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Effects of Xerox v. Bytemark and Nested Bean Inc. v. Big Beings Pty Ltd

By: **Brandon R. Theiss, Volpe Koenig**

I. Xerox Corp. v. Bytemark, Inc.

In *Xerox Corp.*¹² v. *Bytemark, Inc.* (hereinafter “Xerox”) Director Vidal affirmed the Patent Trial and Appeals Board’s (hereinafter “Board”) decision denying the institution of Xerox’s Inter Partes Review (hereinafter “IPR”) petition IPR2022-00624 in the Director’s *sua sponte* Director Review. This precedential decision illustrates the importance of providing more than conclusory statements by an expert in support of an IPR Petition.

At issue in Xerox is US 10,360,567 (’567 Patent), which relates to both a system and method for the distribution of electronic tickets. The ’567 Patent describes a process where a user can obtain and save an electronic ticket (“e-ticket”) on devices like mobile phones. Upon presenting the e-ticket, it can be verified by personnel through the observation of a visual element that does not require machine scanning. Furthermore, the ’567 Patent outlines a process for checking the authenticity of ticket data and the corresponding software on the user’s device to ensure no unauthorized changes have been made. Of particular importance, the invention detects a user’s fraudulent activity and stores the occurrence of such activity as a “data value” in the data record associated with the user’s account.

Xerox filed an IPR petition challenging the validity of the claims of the ’567 Patent, pointing to WO 2009/141614 A1 by Terrell (“Terrell”) and several other secondary references. Xerox contended that Terrell described a system wherein, after identifying fraudulent activity, “the purchaser of the ticket could be blocked from further use of the system or pursued in respect of their potential fraud.” (Terrell, 14:15–17). Xerox further posited that an expert in the field would infer that such a restriction would necessitate documenting the restriction in the user’s account data record. Moreover, they argued that an expert would deem it logical to conclude that restricting the buyer’s access to the system would involve logging a data indicator of the fraudulent activity in the user account’s related data record.

In support of these contentions, Xerox relied upon an expert’s declaration, which stated that a skilled artisan “would understand that [] blocking would require recording the blocking in a data record associated with that user’s account” and “would find it obvious that blocking the account of the purchaser from further use of the system would include storing a data value indicating the fraudulent activity in a data record associated with the user account.” (Decision, 2-3).

In response, Bytemark contended that Terrell primarily suggests restricting a ticket buyer’s further access to the Terrell system due to suspected fraud. However, Terrell does not specifically mention that this would be executed by noting a data value indicating fraudulent behavior. Instead, other potential methods, like erasing the user’s account or reporting the user for fraudulent actions, might be implied. Bytemark further criticized Xerox’s contentions, asserting that a Person of Ordinary Skill in the Art (“POSITA”) would find the fraud limitation obvious, was conclusory at best and improperly attempts to use a POSITA’s common knowledge to supply a claim limitation that is wholly missing from the prior art without evidentiary support.

The Board, in its Institution Decision, agreed with Bytemark and denied the institution of the IPR. The Board reasoned that the expert's declaration merely repeated Xerox's attorney's argument verbatim without providing any additional evidence or technical reasoning. Accordingly, the Board afforded little weight to the expert's declaration, and as a result, Xerox failed to meet its burden under 35 U.S.C. § 314 of "show[ing] that there is a reasonable likelihood that the Petitioner would prevail with respect to at least 1 of the claims challenged in the petition." (35 U.S.C. § 314).

Xerox requested a rehearing and Precedential Opinion Panel ("POP") review of the Board's decision. However, Director Vidal interceded and initiated *sua sponte* Director Review.

In the Director Review, Director Vidal agreed with the Board that the expert declaration "is conclusory and unsupported, adds little to the conclusory assertion for which it is offered to support, and is entitled to little weight." (Decision, 5). Director Vidal reasoned that instead of "setting forth facts and evidence in support of [Xerox's] assertions," the expert testimony merely "set[] forth [Xerox's] conclusory assertions as though they [were] facts." (Decision, 5). Accordingly, Director Vidal applied Federal Circuit precedent, including *Upjohn Co. v. Mova Pharm. Corp.*, 225 F.3d 1306, 1311 (Fed. Cir. 2000), which holds that a "[l]ack of factual support for expert opinion to factual determinations, however, may render the testimony of little probative value." Therefore, Director Vidal affirmed the denial of the institution of an IPR in IPR2022-00624.

For Petitioners

Director Vidal's decision in Xerox is consistent with the Federal Circuit's holding in *Facebook, Inc. v. Windy City Innovation* (hereinafter "Facebook"). In Facebook, the Court affirmed the Board's holding that independent claim 1 was not unpatentable as obvious over the asserted prior art when "the Board considered Facebook's expert's testimony but determined that it did not add materially to Petitioner's unpersuasive attorney argument" because it merely repeated Petitioner's argument, nearly verbatim, without citation to the basis for his testimony." (*Facebook, Inc. v. Windy City Innovations, LLC*, 973 F.3d 1321, 1340-41 (Fed. Cir. 2020)) (internal markup omitted). Accordingly, it is critical for Petitioners to include in their expert declarations a basis for their testimony and not merely base the testimony upon conclusory facts.

