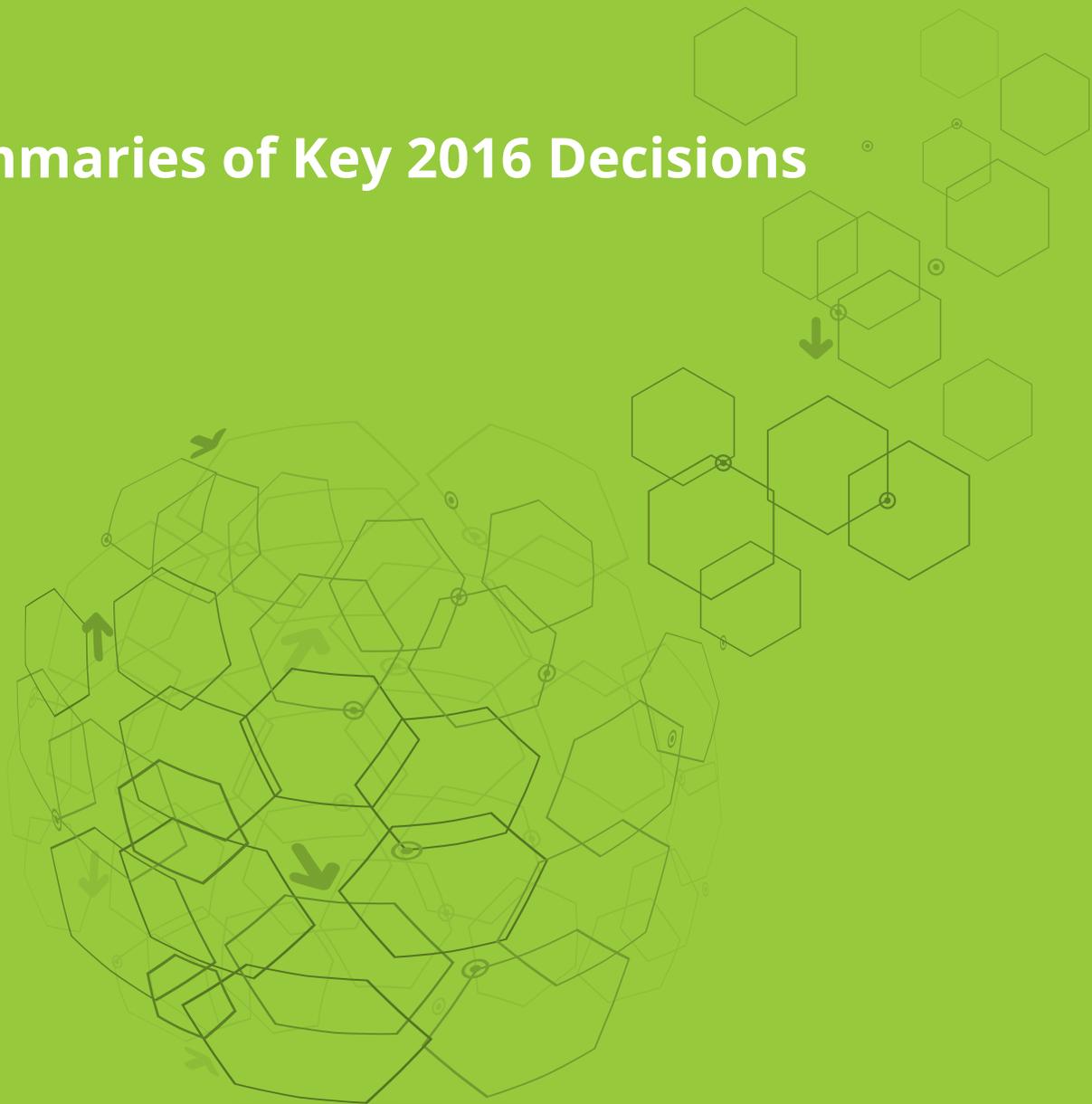


FEDERAL CIRCUIT APPEALS FROM THE PTAB

Summaries of Key 2016 Decisions



Introduction

The post-grant procedures created by the America Invents Act have been phenomenally popular. Today, the U.S. Patent and Trademark Office's Patent Trial and Appeal Board (PTAB) reviews over 1,500 patents each year. But, because final written decisions from the PTAB are directly appealable to the Federal Circuit, many expected and predicted a surge in appeals (ourselves included). And that has in fact happened. Appeals from the USPTO to the Federal Circuit grew from under 150 in 2013 to over 600 in 2016—an increase of over 400% in just three years.

The Federal Circuit has affirmed nearly 80% of the PTAB's final written decisions. That said, a growing number of remands and reversals issued by the Federal Circuit in recent months reveal its willingness to police procedural violations and legal errors committed by the PTAB. As the number of Federal Circuit decisions on final written decisions have grown, we have seen the rate of affirmance decline.

