

Use it or lose it: procedural fairness and waiver in post-grant proceedings

Procedural maneuvering has become a key part of complex disputes post the America Invents Act. **Wayne Stacy** and **Britton Davis** discuss the implications

Navigating the US Patent Office's post-America Invents Act (AIA) trial proceedings is full of opportunities to advocate for your client and full of risks for waiving your client's rights.

Entering their fourth year, the AIA trial proceedings before the Patent Trial and Appeal Board (PTAB) have proved their value in resolving both simple and complex disputes. For these complex disputes, procedural maneuvering has become a key part of the process, with parties often trying to exploit every advantage.

Procedural maneuvering and the PTAB's responses to it implicate the limits of constitutional due process and the Administrative Procedures Act's (APA) procedural fairness guarantees. But due process and APA protections are *not* guaranteed. You must seek relief from the PTAB during the proceeding to avoid waiving your client's rights – and the board is using waiver aggressively to avoid dealing with potentially difficult due-process questions.

The Federal Circuit has also been aggressively using waiver to streamline appeals from post-grant proceedings. In the recent *Belden Inc v Berk-Tek* decision, the Federal Circuit stated that “with no board denial of concrete, focused requests before us, we are not prepared to find that [patent owner] was denied a meaningful opportunity to respond to the grounds of rejection”.¹ This use of waiver places a heavy burden on both sides to make their case at the proper time and to seek all possible relief from the PTAB otherwise the parties would risk waiving their rights.

Constitutional due process and APA procedural fairness guarantees apply to Patent Office trial proceedings

Patents in Patent Office post-grant proceedings are subject to two key protections. First, a patent is considered a property right protected by the due-process clause of the Constitution. As noted in *Abbott Labs v Cordis Corp*, “the indispensable ingredients of due process are notice

and an opportunity to be heard by a disinterested decision maker.”²

Secondly, the APA's guarantees of procedural fairness also apply to Patent Office trial proceedings.³ The APA requires timely notice of the challenge, opportunities to present evidence and argument, opportunities to cross-examine declarants, a hearing and a decision on notice.⁴ The timely notice requirement prevents agencies from changing theories midstream absent notice and an opportunity to present argument under the new theories.

Due process and the APA's impact on the PTAB's trial procedures

While the Federal Circuit recently affirmed that the PTAB's trial procedures in 37 CFR § 42 comply with due process and the APA, the



procedures are not without risks. To meet Congress's directive that Patent Office trials be completed within one year of institution and provide a quick and low-cost alternative to litigation, the PTAB's rules require that the parties make their cases in a relatively small number of filings.⁵ The board has demonstrated hostility toward extra filings – those that are often necessary to protect a party's procedural rights. By giving too much deference to the PTAB's preferences, a party can forfeit needed arguments and evidence.

Preserving your due-process rights – use it or lose it

Issue preservation for appeal is a common concern for trial attorneys in district court patent litigation and many of the same principles apply in post-grant proceedings before the PTAB. Issue preservation issues common to district courts and post-grant proceedings include requiring parties to make arguments in their opening papers and making timely evidentiary objections.

The APA also applies and impacts which issues can be appealed from the post-grant proceedings. Under the APA, parties are required to exhaust their remedies before the administrative agency in order to preserve an issue for appeal.⁶ The APA's exhaustion requirement means a party must raise issues arising during the proceeding or the issue will be waived for appeal. In the recent *In re Baxter International* decision, the Federal Circuit refused to consider claim construction arguments not presented in a timely filing before the PTAB.⁷

Two common areas where preservation issues arise in post-grant proceedings are petitions and the scope of reply briefs.

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The petition

Well-developed petitions are critical to success in post-grant proceedings. The PTAB's statistics bear this out, with the board denying institution 30% of the time. When instituted, however, some or all of the instituted claims are found unpatentable in 86% of the board's final written decisions.

The PTAB's rules require that petitioners make an adequate case in the petition, which includes addressing reasonably foreseeable arguments and presenting any available evidence that will likely be relied on.⁸ In addition to the challenged claim, the statutory grounds for the invalidity challenge and the references relied upon, the petition must include claim constructions, evidence of where each element of the construed claim is found in the prior art and the specific portion of the evidence relied upon.

