

A Closer Look at Claim Construction in IPR and CBM

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The US Supreme Court agreed to hear oral argument in *Cuozzo v. Lee*, a case that raises two issues: first, what standard for claim interpretation should be used in the Patent Trial and Appeal Board's (PTAB's) *inter partes* review (IPR) process; and second, whether the parties should have an opportunity to appeal whether the Board exceeded its statutory authority in instituting an IPR proceeding.

RPX has reviewed the data underpinning the first issue in the case. In our analysis of more than 4,000 petitions for IPR or covered business method review (CBM), we found that validity outcomes at the PTAB are similar, regardless of which claim interpretation standard is applied in that forum.

Background: The Two Standards

Current regulations require the PTAB to give the claims of an unexpired patent in IPR their “broadest reasonable interpretation” (BRI). This standard, used in other Patent Office proceedings, differs from the standard articulated in the *Phillips* case and used in district court. There, claims are given their “ordinary and customary meaning”, read “in the context of the entire patent”. The *Cuozzo* petitioner argues that the two are inconsistent and that application of BRI has driven a particularly high success rate for IPRs.

In theory, BRI is broader, as its name suggests: its application should capture within the claim’s scope at least the same subject matter as would the district court interpretation, and potentially more. BRI likewise could sweep in more prior art to invalidate the claim. That theory suggests that a party has a better shot at invalidating the patent in IPR under BRI than it would in district court under *Phillips*. Worse, parallel challenges in the two forums could generate inconsistent outcomes, even if they made the same arguments. *Cuozzo* thus argues that the district court “ordinary and customary meaning” standard should apply in both forums—that is, that the use of BRI should be eliminated from IPRs—in order to return balance and consistency to post-grant proceedings.

However, the PTAB in fact already uses both. Even in IPR and CBM, expired patents are interpreted under the *Phillips* standard, as they would be in district court. Only unexpired patents are subject to BRI. This begs the question: what is the difference between the two in practice?

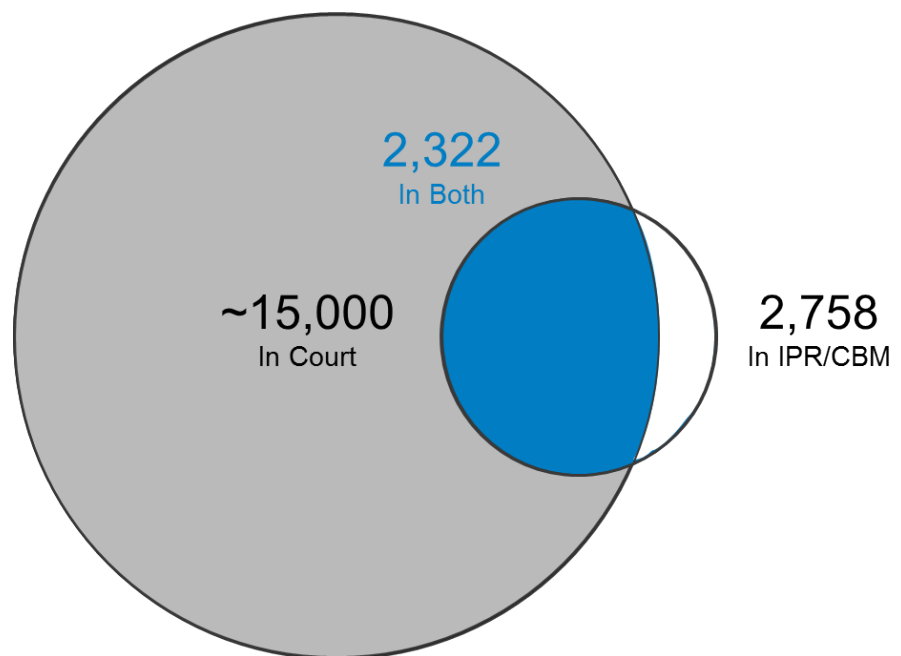
We reviewed IPR and CBM petitions filed and outcomes reached through December 31, 2015. First, we found that high estimates in the literature of “cancellation” rates in general (between 85 and 90%) are misleading when presented without context; other estimates would put the success rate at 60% or below. Second, we compared the PTAB’s use of BRI to its use of *Phillips*. We found similar success rates at the PTAB under the two different standards.