We have also seen PTAB proceedings reach a greater level of maturity and predictability—from an initial surge to a fairly stable rate of roughly 400 petition filings per quarter. We expect to see a similar maturation of appeals to the Federal Circuit. Assuming there will be roughly 700-800 appealable decisions out of the PTAB each year, we should expect a steady state of appeals to settle around 350-400 per year.

Reaching that more predictable steady state will require the appellate bar to develop a deeper understanding of the grounds upon which PTAB decisions are remanded or reversed. This report is a first step in that direction. We have summarized the outcomes of the top 10 most important Federal Circuit appeals in 2016 from the PTAB. We believe there are important insights associated with each of these decisions, and we know the appellate bar is learning from these experiences.

Developing summaries and statistics like those on the following pages takes a real team effort. We want to thank our co-authors—Byron Pickard, Pauline Pelletier, Deirdre Wells—as well as Rachel Wertheim, who provided invaluable editing.

Thank you for your interest. Please feel free to reach out to either of us if you have questions or want to discuss the current state and future of Federal Circuit appeals.

Best regards,



Jon E. Wright

Co-Chair, Appellate Practice



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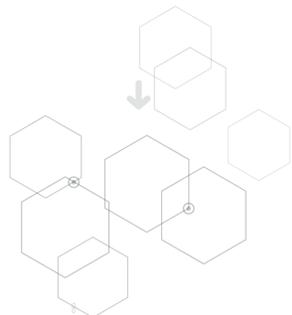


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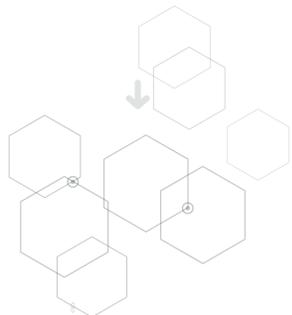
BY: DEIRDRE M. WELLS

With few exceptions, the Board's decision to institute a post-grant proceeding is final and nonappealable. During such proceedings on unexpired patents, the Board may apply the broadest reasonable interpretation to the claims.

Garmin filed a petition for an IPR of Cuozzo's patent. The Board instituted review of several claims challenged by Garmin and several claims that Garmin had not explicitly challenged in its petition. During the IPR, the Board gave the patent claims their broadest reasonable interpretation and concluded that the claims were obvious. The Federal Circuit affirmed the Board's invalidity decision, holding that the Board's decision to institute on claims that were not expressly challenged in the petition was not reviewable and that the Board's use of the broadest reasonable interpretation of the claims was not improper. The Supreme Court granted certiorari to review both questions.

The majority held that 35 U.S.C. § 314(d) expressly provides that the decision whether to institute an IPR is "final and nonappealable." Relying heavily on the statutory text, the Court held that "the 'No Appeal' provision's language must, at the least, forbid an appeal that attacks a 'determination . . . whether to institute' review by raising this kind of legal question and little more." The majority, however, left open the possibility that § 314(d) does not prohibit a review of decisions "that implicate constitutional questions, that depend on other less closely related statutes, or that present other questions of interpretation that reach, in terms of scope and impact, well beyond [§314(d)]." Justice Alito dissented in part, stating that he would read § 314(d) to allow for review of the Board's decision to institute an IPR; the statute only prohibits immediate and independent appeals of that decision.

Turning to the second question, the Court noted that the statute "contains a provision that grants the Patent Office authority to issue 'regulations . . . establishing and governing *inter partes* review.'" Applying *Chevron*, the Court upheld the Patent Office's regulation prescribing the use of the broadest reasonable interpretation for patent claims during an IPR. The statute does not directly address which claim construction standard should be used during IPRs. And the Patent Office's selection of the broadest reasonable interpretation standard was a reasonable exercise of the agency's rulemaking authority.



Versata Dev. Grp., Inc. v. SAP Am., Inc., 793 F.3d 1306 (Fed. Cir. 2015)

BY: DEIRDRE M. WELLS

SAP requested that the Board institute a CBM review of Versata's '350 patent. The patent is directed to a "method for determining the price of a product offered to a purchasing organization" using several computerized steps. The Board held that the patent was eligible for CBM review and held that the claims were invalid for failing to comply with 35 U.S.C. § 101. On appeal, Versata raised a handful of challenges, including that the patent does not claim a "covered business method."

The Federal Circuit affirmed the Board's decision. The majority held that the Court may review the Board's decision that a patent is eligible for CBM review. The majority reasoned that this decision implicates the Board's "ultimate invalidation authority." Specifically, if the Court could not review CBM eligibility, then the Court would be barred from reviewing whether the Board exceeded its statutory authority to invalidate patents under the CBM provisions of the statute. The majority found that the statute did not clearly overturn the strong presumption that there be judicial review of such agency decisions. The majority noted, however, that the Court would be barred by 35 U.S.C. § 324(e) from "review[ing] the determination by the PTAB whether to institute a CBM review."

