A closer look at the PTAB's new post-issuance review procedures

The Patent Trial and Appeal Board's new post-issuance review procedures have transformed the US patent landscape. Our panel of experts takes a closer look at the issues at stake

Arguably no other recent change to the US patent system has created the same level of upheaval as the new post-issuance review procedures at the US Patent and Trademark Office's (USPTO) Patent Trial and Appeal Board (PTAB). The growth in filings of *inter partes* reviews and, to a lesser extent, covered business method reviews has transformed the dynamic of patent litigation in the United States. Filing a review has now become one of the main defensive weapons for a company facing an infringement suit from a patent owner.

In this roundtable a group of US patent lawyers – Aaron Capron and Kathleen Daley of Finnegan, Henderson, Farabow, Garrett & Dunner; Meredith Martin Addy of Katten Muchin Rosenman; Oblon's Scott McKeown; Martin M Zoltick and Joseph A Hynds of Rothwell Figg; and John F Rabena and Bill Mandir of Sughrue – discuss how the new reviews are changing the US patent landscape.

Q: When the changes to the review process were made by the America Invents Act, what impact did you expect them to have on the market? Did you support the changes?

Kathleen Daley (KD): We expected the new USPTO trials created by the America Invents Act to have a significant impact on the market, and they have not disappointed. Congress introduced these proceedings with the hope that they would be a low-cost alternative to patent litigation, given that the market was looking for efficient ways to challenge patents. *Inter partes* re-examinations had been used, but the length of time to completion for those proceedings limited their usefulness. Given the guaranteed speed of completion of the USPTO trials, we expected them to have a big impact on the market. In practice, this has exceeded all expectations. To date, over 4,000 petitions have been filed, with nearly 1,900 in 2015 alone. This is around the same number of requests for *inter partes* re-examination that were filed over the course of their entire 13-year existence.

Meredith Martin Addy (MA): Some changes under the America Invents Act were appropriate and necessary, but I did not support them all. Many seem to favour larger entities involved in innovation to the detriment of smaller companies or inventors. These have moved our patent system in a different direction; historically, it was more balanced. For example, among countries with an established patent regime, the United States almost uniquely upheld the first-to-invent principle, which supports small inventors much more than the newly instituted first-to-file system, which favours large, well-organised companies with structured R&D programmes and plans. More sophisticated companies maintain a system for pushing invention disclosure to patent application. A start-up, a smaller company or an inventor may not have these resources – and they are costly. In a race to the USPTO, less well-funded inventors may lose protection for their invention based on when they file their application.

Scott McKeown (SM): Given the enhanced speed compared to the previous USPTO patent re-examination system, I expected that district courts would be more inclined to stay patent infringement proceedings pending PTAB review. Additionally, I expected that less sophisticated non-practising entities (NPEs) would be shaken out of the assertion market, since many relied solely on the high cost of infringement defence to secure cost-of-defence settlements for low-quality patents. As faster, more predictable USPTO proceedings reduce and simplify patent litigation and erode the ability of an improvidently granted patent to unfairly tax technology markets, I supported and continue to support these important alternatives.

Martin M Zoltick (MZ): We were seeing a real proliferation of infringement lawsuits being threatened and, in an increasing number of cases, being pursued by patent assertion entities and firms based on questionable patents and claims. The expectation that we had was that the post-grant review proceedings established by the America Invents Act would provide accused infringers with a potent weapon to combat these situations – and that is exactly how it has played out. We have seen a decrease in filings of these types of infringement allegation and lawsuits, and a dramatic change in strategic thinking around patent infringement enforcement and defence. Considering a post-grant review proceeding as the accused infringer or dealing with one as the patent owner has become a fact of life in almost all patent infringement lawsuits in the United States. I was – and I remain – supportive of the changes brought about by the act and I think that the USPTO, particularly the PTAB, has done an

excellent job implementing the changes, listening to the bar and improving the process.

John Rabena (JR): Yes, we absolutely supported the changes. In fact, a number of people in our firm were involved in helping to draft them. Our firm has a long history in USPTO interference practice, and many of the rules and regulations for America Invents Act proceedings are modelled after interference practice. We expected the changes introduced by the act to have about the same impact that they have had. In other words, we hoped that they would streamline litigation, especially for patents that are very broad – and that has proven to be true.

