
CRAVATH, SWAINE & MOORE LLP

U.S. Patent Law and Practice

After the America Invents Act (AIA)

FEBRUARY 27, 2015

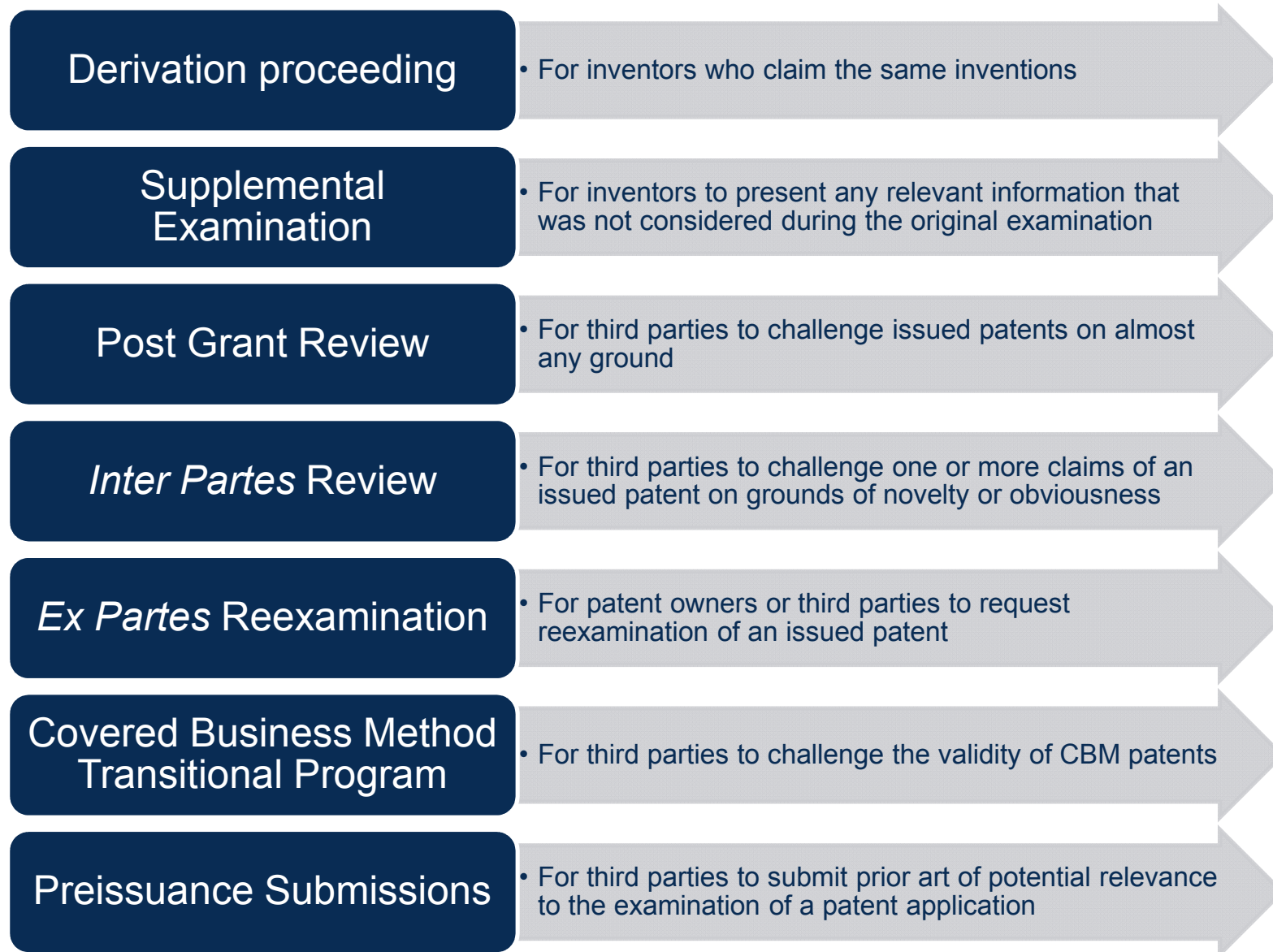
Leahy-Smith America Invents Act

- Signed into law on September 16, 2011
- Sweeping change to US Patent law



President Barack Obama signs the America Invents Act September 16, 2011, at Thomas Jefferson High School for Science and Technology in Alexandria, Va.

