

## PTAB At 5: Part 3 — Fed. Circ. Statistics

By **Michael Joffre, Pauline Pelletier and Jon Wright**

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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 explored the topic from patent owners' and petitioners' perspectives. The article considered 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 discussed 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 analyzes 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.

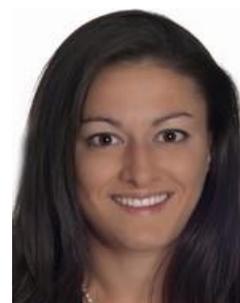
Finally, the fourth article will discuss the intersection of PTAB and district court jurisdiction as it relates to patent invalidity challenges. While there are many considerations and issues associated with the intersection of PTAB and district court invalidity challenges, the article will address key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

### Introduction

The America Invents Act is now five years old, and the Federal Circuit has had three years of experience reviewing the new trial-like validity challenges created by the AIA. All final decisions of the Patent Trial and Appeal Board are reviewable



Michael Joffre



Pauline Pelletier

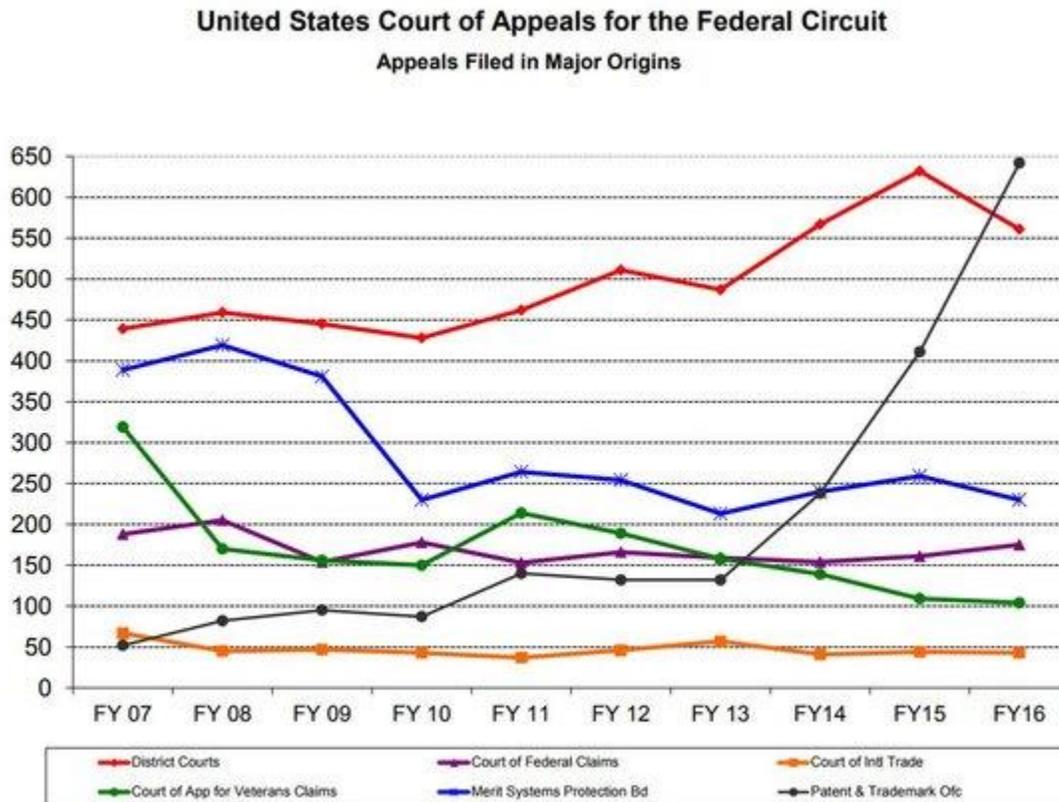


Jon Wright

by the Federal Circuit, the first of which was docketed in mid-2014. Since then, the court has rendered over 250 judgments and issued over 120 opinions deciding appeals taken from post-grant proceedings. We are now able to see — from the data — how the court has addressed those appeals and, conversely, how those appeals are affecting the court. The data also provide insight into the board’s performance.

