

After Period of High Invalidation Rates, New US Patent Challenge Procedures May Slow Down to Moderate Pace

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When the U.S. Patent and Trademark Office's (USPTO) Patent Trial and Appeal Board (PTAB) began hearing post-issuance patent challenge proceedings under the America Invents Act in September 2012, the PTAB became one of the busiest patent litigation venues in the country — and the world — virtually overnight. After a period of high invalidation rates, especially when compared to international jurisdictions, 2016 may see fewer PTAB-invalidated patents, indicating that the post-issuance proceedings may finally be filling the role envisioned for them and further aligning U.S. patent proceedings with those of other countries.

Background

The PTAB's new post-issuance patent challenge proceedings were introduced to address concerns over the types and quality of patents being issued as well as the tactics of so-called nonpracticing entities (NPEs) — entities that hold patents but do not make products or compete in the market. NPEs have grown from a cottage industry into the source of the majority of all patent litigation in the United States.

Meanwhile, the U.S. Supreme Court's ruling in *Alice Corp. v. CLS Bank*, which was decided shortly after the PTAB procedures came into action, made it easier to invalidate U.S. patents on the basis of unpatentable subject matter. This decision, coupled with PTAB proceedings, has led to patent invalidations at a rate that gives pause to even the most outspoken critics of patent quality and "patent trolls." A comparison between PTAB proceedings and their equivalents in other major jurisdictions reveals that the high invalidation rate is unique to the U.S. In 2015, 75 percent of patents in the U.S. were invalidated; by comparison, 31 percent of patents in Europe were invalidated in 2015, according to data from the research database Docket Navigator and the European Patent Office annual report.

New US Procedures

The new PTAB proceedings are the *inter partes* review (IPR), covered business method review (CBM) and post-grant review (PGR). While IPR, CBM and PGR procedures are similar in form and substance, each has a somewhat different aim.

Under the new "first-to-file" rule, an IPR may be filed any time after nine months have passed since the patent's issuance or after any and all PGRs pertaining to that patent have concluded, whichever comes later. An IPR, the most common procedure, may only be instituted on the basis of lack of novelty or obviousness in view of earlier patents or printed publications.

Unlike IPR, PGR has a limited window of availability and applies only to newer patents. A PGR must be initiated within nine months of a patent's grant or reissue, and it can only be initiated by a party that has not previously challenged the patent civilly. Importantly, PGR is available only for patents filed after March 2013 under the "first-to-file" system. Despite the limited temporal availability, PGRs may challenge a patent's validity based on a broad range of grounds, including unpatentable subject matter, inadequate description, lack of novelty and obviousness.

CBM provides a targeted mechanism for challenging "business method" patents, which to date are the most common patent type asserted by NPEs. Only parties that have been sued or charged with infringement of a "financial product or service" (rather than a "technological invention") may initiate a CBM. But, if these criteria are met, the CBM may be based on the same grounds as a PGR. For "first-to-file" patents, a CBM may be sought only after the nine-month period for initiating a PGR has passed.

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An important pro-patent feature of all three post-grant procedures is the estoppel effect that accompanies the PTAB's decision. A final decision in an IPR, for instance, estops a petitioner from raising in a later civil or International Trade Commission action any ground of validity it "raised or reasonably could have raised" during the post-issuance patent challenge proceedings. Similar estoppel measures are available for PGRs and CBMs.

These procedures provide an attractive range of options for resolving disputes that primarily turn on questions of validity, without resorting to costly and time-consuming civil litigation.

Comparison With International Procedures

These new U.S. procedures dovetail with other post-issuance patent challenge procedures in major patent offices around the world. The chart on the following page summarizes some key similarities and differences between the review procedures.

Of particular note in the comparison above is the large discrepancy in invalidation rates among the different venues. The USPTO has invalidated claims at such a high rate that a former chief judge of the U.S. Court of Appeals for the Federal Circuit referred to the PTAB as a "death squad" for patents. The PTAB invalidated all instituted claims in 69 percent of IPR proceedings concluded in 2014, with data showing an even higher rate of 75 percent in 2015. This invalidation rate is even more drastic when considering that IPR, the mainstay of USPTO post-issuance challenges, allows patent challenges on fewer grounds than the counterpart procedures in Europe and Japan.