Summary of Opposition Procedures



Post Grant Review

- **Post-Grant Review - Section 6** (Effective date: September 16, 2012)
 - Applies to any issued patent
 - Establishes a new post-grant review proceeding in which parties may seek cancellation of patents on ANY validity ground
 - Must be filed within 9 months after the patent is issued.
 - The USPTO may grant a petition to institute a post grant review of a patent when it is more likely than not that at least 1 claim is unpatentable, or the petition raises a novel or unsettled legal question that is important to other patents or patent applications.

Inter Partes Review

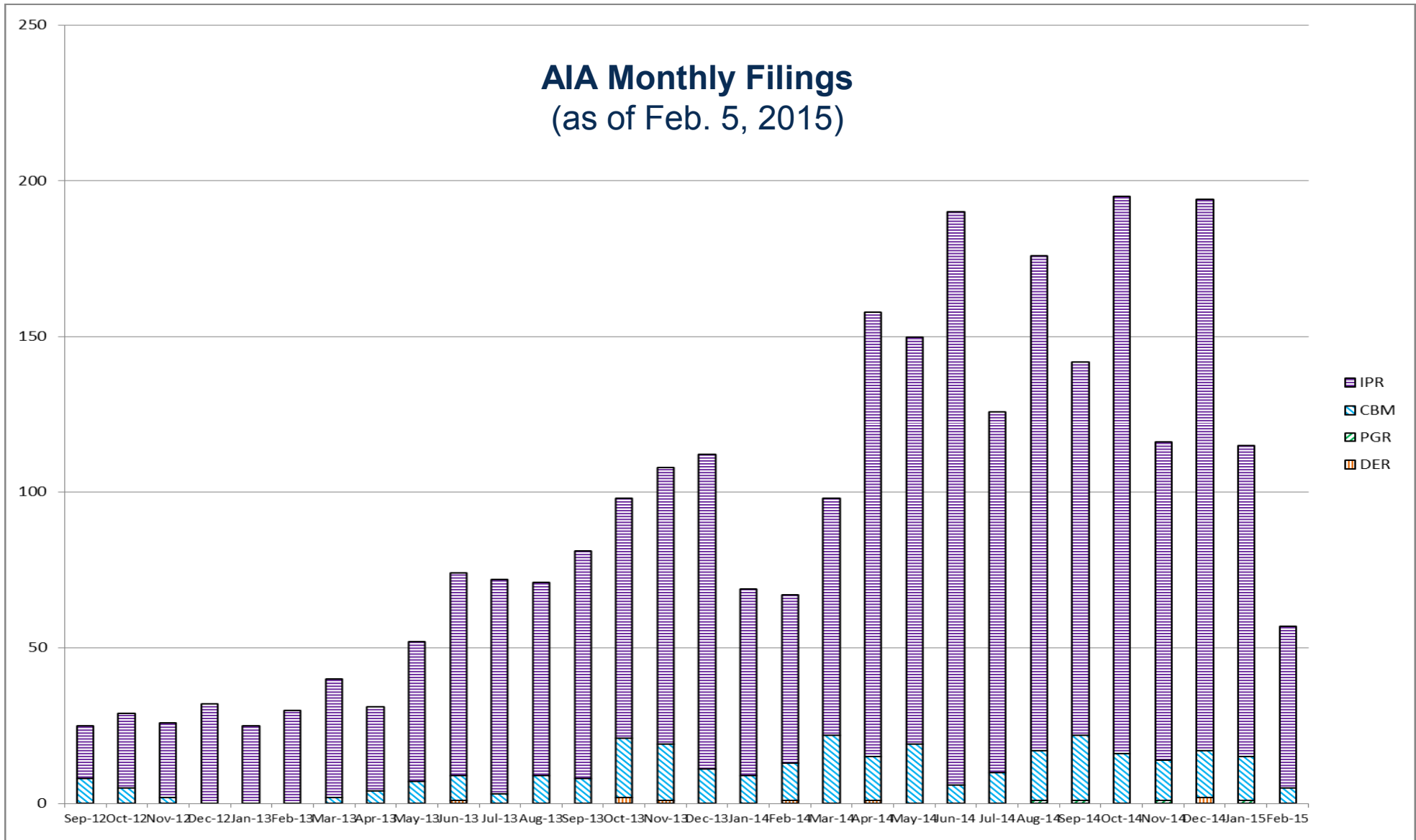
- **Inter Partes Review - Section 6** (Effective date: September 16, 2012)
 - Any person other than the patent owner may petition the USPTO for inter partes review.
 - Only under Section 102 or 103 based on patent(s) or printed publication(s).
 - May be filed the later of 9 months after grant OR a post-grant review has terminated.
 - The USPTO may grant a petition to institute inter partes review of a patent when there is a reasonable likelihood that petitioner would prevail as to at least 1 challenged claim.
 - May not be instituted if the petitioner has filed a civil action challenging the patent's validity, or if the petition is filed more than 1 year after the petitioner is served with a complaint alleging infringement.

