

Patent Validity Challenges Lead to Supreme Court Review

By Peter Nieves

By now, even if not familiar with patent law, most attorneys have heard of the America Invents Act (AIA). Brought forth by the legislative branch, the AIA is a federal statute that was introduced in the Senate by Patrick Leahy on Jan. 25, 2011, and signed into law on Sept. 16, 2011. AIA introduced many changes to patent law and procedure, including a new way to challenge validity of patents after issuance via use of Inter Partes Review (IPR).

At a time when non-practicing entities (i.e., so-called patent trolls) were threatening litigation against parties that could not afford patent litigation, and when owners of overly broad patents were doing the same, IPR provided an option to attack the validity of a patent without patent litigation. IPR has turned into a patent litigation tool, where a party seeking to stop patent litigation expenses and destroy an asserted patent can file an IPR petition, obtain an institution of the IPR from the Patent Trial and Appeal Board (PTAB), and then move the district court to stay the litigation while awaiting an answer regarding validity of the challenged patent.

Many judges will grant a stay after an IPR has been instituted. After all, why continue with pending litigation if the very object of assertion (i.e., the patent-in-suit) may be declared invalid, and the PTAB has declared that there is a reasonable likelihood that the petitioner would prevail, with respect to at least one of the claims challenged in the petition (35 USC Section 314(a))?

IPR became available Sept. 16, 2012, and allows a party to challenge the validity

of patent claims by using printed publications and patents in a trial before the PTAB. For patent applications filed before March 16, 2013, IPR can be filed immediately after issuance of the patent. However, for patent applications filed on or after March 16, 2013, IPR can only be filed after nine months have passed since issuance of the patent.

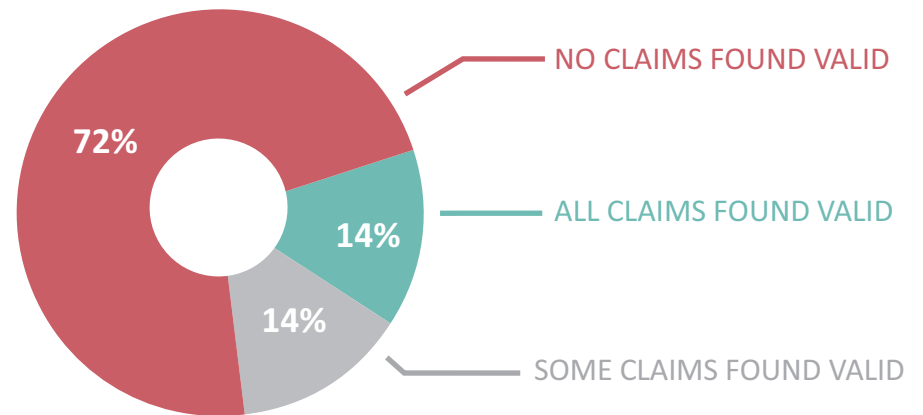
Unlike lengthy and expensive patent litigation, the IPR proceeding has a set time limit, and costs are a fraction of the cost for patent litigation. For instance, a patent infringement lawsuit in the Federal District of New Hampshire may take three years from filing to completion. By comparison, the statutorily defined time limit for an IPR is to have a decision regarding whether the PTAB will institute the IPR within six months of IPR petition filing (an IPR may be instituted upon a showing that there is a reasonable likelihood that the petitioner would prevail with respect to at least one patent claim challenged), and to issue a final decision regarding allowability or invalidation of the challenged patent claims within one year of IPR institution. This means that within a year and a half of filing an IPR petition, a final decision regarding validity or invalidity of the challenged patent claims will be rendered.

As mentioned, IPR takes place before the PTAB. The PTAB falls under the executive branch. Institution of IPRs has increased demands on the PTAB so much that the board has more than tripled in size over the past four years. Not only has size of the PTAB grown quickly with the AIA's introduction of IPRs, but also the number of invalidated patents has grown quickly.

