

PTAB Death Squads: Are All Commercially Viable Patents Invalid?



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As was predicted in <u>Patent Office Litigation</u>, much is going on in the world of contested proceedings at the United States Patent and Trademark Office. What no one could have predicted, however, was how broadly and rapidly the new challenges to the patentability of issued U.S. patents would become the standard defense tactic in U.S. patent litigation in all areas of technology. Indeed, 74% of the new contested proceedings are in the electronics/communications/method of doing business technology space, while 13% are in the mechanical space, and 13% are in the biotechnology, chemical, pharmaceutical space.

Brand name **pharmaceutical giants are starting to realize** that administrative patent trials at the Patent Trial and Appeal Board (PTAB) will present an unanticipated avenue for generic drug manufacturers to challenge blockbuster drugs. No commercially viable patent is safe it seems.

Approximately 80% of the claims challenged in petitions are instituted for trial on at least one proposed ground of unpatentability, but the dire statistics from the patent owner perspective do not stop there. As of the beginning of March, the Board had issued Final Written Decisions after the completion of the trial process in 19 proceedings – 11 IPRs and 8 CBMs. In all but three of these proceedings, the Board cancelled ALL claims for which trial was instituted! The Board cancelled 95.2% of all claims for which trial was instituted, and cancelled 82.9% of all claims that were initially challenged by the petitioner. These are draconian statistics for patent owners!

These bleak statistics have lead Federal Circuit Chief Judge Randall Rader to at the AIPLA annual meeting in October 2013 call the PTAB "death squads killing property rights." Then again on Friday, March 21, 2014, at a conference hosted by the George Mason University School of Law, Chief Judge Rader said he was "troubled" by the many differences between proceedings at the PTAB and in the district courts, particularly pointing to the disparities in the treatment of the same evidence concerning the same claims. Rader mentioned that his recent comments about the Board being a "death squad" for patents in contested proceedings may be more accurate than some originally thought, considering the dismal track record for survivability of challenged claims in the first wave of final written decisions.

Ultimately, if the PTAB continues on this path, the raison d'etre of the Patent Office and the entire patent system will be called into question, as a former top USPTO official recently told us while discussing these statistics about the low success rate for patent owners in contested proceedings. He characterized the current situation in this way: We have an enterprise (i.e., the USPTO) that has 8,000 employees creating a product (i.e., patents) and has 300 employees destroying the same product in contested proceedings. His question: "How long can this "business model" last?" If a private sector company were engaged in the same behavior they would quickly be out of business. The stakes are very high.

While we can debate what the future will hold for the patent system, patent owners really need to start to pay particular attention to post grant challenges because they are extremely popular, and really should start to engage in strategies during patent prosecution to strengthen patents and provide a bit of post grant challenge insurance if you will. See How to Protect Your Patent from Post Grant Challenges. The popularity of these new patent challenges demands such action.



As of March 20, 2014, there are 954 petitions for IPR filed and 136 petitions for CBM filed. There are no public derivation proceedings yet, but we are aware of several derivation proceedings that remain confidential. The Office has not set a limit on the number of IPRs and CBMs for the current fiscal year, and although they have the ability to do that under the explicit terms of the America Invents Act (AIA), they have announced that they will not enforce a cap. This is significant because so far in fiscal year 2014 we are already nearing 500 proceedings and the statutory

can was set at a mere 281 proceedings. See Patent Litigation Declines. PTO Administrative Trials Increase



Furthermore, Inter partes review, for example, has been offers a set of rules that are severely tilted in favor of the challenger, at least compared with patent litigation in the district courts. Recently Scott McKeown who is a partner at Oblon Spivak and co-chair of the Oblon post grant practice group wrote on his blog that the Patent Trial and Appeals Board (PTAB) "offers unprecedented speed with none of the patentee safeguards of the district court." The biggest safeguard that a patentee enjoys at the district court is a presumption of validity, which is not present to protect the patentee in proceedings before the PTAB.

Whenever the Patent Office considers an issued patent the presumption of validity vanishes and the challenger need only meet a preponderance of the evidence standard, which is a substantially lower threshold to than a defendant would face in district court. In fact, in a patent litigation in district court the challenger would have to prove invalidity by clear and convincing evidence. Thus, validity determinations are stacked in favor of the patent owner during litigation, but are stacked in favor of the challenger in an administrative trial at the USPTO. Administrative trials at the USPTO have substantial shift in the play field.