Covered Business Method Transitional Review

- **Transitional Program for Covered Business Method Patents – Section 18** (Effective date: September 16, 2012)
 - New transitional post-grant review proceeding for reviewing the validity of covered business method patents.
 - Only an entity that has been sued for infringement of the patent may file for the review.
 - Process follows inter partes review procedure

Progress of AIA Provisions

Inter Partes Reviews and Covered Business Method Reviews



Progress of AIA Provisions

Inter Partes Reviews and Covered Business Method Reviews

Statistics (as of 02/05/2015):

NUMBER OF AIA PETITIONS

FY	Total	IPR	CBM	PGR	DER
2012	25	17	8	-	-
2013	563	514	48	-	1
2014	1,494	1,310	177	2	5
2015	677	610	63	2	2
Cumulative	2,759	2,451	296	4	8

AIA PETITION TECHNOLOGY BREAKDOWN FY15 (based on Technology Center)

Technology	Number of Petitions	Percentage
Electrical/Computer – TCs 2100, 2400, 2600, 2800	432	63.8%
Mechanical/Business Methods – TCs 3600, 3700	163	24.1%
Chemical – TC 1700	27	4.0%
Bio/Pharma – TC 1600	53	7.8%
Design – TC 2900	2	0.3%

Progress of AIA Provisions

Inter Partes Reviews and Covered Business Method Reviews

AIA TRIALS INSTITUTED/DISPOSALS

		Trials Instituted	Joinders	Denials	Total No. of Decisions on Institution	Disposals			
						Settled	FWD*	RAJ**	Other***
IPR	FY13	167	10 ⁺	26	203	38	0	2	1
	FY14	557	15 ⁺	193	765	210	130	39	1
	FY15	286	78 ⁺	111	475	137	94	14	7
CBM	FY13	14	0	3	17	3	1	0	0
	FY14	91	1 ⁺	30	122	27	13	3	2
	FY15	22	-	12	34	19	16	2	4
PGR	FY15	-	-	-	-	2	-	-	-
DER	FY14	0	0	3	3	0	0	0	0

*104 cases joined to 68 base trials for a total of 172 cases involved in joinder.

*Final Written Decisions on the merits.

**Judgments based on Request for Adverse Judgment.

***Includes terminations due to dismissal.

Recent PTAB and CAFC Decisions

SAP America v. Versata Data Development Group (CAFC Jul. 2014)

- Affirmed district court's refusal to overturn \$391 million jury award for patent infringement based on subsequent unpatentability finding by PTAB
- By contrast, in *Fresenius USA v. Baxter Int'l* (CAFC 2013), patent invalidity finding during concurrent *ex parte* reexamination was sufficient to overturn district court's validity finding where judgment had not yet been entered
- Shows timing of PTAB decision is critical

Versata Software v. Callidus Software (CAFC Jul. 2014) *VirtualAgility, v. Salesforce.com* (CAFC Nov. 2014)