The PTAB's rules also limit the ability of a petitioner to present new arguments or evidence once a petition has been filed. The two primary means for submitting new evidence are supplementation under 37 CFR

§ 42.123 and submitting a reply brief under 37 CFR § 42.23.

Supplementation after institution under 37 CFR § 42.123 can be a valuable avenue for petitioners to add evidence to the proceeding, but it has limits. For example, the PTAB has allowed petitioners to submit supplemental evidence to support the prior art status of references presented in the petition.⁹ However, the board has been fairly consistent in finding that supplementation can neither be used to bolster arguments made in the petition nor to address the board's institution decision or the patent owner's preliminary response.¹⁰

In *Redline Detection v Star Envirotech* the PTAB denied supplementation where the petitioner did not present an expert declaration with its petition and instead sought to supplement its petition with an expert declaration after institution.¹¹ The PTAB found that “the intentional delay in obtaining or presenting information to the board is not in the interest of the efficient administration of the office... and is counter to the ‘just, speedy, and inexpensive resolution of every proceeding’.”

Reply briefs in post-grant proceedings are limited in scope to a true rebuttal role. What is a rebuttal and what is a new argument is a fine and fact-specific line. The board's rule providing that “a reply may only respond to arguments” in a prior filing, on its face appears to allow a reply to respond to any argument presented in a patent owner's response. But the reply provision of the PTAB's rules cannot be read out of context of the other rules requiring that petitions make the case for unpatentability, including presenting the necessary evidence and arguments to support such a finding.

While not binding, the PTAB's Trial Guide provides that “a reply that raises a new issue or belatedly presents new evidence will not be considered”. It further states that “indications that a new issue has been raised... include new evidence necessary to make out a *prima facie* case ... and new evidence that could have been presented in a prior filing”. Even if a reply responds to arguments in a patent owner response, it may still be improper if the arguments and evidence were foreseeable and could have been presented in the petition.¹²

In *Intelligent Bio-Systems v Illumina Cambridge*, the PTAB found that the petitioner exceeded the proper scope of reply by providing evidence necessary to make out a *prima facie* case of patentability, when it acknowledged an issue with its proposed obviousness combination in the petition, but did not address the issue or provide an obviousness rationale to overcome it until reply. In contrast, the board will likely allow a reply that merely attacks an argument made in the patent owner's response, even when the argument was not addressed in the petition.

The requirement that the petition make the case for unpatentability, along with the limited ability for petitioners to add new evidence during the proceeding, means that petitioners must do more than just present the arguments and evidence necessary to support unpatentability under their preferred grounds. Petitioners should also take care to address any obvious or foreseeable alternative arguments, such as alternative claim constructions and arguments based on those constructions. Addressing alternative arguments in the petition gives the petitioner more flexibility to adapt if the board institutes on grounds not presented in the petition and to help ensure the petitioner's ability to respond to arguments in the patent owner's response. If a petitioner does not present all the necessary evidence to support its invalidity grounds and foreseeable alternative arguments, it risks waiving the ability to raise those issues later.

Challenging the scope of reply

For patent owners, a common issue that arises is how to go about challenging a reply brief for exceeding the scope allowed by the rules. New arguments in reply arguably raise due process and APA fairness issues by precluding patent owners from having an adequate

opportunity to respond. The Federal Circuit addressed the scope of reply in *Berk-Tek* and found the patent owner had waived the right to appeal the scope of petitioner's reply by not pursuing all available procedural and extra-procedural remedies. In other words, parties must ask the board for every type of relief they seek or risk waiving any type of relief on that issue later.

Available procedural remedies

While no procedural remedy explicitly addresses how to challenge a reply for exceeding the proper scope, patent owners should still use the available procedural remedies available to full effect. These procedural remedies include objecting to evidence supporting the improper scope of reply and following through with a motion to exclude under 37 CFR § 42.64(a)-(c), taking all reply declarants depositions under 37 CFR § 42.51(b)(1) and filing observations on cross to set up the improper scope of reply, and raising the improper scope of reply at oral argument.¹³

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Available extra-procedural remedies

As shown by the Federal Circuit's decision in *Berk-Tek*, patent owners cannot stop at the procedural remedies for addressing the improper scope of a reply. Patent owners must ask the PTAB for additional relief in order to preserve its due process and procedural rights. The trial rules provide that “the board may waive or suspend a requirement...and may place conditions on the waiver or suspension”. The Federal Circuit applied this provision of the board's rules in *Berk-Tek* to mean that if the patent owner believes a reply includes improper new evidence and argument they can seek relief – such as asking the PTAB for permission to file a motion to exclude or a surreply and rebuttal evidence – even though there is no provision for such in the rules.