Q: In terms of how the review processes operate, have they achieved the efficiencies and cost savings that the authors of the America Invents Act intended?

MA: I supported the institution of new review processes and I expected them to be game changers. However, the extent to which patents are being struck down has been surprising. Whether the review processes have achieved the efficiencies and cost savings the authors had in mind may depend in large part on which side a party is on: patentee or petitioner. It also may depend on which industry we examine. Three conditions have led to the plethora of PTAB invalidations and Federal Circuit summary affirmations (ie, without opinion): a lower burden of proof, reliance on the preponderance of the evidence at the USPTO and the higher standard of review for fact-based issues on appeal to the Federal Circuit. Predictably, the technology industry has been the hardest hit. It remains to be seen whether the blitz of invalidity rulings from the PTAB, and the markedly higher number of Rule 36 summary affirmations from the Federal Circuit will continue, or whether that number is artificially inflated due to some bad patents making their way through the system. Another factor likely to affect Federal Circuit reviews of PTAB decisions is the difficulty of setting PTAB cases up for appropriate Federal Circuit review. Because the parties can expect an appeal to the Federal Circuit regardless of which way the PTAB rules, companies and their attorneys must have that expectation from the institution of a case at the PTAB. Issues relating to a forecasted appeal – that is, understanding how to prepare for an appeal on legal grounds – must be identified, developed and preserved to allow the Federal Circuit to provide the appropriate level of review. In my view, many companies and their counsel are not yet doing this well. As a result, it seems well nigh impossible to win reversal of a PTAB decision on appeal. As PTAB litigants become more savvy about the processes and strategies of these cases from start to finish, however, I expect we will see the chances improve; but it will take time.

SM: Yes, at least from the perspective of defendants. Defendants have flocked to the PTAB for the opportunity to cancel patent claims quickly, avoiding the high cost of district court proceedings and discovery. In addition to speed and lower costs, the odds of successfully defeating a patent are far greater at the PTAB due to the challenger-friendly standards. On the other hand, patentees – particularly NPEs – see the system as an unwelcome expense. For NPEs used to filing multiple lawsuits, the prospect of multiple challenges at the PTAB is seen as unbalanced.

Joseph A Hynds (JH): Yes, and the rate at which parties have taken advantage of these proceedings illustrates just how successful the authors of the America Invents Act have been in developing an efficient and cost-effective way to challenge patents. Parties have repeatedly chosen the PTAB as a forum because these proceedings are more efficient and cheaper than district court litigations. Two factors that make these proceedings an attractive route to challenge patents are the accelerated timeline and the differences in discovery. First, the PTAB has successfully implemented the processes outlined by the drafters of the act to create a proceeding that is completed expeditiously – within 18 months. In some instances, we have seen the PTAB issue a final written decision and the Federal Circuit rule on the appeal in the same time that it takes a district court to reach its initial decision. Second, the act's authors have succeeded in reducing the costs of proceedings by substantially

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limiting the amount of discovery. While some discovery is available to parties in these patent office proceedings, the PTAB has narrowly tailored the available discovery to specific issues.

Bill Mandir (BM): I think they have. While there can be adjustments and tweaks to improve a new process after we see it in action, so far most parties to America Invents Act reviews have seen that the process is extremely efficient and much less expensive than typical court proceedings. For example, often the judge will stay the corresponding district court case pending resolution of the review. Usually, this resolves the dispute either by decision or settlement, and the ultimate cost ends up being significantly less than if the parties had had to fully litigate the dispute in the district court.

KD: While Congress created the new USPTO trials as a low-cost alternative to litigation, in practice most proceedings come in addition to litigation, not as an alternative. However, given courts' general willingness to stay litigation pending completion of a trial, and the high success rate of patent challenges, we have already seen significant efficiencies and cost savings. Because not many patents have survived these proceedings intact, the cost of any co-pending litigation has been avoided or reduced. Also, many of these proceedings have ended with a settlement. For instance, in fiscal year 2014, about 15% of petitions filed were settled either before or after institution, rising to 25% in 2015. These settlements have in turn led to further cost savings and efficiencies. Over time, it is expected that more patents will survive USPTO trials; it remains to be seen whether there will still be efficiencies for the litigations involving those patents. However, it cannot be denied that overall we have seen significant cost savings as a result of these new proceedings.