Many Patents Never Reach the PTAB, and Many Petitions Never Reach the Merits

It is important to step back and view these figures in context. A total of 2,758 unique patents have been challenged in IPR or CBM. Of these, 2,322 (84%) were also asserted in US district court. This suggests that IPR and CBM are typically used as an alternative (or at least, a supplement) to litigation. That said, there are many more patents in litigation that remain unchallenged. We estimate that on the order of 15,000 patents have been asserted in US district court since the passage of the America Invents Act (AIA). Chart 1 illustrates the two overlaps, roughly to scale.

Chart 1: Patents in District Court and the PTAB

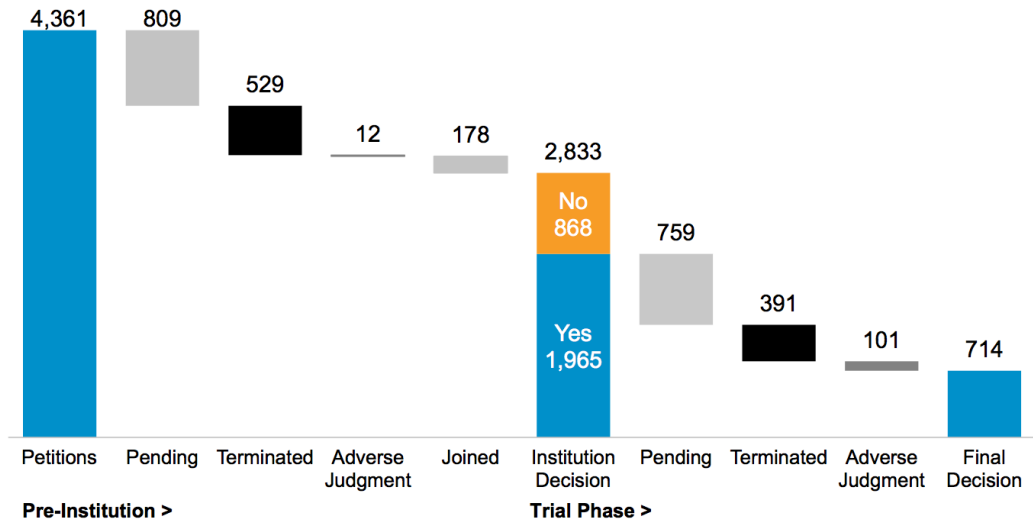
Counts unique patents asserted in district court or challenged in IPR or CBM reviews from September 16, 2011 to December 31, 2015



A total of 4,361 IPR and CBM petitions challenging these patents have been filed to date, shown on the left in Chart 2. About 90% of these are IPRs (3,953) and the other 10% are CBM (408). (We address both in order to increase the size of our sample.) The rest of this chart represents their outcomes.

Chart 2: IPR and CBM Petition Status

Through December 31, 2015



From these 4,361 petitions, only 714 final written decisions have issued; more of the petitions have ended in settlement (920) or been denied institution (868). (Here, and in the rest of our analysis, we tally petitions procedurally “Joined” by the PTAB only once. This prevents us from repeatedly counting the same decision made on the same patent on nearly identical reasoning.) These numbers mean that relatively few challenges end in a decision on the merits of the patent, just like in litigation.