For Patent Owners

"Whether the prior art discloses a claim limitation, whether a skilled artisan would have been motivated to modify or combine teachings in the prior art, and whether she would have had a reasonable expectation of success in doing so are *questions of fact*." (*Univ. of Strathclyde v. Clear-Vu Lighting LLC*, 17 F.4th 155, 160 (Fed. Cir. 2021)) Director Vidal's decision in Xerox highlights that conclusory expert statements that merely parrot attorney argument are not facts and, therefore, cannot satisfy a Petitioner's burden for the institution of providing "[a] full statement of the reasons for relief requested, including a detailed explanation of the significance of the **evidence including material facts**." (37 C.F.R. § 42.22(a)(2)) (emphasis added).

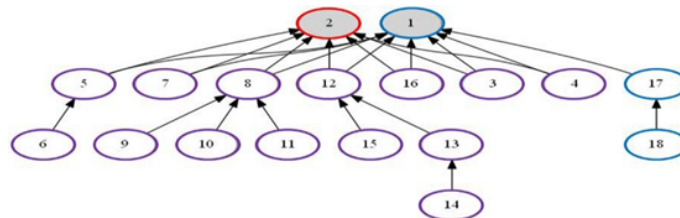
This is critically important for a Petitioner in rebutting invalidity contentions and/or obviousness contentions that require a motivation to combine. In fact, the Federal Circuit expressly holds that "conclusory expert testimony and attorney argument cannot constitute substantial evidence of a motivation to combine." (*Acoustic Tech., Inc. v. Itron Networked Sols., Inc.*, 949 F.3d 1366, 1375 (Fed. Cir. 2020)). Accordingly, Patent Owners are well-served to highlight how the expert's alleged motivation to combine is merely a conclusory statement that is not supported by objective factual support and should therefore be afforded little weight.

I. Nested Bean, Inc. v. Big Beings US Pty. Ltd

In *Nested Bean, Inc. v. Big Beings US Pty. Ltd. et al.* IPR2020-01234, (hereinafter “Nested Bean”) the Director of the US Patent & Trademark Office (“PTO”), addressed the patentability of multiple dependent claims under pre-AIA 35 U.S.C. § 112, fifth paragraph³. The Director granted a rehearing and modified the Patent Trial & Appeal Board’s (“Board”) decision. The issue concerned whether the patentability of each version of a multiple dependent claim should be separately evaluated when it depends on multiple preceding claims.

Specifically, at issue in Nested Bean is US Patent 9,179,711 (“’711 Patent”) entitled “Swaddling Suit.” The ’711 Patent pertains to a swaddling suit designed to limit the movement of a baby’s limbs, thereby reducing the startle reflex while permitting the arms to move to reach the mouth. The ’711 Patent is a US National phase entry of a Patent Cooperative Treaty (“PCT”) Application that claims priority to an Australian Patent Application. The ’711 Patent contains two independent claims, Claim 1 and Claim 2, and a complex set of dependent claims with multiple dependencies.⁴

The complex set of multiple dependencies is shown in the following claim chart, which shows that purple claims depend on both independent Claim 1 (red) and Claim 2 (blue).



Although multiple dependencies are common in other jurisdictions (e.g., Europe Patent Office) and permitted under 35 USC 112(5th), multiple dependencies are generally disfavored in the United States because “a separate fee is required in each application containing a proper multiple dependent”⁵ (MPEP 607 (III)) and “[f]or fee calculation purposes . . . a multiple dependent claim will be considered to be that number of claims to which direct reference is made therein. (37 C.F.R. § 1.75(c)). Accordingly, since it is more expensive to file a US patent application with multiple dependencies, granted patents with multiple dependencies are rare.

In the case of the ’711 Patent, the complex multiple dependencies are likely the result of the ’711 originating from Australia, where multiple dependencies are common and not subject to an additional surcharge.

Patent Owner, Big Beings, sued Nested Bean in the district court of Massachusetts (*Big Beings USA PTY Ltd. v. Nested Bean, Inc.*, No. 1:20-cv-10101- IT (D. Mass.)) and alleged that Nested Bean’s “Zen One Classic Swaddle” infringed the ’711 Patent.

Nested Bean responded to the suit by filing an Inter Partes Review (“IPR”), IPR2020-01234, which challenged the validity of Claims 1-18 of the ’711 Patent under six separate grounds. In its Final Written Decision, the Board found that Nested Bean had established that independent Claim 2 was unpatentable but had failed to prove by a preponderance of the evidence that Claim 1 was unpatentable. With regard to dependent claims 3-16, the Board found the claims to be unpatentable because “we consider claims 3–16 to be anticipated (or rendered obvious below) by the prior art if either version of these claims (the version depending from Claim 1 or the version depending Claim 2) is described by the prior art.” (Final Written Decision, Pg. 35 n7).

