America Invents Act trials and the challenges at the PTAB – where do we go from here?

A panel of PTAB practitioners gathered in Washington DC in May to discuss the effect that post-issuance reviews continue to have on the US patent system. As this special report reveals, there was plenty to discuss

By Timothy McAnulty, Joshua L Goldberg and Trenton A Ward

The America Invents Act 2011 ushered in post-grant trial proceedings – namely, *inter partes*, post-grant and covered business method reviews – as a means for rights holders to challenge issued patents. At first, the PTAB, the federal courts and parties struggled to develop procedures and strategies to manage an unexpected wave of filings, marked by a surprisingly high number of outcomes adverse to patent owners. Now, the PTAB is nearing the end of its fifth year of trials under the act, making it a good time to consider how the process has matured, as well as its overall effect.

On 11 May 2018 a group of senior IP executives working in various industries met with Richard Lloyd, North America editor of *IAM*, and Finnegan partners Joshua Goldberg, Tim McAnulty and Trenton Ward. The meeting took place at Finnegan's Washington DC office and was designed as an open forum to discuss the inception, trends and future of practice before the PTAB. The exact nature of the discussion (including who said what) was reserved for only those present. However, the Finnegan team compiled this special report on the key topics. Finnegan and *IAM* thank Jannie Lau (InterDigital), Suzanne Michel (Google), Jim Myers (Tristar Products), Steven Purdy (IBM) and Corey Salsberg (Novartis) for their insight and enthusiasm throughout the day.

How did we get here?

The Leahy-Smith America Invents Act marked a significant change in US patent law, implementing a first-inventor-to-file system and ushering in new post-grant trials. Before its enactment, much of the debate and analysis focused on the statutory structure of the first-inventor-to-file system; the statutory structure of post-grant trials was often an afterthought. More than five years after enactment, the opposite is true.

Based on the USPTO's June 2018 reported statistics, the PTAB has instituted almost 9,000 America Invents Act trials since its inception in 2013. Most of these (over 8,000) have been *inter partes* reviews. Over half of the challenges relate to electrical and computer technologies, and roughly one-quarter relate to mechanical and business method technologies. Chemical and biopharm technologies make up the remaining challenges, along with a handful of design patent cases.

The USPTO also reports on institution rates by fiscal year. As of June 2018, the reported institution rate for 2018 was 61% – down from 87% in 2013. Although the reported institution rate has decreased each fiscal year, it has dropped just a few percentage points between 2015 and 2018.

On 8 June 2005 representative Lamar Smith introduced the first version of the America Invents Act, which called for the post-grant review of a patent by a panel of administrative patent judges. The enacted act redesignated the existing Board of Patent Appeals and Interferences as the PTAB to hear *inter partes* and post-grant reviews. The act took effect on 16 September 2011, nearly five years after it was first proposed. On the same day, a White House press release stated that the act would "offer entrepreneurs new ways to avoid litigation regarding patent validity, at costs significantly less expensive than going to court" by allowing "patent challenges to be resolved in-house through expedited post-grant processes".

Most stakeholders viewed the new trials as an alternative to litigation, and general support was high across industries during the legislative process. Some practitioners thought that the trials would provide a good forum to address the issue of non-practising entities asserting questionable patents, while others thought that the trials would provide an option for freedom to operate and to address potentially blocking patents without the need for declaratory judgment jurisdiction. In line with the White House press release, as well as the legislative history, most stakeholders viewed the America Invents Act trials as a welcome alternative.

However, it is often difficult to predict the full effect of a legislative package and, for some, the act has failed to fulfil its statutory intent. A key concern across industries is that the trials often serve as an additional forum to resolve patentability, rather than an alternative one – thereby leading to increased costs and extended litigation. Another concern is that the vision of a single America Invents Act trial with strong estoppel has been lost in favour of allowing multiple challenges with (at least to date) limited estoppel. Pharmaceutical companies are particularly troubled because such trials (at least in practice) can disrupt the balance created by Abbreviated New Drug Application litigation.

Where are we now?

Many stakeholders accept that the PTAB has continued to develop as the USPTO, the Federal Circuit and the Supreme Court have given guidance to the statutory

and regulatory regime. Initial guidance came from PTAB decisions handling issues of first impression – some of which the USPTO designated as informative or representative. Early decisions addressed discovery, multiple (and sometimes numerous) challenges and procedural questions with regard to standing and real parties in interest. More recently, the Federal Circuit and Supreme Court have provided guidance relating to claim construction and amendments, due process, estoppel and sovereign immunity.