“Success” Depends on How It Is Measured

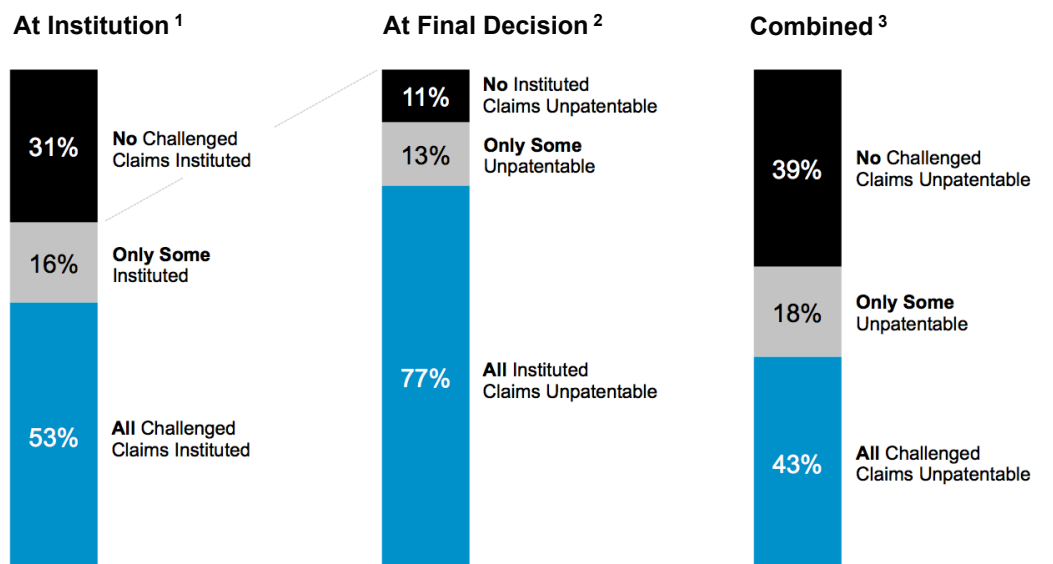
Some have cited a cancellation rate between 85 and 90%. Any estimate that high is likely to be based solely on those 714 outcomes on the merits—ignoring petitions and claims for which trial was not instituted, and ignoring the proceedings that settled before reaching the merits.

The center estimate in Chart 3 (“At Final Decision”) reflects this limited view: nearly 90% of the 714 challenges that have reached final written decision have indeed ruled at least some of the instituted claims unpatentable. (Note that percentages might not sum to 100% due to decimal rounding.) But this approach disregards the claims that survived and does not include the 47% of all challenges in which claims were denied institution, as shown in the left measure (“At Institution”).

A more complete approach would combine the two, putting the petition success rate closer to 61%, as shown in the estimate on the right. Some might even consider the partial victories (18%) a strategic loss, setting the success rate at 43%.

Chart 3: IPR and CBM Success Rates

Through December 31, 2015

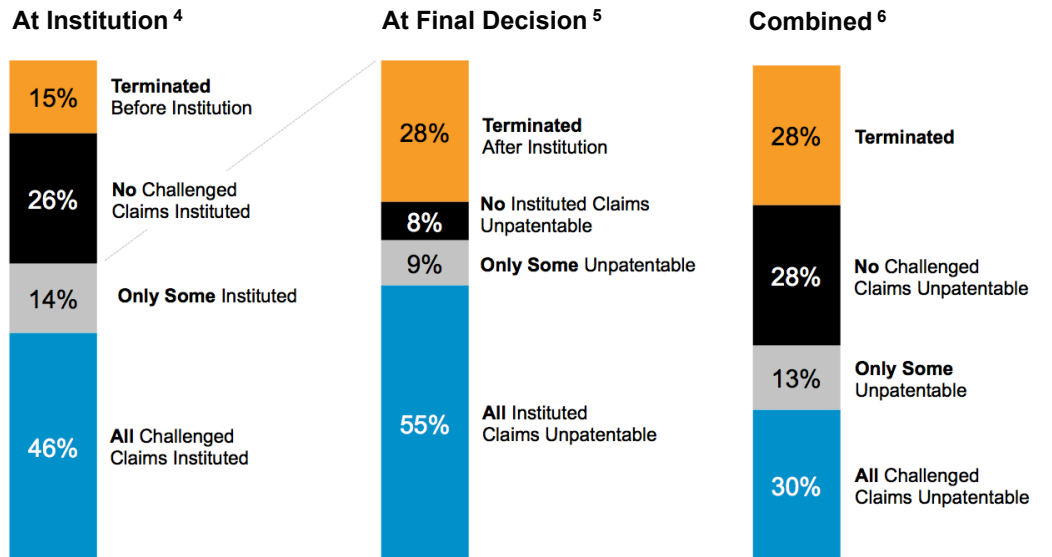


This view makes IPR outcomes seem comparable to those of its predecessor, *inter partes* re-examination. The PTO estimates that 31% of all *inter partes* re-examination certificates issued from 1999 to 2014 (N=964) canceled or disclaimed all claims (available on the USPTO website’s Reexamination Information page). That said, new IPRs still have a critical advantage: a fast timeline, at 18 months from filing the petition to final decision.