Q: How do you feel that the USPTO handled the implementation of the new review proceedings and how has it handled their unexpected popularity? What do you think of the changes that the USPTO has introduced and those that it is proposing to make to the proceedings?

SM: The USPTO was able to put the entire trial procedure in place with only a few months' notice. The market response to date has been a ringing endorsement of its job and the efficacy of these proceedings to meet the goal of Congress – that is, to provide a low-cost alternative to patent litigation. At the time of the initial rules, the USPTO acknowledged that the rules may not be perfect. As a result, the PTAB has provided some minor adjustments in a quick-fix announcement that adjusted page limits and the like. More recently, a formal rule proposal was announced to provide patentees with the option to submit testimony with a preliminary response. These changes have been largely embraced by stakeholders as fair and sensible modifications to the present system.

MZ: Expecting the USPTO, and particularly the PTAB, to handle the significant changes brought about as a consequence of the America Invents Act was a tall order – not to mention the statutory deadlines imposed by the act for completing the review proceedings. Fortunately, the PTAB started with a core of experienced administrative patent judges and a set of rules, as well as the standing order applicable to interference proceedings, which clearly shaped the implementation of the new review proceedings. And it has worked – for the most part. Both the USPTO and the PTAB have been very receptive to comments from the patent bar on how to improve the process and have rolled out new rules packages to accomplish that. The changes that have taken place already and those that are in the works appear positive and driven, at least to some extent, to try to level the playing field between petitioners and patent owners. With regard to handling the substantial volume of cases, the PTAB has hired more than 100 administrative patent judges to address the workload and is providing guidance through its orders and decisions to streamline the process.

JR: I think the USPTO has done a commendable job in implementing the new review proceedings, especially given – as you point out – how popular they have been. We have been very impressed with the PTAB's ability to adhere to the scheduling requirements, despite the big rise in filings over the last few years. In our experience, the PTAB still maintains the strict and tight schedules and the same quality of review that it had when the America Invents Act proceedings began. We are consistently impressed with how well the PTAB judges know the issues in our cases by the time the hearings occur and how well they know the technology at issue. We are unsurprised that the PTAB is continuing to evaluate and improve these processes; that is to be expected as new types of proceeding are introduced. It is a fair criticism that the original proceedings made it too difficult to amend claims, so I think that changes to facilitate claim amendments make sense.

KD: The USPTO has been proactive in implementing these new trials. It has tried to keep pace with the popularity of these proceedings by continuing to hire new judges. Further, it has sought feedback from industry through listening tours and a notice in the Federal Register. From that, the USPTO has developed new proposed rules, along with a proposed new pilot programme that would allow a single judge to decide whether to institute a trial. The proposed rule changes are aimed at addressing concerns raised by industry, rather than changing the whole trial process. Many rule changes are directed to giving the PTAB a better picture of the case before an institution decision is made. For example, one change allows patent holders to present more evidence, specifically testimonial evidence, before institution to enable them to make a stronger case for why a review should not be instituted. Another rule would permit a petitioner to seek to file a reply before institution, although the reply would not be granted as a matter of right. Other rules are more ministerial or codify what has become an existing practice. We believe that any changes that make the process more fair and evenhanded are welcome.

MA: Part of the challenge for the PTAB is managing the sheer volume of cases coming up through *inter*

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partes review. That affects the relative sternness we have seen there: it has just become tougher to win at the USPTO. This also affects the Federal Circuit and surely accounts in part for the recent surge in summary affirmances under Rule 36. That said, the USPTO has done a good job in tasking its corps of PTAB administrative judges with cases to which they are suited. Post-grant reviews are extremely popular. My experience at the PTAB has been positive, with the three-judge panels demonstrating knowledge of the issues and the underlying technologies. While similar to Federal Circuit oral arguments, PTAB hearings are fact-intensive, with judges sometimes delving deeply into the details of a technology that may not be relevant when reviewing the claim limitations and the asserted invalidity grounds. While I am not averse to this type of inquiry, the resulting decision must also reflect an appropriate understanding and analysis of the legal issues that overlay the technical ones.