Future Projections

Numerous changes to IPR, PGR and CBM procedures are currently under consideration. Many appear outcome-neutral: They ostensibly would not favor one side. Others, such as abolishing the PTAB's technique of construing claims in the broadest possible way, would clearly benefit patent owners, leaving no doubt that the high invalidation rate is fueling the push for those changes. The U.S. Supreme Court is set to hear arguments this

term regarding the latter change in *Cuozzo Speed Technologies, LLC v. Lee*, to determine the appropriate breadth given to patent claims considered during post-grant proceedings. A reversal by the Supreme Court in this case would alter the current claim construction standard, making it harder to invalidate patents and likely lowering the invalidation rate for all three major U.S. post-grant proceedings.

Regardless of whether reforms are enacted, a number of factors suggest that a decline in the invalidation rate is inevitable and imminent. First, while impossible to prove empirically, apocryphal evidence indicates that a large proportion of patents initially challenged at the PTAB were of low quality — precisely the sort of patents these procedures were intended to cull out. Second, the unexpectedly high invalidation rate has emboldened patent challengers to seek PTAB review of higher-quality patents. Patents other than business method patents (such as those in the life sciences sector) are faring better at the PTAB. As a more diverse range and a stronger group of patents undergo review, over time the invalidation rate should decline. Third, limitations on PTAB resources will mean the PTAB will have to use a more critical eye at the petition stage to prevent a backlog of proceedings, a particular concern given the mandated timelines for resolution of these proceedings.

Data for 2016 suggests that a decline may already be underway. Thus far, the percentage of petitions for review that have been granted has dipped below 70 percent for 2016, and the percentage of cases in which the PTAB has invalidated all instituted claims is hovering around 70 percent, in line with the 2014 level and below the 2015 rate of 75 percent. Whether invalidation rates at the PTAB will ever approach the levels in the European or Japanese patent offices is difficult to predict. But it is likely that the days of the "death squad" atmosphere at the PTAB may be over, and what remains is a carefully constructed, highly effective means of resolving focused disputes over the validity of U.S. patents, not unlike what has been available to patent challengers in other parts of the world for many years.

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Patent Challenge Procedures in the US, Europe and Japan

	USPTO	European Patent Office	Japan Patent Office
Filing Deadline (from patent grant)	<p>Within 9 months (PGR)</p> <p>After 9 months (CBM, IPR)</p> <p>Within 1 year of any lawsuit (IPR)</p>	Within 9 months	<p>Within 6 months (Opposition; filed within 6 months of patent publication, which occurs a few months after patent grant)</p> <p>Anytime (Invalidation trial)</p>
Timeline (start to finish)	18 months max. (Institution decision within 6 months of petition, final decision within 1 year of institution; 6-month extension on final decision is possible)	15-30 months avg.	<p>Estimated 12 months min. (Recent changes in proceedings may alter the timeline)</p> <p>(Invalidation trial estimated to take longer than opposition proceedings because of adversarial nature and inclusion of oral arguments)</p>
Grounds	<ul style="list-style-type: none"> - Anticipation - Obviousness (All) - Unpatentable subject matter - Lack of written description - Enablement (CBM, PGR; these proceedings also may be filed on these grounds) 	<ul style="list-style-type: none"> - Lack of novelty - Lack of inventive step - Unpatentable subject matter - Insufficient disclosure - Added subject matter 	<ul style="list-style-type: none"> - Lack of novelty - Lack of inventive step - Unpatentable subject matter - Insufficient disclosure - Added subject matter
Evidence	Limited (Patents, printed publications, affidavits, declarations; live testimony rare)	Broad (Published documents, witnesses, affidavits, company brochures, text or expert reports)	Broadest (Any evidence so long as it is linked to a fact required to be proven)
Amendments to Patent	Allowed (Burden on patent holder to show patentable)	Allowed (Must be necessary to meet an opposition ground)	Limited (Must be narrowing or correcting)
Estoppel	Yes	No	<p>No (Opposition)</p> <p>Yes (Invalidation trial)</p>
Invalidation Rate	<p>75% (2015 data)</p> <p>(75% invalidated all claims; 13% upheld all claims; 12% upheld some claims)</p>	<p>31% (2015 data)</p> <p>(31% invalidated all claims; 31% upheld all claims; 38% upheld in amended form)</p>	<p>24%* (24% invalidated at least 1 claim) (2013 data)</p> <p>*Recent changes to the Japanese post-issuance challenge system may affect these statistics</p>