

Do The Proposed AIA Rule Changes Go Far Enough?



Law360, New York (August 29, 2015, 9:34 PM ET) -- The U.S. Patent and Trademark Office recently announced a set of proposed new rules for America Invents Act reviews that would allow patent owners to introduce expert testimony in their responses, while leaving many other aspects of the proceedings unchanged. Do these proposals go far enough to address the concerns of patent owners and attorneys, or do they go too far?

Dr. Scott Kamholz, Foley Hoag LLP
Former PTAB Administrative Patent Judge

New direct testimony won't help the patent owner in the preliminary response. This proposed rule seems to bring balance to the institution decision, but I expect that un compelled direct testimony would rarely, if ever, be used by the Patent Trial and Appeal Board to deny institution or even to limit the issues for trial. Why? Because direct testimony is untested. In theory, any statement of fact or opinion in direct testimony could be undermined in cross-examination. So although the board is comfortable deciding whether the petitioner's expert direct testimony provides sufficient evidence to institute a trial, that decision is a preliminary one. The weight the board ultimately accords the petitioner witness's testimony is not decided until after the patent owner has had an opportunity to test that evidence in cross-examination. But an institution decision in favor of the patent owner is a final and non-appealable decision that deprives the petitioner of the relief requested. The board will not deny the petitioner relief solely on the basis of the untested direct testimony of a patent owner witness because the petitioner could, in theory, demolish that evidence in cross-examination. Although these rules appear to benefit patent owners, if adopted they probably will not make much difference.

Aaron Cooper, Covington & Burling LLP
Former Chief Counsel for IP & Antitrust Law, Senate Committee on the Judiciary

The USPTO's actions are consistent with the trend we have seen in many district courts with respect to patent litigation. In both the regulatory and litigation environment, there is a recognition that the processes can be misused. As a result, both the courts and the USPTO are making changes to minimize the potential for abuse, while ensuring the respective forums can be used as intended. The AIA gave the USPTO rulemaking authority to implement the post-issuance proceedings. The USPTO director is specifically charged with considering how its regulations will affect the economy and "the integrity of the patent system." While the USPTO's recent proposed rules are unlikely to be the final changes, Director Michelle Lee should be commended for continuing to refine the rules to ensure fairness and thereby accomplish what the law requires: consideration of how the rules affect the integrity of the patent system.

**D. Bartley Eppenauer, Shook Hardy & Bacon LLP
Former Chief Patent Counsel for Microsoft Corp.**

Overall I view the proposed changes as a net positive. The USPTO is actively seeking to improve the rules for post-issuance review proceedings in response to comments received at “listening tours” and other input. This is good for the patent system overall. As to the substance of the proposed new rules, patent owners may see this a small victory, but not as significant a step as many pro-patentee advocates would like. While it certainly could be beneficial to allow patent owners to include new testimonial evidence in their preliminary responses, it remains to be seen how often patent owners will take advantage of this approach, particularly when there is parallel litigation where patent owners may want to avoid being locked in on various positions. Additionally, any advantages gained under this proposed rule could be offset by corresponding changes requiring that at the institution stage any disputed facts are to be viewed in the light most favorable to the petitioner, and providing the ability for petitioners to request leave to file a reply to the patent owner’s new testimony. On balance, the proposed changes are likely to be seen as a step in the right direction. On the other hand, these proposed changes likely will do nothing to address the debate in Congress on post-issuance review proceedings.

**Patricia Martone, Law Office of Patricia A. Martone PC
NYU School of Law Adjunct Professor**

The proposed USPTO rule changes for post grant proceedings do not go far enough to protect patentees. These proceedings can be initiated even if the only art raised was already considered in the original examination, rendering the statutory presumption of validity a nullity and adding a layer of inefficiency to the USPTO. The statutes should be changed to require reliance on at least one item of prior art not previously considered. Validity is determined by the PTAB using a broad claim construction, while infringement is determined by the district courts applying the narrower "Phillips-type" standard. Both fora should use the same "Phillips-type" standard. But the rule change permits such use only in limited circumstances. The proposal to permit the patentee to submit responsive expert testimony prior to the decision to institute is undermined by the provision that all fact disputes are presumptively resolved in favor of the petitioner at the institution stage. Because the parties' experts can be expected to express conflicting opinions based in part on a different view of the facts, the patentee's expert opinion can easily be discounted. Applying the presumption at the initiation stage prejudices patentees because initiation often triggers settlement.

