

Connecticut Law Tribune

December 29, 2014

An ALM Publication

SPECIAL ISSUE

FORECAST



A LOOK AHEAD

A New Era in Intellectual Property Law

FEDERAL REGULATIONS OFFER INCREASED OPTIONS FOR CHALLENGING PATENTS

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On Sept. 16, 2011, President Barack Obama signed the America Invents Act into law. The AIA created the most extensive changes to U.S. patent law in decades. It contains a number of provisions that went into effect at different times so the changes would not be so overwhelming.

One year later, on Sept. 16, 2012, new procedures became available under the AIA for third parties to challenge the validity of someone else's patent at the U.S. Patent and Trademark Office. This article focuses on two of these new post-grant proceedings: inter partes review (IPR) and post-grant review (PGR). IPR is available for all patents. PGR is only available for patents that were filed last year; those will start issuing next year.

Pre-AIA Patent Challenges

In the pre-AIA past, there were only two mechanisms a third party could use to challenge the validity of a patent issued by the USPTO: (1) ex parte reexamination and (2) inter partes reexamination. In an ex parte reexamination, a third party (or the patent owner) could petition the office to reexamine a patent if a prior art patent or publication raised a substantial question of patentability. If the USPTO granted the petition for an ex parte reexamination, then prosecution would be reopened and the patent would be examined again to ensure its validity. However, only the patent owner could participate in the ex parte reexamination. A third-party petitioner's participation was limited to just the initial petition or request. An inter partes reexamination provided

more opportunity for the third party to participate and provide its arguments as to why the patent was invalid.

There was one important restriction on both types of reexaminations that limiting their usefulness. The challenges could only be based on prior art patents or publications and only under two sections of the U.S. Patent Act: 35 U.S.C. §102, novelty, and 35 U.S.C. §103, nonobviousness. Other potential challenges, such as ineligible subject matter under §101 or non-compliance with §112, were not allowed. Other challenges under §102, such as prior sale or public use, also were not allowed. These challenges could only be brought in litigation in a federal district court. However, a third party could only bring these challenges in court if they had actually been sued themselves, or if the patent owner somehow threatened to enforce the patent against them. Thus, a third party who had not yet been sued had only limited options to challenge the validity of a U.S. patent.

AIA Patent Challenges

The America Invents Act provides new proceedings for challenging the validity of an issued U.S. patent. Ex parte reexaminations remain largely unchanged under the AIA. However, inter partes reexaminations have been replaced with inter partes review. IPR offers a number of tools and procedures that were not available in inter partes reexaminations. IPR applies to any patent issued before, on, or after Sept. 16, 2012.

The second major new proceeding, PGR, offers a wider range of validity challenges than IPR, but can only be filed within nine months of the grant of the patent. PGR only applies to patents issued from applications filed on or after March 16, 2013 (this is the date that the "first-to-file" rule



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went into effect under the AIA).

Most significantly, discovery is permitted in PGR and IPR. Discovery was not allowed in reexaminations prior to the AIA. The use of discovery and witnesses in the new proceedings make them somewhat more like litigation than previous USPTO proceedings. However, unlike the broad discovery permitted in federal court, USPTO discovery is much more limited.

IPR Proceedings

An IPR is a "request to cancel as unpatentable one or more claims of a patent." Similar to inter partes reexaminations, an IPR allows a patent to be challenged on any "ground that could be raised under section 102 or 103" that is based on printed publications or patents. The petitioner has the burden of proving unpatentability by a preponderance of the evidence. This standard is lower than the clear and convincing standard for proving unpatentability in federal district court. Thus, in theory, it may be easier to invalidate a patent at the USPTO than in court.

The AIA changed the standard for granting

petitions for inter partes challenges from “a substantial new question of patentability” to “a reasonable likelihood that the requestor would prevail” with respect to at least one of the challenged claims. This new language does appear to implement a stricter standard than the old standard. At first, the USPTO did not appear to apply a stricter standard. Pre-AIA, the USPTO granted about 90 percent of petitions. In fiscal year 2013, the USPTO granted 87 percent. As the sample size grew, however, the USPTO granted fewer petitions. In fiscal year 2014, the percentage granted dropped to 76 percent.

While this grant rate is still fairly high, the USPTO may be becoming more selective in instituting IPRs. Perhaps the change in the standard is having a real impact on the granting of an IPR petition.

The legal fees for an IPR are typically about \$200,000 to \$500,000, with expert fees adding another \$50,000 to \$150,000. Despite these costs, an IPR is much less expensive than litigation (typically \$2 million to \$5 million) and much faster (12 to 18 months versus two to five years). Thus IPRs do offer some clear advantages.