The differing standard to challenge a patent claim is not the only advantage offered challengers. Many patent defendants prefer to fight a war of attrition and engage in multiple forums in serial fashion. This strategy is facilitated with the filing of an post grant patent challenge, particularly where the stay motion is filed before discovery begins, the contested proceeding has been instituted for PTAB trial on all of the overlapping claims, and the patent owner is not a direct competitor. In fact, if these conditions are met the chances of the stay being granted is very high. Even without these conditions being satisfied a district court is still quite likely to stay a patent litigation if a parallel contested proceeding has been filed. While the court has broad discretion in granting a stay, the percentage of stay grants is over 50% nationally.

More problematic for patent owners, the Board is completely focused on meeting the statutory deadlines for completion of the IPRs and CBMs, which seems like a very good thing from an administrative standpoint. As a practical matter, however, there are no extensions of time. Counsel new to this world often do not appreciate this rigidity, which can unfortunately translate to the patent owner being ill prepared for the speed of the fight. The challenger was able to take their time and methodically prepare a petition and set up a strategy for the proceedings. For that reason it is absolutely essential that patent owners come up to speed as quickly as possible once a post grant patent challenge is filed. Effective representation in these contested proceedings requires a total commitment to meeting these rigid time deadlines. Planning accordingly it critical, as is getting out of the gate to a fast start.

Against this backdrop, on March 27, 2014, the Practising Law Institute will hold a one-day conference in New York titled PLI's USPTO Post-Grant Patent Trials 2014. This is the only conference dedicated to addressing the new contested proceedings and their impact on the overall patent environment. The faculty is truly outstanding and includes a former top USPTO official, federal judges, savvy in-house counsel, and leading practitioners in contested proceedings. Speaking at the event will be Federal Circuit Judge Raymond Chen, former Acting Director of the USPTO Teresa Rea, Scott McKeown from Oblon, Rob Sterne from Sterne Kessler and many others. See here for full conference details. With contested proceedings so enormously challenging to patent rights in the United States, and their practical impact is profound and expanding, anyone involved in the enforcement, licensing, sale, or monetization of U.S. patents should consider attending. The event will also be held on April 28, 2014, in San Francisco, and the program will be webcast from the San Francisco location for those unable to attend.

Tags: CBM, covered business methods, inter partes review, IPR, patent, patents, post grant procedures, PTAB, Robert Sterne

35 Comments

Posted In: IP News, IPWatchdog.com Articles, Patent Trial and Appeal Board, Patents, Post Grant Procedures, USPTO

MaxDrei March 24, 2014 5:21 pm

I do not understand, Chicken Little, why a requirement that the challenger's evidence has to get as far as "a preponderance" can be said to render the scales "stacked" in favour of the challenger. An Opponent at the EPO likewise has to get beyond the "balance" of probability but nobody has ever dreamed of suggesting that this amounts to weighting the scales of justice in favour of the challenger.

That in this initial period of contested proceedings at the USPTO so many claims are being found unfit to uphold indicates no more than that they are the lowest hanging fruit, shamelesly offering themselves to be summarily plucked. Dodgy, covetous and over-broad pharmaceutical claims are particularly problematic for despatch in ex parte proceedings, because of the inherent assymetry of adducing evidence of efficacy (or not). When challengers go after them at the USPTO, in inter partes proceedings, it won't be a moment too soon.

ip guy March 25, 2014 10:27 am

Reverse the KSR decision.

Anon March 25, 2014 11:24 am



Look at the *eBay* decision without the 'traditional' blinders of thinking that injunctions are a 'harsh' form of remedy and instead look at the broader underlying goal of remedy to make the transgressed whole.

Gene Quinn March 25, 2014 12:01 pm

MaxDrei-

You ask: "I do not understand, Chicken Little, why a requirement that the challenger's evidence has to get as far as "a preponderance" can be said to render the scales "stacked" in favour of the challenger."

Because in litigation the standard is clear and convincing evidence, which is much, much higher.