Jannie Lau
InterDigital

"Participants disagreed over the likely practical effects of the USPTO's proposed rule change to replace broadest reasonable interpretation with the Phillips *claim construction standard and of the Supreme Court's recent* SAS Institute *decision, with some predicting very little impact while some patent owners hold out hope that these developments will lead to a real difference in outcomes. Only time will tell who is correct"*

Suzanne Michel
Google

"Understanding the experiences of different stakeholders with the inter partes *review process and how developments like the recent Supreme Court* SAS *decision and the proposed rule making on claim construction will affect their strategies is critical for designing an* inter partes *review process that fulfills the America Invents Act's goals of improving patent quality and decreasing expensive litigation on invalid patents while treating all participants fairly"*

However, the reported statistics drive the widespread perception that claims are often cancelled in an America Invents Act trial. Across all industries, the PTAB institutes around two-thirds of the petitions that reach an institution decision (ie, are not settled beforehand). Of the instituted trials that reach a final written decision, roughly two-thirds result in no original (or substitute) claim surviving. However, these statistics are convoluted and potentially misleading. On the one hand, they do not readily account for settlements and trials that are terminated before institution or final decisions. While many practitioners view the reported cancellation rate as high, analysis of both institution and cancellation rates reveals that the USPTO cancels claims in less than one-half of all America Invents Act trials. On the other hand, the statistics do not directly account for the (not uncommon) situation in which multiple petitions are filed against a single patent and the PTAB institutes only one trial, denies the other claims, and yet cancels all original and substitute claims in a final written decision.

Another critique relates to stays in parallel district court litigation. Outside pharmaceuticals, the district courts often stay litigation in favour of *inter partes* reviews, but this does not necessarily mean that the PTAB serves as an alternative forum. In many cases, it serves as merely the first forum, with the district court serving as the second. Some stakeholders consider this to have a more adverse effect on patent owners as it effectively requires them to defend patentability in multiple forums. The primary reason for this is the lack of meaningful estoppel against petitioners and the PTAB's past practice of instituting some but not all claims in an America Invents Act trial.

Although the statute states that a petitioner is estopped from raising any ground that it raised or reasonably could have raised during an *inter partes* review, the Federal Circuit interpreted this narrowly in *Shaw* (decided before the Supreme Court decided *SAS Institute*) and held that estoppel does not apply to claims and grounds that are included in a petition but are not instituted. Some district courts have limited the holding in *Shaw* to its particular facts (now no longer possible after *SAS Institute*), while other district courts have extended the holding to further limit estoppel. The overall result is somewhat inconsistent; nonetheless, many stakeholders feel that there is a general lack of meaningful estoppel. Typically, after an America Invents Act trial concluded, the district court would still address validity. Now, the Supreme Court's guidance and holding in *SAS Institute* could limit the long-term effect of *Shaw* and potentially strengthen estoppel, which many believe would be beneficial.

Despite the macro-level critiques regarding the effect of America Invents Act trials, the PTAB is providing more guidance to help to improve the predictability of proceedings. However, there is still room for further improvement. Despite the PTAB's issuance of informative and precedential decisions, the outcome of an America Invents Act trial is often panel-dependent. For example, some panels treat the publication status of prior art as a substantive issue, while others treat it as an evidentiary issue. Moreover, the rules fail to provide mechanisms for parties to use and object to evidence

in certain circumstances. For most stakeholders, predictability is more important than basing a particular decision on the merits.

Where do we go from here?

Over the past term, the Supreme Court issued two opinions that will directly affect America Invents Act trials. First, *Oil States* upheld the constitutionality of the USPTO (through the PTAB) reassessing its original patent grant. Second, *SAS Institute* struck down the PTAB's practice of instituting only some of the challenges raised in a petition. While *Oil States* received most of the commentary (admittedly because of its impact on almost the entire post-grant regime), *SAS Institute* may have a greater effect on shaping PTAB practice.

In the wake of *SAS Institute*, the PTAB affirmed that it will institute on all claims and all grounds set forth in a petition if it decides to institute review. The same view was later adopted by the Federal Circuit in *PGS Geophysical*. However, while it is clear that the PTAB will institute all grounds against all claims even if it decides to institute only one ground against one claim, several questions remain. For example, it is unclear how the PTAB will handle petitions that raise numerous grounds, particularly those that it would previously have considered redundant and denied at institution. The PTAB may merely institute all grounds, provided that there is one ground that merits institution, or it may rely on its discretion under 35 USC §314 to deny the entire petition, even if there is one ground that merits institution.

Indeed, some stakeholders have suggested that *SAS Institute* has strengthened the PTAB's discretion to deny institution under 35 USC §325(d) when "the same or substantially the same prior art or arguments previously were presented to the [USPTO]". Shortly before the case, the PTAB designated several decisions specifically addressing §325(d) as informative. This not only signals the PTAB's increased awareness and inclination to rely on §325(d), but may also become a basis for panels to deny an entire petition if one or more grounds are covered by 35 USC §325(d).

