

Institutional change

The Patent Trial and Appeal Board is taking a harder line on institution, while PTAB watchers eagerly await a face-off at the Supreme Court over claim construction and the Federal Circuit increasingly pulls the Board up on procedural issues

PTAB petition filing has increased every year since the post-grant proceedings became available in September 2012. According to figures from Docket Navigator, a record 1,797 petitions were filed last year, up 7% on the 1,677 filed in 2014. Inter partes review (IPR) petitions accounted for 92% of the filing last year.

The pace slowed near the end of the year, however. The number of fourth-quarter petitions was down 9% on the third quarter and down 20% on the fourth quarter of 2014.

This slowdown continued into this year. Docket Navigator figures reveal 99 PTAB petitions were filed in January – the lowest figure since March 2014, when 98 petitions were filed. The three CBM petitions filed in January was the lowest figure since July 2013, when two petitions were filed.

Do not expect the bottom to fall out of the demand for PTAB, however.

“You will see at least a steady state of the current rate of petition filing, which I think is incredibly high,” predicts Luke Pedersen, chair of Baker Botts’ post-grant practice committee in Washington DC. “And it may increase as much as 15%, which is the increase in litigation last year, because within one year of those litigations being filed you are going to have to get your PTAB petition on file in 2016.”

Top PTAB petitioners 2015

| | |
|-----------------------------------|-----|
| Apple | 120 |
| Samsung Electronics Co | 58 |
| Google | 42 |
| LG Electronics | 38 |
| nXn Partners | 35 |
| Hayman Capital Master Fund | 33 |
| IP Navigation Group | 30 |
| Sony Corporation | 25 |
| Micron Technology | 23 |
| Toyota Motor Corporation | 23 |
| TRW Automotive US | 22 |
| Microsoft Corporation | 20 |
| Ford Motor Company | 19 |
| Daimler North America Corporation | 18 |
| Mercedes-Benz USA | 18 |
| ServiceNow | 18 |
| Toshiba Corporation | 18 |
| Arista Networks | 17 |
| Qualcomm Incorporated | 17 |
| TCL Corporation | 17 |
| TCT Mobile (US) | 17 |
| Unified Patents | 17 |
| Volkswagen Group of America | 17 |
| American Megatrends | 16 |
| Giga-Byte Technology Co | 16 |
| MSI Computer Corp | 16 |
| T-Mobile USA | 16 |
| Ericsson | 15 |
| Intel Corporation | 15 |
| Lupin Pharmaceuticals | 15 |

Top patent owners in PTAB proceedings 2015

| | |
|-------------------------------------|----|
| Innovative Display Technologies | 35 |
| Acacia Research Group | 28 |
| Ericsson | 27 |
| Finjan | 26 |
| Magna Electronics | 26 |
| Paice | 22 |
| The Abell Foundation | 22 |
| Signal IP | 21 |
| Golden Wave Partners Co | 19 |
| Jazz Pharmaceuticals | 19 |
| VirnetX | 19 |
| Global Touch Solutions | 18 |
| Joao Control & Monitoring Systems | 18 |
| TracBeam | 18 |
| Cisco Systems | 17 |
| Smartflash | 17 |
| Kinglite Holdings | 16 |
| Longitude Licensing | 15 |
| Samsung Electronics Co | 15 |
| BASF Corporation | 14 |
| Vivint | 13 |
| Cellular Communications Equipment | 13 |
| Core Wireless Licensing SARL | 13 |
| Bonutti Skeletal Innovations | 12 |
| Horizon Pharma | 12 |
| Intellectual Ventures II | 12 |
| Milwaukee Electric Tool Corporation | 12 |
| Straight Path IP Group | 12 |
| ZiiLABS | 12 |