According to *Berk-Tek*, patent owners may need to ask the board for relief that will be denied in order to preserve issues on appeal. An example of relief that patent owners can seek that will likely be denied is leave to submit a surreply and a supplemental expert declaration. Seeking to submit a supplemental expert declaration is likely to be denied because it risks delaying the proceeding and pushing the final

written decision past the statutory one-year mark by triggering the mandatory discovery rules.

Summary

The PTAB has generally been addressing the scope of replies in three ways. First, it allows the patent owner short, non-argumentative observations to point out the alleged new argument and evidence.¹⁴ Secondly, by allowing the patent owner to submit observations on cross-examination of reply declarants;¹⁵ and thirdly by inviting the parties to address the new arguments at oral hearing. The PTAB will then address the scope of the reply in the final written decision. In some instances, the board has granted patent owners surreplies.

The results of patent owner challenges to the scope of replies have been mixed. Where the PTAB finds the challenged claims unpatentable, the board generally finds the scope of reply moot because it is either not relied on or unnecessary for the board's decision.¹⁶ Where the PTAB finds claims not unpatentable, it generally refuses to consider the reply as untimely and finds that even if the reply were considered, it was insufficient to show unpatentability.¹⁷

The past four years of Patent Office post-grant proceedings demonstrate that if you don't make all your arguments and seek all available relief from the PTAB, you have likely waived your ability to raise those arguments and to seek any relief on those issues later.

Footnotes

1. F3d ___, 2015 WL 6756451, at *14, (Fed Cir 5 Nov 2015).
2. 710 F3d 1318, 1327-28 (Fed Cir 2013).
3. *Dickinson v Zurko*, 527 US150, 165 (1999).
4. *Berk-Tek LLC*, 2015 WL 6756451, at *12 (citing 5 USC §§554, 556).
5. *Ariosa Diagnostics v Verinata Health, Inc.*, __ F3d ___, No 2015-1215, slip op at 15 (Fed Cir 16 Nov 2015).
6. *In re DBC*, 545 Fed Cir 1373, 1378-79 (Fed Cir 2008).
7. 678 F3d 1357, 1362 (Fed Cir 2012).
8. 37 CFR §§ 42.22; 42.23(b); 42.104, 42.204, 42.304 ; *Ariosa*, slip op at 15; *ZTE Corp v Contentguard Holdings Inc*, IPR2103-00139, Paper 27 at 2-3 (PTAB 30 July 2013).
9. *Palo Alto Networks, Inc v Juniper Network, Inc*, IPR2013-00369, Paper 37 (PTAB 5vFeb 2014).
10. *VTech Commc'ns v Spherix Inc*, IPR2014-01431, Paper 21 at 3 (PTAB 7 April 2015).
11. IPR2013-00106, Paper 35 at 4-5 (PTAB 11 Sept 2013), aff'd __ F 3d ___, No. 2015-1047 (Fed Cir 31 Dec 2015).
12. *Baxter Healthcare Corp v Millenium Biologix, LLC*, IPR2013-00582, Paper 39 (PTAB 30 Oct 2014).
13. *Canon v Intellectual Ventures II LLC*, IPR2014-00631, Paper 37 at 4 (PTAB 25 March 2015).
14. *Silicon Labs, Inc v Cresta Tech Corp*, IPR2015-00615, Paper 26 at 3 (PTAB 29 Feb 2016).
15. (*Canon*, IPR2014-00631, Paper 37 at 4).
16. See *Facebook*, IPR2013-00478, Paper 58 at 37-38; *Canon*, IPR2014-00631, Paper 50 at 45-46.
17. *Baxter Healthcare*, IPR2013-00582, Paper 39 at 3-5.

Authors



Wayne Stacy (left) is a partner and Britton Davis (right) is an associate at Cooley.