The Court further held that the statute did not limit CBM review to patents on "products and services of only the financial industry, or to patents owned by or directly affecting the activities of financial institutions such as banks and brokerage houses." Rather, the statute defines a CBM patent as "a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service . . ." The Court held that Versata's patent fell squarely within that definition because it was a patent on setting prices and did not cover a technological invention. On that basis, the Federal Circuit held that the patent claims could be challenged for failing to comply with § 101.

The Federal Circuit may review the Board's final written decision that a patent is eligible for CBM review because that decision implicates its "ultimate invalidation authority." CBM eligibility is not limited only to patents on financial products or services.



Unwired Planet, LLC v. Google Inc., 841 F.3d 1376 (Fed. Cir. 2016)

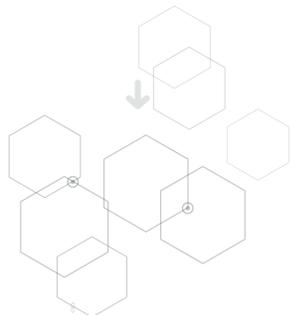
BY: DEIRDRE M. WELLS

The Board may not institute CBM review of a patent solely on the basis that the patent claims subject matter “incidental to” or “complementary to” a financial activity.

Google petitioned for a CBM review of Unwired Planet’s ‘752 patent. The patent claims a system and method for restricting access to a wireless device’s location information. On institution, the Board evaluated whether the patent was eligible for CBM review. The Board noted that the patent’s specification indicates that the claimed “client application” may be “associated with a service provider or a goods provider, such as a hotel, restaurant, or store, that wants to know a wireless device is in its area so relevant advertising may be transmitted to the wireless device.” The Board held that this description demonstrated that the claimed subject matter was “incidental or complementary to the financial activity of service or product sales,” and it instituted a CBM review on that basis. The Board subsequently found certain claims unpatentable.

The Federal Circuit vacated. The Court held that the standard used by the Board to determine CBM eligibility—whether the patent claims activities that are financial in nature, incidental to a financial activity, or complementary to a financial activity—was not in accordance with the plain language of the statute and, therefore, was improper. Rather, the Court held that “a CBM review is available only for a ‘covered business method patent,’ which the AIA defines as ‘a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.’”

Turning to the patent on appeal, the Court stated that simply because the claimed method could involve an eventual sale of services or could be used in facilitating advertising was insufficient to support a finding of CBM eligibility. Specifically, the Federal Circuit held that “it cannot be the case that a patent covering a method and corresponding apparatuses becomes a CBM patent because its practice could involve a potential sale of a good or service.”



Phigenix, Inc. v. ImmunoGen, Inc., 845 F.3d 1168 (Fed. Cir. 2017)

BY: PAULINE M. PELLETIER

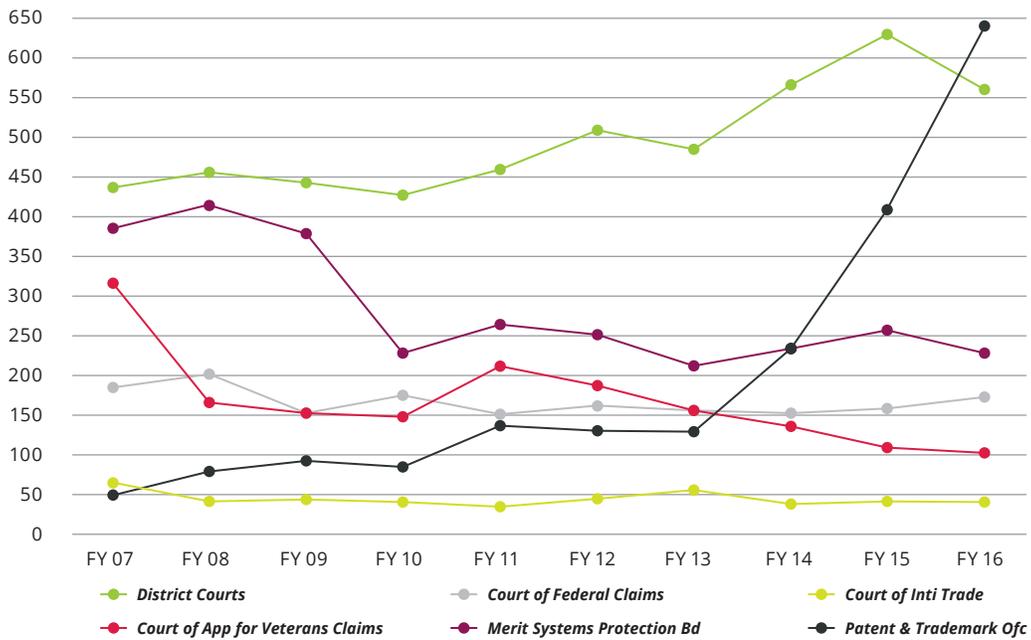
Phigenix, a biotech patent licensing company, filed an IPR petition against a patent owned by ImmunoGen covering the FDA-approved breast cancer biologic therapy Kadcyła®. The Board upheld the patentability of ImmunoGen's claims, and Phigenix appealed. At the Federal Circuit, ImmunoGen moved to dismiss Phigenix's appeal for lack of standing, arguing that Phigenix did not suffer an injury-in-fact. In response, Phigenix argued that ImmunoGen's patent had "encumbered" or otherwise decreased the value of its own patents because Phigenix and ImmunoGen "competed" in the secondary market to license patents covering Kadcyła®. In support of this contention, Phigenix submitted declarations from its founder and an economist explaining that the value of Phigenix's patent portfolio had allegedly been lessened by the existence of ImmunoGen's patent due to the effects of "royalty stacking." Phigenix also argued that it had a statutory right to appeal and would be injured by the estoppel effects of the concluded IPR. ImmunoGen responded that these alleged injuries were not substantiated by evidence, making them speculative and hypothetical.

