

Client Alert

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Are the Board's Institution Decisions on § 315 Eligibility for *Inter Partes* Review Appealable?

The US Court of Appeals for the Federal Circuit has before it the first appeal from the denial¹ of an *inter partes* review (IPR). *St. Jude Medical v. Volcano Corp.*, No. 2014-1183. The Patent Trial and Appeal Board (Board) denied St. Jude's petition for IPR because it determined that St. Jude waited to file more than one year after being served with a complaint for patent infringement by Volcano, thereby running afoul of the statutory one-year time limit under § 315(b). Central to the Board's decision was its finding that a counterclaim is equivalent to a complaint alleging infringement under the statute. While St. Jude seeks judicial review of the Board's statutory construction, a much more important question having wide-ranging consequences has arisen — is the Board's denial of institution based on §§ 315(a)(1) & (b) appealable?

Sections 315 (a)(1) & (b) set limits on the availability of IPR for a patent when the parties are involved in litigation. Section 315(a)(1) precludes an IPR where the petitioner has previously filed a declaratory judgment action asserting invalidity:

(a) Infringer's Civil Action.—

(1) *Inter partes* review barred by civil action.— An *inter partes* review may not be instituted if, before the date on which the petition for such a review is filed, the petitioner or real party in interest filed a civil action challenging the validity of a claim of the patent.

Section 315(b) precludes an IPR petitioner from waiting more than one year after being served with a complaint for patent infringement before filing:

(b) Patent Owner's Action.— An *inter partes* review may not be instituted if the petition requesting the proceeding is filed more than one year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent

Patent owners frequently raise § 315 arguments in their optional patent owner preliminary response. The Board thereafter issues a decision on institution, in which it addresses the statutory threshold for institution under § 314(a), *i.e.*, whether the petitioner has shown a reasonable likelihood that at least one

¹ As discussed below, patent owners have unsuccessfully sought to review Board decisions instituting IPR by way of the Administrative Procedures Act, *Mentor Graphics Corp. v. Rea*, Civ. Action No. 1:13-cv-518 (E.D.Va. July 25, 2013), and by writ of mandamus, *In re MCM Portfolio, LLC*, No. 2014-104 (Fed. Cir. Feb. 18, 2014). Both decisions held that the Board's decision on § 315 should be addressed on appeal of the final decision by the Board.

challenged claim of the patent is unpatentable. The Board also addresses any § 315 issues in its initial decision on institution.

Prior attempts to challenge the Board's § 315 rulings upon institution came from patent owners. In *Mentor Graphics Corp. v. Rea*, the patent owner challenged the Board's institution decision in the US District Court for the Eastern District of Virginia under the Administrative Procedures Act. Mentor asserted that IPR was foreclosed by § 315(b) because it had served a privity of the petitioner with a complaint for patent infringement more than a year before petitioner filed the IPR. The court dismissed Mentor's action, however, finding that the Board's institution decision was not a final agency action, and thus not reviewable under the APA. In the meantime, the Board has pressed forward with IPR, and the Federal Circuit has stayed Mentor's appeal pending a final written decision by the Board.

Another § 315 challenge came from MCM Portfolio, LLC, by way of mandamus to the Federal Circuit. MCM sought review of the Board's decision to institute IPR under § 315(b) because an alleged privity of HP was sued by MCM in a separate lawsuit more than one year before the IPR was filed. The Federal Circuit denied MCM's petition for a writ of mandamus. The court noted MCM did not meet its heavy burden to show (1) that it has a clear legal right to relief; (2) that there are no adequate alternative legal channels through which petitioner may obtain that relief; and (3) that the grant of mandamus is appropriate under the circumstances. The Federal Circuit's denial of MCM's petition, however, was "without prejudice to MCM attempting to raise its section 315(b) arguments on appeal after final decision by the Board." Both *Mentor* and *MCM* show that if the Board institutes IPR, the patent owner will likely be unable to challenge the institution decision except on appeal to the Federal Circuit from the Board's final written decision.

Because *St. Jude* involves a challenge by the petitioner to a decision denying institution of an IPR, finality cannot stand in the way of judicial review as it did in *Mentor*. Rather, *St. Jude*'s primary hurdle is whether the initial decision is reviewable under the statute. The Patent Office argues in its motion to dismiss that § 314(d) precludes review of the Board's institution decision. Under § 314(d), the "[t]he determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable."² *St. Jude* counters that the "under this section" language of § 314(d) expressly limits the nonappealability to the determination under § 314, and does not limit appeals from institution decisions denying IPR on other statutory grounds, namely § 315. *St. Jude* also points to the strong presumption of reviewability of agency actions, and suggests that the differing treatment of reviewability in §§ 314 and 315 suggests that the latter decisions are reviewable.