As of April 2016, a total of 4,424 IPR

IPR Trials Instituted Under AIA

1,511 IPR Trials: April 2012-April 2016



Source: United States Patent and Trademark Office

petitions had been filed. Of those, 3,009 were completed by April 2016, of which 1,511 IPR trials were instituted. Of the IPR trials instituted, 72 percent of the IPR petitions resulted in not a single challenged patent claim being found valid. Only 14 percent of all IPR trials instituted resulted in all patent claims being confirmed as allowable. This data means that IPR trials are granted for almost 50 percent of the IPR petitions filed, with there being a more than 70 percent chance of all patent claims challenged being invalidated. These numbers are astonishing. While those sued for patent infringement may be happy about the IPR statistics, patent owners now have more concern when enforcing patents, especially if overly broad claims were granted by the United States Patent and Trademark Office.

A Different Standard

So, why are so many challenged patents being invalidated? After all, the chances of invalidating a patent in federal district court is low, although the US Supreme Court's decision in *Alice v. CLS Bank* (2014) seems to have increased the number of patent invalidations. Part of the answer may lie in the fact that the PTAB is applying a different standard of review for determining the meaning of patent claims than that applied by the courts.

The PTAB applies the broadest reasonable interpretation (BRI) standard to patent claim construction, as statutorily provided. Under the BRI standard, claim terms are given their broadest reasonable interpretation in view of the specification

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SCOTUS to Review Clothing Copyrights and Laches Defense

By Lisa N. Thompson

The US Supreme Court on May 2, 2016, granted cert in two intellectual property cases that will both be heard and decided next term.

In *Star Athletica v. Varsity Brands*, the Supreme Court will consider whether clothing designs can be protected under copyright law. The question to be decided in *Star Athletica* is how to determine whether a feature or design that is part of a "useful article," such as clothing or furniture, is original enough to gain its own copyright protection. In other words, where does the functional aspect of cheerleading apparel end and original, creative design begin? It's a question the petitioners argue is "the single most vexing, unresolved question in all of copyright."

Under US copyright law, courts have generally held that clothing designs are functional and ineligible for copyright protection. Most fashion contains elements that are both functional and creative, but only non-functional original, creative designs are generally protectable under copyright law.

The US Copyright Office initially refused to register Varsity Brands' designs for its designs of stripes, chevrons and color blocks on its cheerleading apparel. However, Varsity later prevailed in getting some of its designs approved for registra-



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tion with the US Copyright Office.

The brouhaha began when Varsity Brands, the world's largest cheerleading apparel company, says that its rival, Star Athletica, copied their proprietary designs, which consisted of colorful chevron patterns and stripes. Varsity then sued Star Athletica for copyright infringement. Star Athletica countered that Varsity's copyrights were invalid.

A federal district court ruled for Star Athletica and rejected Varsity's claim, finding that the copyright covered design features such as chevrons, stripes, and patterns, but those design features could not

be separated from the cheerleader apparel and thus not protectable.

However, last year, the US Court of Appeals for the Sixth Circuit ruled in favor of Varsity and found its clothing and designs were not simply functional and were entitled to copyright protection.

Currently, there are at least 10 different tests used by lower courts around the country to determine how to separate copyrightable designs from the rest of a useful article. Given the patchwork of conflicting tests for conceptual separability, Star Athletica appealed to the US Supreme Court. In asking the Supreme Court to take its

case, Star Athletica is hoping the court will help to clarify and provide some uniformity in the law as to when a component feature of a useful article is entitled to copyright protection.

Although the Supreme Court is to decide the question of whether creative aspects of clothing are protected under copyright law, the potential impact could have far broader implications, not only for the apparel industry, but also for other industries, such as textiles, furniture and home goods, which use graphic designs that can have both functional and distinctive ornamental aspects.

SCA Hygiene Products v. First Quality Baby Products

In the second intellectual property case, *SCA Hygiene Products v. First Quality Baby Products*, the Supreme Court will consider whether the equitable defense of laches can be invoked to bar recovery of damages in patent infringement lawsuits.

In agreeing to hear SCA, the Supreme Court is essentially stepping back into the ring after its 2014 decision that knocked out the defense of laches in the context of copyright cases in *Petrella v. Metro-Goldwyn-Mayer Inc.*, which involved the film *Raging Bull*. In *Petrella*, the Supreme Court ruled that the doctrine of laches

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could not be invoked to bar a copyright infringement claim for the recovery of damages that was brought within the Copyright Act's three-year statute of limitations.