### Impact of AIA Proceedings on the Federal Circuit’s Workload

The court began to see the impact of the AIA’s post-grant proceedings in 2014. The effect was immediate and dramatic, as the court’s own operational statistics illustrate:[1]



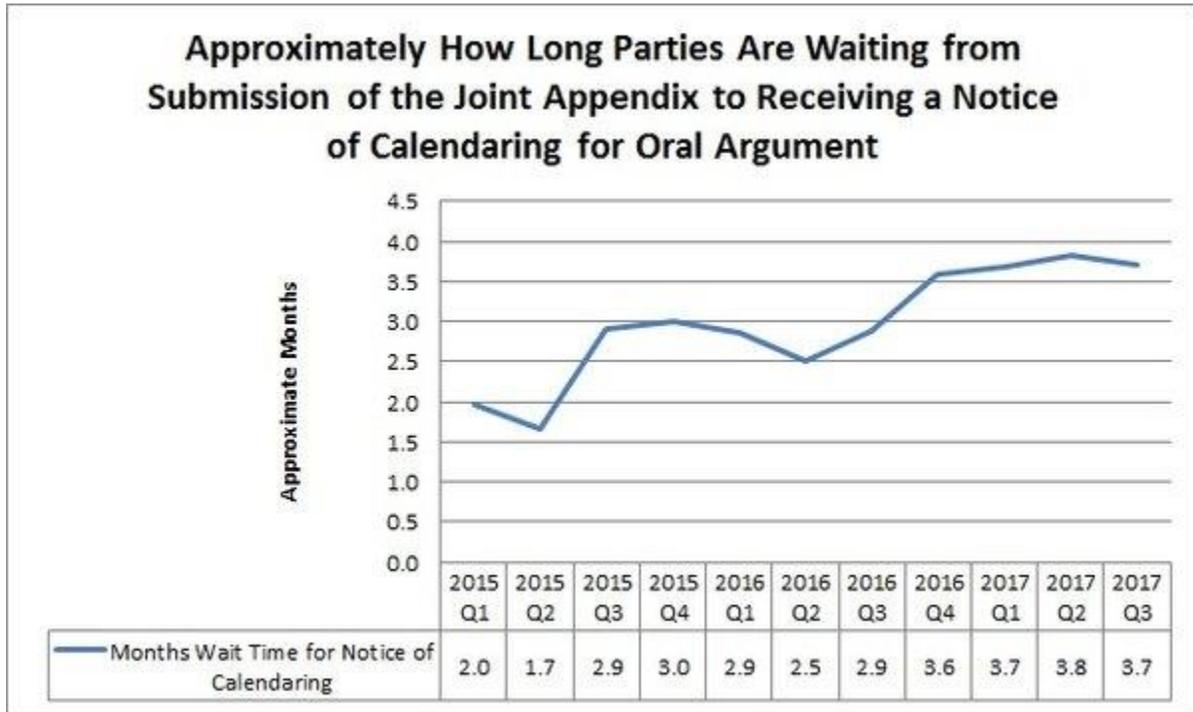
Notes: Includes reinstated, cross-, and consolidated appeals.

The sharp increase in appeals from the U.S. Patent and Trademark Office is almost entirely due to appeals taken from AIA proceedings — namely, inter partes review and covered business method patent review. Notably, by 2016, appeals from the board surpassed appeals from district courts for the first time in the court’s history.

The court has managed its increased caseload with a full complement of 12 active judges, along with six judges on senior status. The court has also added an additional day to its argument calendar, extending it, when necessary, to the Monday following argument week.