Whether a petitioner can appeal the Board's § 315 decisions on institution is an important question governing the accessibility of IPR to litigants.³ These questions are hotly disputed by the parties at the outset of IPR, and raise complicated questions of statutory construction and policy. The Federal Circuit's decision in *St. Jude* will have an immediate impact on several recent decisions of the Board declining to institute IPR under § 315. If decisions denying institution are found nonreviewable, then the effect could spill over into the reviewability of § 315 issues where the Board has instituted IPR.⁴ In sum, while the precise question in *St. Jude* may be limited to litigants involved in prior declaratory judgment actions, the question of reviewability has wide-ranging impact.

² A similar rule is found in the reexamination where it has been long held that "no one ... may appeal a PTO decision denying a request for reexamination." *Syntex (U.S.A.) Inc. v. U.S. Patent & Trademark Office*, 882 F.2d 1570, 1573 (Fed. Cir. 1989); *Heinl v. Godici*, 143 F. Supp. 2d 593, 596–7 (E.D. Va. 2001) (the "plain" meaning of § 303(c) "bars judicial review of PTO decisions to deny reexamination.") (emphasis in original).

³ We discussed several of these questions just before *inter partes* review became available in September 2012. See "Don't Let Your Right to *Inter Partes* Review Slip Away," Law 360 (August 29, 2012).

⁴ The Patent Office is likely to take this position. In its motion to dismiss in *St. Jude*, the Patent Office notes that the "inter partes review statute ... explicitly states that determinations 'whether' to institute are final and nonappealable (making no distinction between decisions to grant or deny)."

Below is a summary of the Board's interpretation of § 315 found in its institution decisions.

Does the One-Year Bar of § 315(b) Apply Retroactively? Yes.

Let's assume you were sued a decade ago for patent infringement based on your first-generation product. You obtained a judgment in court that the first-generation product did not infringe the patent. Fast forward ten years. You've just launched your second-generation product and the patent owner has just threatened to sue you on the same patent. You decide to file an IPR challenging the patent's validity. Does § 315(b) preclude your IPR even though the proceeding was unavailable within a year of your getting the first complaint for patent infringement?

Yes. Under the Board's interpretation, your IPR is precluded by § 315(b) even though the prior lawsuit predated the AIA and you never could have filed an IPR. The Board has "consistently taken the position" that § 315(b) applies retroactively so that pre-AIA activity precludes IPR. *Samsung Electronics Co. Ltd. v. Fractus*, IPR2014-00008, Paper 19 at 4 (Jan. 2, 2014) ("§ 315(b) bars institution ... even if the complaint at issue was served before passage of the America Invents Act."); *Virnetx, Inc.*, IPR2013-00348, Paper 18 at 6 (Feb. 12, 2014) ("Although Congress intended to create a cost-efficient alternative to district court litigation, it does not follow that the time bar only applies to concurrent litigation.").

Does § 315(b) Bar Apply Even Though IPR is Filed Within One Year of a Subsequent Complaint for Patent Infringement? Yes.

Same facts as above. This time, rather than your being merely threatened with a lawsuit on your second product, the patent owner actually sues you a second time on the same patent. You then file an IPR within one year of service of the second complaint for patent infringement. Does § 315(b) preclude your IPR even though you filed within a year of "a complaint" for patent infringement?

Yes. Under the Board's interpretation, your IPR is precluded by § 315(b) even though you filed the IPR within one year of the second complaint for patent infringement. The Board has held that "service of a second complaint does not nullify the effect of a first served complaint for purposes of 35 U.S.C. 315(b)." *Universal Remote Control, Inc. v. Universal Electronics, Inc.*, IPR2013-00168, Paper 9 at 4 (August 26, 2013); *Apple, Inc. v. Virnetx, Inc.*, IPR2013-00348, Paper 18 at 3 (Feb. 12, 2014) ("under the plain meaning of 'a complaint' under § 315(b), the 2010 complaint qualifies as 'a complaint' that time bars the Petition."); *Accord Healthcare, Inc., USA. v. Eli Lilly & Company*, IPR2013-00356, Paper 13 at 3 (Oct. 1, 2013) ("The plain language of the statute does not indicate or suggest that the filing of a later lawsuit renders the service of a complaint in an earlier lawsuit a nullity.").

Does § 315(b) Bar Apply Even Though Patent Claims Were Amended Through Reexamination After Prior Litigation? Yes

Same facts as above. This time, you file a reexamination during the pendency of the first litigation. After the litigation is settled, the patent survives reexamination but with amended claims. The patent owner then sues you a second time on the reexamined patent. You then file an IPR on the reexamined patent claims within one year of service of the second complaint for patent infringement. Does § 315(b) preclude your IPR even though you are challenging claims that are different than those in the litigation?