If terminations (mostly settlements) are factored into the success rates for IPR, the estimate above drops from 43% to a 30% success rate on the merits, as shown on the right in Chart 4:

Chart 4: IPR and CBM Petition Success Rates (with Terminations)

Through December 31, 2015

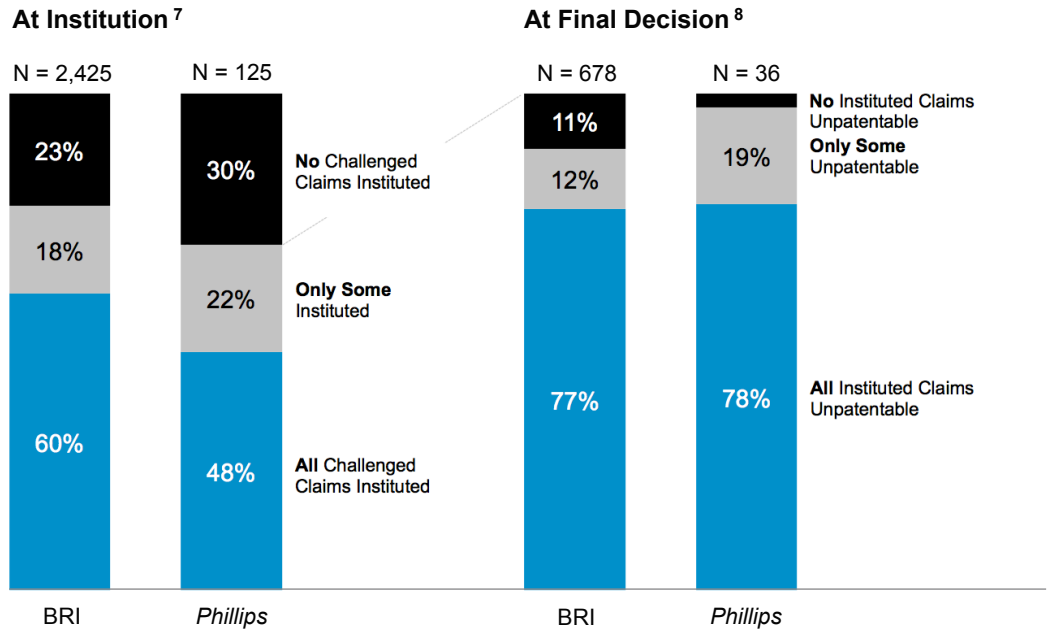


No particular metric is innately superior; rather, each is simply designed to answer a different question. Some would consider settlement a success. And for certain purposes, it might actually make sense to consider only those claims that reach a decision on the merits. But it is incorrect to say that 90% of all IPRs result in a cancellation of the *challenged* claims. That articulation ignores the context in which the metric should be presented.

BRI and *Phillips* Outcomes Are Similar

Again, we can compare the two standards within IPR and CBM because the PTAB interprets expired patents under *Phillips*, as would a district court. The benefit of this approach (over comparing IPRs to district court outcomes) is that it controls for many of the differences between PTAB proceedings and US district court litigation and, to some degree, elicits the effect of the standard itself. From this comparison, we observe similar success rates under the two standards at institution and at final decision.

Chart 5: IPR and CBM Petition Success Rates by Claim Interpretation Standard
Through December 31, 2015



Above, we show the outcomes of challenged claims at institution (left), and the outcomes of instituted claims at final decision (right), separated by which standard applied. (Compare these to the left and center estimates in Chart 3.) To measure these outcomes, we manually reviewed and coded all of the institution decisions and the final written decisions cited above, and separated them based on whether the BRI or *Phillips* standard applied, ignoring the few cases in which we could not discern the applicable standard from either the decision or the petition. We also identified and excluded institution decisions that were not based on the merits (e.g. denials due to statutory bar or lack of standing). Institution success rates are comparable at 78% for BRI and 70% for *Phillips*, as are final decision outcomes at 89% for BRI and 97% for *Phillips*.