By and large, the court seems to be handling the increased case load and is still generally adhering to its goal of issuing opinions within three months of oral argument. As the chart below shows, the mean time

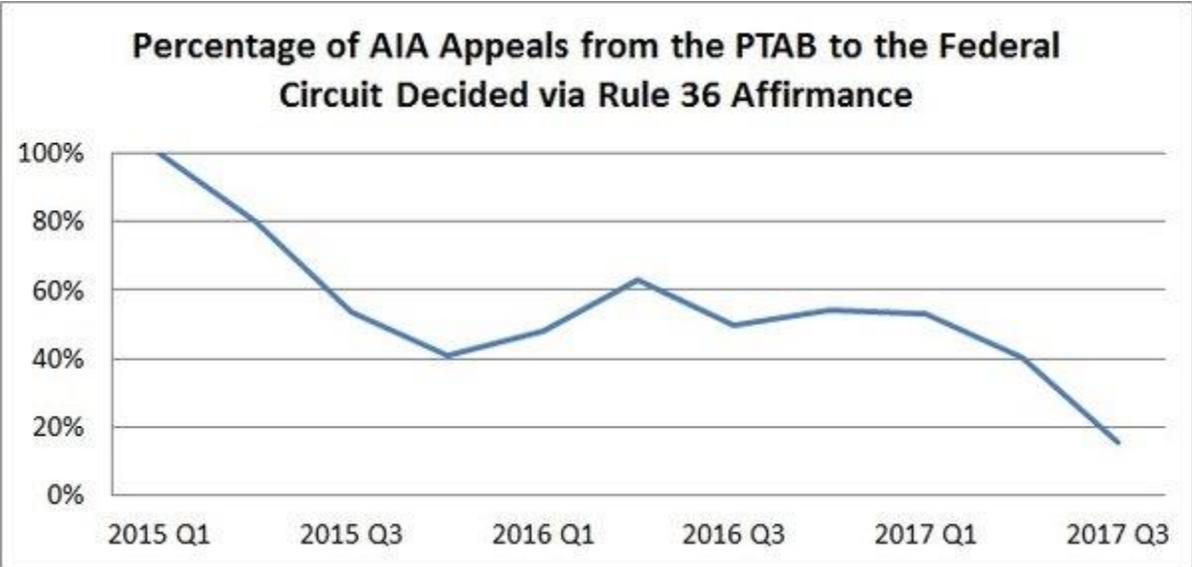
it is taking the court to schedule oral argument from the completion of briefing has risen only modestly from two months in 2015 to only slightly over 3.5 in 2017.



**Rule 36 Summary Affirmances Face Criticism and Then Decline**

To manage its increased workload, the Federal Circuit has regularly relied on so-called Rule 36 summary affirmances, in which the court affirms the lower tribunal’s decision without an opinion.[2] Rules 36 summary affirmances are typically reserved for cases in which the issues presented are straightforward or where the outcome is clearly dictated by the standard of review. The court recently received criticism, however, for what is perceived to be its liberal use of Rule 36 summary affirmances in AIA appeals. Specifically, a series of cert petitions were filed in the past year, arguing that the use of Rule 36 is an abdication of the court’s responsibility to provide judicial guidance on the AIA.[3] It appears, though, as if the court has listened to the criticism.