Q: To date, most reviews have been filed against tech patents, but an increasing number are being filed against patents in other sectors such as biotech and pharma. Do you expect tech to continue to dominate? Which other sectors might see a growth in *inter partes* reviews?

JH: Roughly 60% of *inter partes* review proceedings to date have been filed against patents for electrical and computer technologies. Going forward, I would expect similar numbers. To date, the most frequent petitioners in these proceedings have been companies in the electrical and computer sector, such as Apple, LG, Samsung, Microsoft and Google. These companies have used *inter partes* and covered business method reviews as cost-effective ways to challenge patents owned by patent assertion entities, most of which relate to electrical or computer technologies. I would expect these companies to use these review proceedings to challenge patents owned by patent assertion entities going forward, and thus would expect the electrical and computer sectors to continue to dominate. That said, I expect to see a growth in *inter partes* review proceedings across the board in all technology sectors, whether mechanical, pharmaceutical or chemical. *Inter partes* review proceedings are a cost-effective means of challenging patents regardless of the technology at issue.

BM: Yes, I expect that the tech sector will always be the most popular sector for *inter partes* reviews and other post-grant reviews. The main reason is that tech products, such as consumer electronics, are obvious targets for plaintiffs or patent owners, especially NPEs. Given that the tech sector is such a prominent target for patent litigation, it makes sense that it is the most popular sector for post-grant reviews.

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JR: The automotive sector has also been active in *inter partes* reviews and will likely continue that way, in part because it is also highly visible to potential plaintiffs. We may also see growth in investor-backed *inter partes* reviews against pharmaceutical patents. These have received a lot of press and I would not be surprised if we saw growth in that type of business model.

Aaron Capron (AC): While high-tech companies will likely continue to file the most petitions, we expect to see an increasing amount of activity in the biotech and pharma sectors. It is hardly surprising that it is taking these two sectors a while to catch up, considering the amount of revenue generated by drugs covered by those patents. With so much at stake, it is understandable that pharmaceutical and biotech companies are allowing high-tech companies to test the waters first. However, now that the USPTO trials and the corresponding practices are more mature, we expect that the PTAB proceedings will continue to be a popular forum for the biotech and pharma spaces. Also, we would not be surprised to see more petitions filed against established entities that license their patents. Now that companies have a better understanding of the chances for success at PTAB proceedings, business people will evaluate whether it makes more business sense to file a petition or pay (or continue to pay) licensing fees. Depending on the circumstances, some will choose to file petitions with the PTAB.

MA: I expect to see a continued increase in filings for post-grant reviews of biotechnology and pharmaceutical patents. Because of the legal complexity overlaying these types of district court litigation and the unresolved interpretation about how PTAB decisions affect some of the timing issues in Hatch-Waxman and biosimilar litigations (eg, the 30-month stay and forfeiture), it has taken longer for those industries to become comfortable with the PTAB process. The difference in value of many patents in the technology sector versus the biotechnology and pharmaceutical sectors also affects post-grant procedures. Technology patents are plentiful, but they often represent only a small incremental change. Life sciences patents may represent larger leaps forward in the application of new drugs, compounds and treatments in a specific medical discipline – and, of course, patients' lives or their welfare can be at stake. For this reason, each prosecuted pharmaceutical or biotech patent can be worth a lot more than, say, a software patent. So I expect PTAB proceedings in the life sciences sectors to be more expensive to fight on both sides: the stakes are higher and the results will be more important to consumers (ie, patients and their families) on a specific class of medication.

SM: The predictable arts (tech) will always form the bulk of the PTAB docket. This is because most NPEs operate in this space. While there has been a rise in pharmaceutical and biotech filings by generics and financial profiteers, such challenges are inherently more difficult. The institution rate in the unpredictable arts hovers at around 50%, compared to 75% for the predictable arts. Given that statutory subject matter or written description support – typically the best challenges to pharmaceutical and biotech patents – are

unavailable under *inter partes* reviews, these sectors will likely see only see a modest number of challenges directed to the broadest of claims. One particular area of growth is medical devices, given the lucrative markets, small number of players and high-value disputes.