- Fed. Cir. reversed district court denials of stays pending CBM review by PTAB
- Held Fed. Cir. had authority under AIA to review decision de novo, but that it must be reversed even under abuse of discretion standard
- District courts should not hold “mini-trials” reviewing PTAB's decision on merits of CBM review
- Not necessary for a challenger to challenge all of the claims, or raise all possible defenses, in PTAB proceeding
- Reiterated that stage of the litigation at time of motion filing is most relevant consideration

Recent PTAB and CAFC Decisions

In re Imes (CAFC Jan. 2015)

- Fed. Cir. reversed PTAB decision to reject patent application, finding it lacked enough evidence to support its finding and tried to introduce an argument for rejection on appeal
- Applied “broadest reasonable interpretation” standard, but decision suggests more emphasis should be placed on ‘reasonable’ prong and less on ‘broadest’

In Re Cuozzo Speed Technologies, LLC (CAFC Feb. 2015)

- First-ever ruling in appeal of AIA review decision, affirming PTAB decision
- Fed. Cir. lacks jurisdiction to review the PTO’s decision to institute IPR on direct appeal
 - CAFC appeal (*Versata Development Group v. Lee*) currently pending on whether PTO’s decision to institute CBM review can be challenged
- Affirmed USPTO use of “broadest reasonable interpretation” claim construction standard in IPRs
- Held PTAB factual claim construction determinations reviewed for substantial evidence, and legal determinations de novo, per *Teva Pharms. v. Sandoz* (S. Ct. 2015)
- Since *In re Cuozzo*, Fed. Cir. has ruled on two more appeals of IPR decisions, in both cases summarily affirming PTAB's findings

Recent PTAB and CAFC Decisions

Target Corp. v. Destination Maternity Corp. (PTAB Oct. 2014)

- Divided 3-2 panel, in a non-precedential decision, denied petition as barred by one-year time limitation; denied motion for joinder, finding § 315(c) precludes joinder of two petitions by same petitioning party
- Surprising outcome – inconsistent with previous PTAB decisions interpreted § 315(c) to permit such joinder practices (though often declining to permit joinder on other grounds)
- After request for rehearing, in Feb. 2015 an expanded panel (divided 4-3) allowed joinder; decision remains non-binding on other panels

Riverbed Technology, Inc. v. Silver Peak Systems, Inc. (PTAB Jan. 2015)

- First contested claim amendment allowed (in part) in IPR proceeding (only second amendment ever)
- Raises question regarding applicability of statutory estoppel for AIA trial proceedings in subsequent district court actions

Recent PTAB and CAFC Decisions

CBM Patent Review Eligibility for Jazz Pharmaceuticals' Orange-Book Listed Patents (PTAB Jan. 2015)

- Denied institution of first-ever attempt to obtain CBM reviews of Orange Book-listed patents
- PTAB rejected arguments that claims were eligible because methods "would be used in commerce" and distributing prescription drug "is financial in nature", stating that claims themselves do not recite a financial product or service

AIA Constitutionality Challenges

- *MadStad Eng'g, Inc. v. USPTO* (CAFC Jul. 2014): Affirmed dismissal of suit challenging constitutionality of first-to-file system (on technical grounds; no standing due to lack of injury)
- *eCharge Licensing v. USPTO* (E.D. Va.) and *MCM Portfolio v. Hewlett-Packard* (CAFC) claim IPRs are unconstitutional because they deprive patent owners of right to jury trial
 - In *eCharge*, summary judgment granted to USPTO in Feb. 2015, ending case on procedural grounds (failure to exhaust administrative remedies)
- No such challenges successful to date

Review and Changes to PTAB Procedures

July 2014: USPTO request for written comments on PTAB trial proceedings (until Oct. 16, 2014)

- Request for comments covered 17 topics, including claim construction, amendment practice, and management of concurrent proceedings before the office
- 37 submissions received in total, coming from IP associations, companies, and individuals

Issues addressed in public comments include:

- Appropriate claim construction standard
- Standard/procedures for motions to amend claims
- Scope of discovery in PTAB litigation
- Coordination of simultaneous USPTO proceedings
- (Some respondents simply praised the status quo)