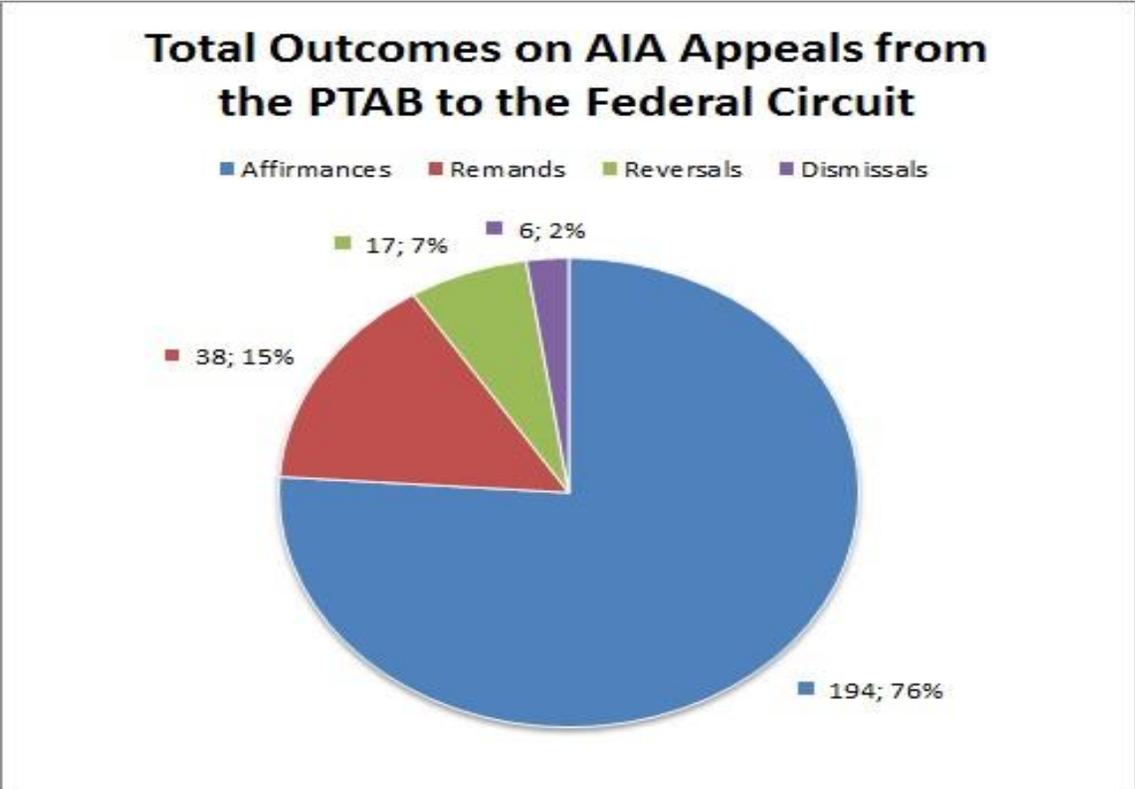
The data below reflect a substantial decrease in the court’s reliance on Rule 36 summary affirmances in AIA appeals, reaching an all-time low in 2017 Q3 of under 20 percent of AIA appeals:



Instead of issuing a traditional Rule 36 summary affirmance, the court appears to be experimenting with the use of short, promptly issued nonprecedential decisions. See, e.g., *Gold Standard Instruments v. Endodontics*, Appeal No. 16-2597 (Fed. Cir. 2017).

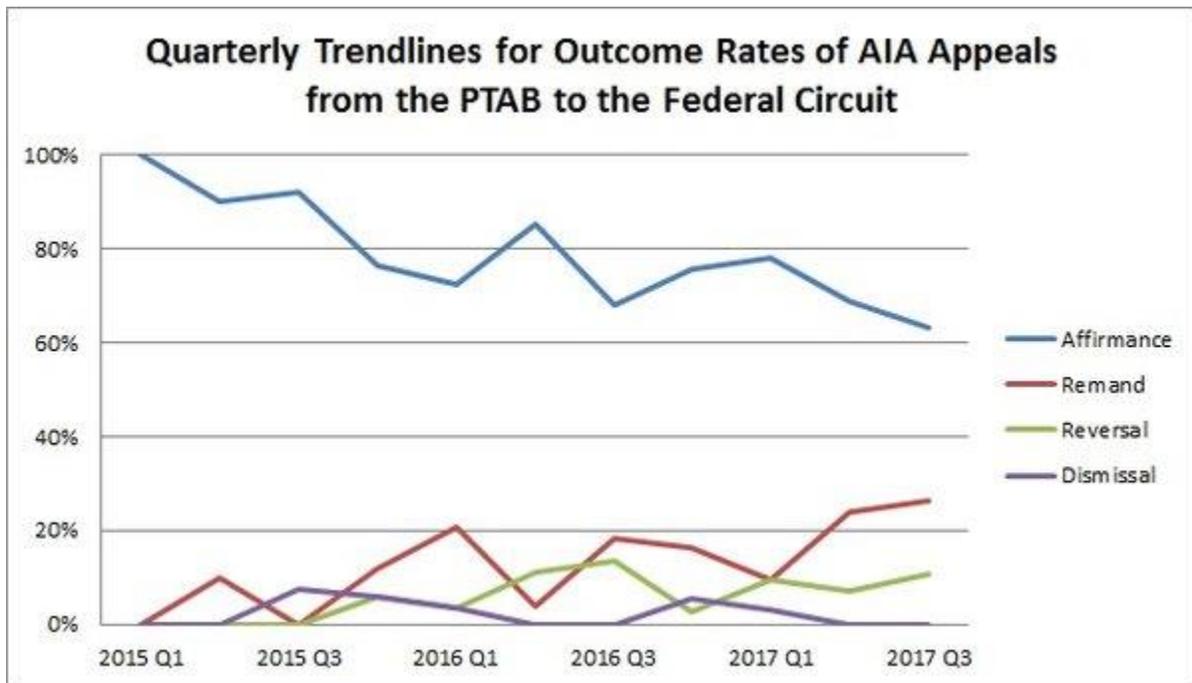
**Outcomes on Appeal: Majority Affirmed But Remands Growing**