The Federal Circuit dismissed Phigenix's appeal and, for the first time "[i]n the nearly thirty-five years since the court's inception," the Federal Circuit announced a standard for establishing standing in an appeal from a final agency action. Specifically, the Court (1) delineated the petitioner's burden of proving standing, (2) described the evidence an appellant must produce to meet that burden, and (3) explained when an appellant must produce such evidence. First, the Court explained that the party invoking Article III jurisdiction must satisfy the burden of production required at the summary judgment stage. Second, the Court explained that standing can be "self-evident," as when the appealing party or its property is the subject of the adverse action. If not, and if necessary, standing must be established either by citing support in the record or by submitting new evidence in the form of affidavits or declarations. Third, the Court explained that the appellant must "produce such evidence at the appellate level at the earliest possible time." For example, the Court explained that such evidence must be proffered in response to a motion to dismiss for lack of standing. Having announced this framework, the Court analyzed Phigenix's proffered support and found it to be deficient. The Court explained that the declarations upon which Phigenix relied were conclusory and that the alleged injuries were at best hypothetical and not supported by "facts." Because Phigenix had not suffered an injury-in-fact, the Federal Circuit held that it did not have jurisdiction over the appeal.

A petitioner who appeals an adverse decision from the Board to the Federal Circuit must establish Constitutional standing under Article III. Specifically, the petitioner must demonstrate that it has suffered an "injury-in-fact" that is not speculative or hypothetical.



United States Court Appeals for the Federal Circuit Appeals Filed in Major Origins

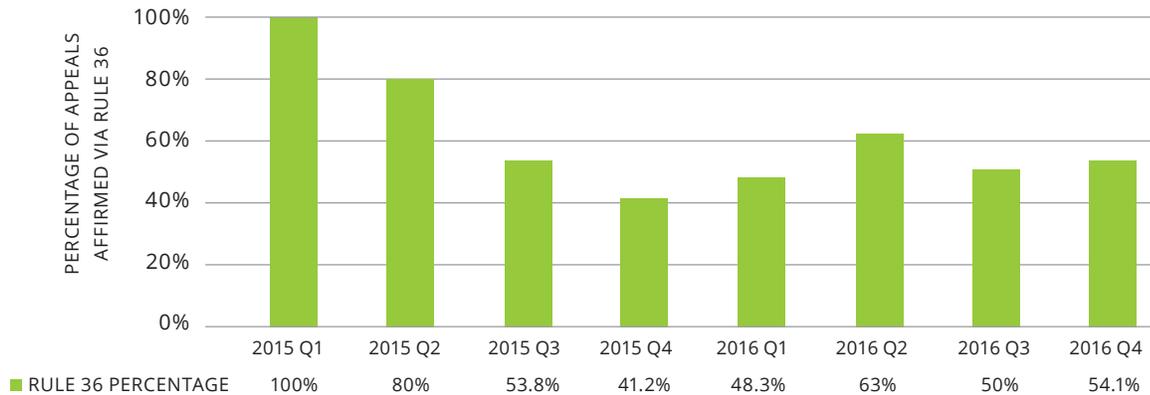


Notes: Includes reinstated, cross-, and consolidated appeals

For the first time in the Court's reported history, appeals from the Patent & Trademark Office have exceeded District Court appeals.