Nov. 2014: Further PTAB guidance on motion to amend requirements

- PTAB issued order (*Corning Optical v. PPC Broadband*) which provides further guidance about requirements, and authorizes patent owners to place substitute claims in an appendix (such that listing doesn't count toward 15-page limit)

Review and Changes to PTAB Procedures

Feb. 3, 2015: PTAB Chief Judge's first "boardside chat" webinar

- Aimed at updating public about PTAB activities
- Chief Judge acknowledged patent owner complaints about difficulty of substituting new claims to avoid challenges, narrow limitations in ability to obtain discovery during AIA review

Feb. 11, 2015: USPTO announced it will unveil proposed changes to streamline PTAB IPR process later this year

- Agency has heard complaints that "broadest reasonable interpretation" claim construction standard makes it too easy to invalidate patents in reviews
- First "fixes" introduced to PTAB review system will be mild, such as leniency for page limits on filings and other "procedural" elements that have resulted in invalidated patents

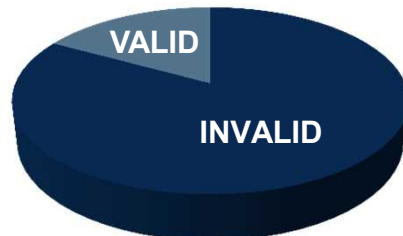
State of Software Patents

Alice Corp. v. CLS Bank International (S. Ct. Jun. 2014)

- Held that operating a process on a generalized computer does not transform an abstract idea into a patentable invention.
- Relied on a two-step abstract idea test for subject matter eligibility:
 1. Determine whether a claim is directed to an abstract idea; if yes, then
 2. Determine whether the additional elements of the claim are sufficient to transform the nature of the claim into a patent-eligible application.
- Despite an express warning in *Alice* to “tread carefully” in construing the exclusionary principle of unpatentable abstract ideas, lower courts have relied on *Alice* to a remarkable extent in order to invalidate software patents

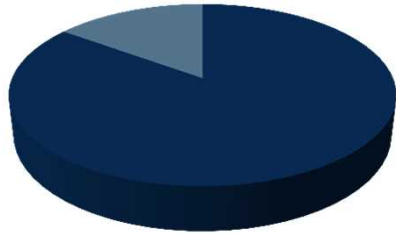
Ultramercial, LLC v. Hulu, LLC (CAFC Nov. 2014)

- Fed. Cir. confirms importance of *Alice* by departing from its pre-*Alice* decision, finding a method for distributing content over the Internet to be abstract and finding additional limitations enacted via software insufficiently transformative



A study of 40 federal court decisions applying the *Alice* framework between June 2014 and January 2015 found that of the 72 patents considered (66 computer or software related and 6 in the life sciences) less than **17%** survived challenges under *Alice*

State of Software Patents



85% of the time, the court's decision on whether the characterization of the patented concept (as opposed to the claim itself) is patent ineligible (i.e. abstract) aligned with the overall decision on patentability

DDR Holdings v. Hotels.com (Fed. Cir. Dec. 2014)

- A rare CAFC case upholding the validity of a software patent, challenged under *Alice*, that included methods for displaying a vendor's embedded webpage while appearing to users as native content to the host's website
- Crucial to the decision that the claims were “necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks”
- Distinguished from *Ultramercial* in that the claims here “specify how interactions with the Internet are manipulated to yield the desired result—a result that overrides the routine and conventional sequence of events ordinarily triggered by the click of a hyperlink.”

Updates to USPTO Patent Subject Matter Eligibility Guidance

- USPTO has updated its examiner guidance to keep up with key Supreme Court decisions
- Updated interim guidance was released in March 2014 (after *Mayo* and *Myriad* decisions), June 2014 (after *Alice*), and most recently on December 16, 2014.
- December 2014 guidance, according to the Commissioner for Patents, “reflects a significant change from the examination guidance previously issued in response to *Myriad* and *Mayo*. The changes were triggered by the feedback we solicited and received from the public, as well as refinements necessitated by the *Alice Corp.* decision.”
- December 2014 guidance explicitly incorporates *DDR Holdings* decision

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