You say: "so many claims are being found unfit to uphold indicates no more than that they are the lowest hanging fruit, shamelesly offering themselves to be summarily plucked."

Not really. What is shows is a fundamental misapplication of the law of obviousness. It also shows a complete and total lack of understanding of patent eligible subject matter. Unfortunately, the PTAB has taken their direction from several historically wrong Supreme Court decisions, but instead of moderating those overbroad proclamations given the facts they go further.

You say: "When challengers go after them at the USPTO, in inter partes proceedings, it won't be a moment too soon."

You better be careful what you wish for! If this continues to happen the US will move to a registration system. There simply won't be any justification for an examined patent if every commerically viable patent is killed. That will substantially raise the costs for those who are challengers now.

MaxDrei March 25, 2014 12:31 pm

As you say Gene, "If", and "If" again. Frankly, I expect that we will have to wait a long time before all that you prophesy comes to pass.

How interesting, that you maintain that C&C is "much, much" higher than a preponderance. At other times, in relation to other cases, on other patent law blogs, I have been assured with just as much vehemence, by American commentators just as expert and experienced in patent litigation as you, that the difference is not as great as I suppose it to be!

I have to say, I'm much encouraged, by what you felt impelled to tell me, in reply to my points. Many thanks.

Anon March 25, 2014 12:39 pm

Gene,

I have already seen your point about the registration system come up in private discussions. Personally I am against such systems even though I would like greatly benefit from them.

If we continue on the track of denigrating the results of examination (as it seems to be a one way trip well underway), and remove the provided legal benefit of the standard of Clear and Convincing, then it only makes sense to question why we would have a **Five Billion Dollar** annual hit aimed at those who are opting to share their Quo for a promised (and ever more shaky) Quid.

I have yet to see any reasonable analysis that would make economic sense for such a drain on innovation. For easily 1/20th the cost, an indexed registration system could be built – with far less required on an ongoing annual basis.

But exactly like litigation reform, one must be careful of what one asks for, as the (un)intended consequences may be more than what is desired.

As I have posted previously, litigation reform will likely induce more, not less litigation. At far less than 2% of active patents currently litigated, one must wonder how many of those other patents in the 98+% arena are *not* litigated because the break-even point of bringing litigation is too high?

Likewise, a registration system, even one that removes the C&C standard, may result in a boondoggle **for lawyers** across the patent landscape. I see prosecution costs increasing rather than decreasing as any application would need to be written in the first instance in a litigation-prep mode, as litigation and not the patent office would be the vetting ground. Coupled with some of the proffered 'fixes' in the patent-litigation legislation (i.e. the loser-pay provisions), I see a winner-take-all, bet-the-farm, no expense spared because we can outspend the other side, mindset coming into play.

Playing on puns, admittedly mixed, Gift horses must be looked in the mouth. Especially large wooden ones left outside the city gates.



Gene Quinn March 25, 2014 2:39 pm

MARCHEN SEAD UP DE L'ANDERS DE SOUTH AND LES CONTROLLES DE L'ANDERS DE L'ANDER

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[pardon the pun] next step of the Court in attempting to move this from 103 to the open front gate of 101 is even more appalling.

Right, by findustry" you mean "large incumbent tech corporations who prefer bullying smaller entities" and by temporations who mean the present of the prefer bullying smaller entities" and by temporation and the present of the pres

The Court is seemingly caught in a conundrum. In seeking to weaken the ability to obtain a new patent, they must make existing patents stronger, but they do not want that either. The non-intuitive answer is to make existing patents stronger directly – bringing more clarity and greater reward now will have the countervailing effect of an increased body of **stronger** prior art that will *necessarily* serve as a tougher future hurdle to obtaining a patent. One may even make the correlation that weaker patents means more patents, and that stronger patents would mean less patents. Yes, I admit this is counter-intuitive. But other counter-intuitive notions also exist today (a notable one being that if court costs are reduced, we would likely see increases in litigation).

**keeping in mind the historical notion that "advance" does not mean a linear advance in technology or even a result that works better than results already known. I want to make sure that it is recognized that innovation is not always so geared, and in fact, disruptive innovation is usually thought of as first going backwards in the state of the art – see the writings of Christensen.



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