As shown in the pie chart below, of the over 250 judgments issued in AIA appeals to date: 75 percent have been affirmances, 15 percent remands, 7 percent reversals and 2 percent involuntary dismissals.



While affirmances have always been the predominant outcome, the affirmation rate has drifted down in the past two years. One explanation is that, beginning with cases such as *Ariosa Diagnostics v. Verinata Health Inc.*,<sup>[4]</sup> the court has systematically remanded in situations where the board has failed to provide sufficient explanation or reasoning to support its judgment.

Plotted over time, the affirmation rate can be seen drifting downwards towards 60 percent, while the remand rate appears to be growing, or at least stabilizing, at over 20 percent. Reversals remain low and involuntary dismissals infrequent. These outcomes are consistent with the standard of review for appeals from the board, with fact-findings reviewed deferentially for substantial evidence.



### ***Remanded Cases: Enforcement of the Chenery Doctrine***

The most common reason for remand is failure by the board to sufficiently articulate its reasoning. Because AIA trials are administrative proceedings, they are subject to judicial review in accordance with the Administrative Procedure Act and related doctrines of administrative law. For example, under the pre-APA *Chenery* doctrine, a reviewing court cannot affirm an agency action unless the agency has “clearly disclosed” the grounds for its decision.<sup>[5]</sup> To date, the Federal Circuit has vacated and remanded cases to the Board 16 times for this reason.

| Reason for Remand                            | Number of Cases | Percent of Remands |
|--|-----------------|--------------------|
| Failure to Sufficiently Articulate Reasoning | 16              | 42%                |
| Claim Construction                           | 11              | 29%                |
| Procedural Violation                         | 8               | 21%                |
| Other Legal Error                            | 5               | 13%                |
| <b>Grand Total (38 Remands)</b>              | <b>40</b>       |                    |

The next most common reason for remand (11 times) is claim construction. If the result following a corrected claim construction is unclear or requires additional fact finding, remand is appropriate. Procedural violations are next (eight times) and typically arise from the board’s failure to provide “notice and opportunity” as required by the APA. A procedural violation warranting remand may occur when the board relies on argument or evidence to which a party lacked a full and fair opportunity to respond, or when a claim construction issue arose for the first time at the oral hearing, or when the board applies a procedural standard not justified by the regulations. The court has also remanded based on various other legal errors when further fact finding is needed to address the error (e.g., applying wrong standard for incorporation by reference, wrong standard for swear behind or prior conception determination, wrong definition of CBM, etc.).

***Reversed Cases: Dispositive Legal Errors***

Full reversals of the board are relatively rare. The chart below shows the most common reasons for full reversal. In contrast to Chenery-type errors, it is not the amount of explanation but rather a dispositive legal error, such that absent the error, no reasonable fact finder could have reached the conclusion the board did. The legal error can be substantive or procedural.

| Reason for Reversal               | Number of Cases | Percent of Reversals |
|-----------------------------------|-----------------|----------------------|
| Legal Error                       | 12              | 71%                  |
| Claim Construction                | 4               | 24%                  |
| Procedural Violation              | 1               | 6%                   |
| <b>Grand Total (17 Reversals)</b> | <b>17</b>       |                      |

Assorted legal errors touching on the substance of patentability predominate (12 times). For example, concluding that the claims would have been obvious or nonobvious based on the evidence of record accounts for seven of these instances, anticipation three, written description one, subject matter eligibility one, and CBM eligibility one. In most of these cases, the court concluded that substantial evidence did not support the board’s findings.