Q: We have seen a number of investors, including Kyle Bass and Erich Spangenberg, bring *inter partes* reviews against pharmaceutical patents. What have you made of the PTAB's decisions on these reviews so far?

WM: As you know, these gentlemen have been filing *inter partes* reviews in an attempt to drive down the stock price of the patent owner, while at the same time shorting the stock and reaping the attendant benefits. The PTAB has been blind to the politics or business motives behind the parties' *inter partes* reviews filings, and its decisions in these cases have been based solely on the merits of the cases and the strength of the prior art. Some patent owners in these reviews have moved to dismiss the petition on grounds that the petitioner's motive was improper and/or inconsistent with the policy underlying the America Invents Act. However, the PTAB has consistently ruled that there is nothing improper about filing these reviews. I will add that these investors have had a low success rate in getting *inter partes* reviews instituted, but that is solely because of the merits of their invalidity challenges.

JH: Thus far, it appears that the PTAB has avoided dealing with the issues presented by investors filing *inter partes* review petitions against pharmaceutical patents. Instead, the PTAB has simply dealt with the petitions filed by those investors on the merits. While the first couple of PTAB decisions went against the Bass-led entity Coalition for Affordable Drugs, more recent PTAB decisions have been favourable for those investors. Specifically, the PTAB recently instituted a review of patents owned by Celgene Corporation and Cosmo Technologies Ltd based on *inter partes* review petitions filed by the Coalition for Affordable Drugs. Further, the PTAB recently denied a motion for sanctions filed by Celgene Corporation, alleging that the Coalition for Affordable Drugs abused the *inter partes* review process by filing petitions against Celgene's patents. In view of these decisions, it does not appear that the PTAB is going to address the issues presented by an investor filing an *inter partes* review petition. There certainly is pressure on Congress to address the issue via patent reform.

AC: As of November 30 2015, the Coalition for Affordable Drugs – the entity set up by Bass and Spangenberg – has filed 33 petitions against patents owned by pharmaceutical companies. Of those, seven have been denied, seven have been instituted and the remaining 19 are still waiting for an institution decision. From the proceedings, at least one patent owner has requested that the PTAB take action against the coalition under a theory of abuse of process, although the PTAB has denied these requests. At this point, it appears that the PTAB is evaluating the petitions filed by the coalition in the same way that it would any other petition.

MA: Bass, Spangenberg and others like them are business people who are exercising their initiative as capitalists and investors to exploit what they see as an economic opportunity in how our patent laws are crafted. Whether their actions are ethical is a separate issue, but it is unclear whether they have succeeded in their attempts to affect stock prices or whether they ever will. I understand the anger in the biotechnology and pharmaceutical industries from having to fight these filings, but I do not entirely agree with the PTAB's decisions preventing institution either, especially in view of the relative ease with which it has granted so many other petitions. If a patent is faulty, it is the purpose of post-grant proceedings to fix it, regardless of who finds it and files for review. If there is an issue with the statute, that is for Congress to fix.

SM: Profiteers (eg, investment funds and hedge funds) have tried to leverage *inter partes* reviews to spook stock prices to the benefit of their investment positions. To date, many such challenges have proven unsuccessful and the stock market is no longer paying attention as a result. The decisions denying these challenges demonstrate that pharmaceutical and biotech patents are not easily defeated. Given the low likelihood of profitability with this business model, it is likely a short-lived phenomenon in the unpredictable arts.

Q: As part of the patent reform debate in Congress, a series of changes have been proposed and discussed, particularly with respect to *inter partes* reviews. Which changes do you think might actually come into effect?

SM: As patent reform has clearly lost steam, we are unlikely to see any changes in the short term. Likewise, many of the proposed changes have been mooted by PTAB rule making and quick fixes. That said, the legislation consistently proposes the use of a *Phillips* claim construction over a broadest reasonable claim construction. To the extent that any changes are eventually passed, this seems like the most likely candidate.

