

## PTAB At 5: Part 1 — Surprises And Lessons Learned

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Sept. 16 is the fifth anniversary of the establishment of the U.S. Patent and Trademark Office Patent Trial and Appeal Board. To mark this milestone, attorneys at Sterne Kessler Goldstein & Fox PLLC have written a series of articles discussing the significance the PTAB has had on the practice of intellectual property law.

The first installment explores the topic from patent owners' and petitioners' perspectives. The article considers the lessons learned from the first five years of the new trial-like PTAB proceedings created by the America Invents Act, with an emphasis on the surprises, the reality versus original expectations, and the prominent issues that have been addressed.

The second article will discuss several insights learned from PTAB challenges that should be considered when developing an effective "prep and pros" strategy geared toward surviving PTAB scrutiny. The strategies take into account both a global outlook and the advances in big data that need to be considered when developing IP portfolios in the PTAB era.

The third article will analyze statistics from more than 250 judgments and over 120 issued opinions deciding Federal Circuit appeals of post-grant proceedings. The data reveals how the court has addressed those appeals and, conversely, how those appeals are affecting the court.

Finally, the fourth article will discuss the intersection of PTAB and district court jurisdiction as it relates to patent invalidity challenges. While there are many considerations and issues associated with the intersection of PTAB and district court invalidity challenges, the article will address key aspects that impact practitioners.



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## **Introduction**

As part of the implementation of the Leahy-Smith America Invents Act, the Patent Trial and Appeal Board began operations in September 2012. The PTAB includes both an Appeals Division and a Trials Division. While the Appeals Division has operated in much the same manner as its predecessor (the Board of Patent Appeals and Interferences, or BPAI), the PTAB Trial Division has brought with it a suite of new procedures for challenging patents. Now, five years later, we look back at this first phase of the Trial Division's history and compare the results with predictions at its inception. In this article we will broadly consider the lessons learned from the first five years of the new trial-like PTAB proceedings created by the AIA, with an emphasis on the surprises, the reality versus original expectations, and the prominent issues that have been addressed.

## **Scale and Scope of PTAB Proceedings**

Before the Trial Division began operations in 2012, many stakeholders were unsure of how common and popular the new AIA trials would be. Previous inter partes re-examination proceedings were used in a limited fashion and were viewed by many stakeholders as a relatively slow-paced method of casting doubt on the validity of a patent. A major criticism of inter partes re-examination was the ability to freely add and amend claims, making finality an elusive goal. In response to such criticisms, the AIA introduced four new types of post-grant proceedings: inter partes review, covered business method review, post-grant review, and derivation proceedings. IPRs and CBMs have proven to be much more popular than many practitioners expected: Through the end of July 2017, 6,712 IPR petitions have been filed and 524 CBM petitions have been filed.[1] While only 70 PGRs have been filed to date,[2] that number undoubtedly reflects the fact that only patents issued from post-AIA applications are eligible for PGR. Derivation proceedings stand out as having made little impact to date. Indeed, the PTAB has not yet issued a single final written decision in a derivation proceeding.

Together, however, the sheer volume of IPRs and CMBs alone qualifies the PTAB as the largest patent challenge venue in the world. In 2012, few stakeholders envisioned such a rapid and drastic shift in the patent litigation landscape.

## **Significant Cases**

Both the U.S. Supreme Court and the Federal Circuit have issued a number of significant judicial decisions impacting practice before the PTAB in AIA trials. An exhaustive review of even the significant cases is beyond the scope of this article, but a few categories are particularly noteworthy for those invested in the regime.

Many stakeholders had originally expected that claims reviewed in AIA trials would be construed under the broadest reasonable interpretation, like in other proceedings before the patent office. In the first post-grant proceeding to be decided on appeal, the Federal Circuit upheld the PTAB's BRI regulation in a decision that was subsequently reviewed by the Supreme Court. In *Cuozzo Speed Technologies LLC v.*

Lee, 136 S. Ct. 2131 (2016), the Supreme Court unanimously affirmed the Federal Circuit and endorsed the PTAB's use of the BRI in AIA trials. The Supreme Court's Cuozzo decision also affirmed the Federal Circuit's statutory interpretation of the appeal bar of 35 U.S.C. § 314(d), in that it precludes judicial review of institution decisions with respect to the sufficiency of pleading for a proposed ground of unpatentability. Justices Samuel Alito and Sonia Sotomayor dissented from that portion of the holding. Those dissents have left room for stakeholders to argue that issues such as the time-bar of 35 U.S.C. § 315(b), and similar statutory limits on the PTAB's authority to institute trial, should be reviewable on appeal from a final written decision. Some stakeholders dislike the broad and unchecked power given to the PTAB in this regard, as it leaves many parties without recourse when faced with inconsistencies in institution decisions between different panels of the PTAB — a possibility magnified by the paucity of precedential PTAB decisions.