Claim construction is another substantive category resulting in reversal and ranks second (four times). In those cases, the court concluded that the board incorrectly construed the claims and, under the correct

construction, the record does not support the board's determination.

The one procedural error that notably warranted full reversal was *In re Magnum Oil Tools International Ltd.*[6] In that case, the court determined that the board had misallocated the burdens of proof between the petitioner and patent owner and faulted the board for improperly stepping into the petitioner's shoes when marshalling the evidence. Properly considered, the record did not support the board's determination, and the court reversed the obviousness findings.

### **Scope of Review: Exceeding Statutory Authorization**

Over the past three years, the court has clarified the scope of judicial review under the AIA. Since denying an initial wave of interlocutory appeals and mandamus petitions taken from institution decisions beginning in 2013, the court has asserted limits on the scope of review in light of 35 U.S.C. § 314(d), which bars appeal of the board's decision whether to institute trial. In 2016, the Supreme Court affirmed the court's interpretation of Section 314(d) in *Cuozzo Speed Technologies LLC v. Lee*, providing guidance on which issues are not reviewable on appeal.[7]

In light of *Cuozzo*, the Federal Circuit must now determine which issues decided at the institution phase trigger the appeal bar and which do not, e.g., because they touch on the board's statutory "authority to invalidate." [8] The Federal Circuit very recently held that judicial review remains available for the latter, expanding upon its prior holding in *Versata Dev. Grp. v. SAP Am., Inc.*, which held that CBM eligibility is reviewable on appeal despite being decided at the institution stage.[9] Along similar lines, the Federal Circuit has taken up en banc whether the statutory time-bar of 35 U.S.C. § 315(b) is reviewable *Wi-Fi One LLC v. Broadcom Corp.*[10]

Where the statute forecloses judicial review, the Federal Circuit has alluded to the availability of seeking writ of mandamus.[11] To date, however, 15 such petitions have been filed and the court has denied all of them. This confirms the high standard for obtaining mandamus relief.

### **Standing to Appeal: Need for a "Stake in the Outcome"**

Standing to appeal is another issue that petitioners can no longer take for granted. While petitioners need not have standing to pursue an IPR before the agency, the "case or controversy" requirement of U.S. Constitution Article III kicks in when the petitioner seeks to appeal an adverse decision to the Federal Circuit. For example, in *Phigenix v. Immunogen*,\*[12] the Federal Circuit dismissed a petitioner's appeal because, despite having standing to challenge the claims before the Board, the petitioner lacked an injury sufficient to confer Article III standing on appeal. In *Phigenix*, the petitioner alleged injury based on unsuccessful efforts to compete with the patent owner in a secondary licensing market. The court found the alleged injury to be speculative.

In other words, to appeal an adverse decision in a post-grant proceeding, the petitioner must have a concrete injury or "stake in the outcome." [13] While in many instances an underlying enforcement action is likely to satisfy Article III (e.g., for the same reasons that litigation or real threats can satisfy declaratory judgment jurisdiction), not all IPR proceedings are accompanied by co-pending litigation with sufficient factual overlap to the claims at issue. In such situations, a losing petitioner may need to establish a factual record in support of standing to appeal.[14]

Complementing its decision in *Phigenix*, the court determined in *Personal Audio LLC v. Electronic Frontier Foundation*,[15] that an IPR petitioner who is an appellee does not need to satisfy Article III

standing requirements to participate in a patent owner's appeal from a PTAB decision in an IPR proceeding.