Yes. Under the Board's interpretation, your IPR is precluded by § 315(b) even though the claims under IPR are different than those litigated in the prior action. The Board has concluded that claim amendments made during a reexamination do not serve to reset the clock for purposes of § 315(b). *BioDelivery v. MonoSol*, IPR2013-00315, Paper 40 at 3-4 (December 18, 2013) ("We reject BioDelivery's argument that reexamination results in the issuance of a new patent. It does not. A reexamination certificate merely 'incorporat[es] in *the patent* any proposed amended or new claim determined to be patentable.' ... The identical reference in § 315(b), to the 'the date on which the petitioner ... is served with a complaint alleging infringement of *the patent*' (emphasis added), indicates that the timeliness analysis is to be made with reference to 'the patent.'").

Does Counterclaim for Patent Infringement Start One-Year Clock of § 315 (b)? Yes

You were never served with a complaint for patent infringement but were subject to a counterclaim for infringement under the patent more than one year prior to filing the IPR. Does § 315(b) apply even though you were never served with a complaint?

Yes. Under the Board's interpretation, your IPR is precluded by § 315(b) even though you were never technically served with a complaint for patent infringement. The Board has held, in the context of a declaratory judgment action for noninfringement, that a counterclaim for patent infringement starts the one-year clock of § 315(b). *St. Jude Medical, Cardiology Division, Inc. v. Volcano Corporation*, IPR2013-00258, Paper 29 at 5 (October 16, 2013) ("By filing a counterclaim, the defendant, in effect, sues the plaintiff within the same civil action. When the counterclaim alleges patent infringement, the original plaintiff becomes an accused infringer who has been sued for patent infringement. The accused infringer must answer the counterclaim or face default. ... The similarities between a complaint and a counterclaim underscore their equivalence for purposes of § 315(b).")

Is Successor in Interest a Privy Under § 315(b) When Acquisition Occurs After Prior Litigation? No.

You sued Company A for patent infringement more than one year ago. Company B acquires company A and then files an IPR on your patent. Wouldn't the fact that Company B is a privy of Company A preclude the IPR under § 315(b)?

No. Under the Board's interpretation, your patent is still subject to IPR because Company B was not a privy of Company A when you first filed the lawsuit against Company A. The Board has held that a privy relationship between a first and second entity must exist at the time the first entity is served with a complaint for patent infringement for § 315(b) to preclude an IPR filed by the second entity. *Abb Technology, LTD. v. IPCO, LLP*, IPR2013-00482, Paper 8 at 9 (February 4, 2014) ("Patent Owner has not shown persuasively that Petitioner was a privy of Tropos in 2006 when Tropos was served with a complaint alleging infringement of the '062 patent."); *Synopsys, Inc. v. Mentor Graphics Corporation*, IPR2012-00042, Paper 23 at 16 (April 11, 2013) ("Patent Owner has not persuasively shown that Petitioner was a privy of EVE in 2006 when EVE was served with a complaint alleging infringement of the '376 patent."); *Chi Mei Innolux Corp. v. Semiconductor Energy Laboratory Co. Ltd.*, IPR2013-00028, Paper 14 at 6 (March 21, 2013) ("SEL does not provide persuasive evidence or explanation establishing that CMO (or Innolux) was a privy of the (eventual) Petitioner CMI on the date of service of the complaint.").

Are Products Accused of Infringement in Prior Litigation Relevant to Privy of a Successor in Interest? No.

You sued Company A for patent infringement more than one year ago based on sales of product A. Company B has an exclusive supply contract for product A with Company A. Company B files an IPR on your patent. Wouldn't the fact that the Company B is a privy of Company A preclude the IPR under § 315(b)?

No. Under the Board's interpretation, your patent is still subject to IPR because sales of product accused of infringement between companies does not create a privy relationship under § 315(b). *Bae Systems Information and Electronic Systems Integration, Inc. v. Cheetah Omni, LLC*, IPR2013-00175, Paper 15 at 5 (July 3, 2013) ("Cheetah's only argument is that BAE Systems and the United States were in 'privity of contract' based on the fact that the United States was a customer of BAE Systems. ... Cheetah neither alleges nor presents sufficient and credible evidence that the United States exercises control over BAE Systems' participation in this matter or that the United States is responsible for funding and directing the proceeding."); *Hewlett-Packard Company v. MCM Portfolio, LLC*, IPR2013-00217, Paper 10 at 7 (Sept. 10, 2013) ("MCM bases this allegation on the fact that HP resells Pandigital products accused of infringing the '549 patent in the Texas Action. ... According to MCM, the Petition in this case is filed more