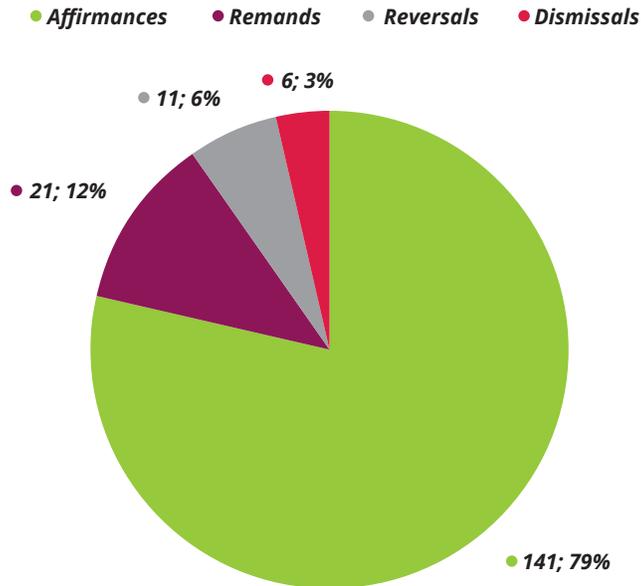
Source: U.S. Court of Appeals for the Federal Circuit – Caseload, by Major Origin (2007–2016)

Percentage of AIA Appeals from the PTAB to the Federal Circuit Decided via Rule 36 Affirmance



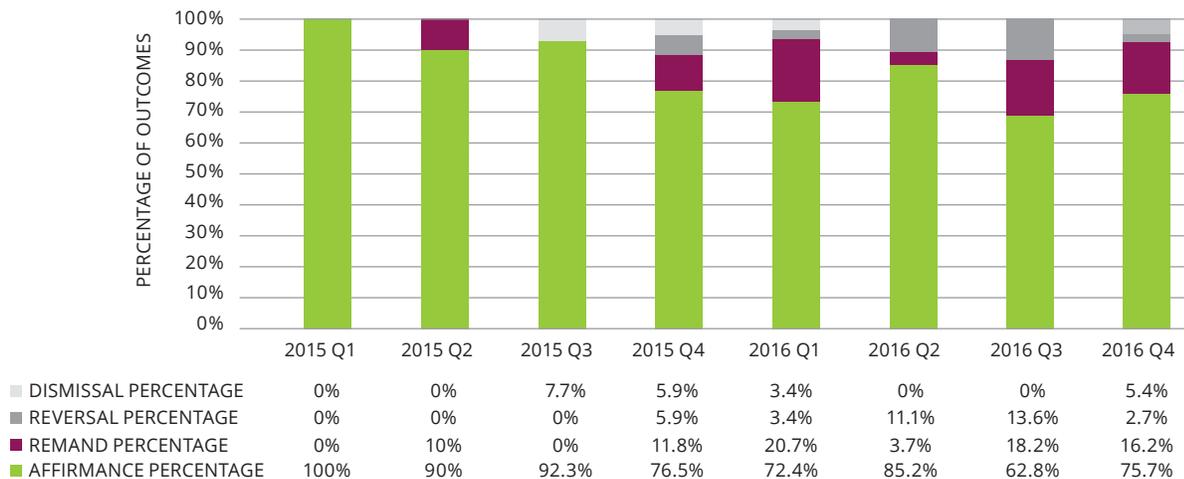
Federal Circuit Rule 36 summary affirmances account for 57.4% of all decisions issued in post-grant proceeding appeals and 72.7% of all affirmances in such appeals

Total Outcomes on AIA Appeals from the PTAB to the Federal Circuit



The clear majority of cases are being affirmed, but a growing number are being remanded and even reversed.

Quarterly Trends for the Outcome Rates of AIA Appeals from the PTAB to the Federal Circuit



The affirmance rate for inter partes reexaminations sits at around 70%, which is lower than the current 80% for post-grant proceedings. We expect normalization over time.

In re Magnum Oil Tools Int'l, Ltd., 829 F.3d 1364 (Fed. Cir. 2016)

BY: JON E. WRIGHT

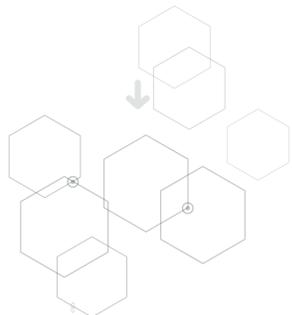
The burdens of persuasion and production do not shift from the petitioner to the patentee upon the Board's decision to institute an IPR—they remain at all times with the petitioner. The Board may not step into the shoes of a petitioner and make an argument on its behalf to show unpatentability.