Top law firms in the PTAB

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|---------------------------------------|-----|
| Finnegan Henderson Farabow | |
| Garrett & Dunner | 166 |
| Sterne Kessler Goldstein & Fox | 160 |
| Fish & Richardson | 152 |
| Paul Hastings | 104 |
| Cooley | 92 |
| Perkins Coie | 71 |
| Baker Botts | 70 |
| Oblon McClelland Maier & Neustadt | 70 |
| Ascenda Law Group | 62 |
| Sidley Austin | 61 |
| Wilmer Cutler Pickering Hale and Dorr | 61 |
| Ropes & Gray | 57 |
| Davidson Berquist Jackson & Gowdey | 55 |
| Quinn Emanuel Urquhart & Sullivan | 53 |
| Weil Gotshal & Manges | 49 |
| Kenyon & Kenyon | 48 |
| Kilpatrick Townsend & Stockton | 47 |
| DLA Piper | 46 |
| Kirkland & Ellis | 45 |
| Sughrue Mion | 44 |
| Latham & Watkins | 43 |
| Jones Day | 40 |
| K&L Gates | 36 |
| Knobbe Martens Olson & Bear | 36 |
| Alston & Bird | 35 |
| Norton Rose Fulbright | 35 |

Top attorneys in the PTAB

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|----------------------|-----|
| Naveen Modi | 101 |
| Tarek Fahmi | 62 |
| Holly Atkinson | 53 |
| Karl Renner | 51 |
| Joshua Goldberg | 50 |
| Wayne Helge | 50 |
| Steven Baughman | 48 |
| Robert Greene Sterne | 46 |
| Jeffrey Kushan | 45 |
| Joseph Palys | 43 |
| Robert Steinberg | 43 |
| Jason Eisenberg | 42 |
| Kevin Greene | 38 |
| William Mandir | 38 |
| Heidi Keefe | 35 |
| Lori Gordon | 35 |
| Scott McKeown | 34 |
| David Cornwell | 33 |
| James Hannah | 33 |
| Jon Wright | 33 |
| Erika Arner | 32 |
| Michael Casey | 31 |
| Ruffin Cordell | 31 |
| Andrea Reister | 30 |
| Brian Shelton | 30 |
| Dorothy Whelan | 30 |

Source: Docket Navigator's 2015 Year in Review report

PTAB proceedings became available in September 2012, and more than 4,500 petitions have been filed. They remain a learning process with many procedural questions remaining unanswered. This year may provide clarity on a number of issues.

High drama at the high court

The year began with big news. The Supreme Court in January granted cert in *Cuozzo Speed Technologies v Lee*, which is the appeal of the first ever IPR filed. The high court will rule on two questions: whether the broadest reasonable construction (BRI) should be used in IPRs and whether the PTAB's decision to institute an IPR is judicially reviewable.

The case could have a profound impact. BRI is the same standard used by the USPTO to examine patent applications. But critics argue that IPRs are intended as an alternative to litigation