One significant limit on the PTAB's power is the Administrative Procedure Act. In the past two years, the Federal Circuit has repeatedly explained that post-grant proceedings are formal administrative adjudications subject to the procedural requirements of the APA. Among those are reasonable notice of the matters of fact and law asserted and a fair opportunity to respond. The Federal Circuit has enforced the procedural safeguards of the APA by preventing parties and the board alike from changing theories midstream or relying on theories not clearly set forth within the statutory and regulatory constraints of AIA trials. The Federal Circuit has observed that AIA-trials are procedurally constrained, both in duration and scope. Consequently, arguments and evidence must be presented in an orderly manner that allows for efficient adjudication of the dispositive issues while still guaranteeing procedural fairness. APA challenges are increasingly common, demonstrating the increasing complexity and sophistication of PTAB proceedings.

While AIA trials have matured rapidly, many fundamental issues continue to be debated, including their constitutionality. The constitutionality of AIA trials will be addressed by the Supreme Court this term in *Oil States v. Greene's Energy*.

### **Stays of Concurrent Litigation**

The strategic role that post-grant proceedings play in litigation has also differed from what many stakeholders expected. AIA trials had been billed as a low-cost alternative to district court litigation.<sup>[3]</sup> But in practice, post-grant proceedings are frequently pursued in parallel with an underlying enforcement action. Indeed, the filing of an infringement complaint is often the trigger. Only the CBM provision of the AIA provides for a near-automatic stay of related litigation; the IPR framework does not. While the statistics vary widely by jurisdiction, a number of district courts still generally decline to stay enforcement actions pending IPR, making them attractive for patent owners who prefer district court. And, as discussed in detail below, the odds that a final decision of the PTAB is affirmed on appeal is becoming less and less of a foregone conclusion, arguably eroding the original promise of having these validity challenges resolved within one year.

In cases where a district court declines to stay the underlying litigation, parties often find themselves fighting a two-fronted war, one in which efforts are duplicated between two venues having distinct

evidentiary burdens and different claim construction standards. Tension arising from the broad scope of discovery available in district court juxtaposed against the relatively narrow scope of discovery available in AIA trials is a frequent source of conflict. Third parties that can easily be subpoenaed in district court are commonly out of reach at the PTAB. And given the PTAB's mandate to maximize public transparency, confidentiality issues that are largely nonexistent in the district court can be a perpetual struggle. For these reasons, post-grant proceedings often become a complicating and costly accessory to district court litigation, rather than a complete substitute for it.

### **Limited Reach of Estoppels**

Moreover, even if the litigation is stayed, parties can face the perplexing question of how post-grant proceedings limit issues available for adjudication in district court when claims escape the PTAB intact. One aspect of the AIA that has unexpectedly disappointed many patent holders is the limited reach of the statutory estoppels. At first blush, the statutory estoppels were commonly thought to prevent petitioners from asserting grounds of unpatentability that they had actually raised (in the case of CBM) or reasonably could have raised (in the case of IPR), to bar re-litigation of invalidity issues that should have been presented to the PTAB for resolution in the first instance. But a series of decisions issued by the Federal Circuit have limited the reach of these estoppels to grounds that were instituted by the PTAB, i.e., adjudicated in the trial rather than denied institution as deficient or merely duplicative. As a result, petitioners have argued that grounds that were not instituted and adjudicated before the PTAB are still fair game in district court.

### **Multiple Parties and Petitions**

Another way in which the strategic use of PTAB proceedings has differed from expectations is in how common it is for patents to be challenged by multiple petitions and petitioners through "follow-on" petitioning. Often the subsequent petitions contain slightly different arguments that improve upon prior challenges in response to how the PTAB ruled on earlier petitions. This practice raises concerns that petitioners are gaining evolving insight that unfairly prejudices patent owners, who are already faced with defending serial attacks. One particularly contentious issue is whether the same petitioner should be allowed to file multiple petitions, then join the later petition to the earlier — a practice that some PTAB panels allow despite the potential for such later-joined petitions to effectively supplement the initial petition.<sup>[4]</sup> While the board has the discretion to deny later petitions under 35 U.S.C. §§ 314 and 325(d), the owners of important patents should anticipate the possibility that additional petitioners, and additional arguments, may be added to a proceeding beyond the initial filing. And, even if such proceedings are not joined, noteworthy patents are frequently challenged repeatedly by multiple petitioners.