## Conclusion

The AIA's post-grant proceedings for challenging issued patents have had a measurable impact on the Federal Circuit and its workload. And the court, in turn, has provided valuable feedback to the office, the board, and those who practice before it. As the statistics and decisions show, the Federal Circuit has answered many questions — including standard of review, burdens of proof, board responsibility for ensuring due process, standing requirements, etc. Two important issues currently await en banc decisions — namely, *In re Aqua Products*[16] for review of the board's rules and procedures for amending claims, and *WiFi One*,[17] dealing with scope of review.

But as the AIA's five-year anniversary is upon us, perhaps the most important outstanding question is the constitutionality of AIA's post-grant proceedings in the first place. That question has been put squarely in front of the U.S. Supreme Court in *Oil States Energy Services LLC v. Greene's Energy Group LLC*. [18] The court will hear oral argument this coming term. The issue centers on whether the patent grant is a private property right, and if so, whether the patent office violates the Constitution by extinguishing the right through a non-Article III forum without a jury. The patent community, of course, waits with bated breath.

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*Michael Joffre is a director at Sterne Kessler Goldstein & Fox PLLC in Washington, D.C. and co-chairs the firm's appellate practice.*

*Pauline M. Pelletier is an associate at the firm.*

*Jon E. Wright is a director and co-chairs the firm's co-chairs the firm's appellate practice and PTO litigation practice.*

*Statistics and graphics are provided by Sterne Kessler paralegal/business development coordinator Patrick T. Murray.*

*DISCLOSURE: Sterne Kessler represented appellee Immunogen in *Phigenix v. Immunogen*, mentioned above.*

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[1] [http://www.cafc.uscourts.gov/sites/default/files/the-court/statistics/FY16\\_Caseload\\_by\\_Major\\_Origin.pdf](http://www.cafc.uscourts.gov/sites/default/files/the-court/statistics/FY16_Caseload_by_Major_Origin.pdf)

[2] Fed. Cir. R. 36.

[3] See No. 16-1240, *Machael Wayne Shore v. Lee* (denied); No. 16-1526, *In re Celgard* (pending); No. 17-194, *Leak Surveys, Inc. v. Flir Systems, Inc.* (pending).

[4] 805 F.3d 1359, 1366 (Fed. Cir. 2015).

[5] SEC v. Chenery Corp., 318 U.S. 80, 94 (1943).

[6] 829 F.3d 1364 (Fed. Cir. 2016).

[7] 136 S. Ct. 2131 (2016).

[8] Return Mail, Inc. v. United States Postal Serv., No. 2016-1502, 2017 WL 3687450, at \*3-6 (Fed. Cir. Aug. 28, 2017) (quoting Versata Dev. Grp. v. SAP Am., Inc., 793 F.3d 1306, 1319 (Fed. Cir. 2015)).

[9] Id.

[10] 851 F.3d 1241 (Fed. Cir. 2017) (granting petition for rehearing en banc).

[11] In re Cuozzo Speed Techs., LLC, 793 F.3d 1268, 1274-75 (Fed. Cir. 2015), *aff'd sub nom.* Cuozzo Speed Techs., LLC v. Lee, 136 S. Ct. 2131 (2016).

[12] 845 F.3d 1168 (Fed. Cir. 2017).

[13] Cuozzo, 136 S.Ct. at 2143 (explaining that “[p]arties that initiate the [IPR] proceeding need not have a concrete stake in the outcome.”) (citing *Consumer Watchdog v. Wisconsin Alumni Research Found.*, 753 F.3d 1258, 1261 (Fed. Cir. 2014)). *C.f.* *Return Mail, Inc. v. United States Postal Serv.*, No. 2016-1502, 2017 WL 3687450, at \*5 (Fed. Cir. Aug. 28, 2017).

[14] Phigenix, 845 F.3d at 1173.

[15] *Personal Audio LLC v. Electronic Frontier Foundation*, No. 2016-1123 (Fed. Cir. Aug. 07, 2017)

[16] 833 F.3d 1335 (Fed. Cir. 2016) (en banc order)

[17] See n. 10 *supra*.

[18] No. 16-172