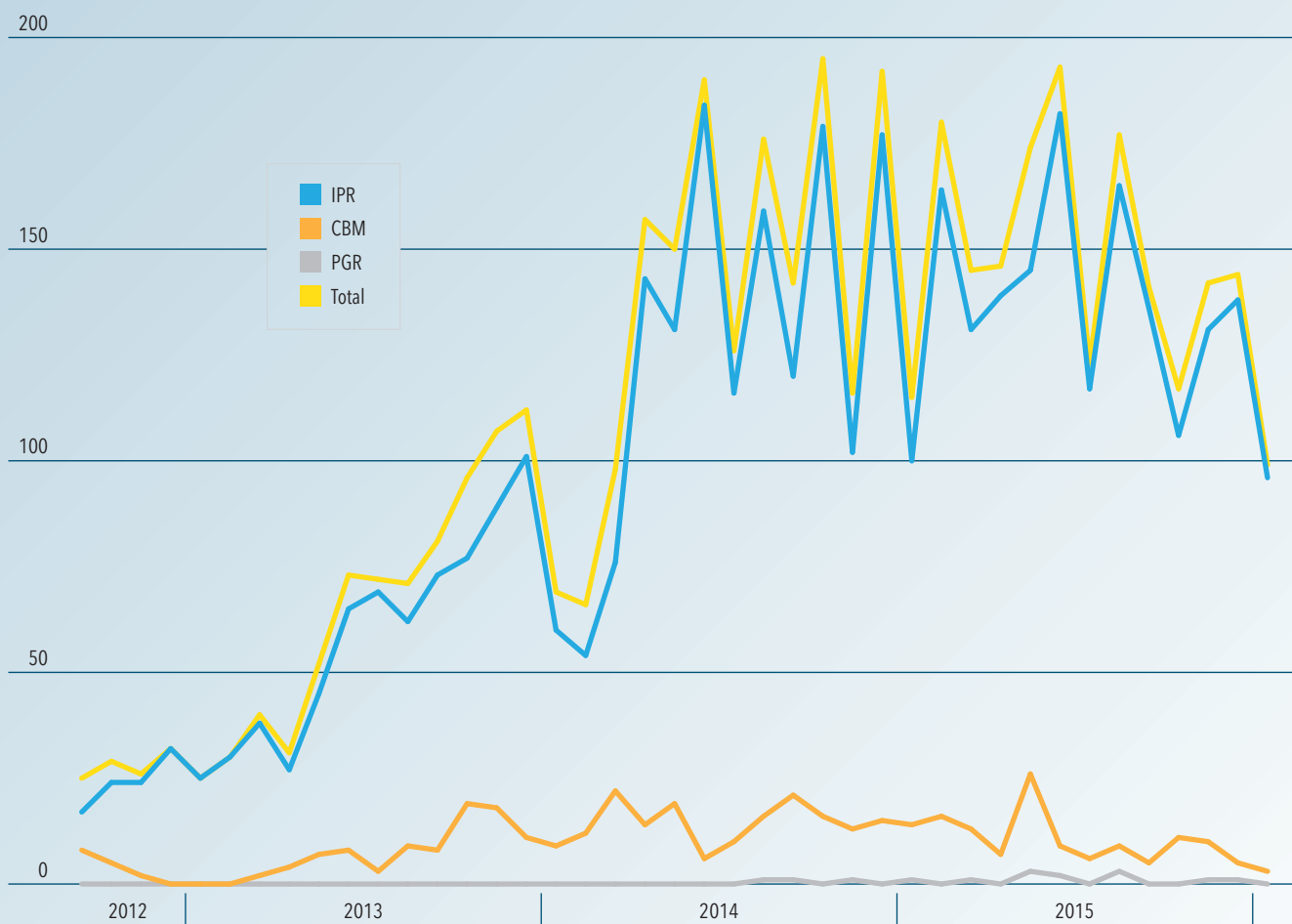
and so the Board should use the same, narrower, standard as used district courts (known as the Phillips standard).

Some, not least the USPTO itself, argue that the issue is overblown and that there is not much difference between these two standards in practice.

"It is very rare that there is a significant difference between the two that would matter to the outcome of a case," Erika Arner, chair of the patent office practice at Finnegan Henderson Farabow Garrett & Dunner, told Managing IP. "To me, the debate over BRI does seem a bit academic because in so many cases the outcome will be the same whether you use broadest reasonable interpretation or the district court claim construction."

Changing the standard so that it is in line with district court could affect PTAB petition filing, however. It will force parties

AIA filings by month



Source: Managing IP/Docket Navigator

involved in litigation to take a harder look at their validity chances in district court compared with the PTAB.

“If Phillips is implemented we could see a decline in the number of IPRs filed,” believes Amy Simpson, partner in the patent litigation group at Perkins Coie in San Diego. “People are really using the BRI standard as a way of promoting IPRs. Validity challenges would definitely be tougher under a Phillips standard so we could see a decline in filings. But I don’t think it is going to be a large decline.”

Karl Renner, principal and co-chair of the post-grant practice group at Fish & Richardson, adds another impact: “Certainly collapsing the two standards will make proceedings closer together and will make what is said in one forum more impactful in the other forum.”

The PTAB would also have to answer some tough questions under a new standard.

“The one thing I think will need to be answered is how the PTAB handles cases that involve BRI positions,” says Joseph Palys, partner at Paul Hastings at Washington DC. “When a case has already been instituted where a petitioner pursued constructions under the BRI, are they going to allow them to change that? Will it be retroactive?”

In the meantime, petitioners and patent owners are adjusting their actions to take the uncertainty into account.

“In our petitions or preliminary responses we are putting some hook language in to say the Supreme Court has taken this up and should it change the standard we intend to ask the board for additional briefing or something like that,” says Lori Gordon, director in the litigation and electronic practice groups at Sterne

Kessler Goldstein Fox in Washington DC. “If they do change the claim construction standard in any way, you may need to go and re-brief claim construction and that may lead to re-briefing the entirety of the case if claim construction has changed. It could create havoc in all the cases that are currently pending at the PTAB if they do something dramatic with the standard.”