McClinton petitioned the board to institute an IPR of Magnum Oil's '413 patent. McClinton proposed two grounds of obviousness: (1) over Alpha in view of two secondary references; and (2) over Lehr in view of the same two secondary references. In explaining the ground based on Lehr, McClinton largely "incorporated by reference" the arguments it used for the ground based on Alpha. In its preliminary response, Magnum argued that the ground based on Lehr was deficient because, among other reasons, McClinton did not explain how a skilled artisan would have modified Lehr in view of the two secondary references. The Board nonetheless instituted review based on Lehr, but not based on Alpha.

In its final written decision, the Board held all the claims to be obvious based on Lehr. Magnum requested a rehearing, arguing that the Board relied on a "new ground of unpatentability" regarding the "motivation to combine" the references and arguing that there was no evidence to support the Board's finding of a "reasonable expectation of success" in modifying Lehr. The Board rejected Magnum's arguments, finding that McClinton had adequately explained both.

On appeal, Magnum argued that the Board never established a *prima facie* basis for the rejection. The PTO countered that no such showing was necessary. In essence, the PTO argued that, upon institution, the Board necessarily finds that a petitioner has demonstrated a motivation to combine and a reasonable likelihood of success. This finding shifts the burden of producing evidence of nonobviousness to the patentee. According to the PTO, Magnum bore the burden to disprove that Lehr rendered the claims obvious.

The Federal Circuit rejected the PTO's burden-shifting argument. In doing so, it made several key holdings. *First*, the burden of persuasion remains at all times with the petitioner to prove unpatentability by a preponderance of the evidence, and that burden never shifts to the patentee. *Second*, the related burden of production—the burden of going forward with evidence—does not shift to the patentee where the only question presented is whether due consideration of the four *Graham* factors renders a claim obvious. It does shift, however, where a patentee offers an affirmative defense, such as establishing a priority date to avoid prior art. *Third*, the PTO cannot step into the petitioner's shoes and make an obviousness argument that the petitioner could have, but did not make. The statute states that "the *petitioner* shall have the burden of proving" unpatentability. The Board must therefore "base its decision on arguments that were advanced by a party and to which the opposing party was given a chance to respond."



Arendi S.A.R.L. v. Apple Inc., 832 F.3d 1355 (Fed. Cir. 2016)

BY: JON E. WRIGHT

Apple, Google, and Motorola Mobility together petitioned for an IPR of Arendi's '843 patent. The '843 patent is directed to "providing beneficial coordination between a first computer program displaying a document and a second computer program for searching an external information source." For example, if a user is viewing a document in the first program, the first program can search the document for information, such as a name, that can be used by the second program to search for additional information associated with that name.

The Board initiated review solely on obviousness over a single prior-art patent to Pandit. Pandit teaches recognizing certain classes of text in a document and then providing suggestions based on it. For example, Pandit discloses the ability to highlight a phone number in a document and then pull down a menu of options for further action on the phone number. One option is an "add to address book" feature. According to the petitioners and the Board, it would have been "common sense" when using this feature to "search for duplicate phone numbers and information associated with such numbers." The Board held that common sense therefore supplied a limitation missing from Pandit and rendered the claims obvious.

In a rare full reversal of a Board decision, the Federal Circuit limited the role that "common sense" may play in rendering a claim obvious. The Court acknowledged that "common sense and common knowledge have their proper place in the obviousness inquiry." It also acknowledged that *KSR* forbids a rigid approach to determining obviousness. But it went on to set forth three "caveats" to applying "common sense" in an obviousness analysis. *First*, "common sense is typically invoked to provide a known motivation to combine, not to supply a missing claim limitation." *Second*, "common sense" may be invoked to find a missing limitation only where "the limitation in question [is] unusually simple and the technology particularly straightforward." And *third*, "common sense—whether to supply a motivation to combine or a missing limitation—cannot be used as a wholesale substitute for reasoned analysis and evidentiary support, especially when dealing with a limitation missing from the prior art references." Not finding these caveats met, the Court reversed the Board's decision.

The Board cannot rely on "common sense" as a wholesale substitute for reasoned analysis and evidentiary support in finding obviousness, especially when dealing with a limitation missing from the prior art references.



Belden Inc. v. Berk-Tek LLC, 805 F.3d 1064 (Fed. Cir. 2015)

BY: JON E. WRIGHT

Before raising a due-process argument on appeal, parties must exhaust all procedural relief at their disposal before the Board.

Berk-Tek's predecessor, Nexans, petitioned for an IPR of Belden's '503 patent. Nexans did not submit an expert declaration with its petition. The Board instituted review on multiple grounds. Belden filed its patent owner response, which included a declaration from its expert, who was also a named inventor on the patent. Berk-Tek filed a reply, including for the first time a declaration from its expert.