**David L. Suter, Harness Dickey & Pierce PLC
Former Associate General Counsel for Patents, Procter & Gamble Co.**

In my view, the question of whether the new IPR rules go too far, or not far enough, in addressing patent owner concerns emphasizes the wrong issues regarding the strikingly high frequency with which claims are found invalid. Conceptually, any changes to the rules that allow more evidence to be considered by the PTAB should be a good thing, as long as IPR remains a compact and cost-effective alternative to litigation. However, the question presupposes that IPR procedure should be tuned simply because some stake holders do not like the results. Perhaps the better question relates to the substance, not the procedure, of why so many patent claims are being found invalid. Rather than the PTAB’s rules, the answer is likely found upstream in the patent filing and examination process, and the significant changes in the legal standards (e.g., led by the Supreme Court) that are certainly less patent-friendly than when many of the challenged patents were filed. There are broader issues at play in the IPR statistics. Refinements in the process are quite appropriate as we work through this relatively new procedure. But, if we are concerned about the results, perhaps we should be more concerned about the systemic factors that are leading to those results.

Andrew W. Carter, Ocean Tomo LLC

If passed, the proposed rules concerning expert testimony will provide a more robust preliminary stage to AIA proceedings. This should help provide clarity, especially to underappreciated issues, as well as provide the board with a better understanding of some technological areas. Overall, this would appear to be an improvement to the system. But in this adversarial world, everyone wants to know who “wins” with this rule change, patent owners or petitioners? Given the high rate of claims cancellations and litigation stays, convincing the board to not institute a trial is the preferred outcome for patent owners. While allowing patent owners to include expert testimony, the proposed rules still provide petitioners a significant advantage by requiring the PTAB to consider disputed facts in the light most favorable to the petitioner. On balance, I believe this change has the potential to be a net positive for patent owners.

Garrard R. Beeney, Sullivan & Cromwell LLP

While certain reforms were undoubtedly needed to improve the quality of issued patents — for example, how about hiring additional examiners, reducing their caseload and paying them a competitive salary? — the AIA threatens to radically alter a system to protect and encourage innovation that has served us well for more than a century. While allowing the patentee to submit expert testimony at the preliminary stage is a tiny step in the right direction to create a more balanced process, the proposal may have little effect since any factual dispute between the competing experts will be resolved in favor of the petitioner in making a determination to institute review. It should not be difficult for any petitioner to anticipate a response to its petition and create such a factual dispute. The USPTO should adopt at least three other reforms to balance the process: First, the determination to institute review should be made by a judge that does not sit on the panel deciding the merits. Second, the PTAB should dispense with a claim construction standard that is broader than the Phillips standard used in the district courts. It makes no sense to accept invalidating prior art relevant to a claim construction broader than the patentee could obtain in district court in enforcing her invention. Third, while the decision in *MasterImage 3D Inc. v. RealD Inc.* — clarifying what “prior art known to the patent owner” means — is helpful, the PTAB needs to implement the intent of Congress and more freely grant the right to amend.

Brian Dunne, Olavi Dunne LLP

The most glaring inequity in AIA reviews is the BRC claim construction standard. Any proposed reforms that don't address the BRC standard are half-measures at best. Substantive rules changes aside, the PTAB does seem to be operating a little more evenhandedly (and less like a patent death squad) in some recent reviews. It remains to be seen whether this is a real trend or simply an anecdotal anomaly.

**Richard Baker, New England Intellectual Property LLC
Former Director of IP Licensing for 3Com Corp.**

The USPTO missed the mark with its new rules for post-grant proceedings, addressing a small issue while avoiding the larger problem. The fundamental issue that patent owners and attorneys are facing is that the PTAB is taking away 75 percent of the patents upon which it issues a final decision, many of these the best patents (based on number of licenses and use in litigations). In industry, any organization that needed to recall 75 percent of its products would need to quickly change its method of doing business. The USPTO should have addressed the standards for review in the interpretation of claims. The PTAB is currently using a “broadest reasonable interpretation” rather than the “claim’s actual meaning” standard used by district courts. This sets up illogical situations where a court finds a patent valid and then the PTAB invalidates the same patent over the same art. As Judge Pauline Newman noted in *In re*

Cuozzo, “the PTO’s decision to use the [BRI] Rule is inconsistent with the AIA and sound patent policy.” In the rules changes, the USPTO should have changed the claim interpretation standards.