The second question to be reviewed by the Supreme Court of whether a PTAB institution decision is unreviewable has received less discussion but could potentially be even more important than the BRI question. The statute says that institution decision is “final and non-appealable.” So far in appeals from PTAB proceedings the Federal Circuit has said a court cannot review anything in the institution decision with exception for a CBM review.

“That is unusual in our system in general,” says Finnegan’s Arner. “The Federal Circuit and the Patent Office have read that to cover a broad variety of things. So the second question is really asking whether they are reading the statute correctly. If the Patent Office instituted something that is plainly outside its jurisdiction, did Congress really mean the courts can’t help and there is no check on that?”

Gordon at Sterne Kessler echoes Arner. “There is lot of frustration among practitioners with the Board making a decision when you don’t have any avenue for reviewability of decisions,” says Gordon. “So if the PTAB make a very bad decision you have no recourse in the court system. That to me is the more interesting piece of the *Cuozzo* case than the claims construction standard.”

The Board gets tough

Petition filing may have been up last year, but one vital measure at the PTAB is falling – the Board’s institution rate. Although the numbers still greatly favour petitioners, the Board is far from the death squad it was accused of being a few years ago. In the early days of the PTAB, the Board was posting an institution rate higher than 85%. According to Docket Navigator figures, the cumulative institution success rate of all PTAB claims is now 66%.

A number of theories have been put forward for this drop. The first movers at the PTAB brought high quality petitions there were confident would be successful. As others saw the success they were having, filing an IPR became a common tactic for defendants in patent litigation, even if the case was weaker. The success has also profoundly affected potential plaintiffs. They are not asserting some of the less-quality patents because they know they will likely face a challenge at the PTAB. In addition, some IPRs that are threatened are never even filed as the parties reach a settlement instead.

On top of these factors pushing the institution rate down, the PTAB is also getting tougher.

“The PTAB is taking a more critical look at the institution and that that tells us two things when you are putting a petition to-

gether: your petition has to be very detailed and very strong,” says Gordon at Sterne Kessler. “They are not tolerating or filling in any of the holes, as they did in the early days.”

Wayne Stacy, partner in Cooley’s litigation department in Colorado, reports the Board is denying petitioners more on procedural aspects such as failure to adequately explain motivation to combine.

“The Board is tougher than it was initially on a lot of the crossing your T’s and dotting your I’s,” says Stacy. “They want to see the particulars followed. They want to see better motivation to combine. In the early days the Board was fixing some of those issues for people. Now they want to see your arguments and your best work, and they are giving less of the benefit of the doubt.”

Renner at Fish & Richardson believes this is affecting petitioners’ decision making in a positive way.

“The PTAB is a rifle shooting range. For those that have the right kind of ammunition for the rifle it is the right forum,” he says. “Those who don’t have the right ammunition are not so confident now. Where it has an unintended bad effect is that there are people that will let the broad statistics guide them. Even when they have a good rifle shot they might not take it because of the broader statistics.”

It is important for petitioners to get everything absolutely right in their petitions and for patent owners similarly to make no mistakes in their response. Sterne Kessler’s Gordon advises patent owners that “coming in with a very strong attack is your best chance of surviving these proceedings.”

The falling institution rate is feeding into a higher cancellation rate of the number of claims at final written decision. “That makes sense because the PTAB is being stronger about what they are letting into trial,” says Gordon, “therefore there is a greater likelihood the claims are going to be cancelled in the end. So if you are the patent owner it is about trying to win at that preliminary stage and if you are the petitioner it is about really needing to focus on a detailed petition that fills in all of the blanks.”

The redundancy clampdown

Another trend at institution is for the Board to whittle down the grounds on which it grants institution. This seems to be a result of the Board having to hit its one-year deadline to provide a final written decision after institution. Petitioners often include as many as 10 grounds for invalidation.

The Board began by narrowing grounds down to three or four. Nowadays, granting on one or two grounds is the norm. “Sometimes they do three but it’s unusual,” reports Fish & Richardson’s Renner. “That changes the dynamic of how a petitioner, someone who wants to attack a patent, looks at things. It is a trend we expect to continue.”