Another question raised is whether the PTAB will continue its practice of providing detailed institution decisions. As reported in the USPTO's 5 June 2018 *SAS* Q&As, the chief judge of the PTAB has repeatedly conveyed that panels are encouraged, post-*SAS Institute*, to continue providing robust and fulsome decisions on institution. Whether this is a realistic expectation is open for debate, considering the pressures associated with adjudicating America Invents Act trials, which may include numerous grounds. In a similar vein, the PTAB's goal of providing notice and opportunity to be heard on all issues, and of rendering robust final written decisions that are compliant with the Administrative Procedures Act may detract from the practice of continuing to deliver similarly robust decisions on institution.

The new regime of instituting or denying all grounds and all claims could either benefit or burden patent owners. Only time will tell how *SAS Institute* will affect America Invents Act trials. At a minimum, the trials will likely be more complex, with more grounds at issue post-institution. This may increase costs for both petitioners and patent owners practising before the PTAB, as well as increasing the risk, as patent owners will have to defend against more grounds and petitioners will have to adequately set forth multiple grounds. Alternatively, final written decisions addressing all grounds may yield broader estoppel, which may reduce litigation costs for the parties.

In addition to changing its institution framework, the PTAB may soon change the standard for claim construction in America Invents Act trials. The USPTO recently published a proposal to change the rules governing claim construction in these trials, replacing the broadest reasonable interpretation standard with the plain and ordinary standard applied by the district courts. This initiative was widely received as a positive sign that the USPTO is willing to review and revisit its rules on PTAB practice. Indeed, some stakeholders welcomed the change, hoping that it would bring consistency to claim constructions adopted in various litigation venues and that it would encourage more

Corey Salsberg
Novartis

"When you sit down with experts from across different industries and swap the megaphone for a microscope, two things quickly become clear about inter partes *review. First, no one (save perhaps for patent trolls) is fundamentally against* inter partes *review or any other mechanisms to genuinely improve patent quality. Second, there is a lot more common ground to be found between sectors than conventional wisdom would have you believe. I, for one, came away greatly encouraged that there may be several ways to fix* inter partes *review to almost everyone's satisfaction, so that the system continues to serve its intended function as a means to efficiently challenge questionable patents, while preventing its use as a means to duplicate proceedings or re-litigate arguments already made in court"*

district court stays in favour of *inter partes* review proceedings. Others were more sceptical, suggesting that the change would alter claim construction in only a small number of cases. The practical effect of the rule change is also questionable. Some stakeholders have debated whether the PTAB and district courts will (or should) adopt an earlier construction from the other forum if both forums apply the same standard. Others have debated whether this change would benefit patent owners by effectively eliminating the perceived advantage of petitioners to suggest broader claim construction for patentability before the PTAB and reserve the ability to suggest narrower claim construction for infringement before a district court.

Now that America Invents Act trials will remain after *Oil States*, concerned parties are considering their options. Some industries may prefer to avoid such trials altogether. For example, pharmaceutical companies should arguably be exempted. Indeed, Senator Orrin Hatch has proposed legislation which would require a generic manufacturer wishing to challenge a brand-name drug patent to choose between Hatch-Waxman litigation and *inter partes* review, "which is cheaper and faster than Hatch-Waxman litigation but does not provide the advantages of a streamlined generic approval process". In addition, some stakeholders are debating whether the amendment process is appropriate under the America Invents Act regime or whether a patent owner should be able to readily pursue amended claims through examination – outside of the America Invents Act trial – through a reissue application or reexamination proceeding. iam

Action plan

Overall, the candid discussion revealed several insights:

- Many stakeholders feel that America Invents Act trials are not, in practice, what was intended by the legislation.
- Some industries feel that the trials are having significant (unintended) adverse effects.
- Most stakeholders believed that the trials would have a positive effect on US patent practice and are hopeful that things may move more towards the act's intended goals of a truly alternative forum as this area of patent law continues to develop.
- While there is much debate around its likely impact, most stakeholders welcome a proposed change to the claim construction standard at the PTAB.
- The jury is still out on how the Supreme Court's decision in *SAS Institute* will affect post-issuance strategies.

James Myers
Tristar Products

"Review of invalidity issues by three expert administrative patent judges has profoundly changed the patent landscape. At the time the America Invents Act was enacted, few patent professionals anticipated that the PTAB would be a game changer"

Steven Purdy
IBM

"IAM's PTAB boardroom was a particularly insightful exchange on the evolving role and impact of PTAB trials on the value of IP rights in the United States. From how we ensure innovation is rewarded and protected, to how we afford the public protection from overly broad patent claims, the boardroom afforded an open exchange of ideas on how we can achieve these common goals through the robust procedures of post-grant reviews"

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