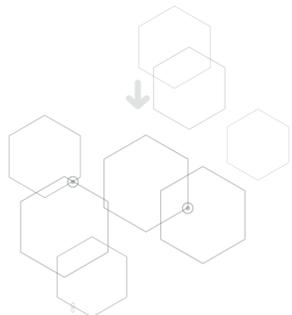
After receiving Berk-Tek's reply, Belden opposed receipt of Berk-Tek's expert declaration, arguing that it had no opportunity to respond. In response, the Board reminded Belden that it could cross-examine Berk-Tek's expert and file non-argumentative "observations" on that cross-examination. The Board also cautioned Berk-Tek that, if its reply included new matter that should have been submitted with its petition, the Board could refuse to consider the reply in its entirety. The Board gave Berk-Tek the opportunity to file a revised reply, which it did. Berk-Tek's revised reply still included the declaration.

Belden deposed Berk-Tek's reply witness, filed its "observations," and simultaneously moved to exclude Berk-Tek's expert declaration. In the motion to exclude, Belden argued that the Berk-Tek's declaration was outside the proper scope of a reply because it contained arguments and evidence necessary for a *prima facie* case of obviousness.

In its final written decision, the Board found some of claims to be unpatentable, while confirming other claims. It also denied Belden's motion to exclude the expert declaration. The Board found that Berk-Tek had fairly responded to Belden's expert and that Berk-Tek's declaration was unnecessary to establish a *prima facie* case of obviousness.

On appeal, the Federal Circuit reviewed the Board's evidentiary ruling for an abuse of discretion. Under that standard, the Court held that the Board did not err in admitting Berk-Tek's reply declaration because it fairly responded to Belden's expert declaration and because it was not necessary to establish a *prima facie* case of unpatentability.

The Federal Circuit also addressed Belden's argument that it had "no meaningful opportunity to respond" to Berk-Tek's reply declaration. While the Court recognized that a patent owner "is undoubtedly entitled to notice and fair opportunity to meet the grounds of rejection," it held that Belden had not demonstrated any violation of its due process rights. The Court noted that "Belden did not seek to file a surreply, to file additional observations on its cross-examination, to make arguments in those observations, or to have the Board waive any other regulations that it believed prevented it from adequately responding to [the] declaration." Because Belden did not "identif[y] a deficiency in the application of Board rules and practices to this case," the Court had "no denial of a concrete, focused request" before it upon which it could find error.



SAS Inst., Inc. v. ComplementSoft, LLC, 825 F.3d 1341 (Fed. Cir. 2016)

BY: BYRON L. PICKARD

SAS petitioned for an IPR of ComplementSoft's '936 patent, which is directed to an "Integrated Development Environment for generating and maintaining [computer] source code." In its decision to institute review, the Board construed the claim term "graphical representations of data flows" as "a depiction of a map of the path of data through the executing source code." In the final written decision, the Board ultimately found several claims were unpatentable. But it determined that claim 4 was not unpatentable because the prior art did not teach a "graphical representations of data flows." In coming to that conclusion, the Board adopted a new construction of "graphical representations of data flows" that had not been argued by either party. The Board held that it should construed as "a graphical representation comprised of icons depicting data processing steps and arrows to depict the movement of data through source code."

The Federal Circuit affirmed the substance of the Board's construction because the patent equated the claimed "graphical representation of data flows" with the described "data flow diagram," the latter of which was explicitly defined in the specification. The Court, however, found that the Board's procedure for construing the term was erroneous. The Court noted that SAS and ComplementSoft had based their arguments on the Board's constructions in the institution decision. Neither party argued for a different construction of the term. And the Board denied SAS's request for rehearing because, in the Board's words, the new construction did not prejudice SAS because SAS could have argued for a construction of the term in its petition.

The Federal Circuit held that, in an IPR, both the patent owner and the petitioner are entitled to timely notice of "the matters of fact and law asserted." This requirement means that the Board "may not change theories midstream" without providing the parties notice and an opportunity to respond. Thus, the Board is not free to change its construction in the final written decision or to expect that the parties "would have briefed or argued, in the alternative, hypothetical constructions not asserted by their opponent." The Federal Circuit remanded the case to the Board to allow SAS to demonstrate unpatentability of claim 4 under the Board's new construction.

The Board may not adopt a new claim construction for the first time in a final written decision unless it is the product of claim-construction arguments made during the IPR.



