

PLUGGED IN



James Soong

Partner

Sheppard Mullin
Richter & Hampton

Last month marked the second anniversary of the reconstituted Patent Trial and Appeal Board, and new procedures for challenging the validity of patents set out in the America Invents Act. We asked Soong for an update. A former director of intellectual property at Siebel Systems Inc., Soong counsels technology companies on IP strategy and transactions, and has represented them before the U.S. Patent and Trademark Office and at the U.S. Court of Appeals for the Federal Circuit.



JASON DOY

What are the most important things we've learned about inter partes review and covered business method review two years into the process?

There's an often-cited quote from the recently retired Federal Circuit Chief Judge Rader that likens the administrative PTAB judges to death squads killing property rights. And in some ways he was right. The PTAB hasn't been afraid of invalidating patent claims. But it's not an absolute certainty that claims will fall during PTAB trials. I took a look at some of the recently posted statistics at the Patent Office, and what we see is a high, albeit falling, rate of trials being instituted. However, the patentability of 52 percent of the claims for which trials have been instituted has not been affected. So while that figure reflects a significant rate of invalidation, it does not signal certain

doom for patent owners. Not by any means.

What are some of the important issues you are watching as PTAB decisions are appealed to the Federal Circuit? One of them is claim construction standards. At the PTAB, claim construction is performed using the broadest reasonable interpretation standard. In the district court and at the ITC, judges are accustomed to using the rule set out by the Federal Circuit in the *Phillips* case that uses the ordinary and customary meaning of claims. One of the issues currently before the Federal Circuit is whether the Patent Office's embrace of this broadest reasonable interpretation standard falls within its rulemaking authority.

Another issue is the standard of review for these PTAB decisions.

We don't know how the Federal

Circuit will review these cases. If the PTAB decisions are seen as typical agency decisions, then presumably the Federal Circuit may review factual determinations based on the abuse of discretion standard and legal determinations on the de novo standard. That would be pretty typical for the federal courts' review of administrative bodies' findings. But if the Federal Circuit begins to reverse a significant number of PTAB decisions under a more permissive review standard, whatever that might be, that could come full circle and affect the trend of all of these petitions being filed.

You worked in-house for part of your career. Are there reasons AIA review is particularly appealing to clients? It might depend a lot on the patent and circumstances, but in general I would say the standard of analyzing invalidity is

more patent-challenger friendly. We're talking about a preponderance of the evidence whereas challenging the patent in the district court requires clear and convincing evidence. Another reason it could resonate with technology companies—who are accustomed to confronting issues about communicating effectively regarding what their products do and why their technologies are differentiated over other technologies—is that you can have these issues considered by people who, arguably, could be more conversant with technology than you might otherwise have if you are in the district court.

Another factor I would cite is cost. Originally people estimated the cost of these AIA proceedings to be some pretty modest figure, I heard estimates at the outset not hitting \$100,000. Well now with a little bit more empirical data and with maybe a better sense of just how important and potentially dispositive these proceedings are, I've seen the estimates double and triple and then some. But overall, the cost of these proceedings still appears to be significantly more modest than a trial before the district court.

Most of the petitions have focused so far on computer/electrical inventions. Do you expect to see patents in other industries targeted more often in coming years? Yes. [As of September] the technology area of bio/pharma constitutes 5.6 percent of the AIA proceedings to date. Chemical is 6.8 percent. In contrast, electrical/computer constitutes 71.6 percent. My sense is that for the same reasons that companies in other technology areas may prefer AIA proceedings over district court proceedings, generic drug makers, as an example, increasingly may choose AIA proceedings, because of the lower standard of proof, costs and perhaps techni-

cal expertise. One consideration that may influence the receptivity of the bio/pharma industry is the filing of ANDAs, abbreviated new drug applications. For generic drug makers who are first to file the ANDA, they'll enjoy an exclusivity period. And that exclusivity period may have certain of these generic drug makers, who would otherwise be inclined to challenge patents through these AIA proceedings, pick district court. But for other generic drug makers who are not the first to file an ANDA, they have less to lose, and so they might be better candidates to go with the PTAB. I think the bio/pharma/chemical industry could very well see an uptick in proceedings filed in their respective spaces.

What else do you see looking forward? A big picture question: For those patents that do survive the AIA proceedings, how will they proceed from there? When some or all of a patent survives a PTAB trial, will trial lawyers on behalf of patent owners be able to convince judges and juries that the patent has no vulnerabilities under Section 102 and 103, because the patent has withstood PTAB scrutiny? In other words, it'll be interesting to see in practice the strength of a patent that has survived a PTAB proceeding.

There might be an argument that they're not just presumed valid, they're conclusively valid? What I'm getting at is not a legal standard, but rather a practical result of having a patent that you can advocate as having withstood so much scrutiny.

What else do you see ahead? Very often patent owners will sue a wide array of accused infringers, and that will be their occasion to join up together, collaborate and form joint defense groups. And through these joint defense groups,

these accused infringers very often will collaboratively consider all kinds of prior art defenses. And sometimes what can result is one defendant or maybe a small number of defendants deciding that they will initiate an AIA proceeding. What I'm getting at is that because the potential estoppel effect [in district court] is so vitally important, and because it applies to the real party in interest and those in privity with that real party, I wonder if there's going to be more litigation about who really was in privity with the defendant that filed that petition, and what kind of role would a party have to undertake or play to constitute a privity and therefore be subject to the estoppel as well.

I'm not advancing a position that everybody be subject to the estoppel provision. I just want to raise it as a potential area of interest for a patent owner. It might be an issue that gains some steam in the future.

Do you assume this would lead to some privilege issues? These joint defense agreements try their best to cloak everything done by the group under privilege. And most of the time there's not a big challenge to this assertion of joint defense group privilege. So if the privilege is viable, it could be difficult for the patent owner to get meaningful discovery on who might qualify as a privity to a real party in interest so that estoppel applies to that privity. If there are ways to get around it, then there could be some interesting discovery about who in name is one thing but in substance should be another.

—Scott Graham