### **Standing**

When AIA trials began, few stakeholders predicted that issues of standing would become a significant hurdle. Indeed, the AIA broadly states that "a person who is not the owner of a patent" may file an IPR petition. This expectation has largely been met, for example, by the PTAB refusing to apply assignor

estoppel. Yet, to the surprise of some stakeholders, recent PTAB decisions have held that patents owned by state-affiliated entities (e.g., state-owned universities) cannot be challenged on the basis of sovereign immunity under the 11th Amendment.[5]

Standing has also been tested in the context of appealing an adverse PTAB decision to the Federal Circuit. While the statutory appeal provision, 35 U.S.C. § 141, allows any party who is dissatisfied with the final decision in an AIA trial to appeal to the Federal Circuit, the Federal Circuit has held that the appellant must also have Article III standing.[6] One such requirement is an injury-in-fact resulting from the PTAB's decision. Due to this unexpected development in the law, the risk of becoming embroiled in a dispute over standing is now a significant factor that should be considered by certain petitioners, among them nonpracticing entities, potential market entrants who must first obtain regulatory approval or overcome some barrier to market entry, or consumer advocacy groups who lack a concrete stake in the outcome. Such risks can change the calculus for potential petitioners.

### **Appeals and Remands**

While affirmance is still the most frequent outcome on appeal to the Federal Circuit, the court has become increasingly critical of the PTAB's thoroughness in rendering AIA trial decisions. Of the over 250 judgments issued by the court on AIA appeals, 76 percent overall have been affirmed. Once at a sustained rate of 90 percent in 2015, the PTAB's affirmance rate has since drifted down to around 70 percent during the span of 2016 to 2017. This decline corresponds to a sustained increase in the number of appeals remanded to the PTAB for further consideration; a rate that reached a new high of over 20 percent in 2017 Q3. Of cases remanded, 42 percent were due to the PTAB's failure to sufficiently articulate its reasoning or support its judgment. Unlike the sustained increase in remands, the reversal rate has been variable but averages out to 7 percent. Involuntary dismissals account for fewer judgments at 2 percent.

While many predicted a high affirmance rate, given the deferential standard of review for agency fact-findings, few stakeholders could have expected that the court would turn such a critical eye to the robustness of the PTAB's decision-making, and frequently identify lack of explanation as a source of error. If the PTAB caseload continues to increase, this lack of administrative thoroughness is unlikely to diminish and may even increase. For the many district courts that remain skeptical of the PTAB's ability to resolve validity promptly, the Federal Circuit's inclination to remand only reinforces their concern that justice delayed is justice denied. How the remand trend will impact the stay rate remains to be seen.

In conclusion, looking back at five years before the PTAB, there have been many unexpected developments. Yet, on balance, most of the original promises have been kept. While important questions remain unanswered, AIA trials have no doubt made a large-scale and dramatic impact on the global patent landscape.

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[1] See USPTO Trial Statistics for July, 2017, available at [https://www.uspto.gov/sites/default/files/documents/trial\\_statistics\\_july2017.pdf](https://www.uspto.gov/sites/default/files/documents/trial_statistics_july2017.pdf).

[2] Id.

[3] See, e.g., the recent Law360 article, "Current Trends In Biologics-Related Inter Partes Reviews," available at <https://www.law360.com/articles/942459/current-trends-in-biologics-related-inter-partes-reviews>, noting that "IPRs provide a number of distinct advantages over litigating biologics cases in district court, including lower cost."

[4] *Nidec Motor Corporation v. Zhongshan Broad Ocean Motor Co. LTD*, No. 2016-2321 (Fed. Cir., August 22, 2017).

[5] See, e.g., *Covidien LP v. University of Florida Research Foundation Inc.*, Case Nos. IPR 2016-01274; -01275, and -01276 (PTAB January 25, 2017); *Reactive Surfaces Ltd. v. Toyota Motor Corp.*, No. IPR2016-1914 (PTAB July 13, 2017); *Neochord, Inc. v. Univ. of Md., Baltimore*, No. IPR2016-208 (PTAB May 23, 2017). An interesting, and as yet untested question, is whether foreign sovereigns might use the same exception, although the Foreign Sovereign Immunities Act of 1976 may control.

[6] *Phigenix, Inc. v. ImmunoGen, Inc.*, 845 F. 3d 1168 (Fed. Cir. 2017). In the interest of full disclosure, the authors disclose that the authors and Sterne, Kessler, Goldstein & Fox represented ImmunoGen, Inc. before the PTAB and Federal Circuit in this case.

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