than one year after service of the complaint on Pandigital, a privy of HP.”); *Synopsys, Inc. v. Mentor Graphics Corporation*, IPR2012-00042, Paper 16 at 17 (Feb. 22, 2013) (“Patent Owner argues that it is the property interest in EVE’s products, the ZeBu line of emulators that were accused of infringement in 2006, that leads to the alleged bar of inter partes review by § 315(b). ... But that particular property interest is irrelevant here. Patentability, not infringement, is the issue before the Board in an inter partes review.”); *Chi Mei Innolux Corp. v. Semiconductor Energy Laboratory Co. Ltd.*, IPR2013-00028, Paper 14 at 6 (March 21, 2013) (“[E]ven if both Chi Mei Optoelectronics and CMI produce the accused LCD modules, that does not require us to find privity between Chi Mei Optoelectronics and CMI for purposes of this proceeding.”).

Does Indemnification Agreement Give Rise to Privity Under § 315(b)? No.

You sued Company A for patent infringement more than one year ago based on sales of product A. Company B has agreed to indemnify Company A for patent infringement liability for its sales of product A. Company B files an IPR on your patent. Wouldn’t the fact that Company B is a privy of Company A preclude the IPR under § 315(b)?

No. Under the Board’s interpretation, your patent is still subject to IPR because indemnification agreements between companies do not create a privity relationship under § 315(b) unless the agreements allow the party providing indemnification to intervene or control the litigation. *Apple Inc. v. Achates Reference Publishing Inc.*, IPR2013-00080, Paper 22 at 17 (June 3, 2013) (“Even assuming that the indemnification provision of the SDK agreement applies to the co-defendants, however, the provision is not indicative of the co-defendants being real parties-in-interest or privies of Petitioner. The agreement does not give the developer the right to intervene or control Petitioner’s defense to any charge of patent infringement...”).

Does Prior Declaratory Judgment Action of Non-Infringement Bar IPR When Complaint is Later Amended to Include Invalidity? No.

Your competitor brings an action for a declaratory judgment on noninfringement against your patent. You assert the compulsory counterclaim for infringement. In response, your competitor amends his complaint to assert an affirmative defense that the patent is invalid. The competitor then files an IPR. Isn’t the IPR precluded under § 315(a)(1) because your competitor filed a declaratory judgment action asserting invalidity?

No. Under the Board’s interpretation, an affirmative defense of invalidity is not equivalent to a declaratory judgment action asserting invalidity under § 315(a)(1). *Arisoa Diagnostics v. Isis Innovation Limited*, IPR2012-00022, Paper 20 at 6 (Feb. 12, 2013) (“The affirmative defense of invalidity is tied to the claim of infringement, whereas a counterclaim of invalidity is independent from the claim of infringement, which survives a finding of noninfringement. Section 315(a)(3) makes clear that if a party is faced with a claim of infringement, it can bring the independent claim of invalidity as a counterclaim and still avail itself of inter partes review.”)

Does Prior Litigation Dismissed Without Prejudice Preclude IPR Under § 315? No.

Your competitor brings a declaratory judgment action for invalidity of your patent. The competitor then voluntarily dismisses the complaint before you answer and files an IPR. Isn’t the IPR precluded under § 315(a)(1) because the competitor filed a declaratory judgment action for invalidity before filing the IPR?

No. The Board has interpreted § 315 such that the bars to IPR are not triggered by a complaint that is later voluntarily dismissed. *Clio USA, Inc. v. The Procter and Gamble Company*, IPR2013-00438, Paper 9 at 8 (“The court dismissed Clio’s declaratory judgment action without prejudice; the action, therefore, is a nullity. In the context of § 315(a)(1), the action never existed.”); *Invue Security Products, Inc. v. Merchandising Technologies, Inc.*, IPR2013-00122, Paper 17 at 9 (June 27, 2013) (The complaint was dismissed before MTI filed a responsive pleading and prior to any action on the merits. In fact, the outcome of the case, dismissed for lack of subject matter jurisdiction, indicates that the court never had

authority to hear the case: “[w]e conclude the dismissal of the declaratory judgment action without prejudice, under the particular circumstances of this case, does not trigger the statutory bar prohibiting under 35 U.S.C. § 315(a)”; *Macuto U.S.A. v. BOS GmbH & KG*, IPR2012-00004, Paper 18 at 14–16 (Jan. 14, 2013) (holding that a dismissal without prejudice nullified the effect of service for purposes of 35 U.S.C. § 315(b)).

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