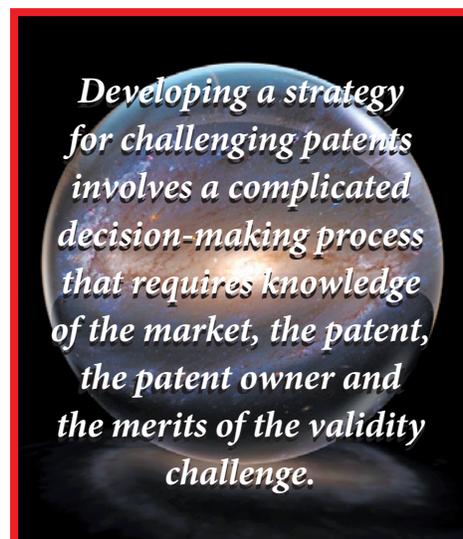
One real concern with IPRs is estoppel. A petitioner is prevented, or estopped, from asserting in a later court or USPTO proceeding any grounds for invalidity that were or even reasonably could have been raised in the petition. Thus there is a serious risk that after an IPR proceeding, the petitioner will be prevented from raising invalidity challenges based on printed publications and patents under §§102 and 103.

There is also an estoppel against the patent owner. The patent owner may not obtain a claim in any patent that is not patentably distinct to a finally refused or canceled claim. This strategy, not previously available, may prevent issuance of similar claims in the patent owner's other applications, such as continuations. Accordingly, an IPR is a potential tool against an entire patent portfolio.

Another potential risk is the inability for the parties to settle their dispute and cancel the IPR. In federal court litigation, the parties can agree to drop their infringement and invalidity claims against each other and the case is dismissed. Typically, the settlement is based on a monetary

payment in exchange for a license to the patent. In contrast, while the IPR rules state that the parties may settle, the USPTO does not always allow the parties to cancel the IPR. In other words, once you start an IPR, you may not be able to stop it. This difference may be due to how the courts and the USPTO view their respective roles. The courts want to resolve disputes and actively promote settlements. The USPTO wants to ensure that all issued patents are valid.

Despite these risks, IPRs are becoming increasingly popular. More than 1,400 IPRs have been filed since September 2012. By contrast, requests for ex parte reexaminations have decreased by 50 percent. The most recent statistics indicate that only about half the claims survive intact once an IPR is instituted. IPR may offer an attractive option for challenging a patent's validity in the right case.



PGR Proceedings

PGR is a new proceedings at the USPTO. It provides a third party the ability to challenge a patent on almost any grounds for invalidity, but only during a limited nine-month window after issuance. Like an IPR, a PGR is a request to cancel as unpatentable one or more claims of a patent. The standard of proof is also the lower preponderance of the evidence standard. Unlike an IPR,

a PGR allows a patent to be challenged on essentially any grounds for invalidity:

- Utility under §101
- Novelty under §102 (including prior sales or public uses)
- Obviousness under §103
- Failure to satisfy the §112 requirements (except best mode)

As with IPRs, estoppel also applies to PGR. However, because the scope of validity challenges under PGR is so much greater than with an IPR, the scope of the estoppel is equally great. With IPRs, the petitioner is prevented from raising only challenges based on printed publications and patents under §§102 and 103 that he raised or reasonably could have raised.

The “raised” or “reasonably could have raised” standard applied to the PGR could result in the petitioner being unable to raise any invalidity defense in a subsequent proceeding. We will have to wait for the courts to interpret the scope of “reasonably could have raised” to determine the scope of the estoppel.

The length of time for a PGR will be similar to an IPR (12 to 18 months), but the legal fees will also be higher, about \$400,000 and \$800,000, because of the increased scope in subject matter.

Conclusion

With these new tools, parties considering challenging an issued U.S. patent must make a number of strategic decisions that are strongly dependent on the facts. Developing a strategy involves a complicated decision-making process requiring knowledge of the market, the patent, the patent owner and the merits of the validity challenge. These new proceedings offer companies different tools for different problems. Selecting the right tool for challenging a patent must be done on a case-by-case basis.

PGR / IPR may be attractive options for invalidating patents because of (1) lower costs; (2) faster resolutions; (3) the opportunity for some discovery; and (4) the lesser burden of proof to invalidate patents. On the other hand, the estoppel risks and the ability to settle must be considered.

District courts may also be the better choice in certain cases because (1) broad discovery rights may outweigh PGR/IPR advantages; (2) there are no estoppel concerns; (3) the judge and/or jury will have a greater opportunity evaluate the credibility of witnesses; and (4) there is likely to be greater financial pressure on the patent owner. ■

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