

# Is PTAB 'death squad' just a myth?

A study of Patent Trial and Appeal Board decisions provides a non-conformist view of post-AIA validity cases, reveal  
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**T**he Leahy-Smith America Invents Act ("AIA") introduced three new proceedings for challenging the validity of an issued patent. These proceedings, implemented over two and a half years ago, are the *Inter Partes* Review ("IPR"), the Post Grant Review ("PGR"), and the Transitional Program for Covered Business Method Patents ("CBM").

Conducted as mini-trials before Administrative Patent Judges on the Patent Trial and Appeal Board ("PTAB") at the United States Patent and Trademark Office ("USPTO"), they pit a petitioner seeking to invalidate a patent against the respondent owner as opposed to the situation in district court where the patentee ordinarily is plaintiff.

The majority of IPR proceedings (about 77%) that have been conducted so far involved patents that were concurrently the subject of litigation at the district courts. This supports the notion that defendants in patent infringement suits drive the filing of petitions for review.

Fitzpatrick, Cella, Harper & Scinto analysed

the results of the final decisions issued by the PTAB in these proceedings through 2014, in order to provide a clearer picture of the proceedings, particularly in view of early concerns expressed over the effect on patent rights. The results showed more significant distinctions between how challenges to patent validity fare in the PTAB versus district courts.

## **Inter partes review**

IPRs are available to challenge any patent as invalid on the basis of prior art patents or printed publications under 35 USC §§102 and 103. In cases that reached final written decision, more than 73% of claims that were originally *challenged* in the IPR were either found unpatentable by the PTAB or cancelled by the patent owner. While 73% is a significant rate of unpatentability, that figure does not tell the whole story, because about 16% of the challenged claims were cancelled by the patent owner during the proceeding, before the PTAB rendered a decision on the merits.

During review proceedings, the PTAB

makes an initial determination on whether or not to institute a trial based on the petitioner's challenges. The PTAB may choose to institute a trial on all of the claims challenged or just a certain subset of those claims. However, once a trial is instituted against a set of claims, our data shows that the likelihood of those claims surviving is substantially lower. In the cases we analysed, a trial was instituted for 3,223 claims out of 3,592 claims originally challenged by petitioners. Out of the 3,223 claims that were *instituted* for trial, 2,640, or 81.9%, were either cancelled by the patent owner or found unpatentable by the PTAB.

Despite this seemingly low survival rate, the breakdown between various statutory bases for challenges provides a different perspective. In IPR proceedings, petitioners may only assert invalidity under Section 102 and Section 103. Although some claims were invalidated under both grounds, excluding claims that were cancelled by the patent owners, our data shows that the PTAB found unpatentable about 37% of claims under Section 102 and about 58% of claims under Section 103.

Interestingly, the data shows that the 37% success rate of challenges under Section 102 is not much different than the corresponding rate in district court litigations.<sup>1</sup>

A recent study showed that the rate of invalidity for Section 102 challenges at district courts was about 31%. While not an exact comparison, the PTAB and district courts appear, to date, to have similar records in deciding anticipation under Section 102. However, the story changes for obviousness. While the success rate for unpatentability under Section 103 jumps up before the PTAB (to 58%), the opposite happens at the district courts. The success rate for invalidity challenges under Section 103 at district courts drops to about 28%.

Rather than suggesting that the PTAB and district courts value patent rights differently, this data suggests that the two venues may view obviousness through different lenses. Further, there are reasons to expect that the rates at which the PTAB finds claims unpatentable would be overall higher than rates of invalidation at the district courts. First, the two use different claim constructions. The PTAB uses the "broadest reasonable construction in light of the specification."<sup>2</sup>

District courts, however, apply the "meaning that the term would have to a person of ordinary skill in the art in question at the time of the invention."<sup>3</sup> Also, unlike the district courts, the PTAB cannot presume validity of the patent, and instead uses a preponderance-of-the-evidence standard (as opposed to the clear-and-convincing standard). These will all work in favour of petitioners, and are reasons that explain the popularity of these proceedings for patent challenges.

Working in favour of the patent owner, theoretically IPRs provide the patentee an opportunity to amend the claims to avoid unpatentability. However, in cases reaching a final decision through 2014, the PTAB has granted motions to amend claims sparingly. According to our analysis, the success rate of such motions has been about 5%.

That low rate has been blamed on the burden put on patent owners to establish the propriety of the motion to amend, coupled with a procedural constraint: the small number of pages in which they were forced to meet this burden. As a consequence, recent rule changes would make it easier for patent owners to submit amendments, including a substantial change in the page limits.

### Covered Business Method

In contrast with IPRs, CBM proceedings are only permitted for patents that claim a method or corresponding apparatus for performing data processing or other operations used in

the practice, administration, or management of a financial product or service.<sup>4</sup> CBM patents do not include patents for "technological inventions," which are those that claim a novel and unobvious technological feature that solves a technical problem using a technical solution.<sup>5</sup>

Eligibility for CBM review also requires that the petitioner have been charged with infringement.

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Because of their limited nature, there have been far fewer CBMs than IPRs. However, the benefit to petitioners has been great. In final written decisions for CBM reviews, more than 90% of the claims challenged by the petitioner were either cancelled or found unpatentable.

While the sample size for CBM decisions is smaller than that of IPRs, the lower claim survival rate is of significant interest, particularly in light of the fact that only 4% of the challenged claims were cancelled by their respective owners. One possible explanation for the lower survival rate is that CBM proceedings allow for petitioners to assert unpatentability under additional statutory grounds, including Sections 101 and 112, as compared to IPR proceedings. When these additional statutory grounds are paired with the requirement that at least one claim must relate to "data processing," it follows that the Supreme Court's recent ruling in *Alice Corp* would lead to headaches for patent owners.<sup>6</sup>

In fact, the data bears this out: challenges under Section 101 were successful at a rate of 74.6%, which accounts for much of the high rate of unpatentability in these proceedings. While our analysis does not provide any hard data in this regard, it seems plausible that *Alice Corp* is having an effect. In the recent study

of district court cases, the rate of success for summary judgment motions under Section 101 was somewhat lower, about 54%. However, meaningful comparison to CBM rates is difficult given that (i) the district court study involved cases filed prior to the decision in *Alice Corp* and (ii) the district court cases are not limited to "data processing" claims.

### Summary

It is still early in the age of IPR and CBM proceedings, and both the USPTO and Congress are contemplating adjustments. However, based on the data we have thus far, it seems clear that for the time being proceedings are challenger friendly. Nevertheless, for potential petitioners, choosing between venues for invalidity challenges is a more nuanced analysis than most currently appreciate. Knowing the details and reading the tea leaves for future trends is paramount. Analogously, for patent owners looking to protect their intellectual property, it may be time to reevaluate the option of claim amendments, after a rough start.

### Footnotes

1. See John R Allison, Mark A Lemley, & David L Schwartz, *Understanding the Realities of Modern Patent Litigation*, 92 Texas L Rev 1769, Fig 4 (2014).
2. 37 CFR § 42.100(b), 200(b), 300(b).
3. See *Phillips v AWH Corp*, 415 F.3d 1303 (Fed Cir 2005) (*en banc*).
4. 37 CFR § 42.301(a).
5. 37 CFR § 42.301(b).
6. See *Alice Corporation v CLS Bank Int'l*, 134 S Ct 2347 (2014).

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