

Things We've Learned As The PTAB Turns 5

By **Matthew Bultman**

Law360, New York (September 12, 2017, 3:05 PM EDT) -- Five years ago this week, America Invents Act reviews at the Patent Trial and Appeal Board became available as a way to challenge the validity of patents — proceedings that have reshaped patent litigation in a way that few people saw coming.

PTAB proceedings, like inter partes review, have become a dominant part of patent litigation and the introduction of the review system is considered by many to be among the most significant developments in patent law in recent years.

"There are two things that have, in my view, really impacted the state of play in patent law: One of those is Alice. The other is IPRs," said Stephen Akerley of Mintz Levin Cohn Ferris Glovsky and Popeo PC, referring to the U.S. Supreme Court's 2014 decision in *Alice v. CLS Bank International*.

As the PTAB celebrates its fifth anniversary, Law360 takes a look at five things we've learned about the board and its review system.

It's More Popular Than People Expected

There were people who thought AIA reviews — and inter partes reviews, in particular — would be popular. But few, if any, thought they would be this popular.

"I'm not convinced anyone expected that we'd see quite the large number [of petitions] that we've seen," said Eldora Ellison, a director at Sterne Kessler Goldstein & Fox PLLC.

The PTAB received more than 7,300 petitions seeking to invalidate patents in AIA review through the end of July, according to the most recent U.S. Patent and Trademark Office statistics available. More than 90 percent of those petitions were for IPR.

When decisions from the PTAB first started coming out, a number of patent claims were being found invalid. Attorneys said this began to trigger an awareness from those looking to challenge a patent that the PTAB might be an avenue they want to consider.

"It really started to snowball after the early decisions came out," said Dorothy Whelan, co-chair of the post-grant practice group at Fish & Richardson PC.

Fast forward a few years and IPRs have become something that patent owners need to account for in a dispute. An October 2016 report from IP company Patexia found the PTAB was, at least for part of the year, the most active forum for patent validity challenges.

"If you're going to sue on a patent, you absolutely must consider the possibility of an IPR," Ellison said. "And very often, you stand a good chance of actually facing an IPR."

Meanwhile, "On the potential challenger's side," she said, "if there's a patent that's problematic for you and you would like to see it nullified, you're of course going to consider an IPR or potentially a [post-grant review]."

It's Not Just for Tech

Electronics companies and others in the technology sector were quick to embrace AIA reviews as a way to challenge patents. The pharmaceutical industry was a little more hesitant.

Even before AIA reviews, there was a general reluctance within the industry to embrace the patent office as a place to settle disputes over issued patents, attorneys said, and there was some level of comfort with the existing procedures in district court.

Generic-drug makers, for instance, knew what to expect in litigation related to abbreviated new drug applications filed under the Hatch-Waxman law, attorneys said. There was a lot more uncertainty at the PTAB.

"Given what was at stake, generic companies were reluctant to wade into the IPR space," Whelan said. "That's changed."

In 2014, there were 92 petitions filed challenging patents in biotechnology and pharmaceuticals, accounting for 6 percent of all the petitions filed. Two years later, there were more than 212 petitions filed against these types of patents, making up 13 percent of the AIA challenges.

But it's not just generic makers that are filing petitions. Some hedge funds have gotten into the mix, **challenging drug patents** as an investment strategy. And traditional brand-name drugmakers are **increasingly looking to incorporate IPRs** in their strategy to clear out potentially problematic patents as they develop products in the biologics space, attorneys said.

One of the biggest concerns some potential challengers had to overcome related to the IPR estoppel provision, which limits the arguments those seeking to invalidate patent claims can raise in district court following PTAB review.

"I think many people eventually became comfortable with IPRs on the theory that if they don't win at the PTAB they probably weren't likely to win at district court anyway on a patent challenge," Ellison said.

More recently, Ellison said there have been some court rulings that have given potential petitioners hope "that they might not be completely estopped later on in a subsequent challenge to the patent."

Things Aren't All Doom and Gloom for Patent Owners

Randall Rader, then the chief judge of the Federal Circuit, likened the PTAB to "death squads" in 2013. The board was granting a lot of petitions and was finding more claims invalid than people might have expected.

