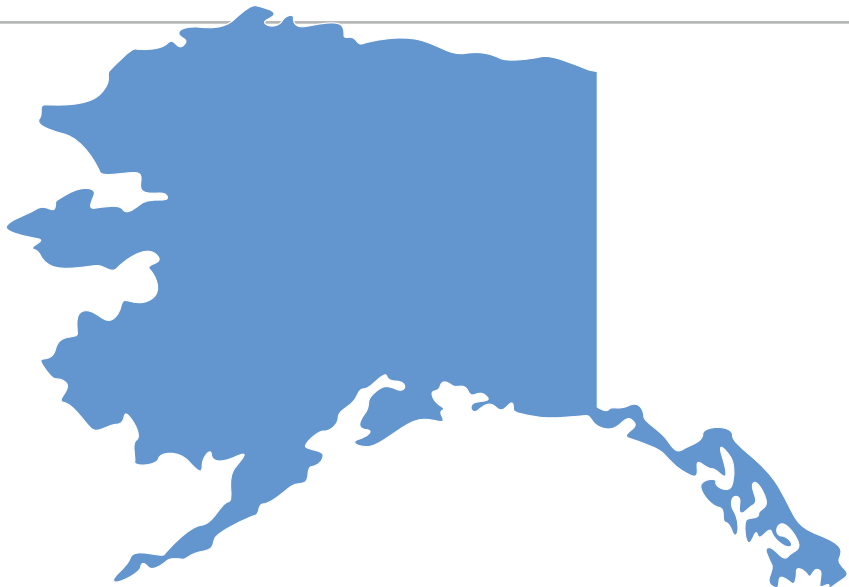
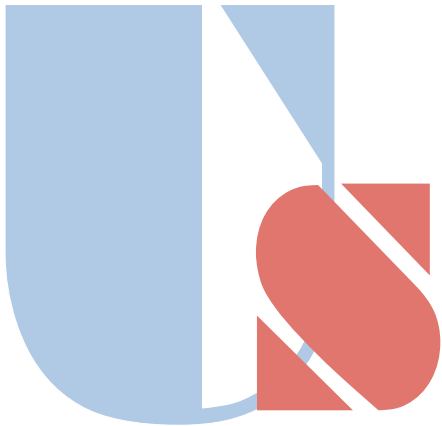


# COVER STORY



On September 16<sup>th</sup> 2011, President Obama signed the *America Invents Act (AIA)* into law. The AIA created the most extensive changes to U.S. patent law in decades. The AIA contains a number of provisions that went into effect at different times so the changes would not be so overwhelming.

One year later, on September 16<sup>th</sup> 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 (USPTO). The new rules are set up so that the options available to the "third party" challenger become more restrictive, the longer the "third party" challenger waits. It is therefore crucial to be proactive where possible in order to ensure the most beneficial course of action is available against competitors.

This article will focus on two of these new post-grant proceedings: inter-partes review (IPR) and post-grant review (PGR). First, we will

review how patent practitioners have used the new inter-partes review proceeding, which has been available since September 16<sup>th</sup> 2012. Second, we will offer our expectation on how another proceeding called post-grant review will be utilized. Post-grant review is only available for patents issuing from applications filed on or after March 16<sup>th</sup> 2013. We expect to see the first of these post-grant reviews in 2015. Finally we will discuss factors to consider when deciding on a particular strategy to challenge a patent.

### Pre-AIA Patent Challenges

In the past, pre-AIA, there were only two mechanisms for a third party to challenge the validity of an issued U.S. patent at the USPTO: ex parte reexamination and inter partes reexamination. In an ex parte reexamination, a third party (or the patent owner) could petition the USPTO 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 ex parte and inter partes reexaminations that limited their usefulness. The validity 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 (non-obviousness). 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 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 AIA 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). As described below, 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 September 16th 2012. Thus all patents (except those that were already in an inter partes reexamination when IPRs went into effect) that have had an inter partes challenge since September 16<sup>th</sup> 2012 have been subject to the IPR rules.