We caution against drawing causal inferences about these outcomes and their apparent differences for several reasons, discussed in our endnotes.⁹ Most notably, the two populations of patents are distinct and non-randomly selected, and thus, are not susceptible to standard statistical significance tests. But these descriptive statistics at least suggest that BRI alone cannot explain the observed success rate in IPR.

The Success Rate Has Dropped

These rates have changed greatly in the three years that IPR and CBM have been available. The quarterly institution rate has fallen about 30 percentage points from its early peak. Final written decision success rates are indeed high, but have also fallen. Former *inter partes* re-examination apparently followed a similar pattern: the success rate for those re-examination certificates as of 2008 was 67% (N=33), 36 points higher than the 31% success rate by 2014, noted above. Thus, there is good reason to believe that success rates in new IPRs are settling down. Any forecast based on aggregate success rates should account for this downward trend.

Chart 6: IPR and CBM Institution Outcomes

Through December 31, 2015

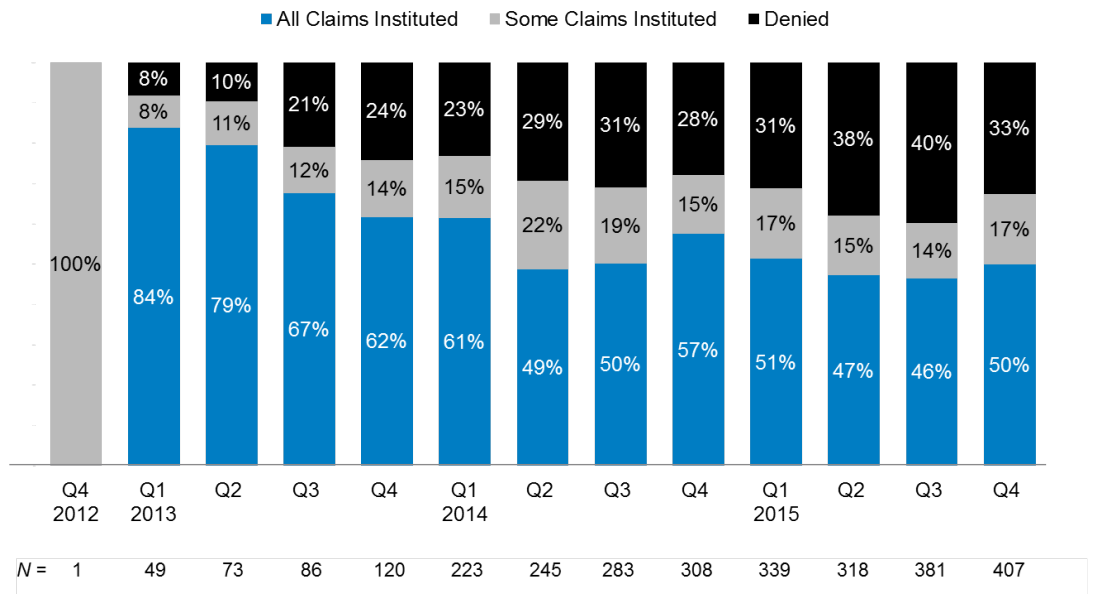
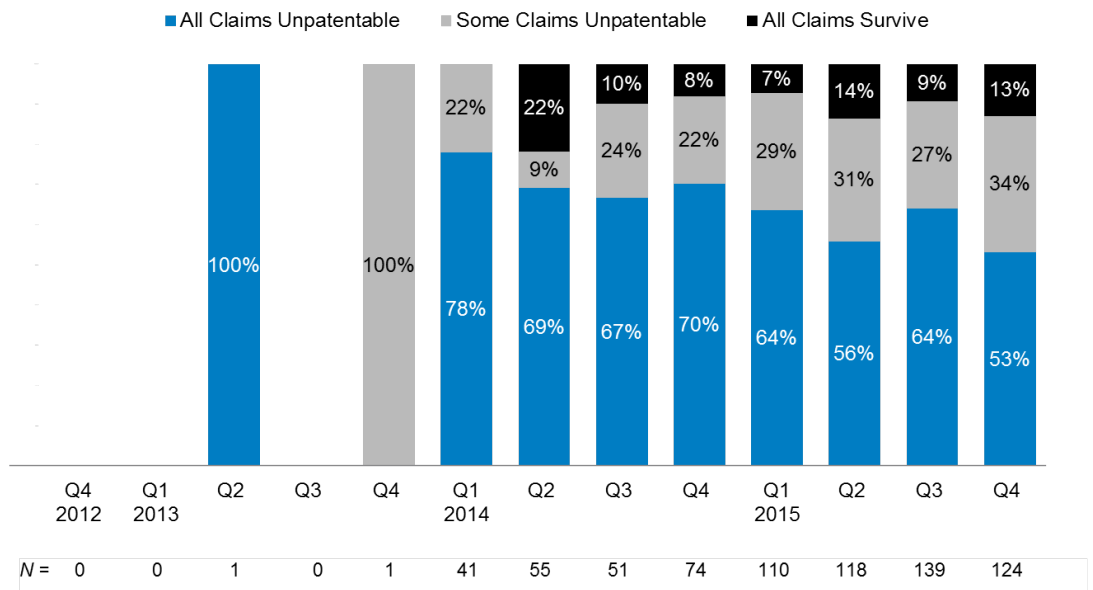