PTAB practitioners advise petitioners to focus the attention of the Board. Bringing more grounds than necessary may be counterproductive and do more harm than good.

“It certainly should make the petitioner stand back and make sure they are confident in what they are bringing to the Patent Office,” says Renner. “If you don’t have the complete story you shouldn’t be going to the PTAB.”

Some clarity on another facet of the institution decision was given in the Federal Circuit’s *Synopsys v Mentor Graphics* decision in February. It rubber stamped the PTAB’s ability to conduct partial reviews of patents challenged under IPR rather than having to either institute all or none of the challenged claims. The court said “that there is no statutory requirement that the Board’s final decision address every claim raised in a petition for inter partes review”. PTAB watchers suspect this could be an issue that will be petitioned to the Supreme Court.

The PTAB appears to be making more use of the discretion allowed to it by Section 325(d) to reject IPR petitions if the “same or substantially the same prior art or arguments previously were presented to the Office”. Renner at Fish & Richardson says the Board used this discretion sometimes in 2014 and a lot in 2015.

“Where we have these multi-party cases and everybody wants to bring their own challenge, the Board has to deal with the question of whether the patent owner is being harassed,” Renner explains. “They will exercise their discretion on 325(d) more than they have done, like with redundancy, and that might confuse petitioning parties that aren’t as experienced.”

The Federal Circuit fault lines

Expect the Federal Circuit to increasingly knock the PTAB over the next year. Observers say numerous process and procedure issues remain uncertain.

“The PTAB judges are pretty good at their core job of comparing a written document to a patent,” says Cooley’s Stacy. “I haven’t seen the Patent Office get that part of their job wrong that many times. But I think there is going to be a lot of action over the next 12 months around the thing that they are not as good at yet – and that’s the process and procedure. They are effectively a trial court yet none of them have all the tricks of the trade that a federal judge does to keep his opinions from being overturned.”

The PTAB has been on a hiring spree, and now has more than 200 judges (although the Chief Judge spot has been vacant since James Smith departed last July, with Nathan Kelley serving as acting chief judge since then). This means a lot of judges have only a short amount of experience at the Board.

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Most cases are appealed to the Federal Circuit on core technical points. PTAB petitioners say the USPTO will win the vast majority of those because it is their expertise. It is on procedural issues that they are likely to get reversed.

“You are beginning to see a lot of true trial lawyers doing work at the PTAB,” says Stacy, “and they are setting up issues about, for example, evidence, waiver and due process. The Patent Office doesn’t seem well equipped to handle that yet. They don’t have the experience. They don’t have the body of law. You are going to see more of these cases flipped on procedural grounds.”

A recent example of this came was the Federal Circuit in January reversing the Board in *Cutsforth v MotivePower*, saying the PTAB “did not adequately describe its reasoning for finding the claims obvious.” The appeals court said the Board “must articulate its reasoning for making its decision”, and remanded the case.

The sheer number of judges, and their differing amounts of experience, makes it hard for PTAB practitioners to predict outcomes before the Board.

“I always say there is no such thing as the PTAB,” says Stacy. “There are 200 judges and they are picked randomly to make panels. Some panels are very good at writing opinions, some are very poor. But because all the panels are so short on time I think they were cutting a few corners on the nature of their decisions.”

Some other areas that PTAB judges do not have much experience with include whether a particular reference is authentic or whether it should be even considered. Due process is a particular source of struggle. Practitioners are being more aggressive about introducing new arguments in the petitioner reply brief, something that is not allowed under the rules.

“The Board so far has been unwilling to really put down any guidelines on what are new arguments and are not,” says Stacy. “They try to dodge the decision by getting to the final written decision and saying well we didn’t consider those because we didn’t need to but we are not taking a position. We are seeing some real manoeuvring now on that particular

issue. Petitioners have become emboldened because the Patent Office won't make any rulings on that. They are routing brand new arguments into reply briefs now, and doing it more aggressively. You hear top practitioners talk about it as a legitimate strategy."

He adds: "somewhere, and I don't know where, the Board is going to cross the line and then those arguments will get reversed. You are probably going to see half a dozen cases appealed challenging that issue."

