Apple intended to present the jury the same references and arguments as presented in the petition.[6] The district court reasoned that undue prejudice and jury confusion outweighed any probative value because "[t]he IPR proceeding is

subject to different standards, purposes and outcomes than both the original prosecution and this court proceeding."[7] The district court distinguished the IPR proceeding from original prosecution, noting that "[a]n IPR proceeding is not an examination by a patent examiner in which a decision is made about the scope and validity of a patent," but rather "an adjudicative proceeding during which [the Board], comprised of three administrative law judges, determine[s] whether the challenger has shown 'a reasonable likelihood' that it will prevail on its challenges."[8] Further noting that the Board's decision did not conclude that the patent was either "valid" or "invalid," the court found that "there was no explicit, or even implicit, decision on the validity of the patent as there is during initial prosecution of the patent."[9] In view of these opinions, the court was not convinced that, even with proper instructions, the jury would "understand, much less apply, the nuanced differences between the various proceedings," and, as such, excluded the evidence of the Board's decision.[10]

In Interdigital Communications, Inc. v. Nokia Corp., the district court similarly excluded the Board's decision denying an IPR petition with respect to the asserted patent, despite overlap in the references and arguments presented in the petition and in litigation.[11] The district court was of the opinion that the denial was not a "decision on the merits,"[12] but rather more "akin to a ruling on a preliminary injunction, where the merits are assessed with less than a full record and with less than a full adversarial proceeding."[13] Similar to the court in WARF, the district court distinguished the Board's decision, and IPR proceedings as a whole, from initial patent prosecution. First, the district court noted that "a patent examiner cannot allow a patent to issue saying there is a reasonable likelihood that it is not obvious."[14] Second, the court noted that "the patent examiner is a person of ordinary skill in the art, whereas the IPR decisions are made by lawyers who are not persons of ordinary skill in the art."[15] Furthermore, the district court found little relevance in the denial given that the defendants were not a party to the petition.[16] In light of this "marginal relevance," the court found that the probative value of the evidence was "greatly outweighed" by "the expenditure of time that would be required to give the jury the full context necessary to fairly evaluate the evidence" (and related "significant risk of confusion of the issues").[17]

The Admissions: On the other hand, in *Universal Electronics., Inc. v. Universal Remote Control, Inc.*, the district court admitted the Board's denial of defendant's petition, finding that any potential confusion caused by the different standards "can be addressed by appropriate jury instructions."[18] Like in *WARF* and *Interdigital*, there was significant overlap in the prior art references and arguments presented in both proceedings.[19] Although the district court's decision on this issue is short, it apparently agreed with the plaintiff that the decision's probative value on the merits of the defendant's invalidity defenses outweighed any prejudice.[20]

Likewise, in *StoneEagle Services., Inc. v. Pay-Plus Solutions., Inc.,* the district court similarly admitted the Board's denial of defendants' petition with appropriate jury instructions addressing the different standards applicable to IPR proceedings.[21] The court did not comment on the overlap, if any, between the prior art references and arguments presented in the denied petition and in litigation.

A Framework for Resolving Future Admissibility Disputes: Decisions to date have been relatively brief, as expected in resolving pre-trial motions in limine. None, for example, have even cited to *Microsoft Corp. v. i4i Ltd. P'ship*.[22] There, the Supreme Court explained that a "challenger's burden to persuade the jury of its invalidity defense by clear and convincing evidence may be easier to sustain" where the PTO did not consider newly-introduced prior art.[23] Moreover, the Supreme Court suggested that "[w]hen it is disputed whether the evidence presented to the jury differs from that evaluated by the PTO, the jury may be instructed to consider that question."[24]

Microsoft itself thus recognizes the highly probative value of the fact that the PTO has considered the art the challenger relies upon. The probative value of a Board's decision denying an IPR petition peaks where the references and arguments in the denied petition overlap with the trial arguments, as occurred in *Universal*.[25] In these situations, on further reflection on *Microsoft's* teachings, future district courts may not give as much weight to the reasons the *WARF* court first articulated in favor of exclusion. For example, *WARF's* and *Interdigital's* rationale that Board proceedings are conducted by lawyers seems thin factually given that the PTO seeks to hire technically-trained jurists for the Board.[26] More critically, the Supreme Court suggested considering appropriate jury instructions in part because "if the PTO did not have all material facts before it, its considered judgment may lose significant force."[27] This rationale does not turn on the particular agency official making the "considered judgment," but rather on the PTO's overall agency expertise.

Microsoft's suggestion of crafting appropriate jury instructions also addresses at least some aspects of the additional concerns raised by the WARF and Interdigital courts concerning the differences in standards. But those concerns may eventually continue to carry the day with some courts given Federal Circuit decisions in the context of reexamination. *Callaway Golf Co. v. Acushnet Co.*,[28] for example, affirmed exclusion of "non-final re-examination determinations [that] were of little relevance to the jury's independent deliberations," but raised risk of jury confusion. By contrast, *K-TEC, Inc. v. Vita-Mix Corp*.[29] found the district court did not abuse its "broad" discretion by allowing parties to discuss the extent to which the PTO considered a prior art reference in still pending reexamination proceedings.

Whether future courts will consider the fact that a decision denying institution is "final" and thus renders the decision more probative than interim decisions made during pending reexamination remains to be seen. The pendency of *In re Cuozzo*, in which the Supreme Court is considering exactly what it means for an institution decision to be final and nonappealable, complicates predicting where courts will tend to land on this issue. What seems certain, however, is that district courts will continue to have discretion to admit into evidence final decisions not to institute.