Fair or not, the reputation of being patent-killers has stuck with the board. But things **might be looking up** for patent owners.

"I think the pendulum has swung somewhat, so it's more balanced now," Whelan said.

Indeed, stats from the USPTO show that in 2013, the first year after IPRs became available, the board instituted trials more than 85 percent of the time. In 2016, that number had dropped to 68 percent.

Similar trends can be seen in final decisions. For example, in the latter part of 2015, 86 percent of the PTAB's final decisions in IPR found all challenged claims invalid. That number has steadily declined, to 58 percent in the fourth quarter of 2016.

There are a couple of likely reasons behind the shift.

One could be that petitioners went after a lot of the low-hanging fruit right off the bat, picking off a number of low-quality patents. Also, the rise in challenges to pharma and biotech patents, which have historically had lower invalidation rates, might have buoyed the overall percentages. Some also believe the board is looking more critically at petitions during the institution stage.

While patent "kill rates" are still higher than some might like, perhaps there is reason for hope.

"I think in general the reasons why the [PTAB] is a favorable spot for a petitioner continue to exist, so it has been and will continue to be a place where petitioners go," said Matthew Cutler, a principal at Harness Dickey & Pierce PLC. "But I do believe that all is not lost for patent owners and it's very possible to successfully defend a patent if you do it the right way."

It's Been Successful in Driving Settlements

One of the goals of the review proceedings was to drive settlements in patent disputes. Well, mission accomplished, attorneys said.

In the pre-AIA world, there were ex parte and inter partes re-examinations at the USPTO. Re-exams are different from AIA reviews in a number of ways, including that they lacked an option to terminate a review through a settlement.

"Once that barn door was open, there was no shutting it," Whelan said.

Including settlement options at the PTAB was a deliberate change when the proceedings were conceived. And people are using this option.

In 2016, more than 240 challenges at the PTAB ended in a settlement before the board decided whether to review the challenged patent. Another 194 cases were settled after the board agreed to institute review. The numbers are similar so far in 2017.

For the parties involved in a patent dispute, having the option to strike a deal and end the review adds another factor into the calculation, especially when there is parallel litigation in district court. Patent owners, for instance, must consider the possibility they might win in district court but lose at the PTAB.

And sometimes, just the threat of a petition can be leverage for a targeted company in negotiating a settlement.

"It adds another complication, it's another variable, and that can often drive parties to settle cases," Whelan said. "And the numbers bear that out."

The Federal Circuit Is Helping Shape It

When PTAB decisions first started making their way up to the Federal Circuit on appeal, the court took something of a hands-off approach, showing a good deal of deference to the board. But as time has gone on, the court has started taking a harder look at PTAB decisions.

"There has been what seems like a momentum away from the broad deference the Federal Circuit was initially giving to the PTAB," Cutler said.

The appeals court has, for example, **faulted the board** for not following the correct procedure and not giving both sides a chance to fully make their case. The court has sought to clarify which side has the burden of proof during review and the **scope of the AIA covered business method review**.

The court has, at times, also come down on the PTAB when it feels the board didn't adequately explain its reasoning when deciding whether a patent is valid. The effect of these kinds of rulings can be seen in the board's decisions, attorneys said.

"In effect, that's resulted in the board doing a more rigorous review and analysis at times," said Naveen Modi, the global vice chair of the IP group at Paul Hastings LLP. "I think that's maybe one of the reasons why you see this decrease in the institution rate and the ultimate invalidity rate."

It seems this heightened scrutiny is here to stay.

In an unusual opinion last month, two appellate judges criticized the PTAB's procedures for joining petitions and convening expanded panels, though they didn't actually rule on them. Attorneys said this suggests the court might examine those practices, which could be on thin ice.

"It really, to me, signaled more of a hostile future for the PTAB in the near term," Cutler said.

--Editing by Brian Baresch and Kelly Duncan.

Check back tomorrow for part two of the series, where we take a look at some of the issues facing the PTAB as it moves ahead.