Barry S. Goldsmith, Miles & Stockbridge PC

The change to allow patent owners to introduce expert testimony in their preliminary response does provide some balance to the procedures, as the petitioners are allowed to include such testimony in their initial petition. Therefore, the decision to initiate can be more informed. However, it is not clear that anything else needs to be done to address concerns, which primarily seem to be directed to the estimated 70 percent rejection rate as an indication that something is wrong with the process. To the contrary, many believe that this high rejection rate is to be completely expected. Many of the petitions are directed to patents involved in litigation, meaning that *much* better prior art is likely uncovered relative to the fairly abbreviated patent office search. Further, even though it may be less expensive than litigation, the cost of filing a petition is high enough that a party is not likely going to go through the trouble of filing one unless that party believes it has a reasonable chance of prevailing. Finally, especially at the initial stage, the new procedures have been successfully and justifiable used to kill some of the weakest patents that clearly never should have been issued.

Michael P. Sandonato, Fitzpatrick Cella Harper & Scinto

I do not think that the proposed new rules would have much substantive impact. Importantly, the USPTO has made clear that “supporting evidence concerning disputed material facts will be viewed in the light most favorable to petitioner for purposes of deciding whether to institute [] review.” This standard is reminiscent of the standard applied by district courts in adjudicating summary judgment motions. While patent owners would have the chance to submit expert declarations, in the overwhelming majority of the cases the patent owner’s expert declaration would conflict with the petitioner’s expert declaration. This conflict would create a classic “battle of the experts,” which I believe most often would be resolved in favor of the petitioner in determining whether to institute, under the “light most favorable” standard.

Kenneth R. Adamo, Kirkland & Ellis LLP

I am encouraged by certain aspects of the proposed new rules, such as the clarification that panels will apply a Phillips-based claim construction for patents that will expire prior to a final decision, and several other rule fixes aimed at clarifying standards. But the proposed rules could have gone further to address and promote consistent application of rules (both old and new) among panels — a significant concern to petitioners and patent owners alike. For example, decisions show that different panels give different weight to evidence submitted with petitions; new rules should mandate full, consistent consideration of evidence, especially expert declarations, so long as petitions comply with other rules, such as those limiting incorporation by reference. With respect to allowing patent owners to submit expert testimony with preliminary responses, the propriety and impact could very well depend on the application of related proposed rules, such as resolving factual disputes in favor of petitioners at the preliminary stage. This proposal also raises new questions, such as how expert testimony submitted with a preliminary response would be handled post-institution. For instance, after institution, to what extent would a petitioner be permitted to cross-examine an expert declarant on his or her opinions at the preliminary stage?

Robert M. Barrett, K&L Gates LLP

I believe the rule change allowing a patent owner to introduce expert testimony with its preliminary response is a fair compromise to address patent owner concerns, but it is unlikely to drastically change the current landscape. The proposed rules note that “any factual dispute that is material to the institution decision will be resolved in favor of the petitioner,” thus potentially negating the importance of this new expert testimony. This new testimony may further be undercut where the petitioner seeks leave and is granted a reply, including the opportunity to introduce rebuttal expert testimony. Where a patent owner may gain an advantage is in using expert testimony to influence the ultimate claim construction decision. Patent owners, however, should be careful how they use expert testimony with respect to claim construction. If an institution decision considers a patent owner’s new testimony, yet rejects it and adopts the petitioner’s proposed claim construction, the patent owner may be in a worse position than before the rule changes.

Chuck Ebertin, Intellectual Ventures LLC

While allowing patent owners to submit expert testimony in response to a petition gives the appearance of benefitting the patent owner, it is unclear how this rule change will work if implemented along with other proposed rule changes. In particular, two of the new proposed rules provide that the petitioner can seek leave to file a reply to a preliminary response and that any supporting evidence concerning disputed material facts will be viewed in the light most favorable to the petitioner for purposes of deciding whether to institute an inter partes review. One can foresee that evidence submitted by the patent owner will likely be contested by the petitioner, thereby creating a factual dispute, thus nullifying any impact of the evidence that was submitted by the patent owner for purposes of instituting the review. As a result, these rules may just increase the costs to all stakeholders in connection with instituting a review without really changing the outcome on institution. However, one potential benefit to allowing the introduction of more evidence at the outset is that it is possible that the parties will end up with a more informed preliminary claim construction.

If the goal is to make PTAB proceedings “as effective and fair as possible,” minimizing the difference between district court proceedings and post-grant proceedings with respect to the presumption of validity, burden of proof and consistent claim construction rules would make for more consistent, predictable and fairer results for all stakeholders. As noted by five Federal Circuit judges, “in IPRs, as in district court litigation, an already issued claim is being analyzed for the purposes of determining its validity. In this context, it makes little sense to evaluate the claim against prior art based on anything [other] than the claim’s actual meaning.” In re Cuozzo Speed Technologies, Case No. 2014-1301 at p. 9 (Fed. Cir. July 8, 2015) (dissent from denial of petition for rehearing). Moreover, the need for investment-reliable patent rights “collapses if the PTO applies a unique rule of patent claim construction, different from the law of claim construction that is applied in the courts.” *Id.* at p. 4 (Judge Newman dissenting).