Chart 7: IPR and CBM Final Decision Outcomes

Through December 31, 2015. Includes all claims challenged in the original petition



1. Includes all IPR and CBM petitions that reached an institution decision by December 31, 2015, counting Joinders only once (N=2,833).
2. Includes all IPR and CBM petitions that reached a final decision by December 31, 2015, counting Joinders only once (N=714). Petitions denied institution are not considered.
3. Includes all IPR and CBM petitions that reached a final decision by December 31, 2015 (N=714) and those petitions that were Not Instituted and were filed at least 18 months prior (N=340), counting Joinders only once. (We do not consider more recently filed petitions denied at institution because this would overestimate the denial rate, since we cannot count the recent, still-pending petitions that could reach a merits outcome in the future.)
4. Includes all IPR and CBM petitions that reached an institution decision by December 31, 2015 (N=2,833) and terminated petitions filed at least 6 months prior (N=483), counting Joinders only once. (We limit the time window for the reasons recited above.)
5. Includes all IPR and CBM petitions that reached a final decision by December 31, 2015 (N=714) and petitions that terminated post-institution and were filed at least 18 months prior (N=283).
6. Includes all IPR and CBM petitions that reached a final decision by December 31, 2015 (N=714) and petitions that terminated (at any point) or were denied institution and were filed at least 18 months prior (N=771).
7. Includes IPR and CBM Institution Decisions through December 31, 2015, excluding decisions not based on the merits of the petition, and those for which the claim construction standard could not be discerned (N=2,550.) Separated by whether BRI (N=2,425) or the *Phillips* standard (N=125) applied. We do not attempt to differentiate decisions based on the extent to which the PTAB relied on the claim construction in its reasoning.
8. Includes IPR and CBM Final Decisions through December 31, 2015 (N=714), separated by whether BRI (N=678) or *Phillips* (N=36) applied.
9. First, relatively few patents are subject to *Phillips*. (See footnotes 7 – 8.) This makes population-level patterns more volatile in response to new data. Second, there are sometimes multiple decisions that address distinct issues, and counting them separately might overestimate their impact. We do count the outcomes of procedurally joined petitions only once, since they tend to raise significantly overlapping (if not identical) issues. But sometimes, a group of closely related petitions will reach a decision without being formally joined. We treat these separately, even though it is possible that at least some of the petitions were decided on the same or similar grounds. Finally, the populations of patents subject to BRI and to *Phillips* are distinct and non-random (i.e. unexpired and expired). We cannot fully control the variables that might differ between the two samples under review and cannot be certain that the similarity of outcomes is due to the claim interpretation and not some other characteristic.

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