Shaw Indus. Group v. Automated Creel Sys., 817 F.3d 1293 (Fed. Cir. 2016)

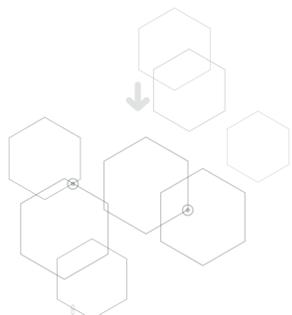
BY: BYRON L. PICKARD

If the Board declines to institute an IPR on an unpatentability ground, the petitioner is not estopped from later raising that ground in either the PTO or a district court

ACS sued Shaw for infringement of ACS's '360 patent, which relates to "creels" for dispensing yarn and other stranded materials in a manufacturing process. ACS voluntarily dismissed the suit without prejudice. Within a year of service of ACS's complaint, Shaw petitioned for an IPR of the patent. In its petition, Shaw raised three different grounds of unpatentability against certain claims. The Board instituted review of those claims on two of the three grounds, denying the third ground involving the Payne reference because it was redundant of the other two. The Board ultimately concluded that Shaw had failed to demonstrate that the claims were unpatentable. Shaw appealed both the Board's finding that the claims were not unpatentable and the Board's decision not to institute based on Payne. Simultaneous with its appeal, Shaw petitioned for a writ of mandamus instructing the Board to institute review based on Payne. Shaw argued that it needed this relief because it might otherwise be estopped from raising Payne against the '360 patent in a future case due to the estoppel provisions of the IPR statute, codified at 35 U.S.C. § 315(e).

The Federal Circuit declined to review the Board's decision not to institute review based on Payne. The Court held that the Board's denial of a particular ground in a petition is a decision not to institute an IPR on that ground. As such, the Federal Circuit held that it did not have jurisdiction to review that decision due to 35 U.S.C. § 314(d).

The Federal Circuit also denied Shaw's petition for a writ of mandamus. The Court held that the concern behind Shaw's petition for writ—that the estoppel provision would prevent Shaw from raising Payne in a future proceeding—was misplaced. The Federal Circuit held that § 315(e) only estops petitioners from raising invalidity positions in district court that petitioner raised, or that it reasonably could have raised, during the IPR. The Court held that a non-instituted ground is not a ground that is raised—or could have been raised—during the IPR. Thus, a Board decision not to institute review on a particular piece of prior art does not estop the petitioner from raising that same art as invalidating in a later proceeding.



Dell Inc. v. Acceleron, LLC, 818 F.3d 1293 (Fed. Cir. 2016)

BY: BYRON L. PICKARD

Dell petitioned for an IPR of Acceleron's '021 patent, arguing that the patent was anticipated and rendered obvious by the Hipp reference. In its petition, Dell argued that Hipp's articulating door 262 satisfied a critical limitation of claim 3: "caddies providing air flow." On that basis, the Board instituted review; Acceleron filed a patent owner response. In reply, Dell argued that this critical feature of claim 3 was found not only in Hipp's articulating door 262, but also in Hipp's power-supply mounting mechanisms 278. Acceleron requested authorization to file a motion to strike this new argument. The Board declined to hold a conference call on the issue and denied Acceleron authorization to move to strike. At the oral hearing, Dell re-raised its argument that the power supply mounting mechanisms met claim 3's "caddies" limitation. Plus, it added another new argument—that Hipp's Figure 12 showed slides below the power supplies and that such slides were caddies. In its Final Written Decision, the Board found that Hipp anticipated claim 3, relying exclusively on the slides in Hipp's Figure 12.

The Federal Circuit held that the Board had denied Acceleron its procedural rights by relying on a factual assertion introduced in the proceeding only at oral argument. Because Acceleron was given no opportunity to meaningfully respond, to provide expert opinions, or to introduce other evidence, the Federal Circuit vacated and remanded the anticipation decision back to the Board.

It is procedural error for the Board to base a finding of unpatentability on arguments and evidence introduced only at the oral hearing where the patentee was not afforded an opportunity to respond and submit competing evidence.



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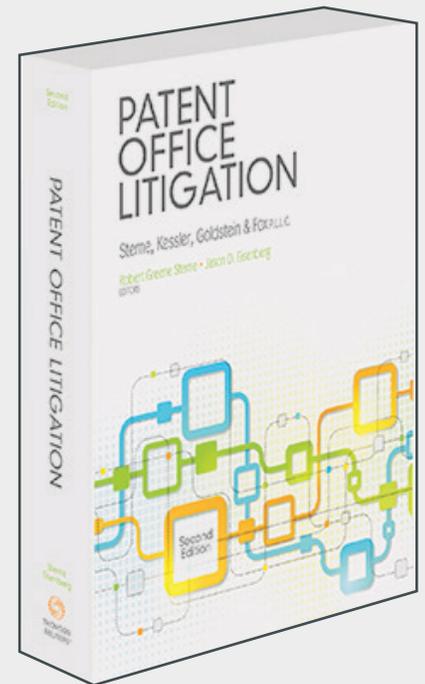
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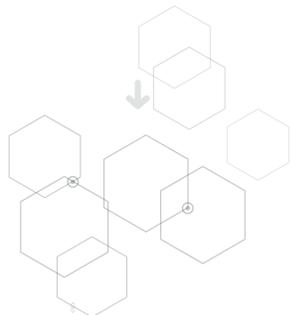
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