Herbert D. Hart III, McAndrews Held & Malloy

The proposed rule changes are welcome from the perspective of practitioners who believe that the board must become more flexible and balanced in its management of post-grant trials. They’re also welcome in the area of attorney conduct before the board, since so many attorneys appearing as counsel in post-grant cases are new to board practice, having only entered the practice post-AIA. There is, however, still a lot to be desired in transparency in the board’s decision-making and in clear adherence to the limitations of its jurisdiction. But rule changes aren’t likely to make an impact in those areas. Instead, the board will need to finally acknowledge that, as the Federal Circuit just pointed out in

Progressive Casualty v. Liberty Mutual, No. 2014-1466, it is subject to the due process and other provisions of the Administrative Procedure Act.

Mark L. Hogge, Dentons

The proposed rule strikes the right balance. The AIA provides an efficient mechanism to challenge a claim's patentability by including the right to file a preliminary response without limits on content as a way to potentially avoid trial. Currently, USPTO guidelines prevent new testimonial evidence in the preliminary response, which hampers the patent owner. The proposed new rule permits a patentee to counter the petitioner's evidence as needed, possibly sparing the patentee from undertaking the cost and time of an AIA trial. Under this new rule, the PTAB would have greater flexibility to authorize petitioner replies to preliminary responses, and can resolve any material factual disputes in favor of the petitioner. This intermediate step strikes the balance between competing interests of the patent owner and the petitioner, while still allowing the PTAB to decide whether to institute within three months of the preliminary response. In the end, the proposal will provide a fair and equitable engagement between the patent owner and the petitioner at the preliminary stage of an AIA proceeding.

John C. Jarosz, Analysis Group Inc.

The USPTO proposals succeed in rebalancing the playing field... Though expert testimony rarely is uncontroverted and often is expensive and time-consuming, by granting the right to present such testimony in the early phase to only the petitioner, the AIA had minimized the ability to contest expert testimony and had given only one party the option to incur expert expenses. No wonder that the petitioner success rate has been so high. Expert testimony is not a panacea and can complicate determinations. But denying one but not the other party the power of expert testimony has imbalanced the advocacy playing field. Rest assured, however, that the new USPTO proposals do not appear to go too far in rebalancing. They still propose resolving any material factual dispute in favor of the petitioner for the purposes of institution and allow the petitioner to seek leave to file a reply to a preliminary response supported by a declaration.

Mark A. Klapow, Crowell & Moring LLP

On first impression, the new proposed rules do not seem to go far enough. Perhaps expectations were too high. The new proposed rules allow the patent owner to provide expert testimony in the preliminary response before any trial is instituted. This change was needed to curtail unproductive proceedings. The new proposed rules, however, do not identify a clear path for claim amendments. The PTAB promptly followed the publication of the new proposed rules with statements that the recent MasterImage decision provides sufficient guidance on claim amendments. That remains to be seen. But certainly it would have been helpful and added clarity if the USPTO had just proposed new rules on point. Patent owners should have stronger rights to make claim amendments. If the USPTO does not address concerns fast enough, Congress may take action — soon.

Larry W. McFarland, Kilpatrick Townsend & Stockton LLP

We think the impact of the proposed rule will be to reduce the number of institutions and successful IPRs. Allowing new expert testimony in support of a preliminary response provides an enormous additional incentive to the patent owner to file a preliminary response. A preliminary response without supporting evidence is necessarily limited to addressing structural defects in the petition or the rare substantive position that can be addressed without supporting evidence. However, under the proposed rules, a patent owner that can quickly retain an expert to review the issues and draft a declaration has

the opportunity to take two bites at responding to the substantive rejections: first in the 60-page preliminary response, and if instituted, again in the 60-page response. This raises the bar on the petitioner, who is limited to 85 pages of substantive briefing. Going forward, successful petitioners will need to consider, and address in advance, arguments that the patent owner will likely raise in its response(s).