KD: A number of competing legislative proposals have been made to further reform the patent system, with some proposals being viewed as more patent friendly than others. Despite differences between the proposals, there are some common features, which are more likely to come into effect. One change – which relates to the standard used to interpret patent claims – appears in more than one piece of legislation. At present, the PTAB construes unexpired patent claims in USPTO trials by giving them their broadest reasonable interpretation. This is in contrast to a narrower standard used in district

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court. Multiple legislative proposals would require the USPTO to use the narrower standard applied in district courts to construe patent claims. Also, a number of legislative proposals are directed to what are viewed as abusive pre-suit demand letters which falsely represent that the recipient owes compensation for patent infringement. While many states have enacted their own laws on this issue, given the concerns that these letters have raised, we may also see some legislative changes (eg, giving the Federal Trade Commission greater authority to act on abusive demand letters) come into effect.

MZ: One of the most controversial proposed changes relates to the appropriate standard to use for claim construction, which – if enacted as proposed – would benefit patent owners and possibly make the patentability determination before the PTAB and the validity determination before a district court more consistent. Specifically, what is proposed is to make a change from the broadest reasonable interpretation standard applied during prosecution before the USPTO to the ordinary and customary meaning standard applied by district courts. Another change – and again, one that would significantly benefit patent owners – would be to allow the submission of testimonial evidence, such as an expert's declaration, in support of a patent owner preliminary response. Currently, the patent owner is at a severe disadvantage when responding to a petition before the PTAB's evaluation of whether to institute, since petitions are typically supported by an expert's testimony. My sense is that the claim construction standard will not change, but patent owners will be able to submit testimonial evidence before the institution decision.

MA: I hope that whatever changes come, they are modest. The US patent system and its laws are not broken, but the media is being influenced by well-funded lobbyists and other large entities and is dutifully publishing stories, articles and opinion pieces to persuade us otherwise. Reporters who know nothing about patents and patent law or precedent and particular technologies are speaking publicly about how bad the patent system is for competition – and it is a load of rubbish. However, trashing so-called 'patent trolls' creates a negative effect on the perceived integrity of our world-leading patent system and unnecessarily tarnishes the reputations of patent attorneys who work for patent assertion entities. We do not need more reform; we need to promote US innovation, domestically and overseas. We need a balanced system to protect smaller companies and inventors just as we do larger companies. The activities of some bad actors seeking to exploit the system is not a reason to fundamentally change the mandate and purview of our Article III courts. US patent law protected inventions from the McCormick Reaper to the lunar module. It has protected the inventors of drugs and devices that have saved millions of lives. It has spurred innovators such as Bill Gates and Steve Jobs, and the entire ecosystem of Silicon Valley. And it has created the greatest economic engine the world has ever seen. The corollary benefits include a self-confident, active entrepreneurial economy, job creation and increased tax revenues. Our existing laws work well, despite some recent changes I do not wholly agree with. Our courts are eminently qualified to manage their own dockets – including cases where spurious filings by bad actors have invited criticism and prompted the move to legislation that we do not need.

JR: I can tell you one proposed change that I think will not be implemented: the requirement that the petitioner be sued or at least threatened with a suit before having standing to file an *inter partes* review petition. This is because such a change would remove the ability for suppliers, for example, to file *inter partes* reviews in order to defend their customers. It has also been proposed that the claim construction standard in *inter partes* reviews be changed to be the same as the *Phillips* standard in district courts. The PTAB uses a broader claim construction than district courts, and this difference has recently been challenged in the Court of Appeals for the Federal Circuit, with the Federal Circuit upholding the standard. I do not see Congress changing the standard, as it has historical precedence in re-examination and other USPTO proceedings for decades.

Q: What impact do you think the new reviews are having on the US patent system overall?

AC: One major impact we have seen is that the USPTO trials are weeding out some of the lesser-quality patents. Previously, a patent owner could assert one of these lesser-quality patents in district court and even demand that the accused infringers pay a seven-figure settlement to avoid a costly and unpredictable trial. However, under the PTAB proceedings, an accused infringer can request that the PTAB review a patent for substantially less. Early on, many of these lesser-quality patents were being challenged at the PTAB – unsurprisingly, the PTAB's decisions finding invalidity were at a higher rate. Now we are seeing parties attacking higher-quality patents. Accordingly, it is also unsurprising that the percentage of PTAB decisions finding invalidity is trending lower.