One of the biggest sources of controversy ever since the PTAB was established is the inability to amend claims during IPRs. More than 100 motion to substitute amended claims have been denied to date, and motions to substitute amended claims have only been granted in four IPRs. The Federal Circuit weighed in this issue in February when it provided guidance on motions to amend in IPRs in its *Nike v Adidas* decision.

The Federal Circuit found the PTAB should not have denied entry of Nike's amendment on the basis that it provided a conclusory statement that the proposed claims were "patentable over prior art known to Nike, but not part of the record of the proceedings". Nike had moved to cancel 46 claims and substitute four claims. It did not note any other prior art but it did explain how the substitute claims were different from the prior art cited in Adidas's IPR petition.

The PTAB said Nike's statement was "conclusory" and "facially inadequate", and noted Nike's failure to identify other known art and provide a meaningful analysis of that art.

The Federal Circuit concluded that Nike could meet its burden by saying that its proposed claims were patentable over other art known to it. "[W]e cannot see how the statement used by Nike would be inadequate, absent an allegation of conduct violating the duty of candour," said the Federal Circuit. "We therefore conclude that this was an improper ground on which to deny Nike's motion to amend."

(More analysis of the Nike decision can be found in <http://goo.gl/K8KI4D>.)

This year should also provide further clarity on how the Federal Circuit and district courts deal with cases once the PTAB has had its say.

The Federal Circuit is being closely watched to see how it copes with all the PTAB appeals coming its way. It has been criticised for the number of appeals it has issued Rule 36 affirmances on, with just a one-sentence rubber stamping of the PTAB's decision.

The sheer number of appeals means this trend is unlikely to change. Some think district court appeals to the Federal Circuit could also be affected.

"By the time you get to January of 2017 I've always thought we will end up having a couple of different phenomena," says Renner at Fish & Richardson. "One of those is more Rule 36 decisions in district court cases as well as PTAB. If the volume is too big period, why wouldn't you see a little more stringency on decisions that come out even on district court cases? In addition, I think we will see just a slowdown. They can't expand like the PTAB judges did, so that has chance of creating some issues," says Renner.

Renner says the percentage of PTAB appeals that receive a Rule 36 affirmance is likely to go up.

"Now that doesn't feel quite right. It should be the substance that dictates whether a rule 36 is applied," he says. "If the reason that rule 36 is applied is work load then parties can complain."

Another issue is how the PTAB copes with cases that are remanded back to it from the Federal Circuit.

"They have formed an industry working group to talk about how to deal with remands," says Renner. "Ultimately, it was decided that ad hoc is the best way. There aren't going to be many remands, so they said let's just handle them as they come. That was very smart actually."

Starting to make sense of estoppel

At the district court level people are watching how estoppel is going to be applied in cases where the PTAB has not invalidated all challenged claims. Petitioners are estopped from asserting in district court litigation that "the claim is invalid on any ground that the petitioner raised or reasonably could have raised" during the IPR proceeding. But it is not clear what that means in practice.

"Petitioners who have lost at the Patent Office on final written decision are coming back to court and facing the reality that their validity challenges are hamstrung because they lost," says Gordon at Sterne Kessler. "We are starting to see cases where the petitioners are saying let's test the boundaries of what raised or could have raised means. Could I have raised a reference I didn't know about? What does that mean?"

Simpson at Perkins Coie says it is too soon to see a large estoppel effect. "But that is another area that as time goes on district courts will be providing us with a lot more guidance on what type of prior art is estopped, what happens when you are dealing with a final written decision in an IPR and what type of validity evidence will be allowed in. Although it is early the estoppel effects have not been as scary as was initially anticipated."

Palys at Paul Hastings says there could be issues about how that prior art could have been raised. "A petitioner could say

that we were never reasonably aware of certain prior art and they still want to pursue it in district court and try to invalidate an asserted patent,” he says.

Similarly, the PTAB must decide how estoppel works for multiple petitions against the same patent.

“People are trying to say if I did a search and it wasn’t on the search I couldn’t have raised it,” says Gordon. “The patent owner is saying you had a poor search so you shouldn’t be limited by your poor search. That’s an interesting trend we are going to see start shaping out in 2016 because of the sheer volume of decisions that have come out.”