Big Beings responded to the Final Written Decision by requesting a director review. In their request, Big Beings contended that the Board's determination of the lack of patentability for Claims 3 to 16 was mistaken because these claims were dependent on both Claim 1 and Claim 2. Since the Board did not identify sufficient evidence to declare Claim 1 as unpatentable, Big Beings contended that the versions of Claims 3 to 16 that relied on Claim 1 should also not have been deemed unpatentable as derivatives thereto.

The Director's decision concluded that each version of a multiple dependent claim should be evaluated individually, similar to single dependent claims. In reaching this conclusion, Director Vidal recognized that "the Board's consideration of multiple dependent claim patentability as to each of its alternatively referenced claims is an issue of first impression" due to the infrequency of challenged patents with multiple dependent claims. Accordingly, Director Vidal looked to the statutory language of 35 U.S.C. §112(5th), which states:

- A claim in multiple dependent form shall contain a reference, in the alternative only, to more than one claim previously set forth and then specify a further limitation of the subject matter claimed. A multiple dependent claim shall not serve as a basis for any other multiple dependent claim. **A multiple dependent claim shall be construed to incorporate by reference all the limitations of the particular claim in relation to which it is being considered.** (Emphasis added).

In addition, Director Vidal considered 35 U.S.C. §282 (a) in determining whether multiple dependent claims should be evaluated separately for each claim from which they depend. 35 U.S.C. §282 (a) states that:

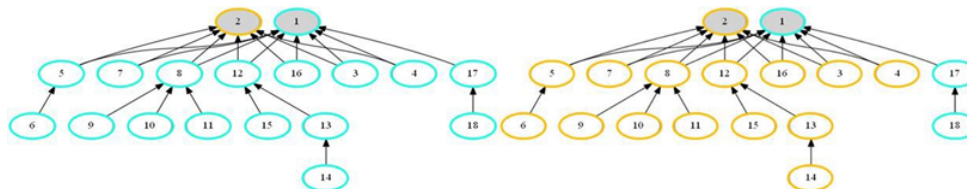
- A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or **multiple dependent form**) **shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim.** The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity. (Emphasis added).

For further insights, Director Vidal relied upon the Manual of Patent Examining Procedure (MPEP). The MPEP 608.01(n) states that:

- a multiple dependent claim, as such, does not contain all the limitations of all the alternative claims to which it refers, but rather contains in any one embodiment only those limitations of the particular claim referred to for the embodiment under consideration. **Hence, a multiple dependent claim must be considered in the same manner as a plurality of single dependent claims.** (Emphasis added).

Accordingly, Director Vidal concluded that "I interpret section 112, fifth paragraph, to require that the Board consider separately the limitations of each claim incorporated by reference into the multiple dependent claim." (Decision, 18). Therefore, the Director concluded that "I agree with Patent Owner that "[t]aken together, the law is clear—multiple dependent claims must be treated as multiple claims, each comprising the dependent claim and one of the claims to which it refers, and the validity (and/or unpatentability) of each of the multiple claims must be considered separately." (Decision, 11).

As a result of the Director's Decision, the Final Written decision was modified to reflect that only Claim 2 and the portions of dependent Claims 3-16 that were dependent on Claim 2 were unpatentable. Accordingly, the claims shown in aqua (left below) were held to be at least partially valid. This is a dramatic change from the original final written decision (right below), where the claims shown in orange were held to be invalid.



Therefore, the Director's decision aligned with the notion that a multiple dependent claim essentially functions as several single dependent claims and should be treated as such during patent evaluation. This distinction for clarity sets a precedent for the consideration of patentability for multiple dependent claims.

Takeaways

In the rare situation where the challenged claims in an IPR contain multiple dependencies, it is critical that the Petitioner separately present invalidity consideration for each branch of the multiple dependencies. Otherwise, the Patent Owner may be able to preserve the partial validity of the Patent by showing how the multiple dependent claim depends on at least one branch of the multiple dependency that has not been invalidated.

1 Other Petitioners in the IPR include ACS TRANSPORT SOLUTIONS, INC., XEROX TRANSPORT SOLUTIONS, INC., NEW JERSEY TRANSIT CORP., and CONDUENT INC.

2 NEW JERSEY TRANSIT CORP is a client of Volpe Koenig. However, the firm was not involved this matter.

3 Pre-AIA 35 USC §112(5th) and 35 USC §112 (e) contain identical language.

4 Multiple dependencies occur when a dependent claim relies on more than one preceding claim. In other words, the dependent claim incorporates limitations from multiple parent claims. This creates a hierarchical relationship where a dependent claim can be further narrowed down based on several previous claims.

5 The current USPTO multiple dependent claim fee is \$860 for large entities.