In exercising that discretion, it is apparent that there are some limits on probative value of certain institution denials. Petitions denied on procedural grounds, like failure to file within the required one year from service of a complaint, or discretionary grounds, such as because the references previously were considered by the PTO, likely have very little probative value. Likewise, probative value is reduced where the grounds presented in the petition are completely separate and distinct from the references and arguments presented at trial. There is simply no reason to delve into PTAB procedures or explanations in such cases, and exclusion would almost certainly be warranted.

The middle ground between these extremes presents tougher questions. For example, consider a situation in which a (denied) petition presented an obviousness ground based on Reference A in view of Reference B, and at trial the defendant present an invalidity defense including the combination of Reference A and Reference C, or perhaps Reference D and Reference B. While these combinations are different on their face, and may well be materially different for many reasons, a patentee may nonetheless also argue that the combinations are merely cumulative of the ground denied in the petition, or even other art considered in prosecution. In that case, sorting through whether to admit, even with a jury instruction as suggested by *Microsoft*, will be difficult and no guiding principle seems certain to carry the day. Indeed, this very scenario is one which defense counsel will likely craft in part to avoid admission of an unfavorable institution decision or to minimize its impact if admitted. Meanwhile, patentee's counsel may seek to develop the record on "cumulativeness" to support admission of the Board's institution denial.

Finally, even apart from the possible probative value of a failed petition on validity, the decision might also arguably

be relevant to willfulness.[30] Once again, however, this rationale may be undercut once other courts weigh in or the Supreme Court has addressed the willfulness standard of review in currently pending cases.

Conclusion: As we await additional decisions/guidance on the issue, parties should remain mindful that denials of IPR petitions may impact trial. Ideally, an accused infringer should ensure that the grounds presented in an IPR petition are separate and distinct from trial arguments,[31] thereby minimizing any probative value of a decision from the Board denying the petition. A prudent patent owner, however, may nonetheless attempt to frustrate that objective by introducing evidence regarding the potential cumulative nature of the accused infringer's invalidity defenses at trial as compared to information considered by the PTO. But how district courts will address these moves and counter-moves under the FRE 403 balancing test will likely remain uncertain for some time.

1. 35 U.S.C. § 315(e).

2. USPTO, Patent Trial and Appeal Board Statistics, February 29, 2016, http://www.uspto.gov/sites/default/files/documents/2016-2-29%20PTAB.pdf.

3. *See supra* n.2 & USPTO, Patent Trial and Appeal Board Statistics, January 31, 2016, http://www.uspto.gov/sites/default/files/documents/2016-01-31%20PTAB.pdf.

4. *See supra* n.2. The PTAB statistics do not allow one to remove the petitions denied in whole and then assess, as to the remainder, the grant rate on a claim basis. From our experience, the Board does, however, frequently grant petitions only in part as to some subset of the challenged claims.

5. 35 U.S.C. § 314(d).

6. No. 14-CV-062-WMC, 2015 WL 5704356, at *5–7 (W.D. Wis. Sept. 29, 2015).

7. *Id.* at *7.

8. *Id.* at *6.

9. *Id.*

10. *Id.* at *7.

11. No. 13-10-RGA, 2014 WL 8104167, at *1 (D. Del. Sept. 19, 2014).

12. *Id.* The district court also noted that a decision instituting trial is equally not a decision on the merits. *Id.*

13. *Id.*

14. *Id.*

15. *Id.*

16. *Id.* The petition was filed by another defendant in a related action. But, in a previous decision, the district court explained that, even in the litigation involving the petitioner, the denial—which, again, the court viewed as "not a decision on the merits"—"would

have no probative value." *Interdigital Communications, Inc. v. Nokia Corp.,* No. 13-10-RGA, Dkt. 339, p. 3.

17. *Interdigital*, 2014 WL 8104167, at *1.

18. No. SACV 12-00329 AG, 2014 WL 8096334, at *7 (C.D. Cal. Apr. 21, 2014).

19. *See Universal Elecs., Inc. v. Universal Remote Control, Inc.,* No. SACV 12-00329 AG, Dkt. 290, at pp. 5–8.

20. *See id.*

21. No. 8:13-CV-2240-T-33MAP, 2015 WL 3824208, at *8–9 (M.D. Fla. June 19, 2015).

22. 564 U.S. 91, 131 S. Ct. 2238 (2011).

23. *Id.* at 2251.

24. *Id.*

25. Of course, however, the district court in *WARF* court granted Apple's motion to preclude WARF from offering evidence of the Board's denial of Apple's IPR petition despite the fact that Apple intended to present the same references and arguments to the jury at trial. 2015 WL 5704356, at *5–7.

26. *See* http://careers.uspto.gov/Pages/APJPositions/section1-transcript.aspx.

27. *Microsoft*, 131 S. Ct. at 2251.

28. 576 F.3d 1331, 1343 (Fed. Cir. 2009).

29. 696 F.3d 1364, 1376 (Fed. Cir. 2012).

30. For example, in a subsequent decision in the *WARF* case, WARF urged that the Board's decision precluded Apple from arguing that its obviousness defense in the litigation was not objectively baseless. The district court disagreed, however, reasoning that the Board was not addressing "whether this defense was objectively reasonable or raised a substantial question." *Wisconsin Alumni Research Found. v. Apple, Inc.,* No. 14-CV-062-WMC, 2015 WL 6071063, at *3 (W.D. Wis. Oct. 15, 2015).

31. *See, e.g.*, 35 U.S.C. § 311(b) (petitioner may only request IPR on §§ 102 or 103 grounds based on prior art patents or printed publications).

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