In light of its decision in *Petrella*, the Supreme Court in *SCA* must confront the question of whether laches is still a defense to patent infringement. The Supreme Court's decision in *Petrella* is contrary to the precedent of the Federal Circuit for patent cases, which holds that laches can bar damages incurred prior to the commencement of a suit, but not injunctive relief.

SCA involves a dispute pertaining to patents for adult incontinence products and whether a patent holder who waits too long to defend its rights loses the option to challenge the alleged infringement of its patent rights.

SCA Hygiene Products is a Swedish company that produces and sells adult incontinence products under the "Tena" brand in the US. Its competitor, First Quality, a US company, sells adult incontinence products under various private labels. In an October 2003 letter to First Quality, *SCA* initially alleged infringement of its patent (US Patent No. 6,375,646). However, *SCA* did not file suit against First Quality until 2010.

First Quality sought to have the case dismissed based on the defense of laches, because *SCA* waited almost seven years from its initial accusation of patent infringement to file suit. First Quality argued that *SCA*'s delay was prejudicial and

that *SCA*'s claims of patent infringement should be barred based on the doctrine of laches. A federal judge ruled in favor of First Quality, granting summary judgment on both laches and equitable estoppel. *SCA* appealed to the Federal Circuit, which upheld only the laches claim.

SCA then sought *en banc* rehearing of the case. The Federal Circuit agreed that *Petrella* applied to patent law with respect to the six-year statutory limit for patent damages under Section 286 of the Patent Act, which prescribes that "no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint."

The Federal Circuit, however, distinguished *Petrella* from *SCA*, holding 6-5, that the defense of laches does bar legal relief in patent infringement claims accruing within the six-year statute of limitation period. The Federal Circuit found that unlike copyright law, Section 282(b)(1) of the Patent Act specifically allows for laches to be asserted as a defense.

The Supreme Court must now decide whether its decision in *Petrella* also applies to patent infringement cases – whether a patent holders' unreasonable delay in suing for infringement is barred based on the doctrine of laches, and whether to allow the defense of laches to continue in patent infringement cases.

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of the patent to one having ordinary skill in the art at the time of the invention, without importing limitations into the claims from the specification. A broader interpretation of the claims results in more prior art being available to invalidate patent claims, and therefore, potentially more of a chance of patent claims being declared invalid.

Alternatively, district courts provide a presumption of validity to a patent being reviewed, as prescribed by 35 USC Section 282(a). Not only is the presumption of validity not used by the PTAB, but the standard applied to claim construction is the standard used in *Phillips v. AWH Corp.* (Fed. Cir. 2005). The *Phillips* standard for claim construction uses the ordinary meaning of the language of the claims themselves and other intrinsic sources like the claims, specification, and prosecution history of the patent. Extrinsic evidence, such as dictionaries and expert testimony, are of secondary importance.

SCOTUS Enters the Ring

Simply stated, in comparison to the PTAB, only the district court provides a presumption of validity to a construed patent, as well as using a more detailed analysis when determining patent validity. Whether this difference in standard of review is "fair" is for the reader to decide. However, one particular group has decided to let their voice be heard on this issue. Welcome the Supreme Court to the fight.

Noticing the discrepancy in review, the United States Supreme Court has decided to weigh in on whether it is appropriate for the PTAB to apply the BRI standard, as opposed to the Phillips standard. The case of interest being reviewed by the United States Supreme Court is *Cuozzo Speed Technologies LLC v. Lee*.

The Supreme Court will be reviewing two issues relating to patentability trials conducted by the PTAB: 1) the correct claim construction standard to apply in PTAB trials, and 2) whether a PTAB decision to institute a trial can be reviewed after final decision of the PTAB. The decision of the Supreme Court will have great significance to patent challengers and holders alike. Essentially, the judicial branch (Supreme Court) will be reviewing the implementation process of the executive branch (PTAB), the result of which may conflict with original executive branch (PTAB) interpretation of the legislative branch law (AIA).

Clearly, the last few years have been filled with changes in patent law as newly implemented law is stretched and sized to work properly for all involved. Expect additional changes and modifications to take place and maintain close communication with a patent attorney so that you are well aware of how these changes will impact your clients.

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