MA: While the immediate impact seems to be taking out a lot of patents, I am hopeful that the overall impact, in the long run, will have benefits to the patent system as a whole. Innovators, especially in the technology industries, will hopefully return to a procedure for securing patents less focused on volume and more on quality. Fewer patents of higher quality will help spur the overall system. Cross-licensing activity should return to a more substantive practice, rather than a bulk trade in hundreds of unread and likely not valuable fixed-fee patents. However, in the short term, the IP industry must adjust how it prepares patent applications, how it asserts patents in the court system and how it defends issued patents at the PTAB and the Federal Circuit. Once these adjustments are made, I am hopeful that we will have a stronger, more vibrant system than ever before.

MZ: A major impact – of seismic proportions. Since the inception of the new America Invents Act post-grant review proceedings, we have seen over 4,000 filings – an enormous number in a small window of time. We also have a high percentage of these review proceedings being instituted and the patent claims under review being cancelled. So, while patent assertion entities are clearly

being deterred from filing lawsuits or realising success, the high kill rate of patents under review also creates uncertainty about the value of obtaining patent rights at all. The patent litigation landscape has also changed dramatically. Most of the review proceedings filed are associated with a patent that has been asserted. There have been about 1,000 motions to stay pending the outcome of a PTAB review proceeding filed in district court actions, and in almost half of those cases, the motion has been granted and the action stayed.

BM: It has had a significant impact on district court patent litigation and has changed the paradigm on how companies defend patent litigations. On receiving a complaint for patent infringement, many companies' first thought is to develop strong prior art so that an *inter partes* review can be filed in conjunction with a motion to stay the companion litigation. As a result, district court activity and the attendant high costs have been significantly reduced. On the flipside, patent owners are realising that more due diligence is required before they can assert their patents. For example, patent owners with only broad claims are seeking re-examinations and reissues to add many claims of varying scope so as to increase the chances of surviving an *inter partes* review proceeding.

SM: The way in which patents are procured in the United States has changed, as has litigation strategy. Until recently, infringement was still the primary driver behind most patent prosecution philosophies. This is because patent invalidity can be exceedingly costly and difficult to prove in a district court. For example, an overly broad claim has obvious benefits for proving infringement. This same claim is less of an invalidity concern given:

- the presumption of validity accorded issued patents in the courts;
- clear and convincing evidence necessary to invalidate; and
- necessary time and legal fees.

As such, securing a claim that was overreaching relative to the closest prior art was a calculated risk that most patentees were happy to take. The PTAB has forever changed that calculus. Today, if your portfolio is built on the old 'infringement first' mentality, you need to sue with far more patents to hedge against PTAB exposure. As a result, almost all sophisticated assertions include multiple patents, often in excess of five or more.

Q: If you were to recommend one change to post-grant reviews, *inter partes* reviews or covered business method reviews, what would it be?

MA: I would like to see the broadest reasonable interpretation standard used by the PTAB in *inter partes* reviews evolve. I believe it needs to favour the claim construction doctrine applied by the district court and restated in *Phillips*. Many PTAB cases are being heard while parallel litigation is ongoing before the district courts, which requires the parties to promote different claim constructions. This is unworkable. I appreciate why and how the broadest reasonable interpretation standard arose from a review of patent applications before the USPTO. However, simply because the PTAB sits within the USPTO does not negate the fact that it is reviewing patents that have already issued. This should change.

JH: Right now, I think that PTAB proceedings favour the petitioner. The discrepancy in the parties' positions is borne out by the number of proceedings that have been determined in this way. In over 70% of *inter partes* review proceedings, at least some of the patent owner's claims have been cancelled. One way to level the playing field – and a change that has been proposed by the USPTO – would be to allow the patent owner to submit testimonial evidence, such as an expert's declaration, in support of a patent owner preliminary response. The initial determination in these proceedings is critical and once a proceeding has been instituted, it can be an uphill battle for the patent owner to overcome the PTAB's initial determination. The current procedures allow only for the petitioner to submit an expert declaration (without a page limitation) before the initial determination, while the patent owner is allowed only to submit an attorney argument in response. Allowing the patent owner to submit testimonial evidence in support of its preliminary response would be a step towards alleviating the discrepancies in the parties' positions.