Dr. Mary K. Murray, Hamilton Brook Smith & Reynolds PC

The proposed rule strikes an appropriate balance by allowing the patent owner to counter evidence submitted by the petitioner and should increase the efficiency of administrative review. The proposed rules also suggest a suitable change to claim construction for patents that will expire before a final decision that is narrower than the currently employed “broadest reasonable interpretation” benchmark for invalidating patents by the USPTO. Any further change in the standard of claim construction will likely need to await congressional intervention. Clarifications to the standard that patent owners must show in support of claim amendments to distinguish “over the prior art of record” is a further move by the USPTO in a positive direction in response to comments by patent owners, practitioners and third parties. The USPTO is listening and reacting to concerns regarding AIA administrative proceedings in a logical and systematic manner. Further revisions will likely surface with time.

Mark Scarsi, Milbank Tweed Hadley & McCloy LLP

The USPTO's proposed rules regarding new testimonial evidence for preliminary responses does a good job of balancing the concerns of both petitioners and patent owners. Currently there is an imbalance between the type of evidence that petitioners and patent owners may present to the PTAB before the decision to institute trial. Patent owners may only introduce prior expert testimony in their preliminary responses that already existed and was not created for the purposes of the post-issuance proceeding while the petitioner is not limited. The new rules address this imbalance by allowing patent owners to include new testimonial evidence as well. At the same time, the rules also hedge this change by providing that any material factual disputes created by the submission of new testimonial evidence should be resolved in favor of the petitioner when determining whether trial should be instituted. The petitioners get some benefit as well, because they gain an early insight into the patent owners' position and are better able to prepare for trial if one is ultimately instituted.

Steven Wong, The Home Depot Inc.

It is not clear to me whether the proposed rule changes address the concerns of patent owners and petitioners. One of the common complaints is that the PTAB frequently denies the patent owners the ability to amend. The argument is that without the ability to amend, patent owners are at a severe disadvantage in arguing against the broadest reasonable interpretation standard. According to many patent owners, the proposed rules do not adequately address this issue. From a petitioner's perspective, the proposed rules appear to add complexity to the record (e.g., expert testimony in the responses) while also eliminating necessary resources (e.g., a single administrative patent judge). This places a greater burden on petitioners to present a refined and complete rationale for instituting a trial against a backdrop where the decision may be at the mercy of which APJ the petitioner draws. I hope that these concerns and others are properly considered and addressed in the final rules.

Barry J. Schindler, Greenberg Traurig LLP

Petitioners have always been allowed to use expert declarations at the outset, often to support their proposed claim construction and invalidity contentions. It makes sense that patent owners should also

be able to respond and support their optional preliminary responses with these same expert declarations. Claim construction can be a crucial issue in determining whether to institute an AIA proceeding. Allowing the patent owner to support its proposed claim construction with an expert declaration at the outset brings more balance to a PTAB determination of whether to institute the proceedings. Further, allowing expert declarations removes the “mere attorney argument” objection of the PTAB and petitioners, which may incentivize more patent owners to submit the optional preliminary responses. Having both the patent owner’s and the petitioner’s views on the case, prior to the institution decision, will allow the PTAB to more fully understand all the issues prior to deciding whether to institute an inter partes review.

Jeff Van Hoosear, Knobbe Martens Olson & Bear LLP

Many patent owners, particularly those with pharmaceutical and biotech patents, will welcome the opportunity to submit expert declarations with their preliminary response. While this proposed rule is at least part of what patent owners have asked for, this provision may not make much of a difference. The proposed rules also include a provision that, for the purpose of making a decision as to whether to institute a review, factual disputes material to the institution decision will be resolved in favor of the petitioner. In addition, there is a provision which allows the petitioner to seek permission to reply to the patent owner’s submission. These two provisions arguably favor the petitioner. As such, a provision which allows the patent owner to introduce expert declarations with their response may not have an actual impact on lowering the institution rate.

**Robert Stoll, Drinker Biddle & Reath LLP's IP Group
Former USPTO Commissioner of Patents**

The USPTO has done a great job getting the new post grant procedures up and running. Now that they have some experience with the processes, and triple the expected usage, they have correctly sought input about how to improve the system. While most of the proposed changes are not significant, the USPTO has recommended that patent owners should be permitted to file expert declarations and other new testimonial evidence with the patent owner’s preliminary response to the challenger’s petition. This is a welcome improvement that will help restore balance to a system that seems to be tilted against the patent owner. The USPTO should also propose other changes, including: patent owner’s ability to more easily amend; and, the grant of additional discovery when warranted, instead of simply discussing those issues. The office is headed in the right direction and I am hopeful this iterative process will strengthen the system. As we continue to improve, we need to understand the consequences of the changes and not rush to new legislative modifications, which could bring new problems. The office is listening to the complaints; let them fix what they can and see how that works.

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