JR: I would like to see the ability to present prior art products in *inter partes* reviews, in addition to printed publications. At present, if a defendant has a strong prior art defence based on the prior sale of a product, the defendant can pursue only that in district court litigation. Presumably, the USPTO does not want to deal with evidentiary matters surrounding sales and structures of prior art products. However, in my view, the PTAB is well equipped to handle these types of evidentiary issue.

AC: We would like to see Congress or the Federal Circuit provide some clarity on what the Federal Circuit can review. At present, there are a couple of Federal Circuit decisions that appear to contradict each other on the scope of its review according to Sections 314 and 324, which state: "The determination by the [PTAB] whether to institute a [PTAB proceeding]… shall be final and nonappealable." For instance, in *Versata Dev Grp, Inc v SAP America, Inc* (No 2104-1194 (Fed Cir, July 9 2015)) the Federal Circuit held that it could review on appeal whether a patent was a covered business method – an issue that was determined in the institution decision. On the other hand, in *Achates References Publishing, Inc v Apple Inc* (Nos 2104-1767, -1788 (Fed Cir September 30 2015)) the Federal Circuit held that it could not review any decision by the PTAB related to institution, including a determination as to whether the decision was time barred according to the statute. This lack of clarity is troubling, as many institution-stage issues appear to be ripe for the Federal Circuit to address (eg, the PTAB's redundancy and joinder practices). Regarding the latter, there is a current split at the PTAB regarding whether to allow a party to join a petition filed after the statutory bar date to correct an error in an earlier filed petition (see *Zhongshan Broad Ocean Motor Co, Ltd v Nidec Motor Corp*, IPR2015-00762 (October 5 2015) (Paper 16) at 9). Based on precedent, it is unclear whether the Federal Circuit could opine on these issues.

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Aaron Capron has a wide range of experience involving post-grant proceedings, patent litigation, and patent portfolio management. He has been co-lead counsel for several post-grant proceedings, including one of the first cases instituted under the America Invents Act. Using his experience before the US Patent and Trademark Office (USPTO) and in all aspects of pre-trial litigation, Mr Capron assists clients with making strategic decisions under these new proceedings.

SM: Amendment during PTAB review should be handled by patent examiners, similar to how the International Trade Commission uses staff attorneys. Examiners, after considering the amendment and searching the prior art, can make a non-binding recommendation to the panel. In cases of amendment, the PTAB should use the 18-month trial schedule rather than 12 months (as permitted for "good cause") to give examiners time to analyse new claims. While this would delay resolution by six months, amendment is typically a positive development for patent challengers.

Q: Are there any other issues that you would like to raise?

AC: The new proposed rules, if adopted, would require the PTAB to view disputed facts in the light most favourable to the petitioner when determining whether to institute. The problem is that this may conflict with the standard for instituting an *inter partes* review or post-grant review proceeding. To institute an *inter partes* review proceeding, the statute requires that the record show "there is a reasonable likelihood of success" that at least one claim is unpatentable. For post-grant review proceedings, the statute requires that the record show that it is "more likely than not" that at least one claim is unpatentable. That is, the institution determination is based on the record as a whole – it does not favour one set of facts over another. Accordingly, it is difficult to reconcile this proposed rule change with the existing statutes.

SM: The debate over *Phillips* versus the broadest reasonable interpretation claim construction practice is much ado about nothing. Many argue that broadest reasonable interpretation claim construction should be replaced with the claim construction practices of the district court (ie, *Phillips v AWH*). The belief is that a narrower claim construction at the USPTO will help preserve patentability. Yet the true driver behind the higher cancellation rates at the PTAB as compared to the district courts is the burden of proof, not claim construction practices. Only a preponderance of evidence is required at the PTAB – it need not be clear and convincing. Moreover, we have ample evidence that using *Phillips* is not a game changer at the PTAB as this test has been employed for decades when dealing with expired patents at the USPTO. As someone that has been involved in many such cases – including many that expired during review, necessitating a new *Phillips* construction – there was never a substantive change between the constructions. iam