The second major new proceeding is called post-grant review (PGR). PGR offers a wider range of validity challenges than IPR, but can only be filed within 9 months of the grant of the patent. PGR only applies to patents issued from applications filed on or after March 16<sup>th</sup> 2013 (this is the date that the “first-to-file” rule went into effect under the AIA).

Most significantly, discovery is permitted in PGR and IPR. Discovery refers to the compelled production of documents, testimony, and information between the adverse parties. Discovery is common in federal court and is often very broad and expensive. Discovery was not allowed in reexaminations prior to the AIA. The use of discovery

and witnesses in IPR and PGR will make these proceedings more like litigation. Unlike the broad discovery permitted in federal court, discovery at the USPTO is likely to be much more limited.

### IPR Proceedings

An IPR is “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 requiring a reasonable likelihood that at least one claim would be found to be invalid seemed like a stricter standard than merely raising a substantial question about patentability. At first, the USPTO did not appear to apply a stricter standard. Pre-AIA, the USPTO granted about 90%. In FY 2013, there were 532 petitions for IPR and the USPTO granted 87%. As the sample size grew, however, the USPTO granted fewer petitions. In FY 2014, the percentage granted dropped to 76%.

	IPRs Instituted	Percent Instituted
FY13	167	87%
FY14	526	76%

While this rate of success 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.

Currently an IPR can be filed at any time against any patent. However for PGR-eligible patents (i.e., patents issuing from applications filed on or after March 16<sup>th</sup> 2013), IPRs can only be filed after the 9 month window for a PGR. The filing fees (which does not include the attorney’s fees) due the time of filing an IPR petition are

- 1) IPR Request fee: 9,000 U.S. dollars
- 2) IPR Post-institution fee: 14,000 U.S. dollars

- 3) There are also excess claim fees

The Post-Institution fee is refunded if the USPTO does not institute an IPR. The legal fees will be about 200,000-500,000 U.S. dollars with expert fees adding another 50,000-150,000 U.S. dollars.

Despite these costs, an IPR is much less expensive than litigation in court (typically 2-5 million U.S. dollars) and much faster (12-18 months versus 2-5 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 any ground for invalidity which were or even reasonably could have been raised in the petition. Thus there is a serious risk that after an IPR proceeding, the petitioner would be prevented from raising invalidity challenges based on printed publications and patents under sections 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 cancelled claim. This strategy, not previously available, may prevent issuance of similar claims in the patent owner’s other

# COVER STORY

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. For example, in litigation in federal court, 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. The IPR rules state that the parties may settle, but the USPTO is not always allowing 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 1400 IPRs have been filed since September 2012. By contrast, requests for ex parte reexaminations have decreased by 50%.

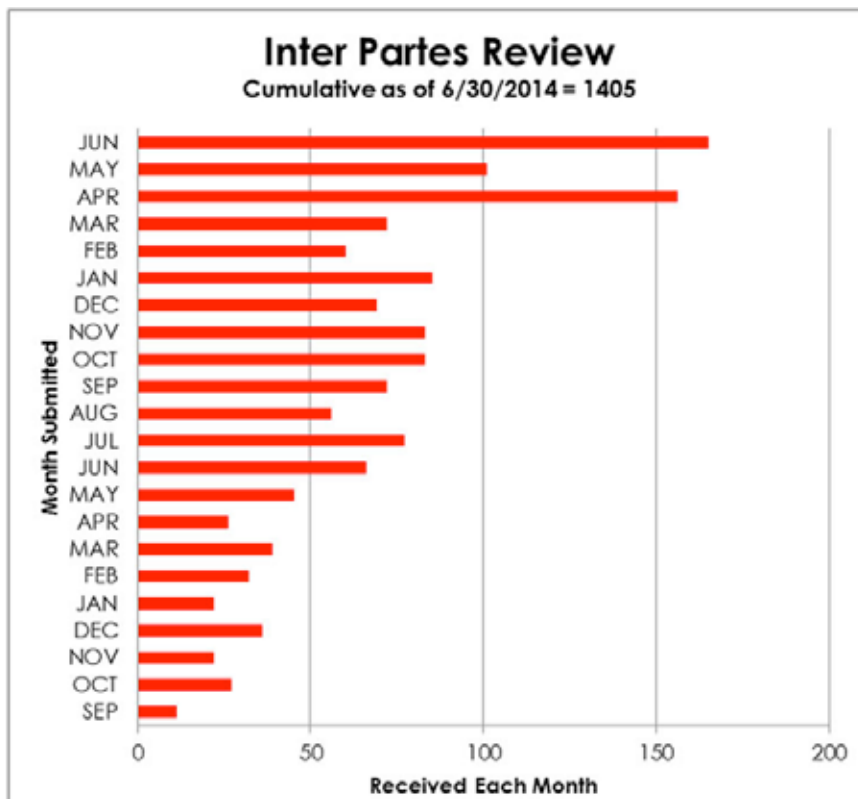
The most recent statistics (as of September 4<sup>th</sup> 2014) indicate that only about half the claims survive intact once an IPR is instituted. Looking at a sample of 11,046 claims in 348 petitions terminated:

IPR may offer an attractive option for challenging a patent's validity in the right case.

### PGR Proceedings

PGRs are brand new proceedings at the USPTO. However, oppositions have been common practice in Europe for quite some time. Our experience with European oppositions provides a basis for our expectations for PGR practice.

PGR provides a third party the ability to challenge a patent on almost any grounds for invalidity, but only during a limited 9-month



5,045 claims challenged	6,001 not challenged
3,344 claims instituted (66%)	1,701 not instituted (34%)
999 claims unpatentable (30% of claims instituted, 20% of claims challenged)	606 claims canceled by owner (18% of claims instituted, 12% of claims challenged)
	1,739 claims patentable (52% of claims instituted, 34% of claims challenged)

window. Given this short time frame, it may be best practice to monitor competitors' pending applications and docket the 9-month deadline for a PGR when their patent issues. It may also be best practice to docket the 9-month date for your own patents. We would expect a patent to increase in value once the deadline for a PGR has expired.

Like an IPR, a PGR is 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)

A PGR may also be used to address "a novel or unsettled legal question that is important to other patents or patent applications."

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 Sections 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.”

The length of time for a PGR will be similar to an IPR (12-18 months). The filing fees are higher than an IPR though.

1) PGR Request fee: 12,000 U.S. dollars

2) PGR Post-institution fee: 18,000 U.S. dollars

3) There are also excess claim fees.

The Post-Institution fee is refunded if the USPTO does not institute a PGR. The legal fees will also be higher due to the increase scope about 400,000 to 800,000 U.S. dollars.

### IPR vs. PGR vs. Court

With these new tools, companies considering challenging an issued U.S. patent must make a number of strategic decisions that are strongly dependent on the facts of the case. First of course is budget. The following chart compares some key differences in cost, time, and ability to settle:

The second factor to consider is the institutional competency of the USPTO and a federal district court:

The third factor is the strength and type of the invalidity challenge. A highly technical argument focused on a few prior art references may be well suited for the USPTO. A complicated narrative may be more suited for a court.

The fourth factor is evaluating the risk of actually being sued.

Proceeding	Cost (petitioner)	Time	Settle
<i>Ex parte</i> reexam	\$20K	Avg. 20 months or more	No
IPR	\$200-500K	12-18 months	Not always
PRG	\$400-800K	12-18 months	Not always
District Court	\$2-5M	2-5 years or more	Yes

USPTO	District Court
Strong technical background	No technical background
Excellent understanding of patent law	Good understanding of patent law
Very experienced applying prior art to claims	Some experience applying prior art to claims
No experience at discovery disputes	Routinely handle discovery disputes
Little experience outside patent law: sales, non-disclosure agreements, contracts	Tremendous legal expertise in many areas of the law
Little contact with witnesses	Regularly determine credibility of witnesses


There is no need to spend money on an IPR or PGR if the product or method clearly does not infringe, or there is low risk that the patent owner will file a lawsuit. In those cases, perhaps waiting for a lawsuit is the best strategy. On the other hand, if the patent owner is known to aggressively enforce its patents, and the chances of infringement are greater, then a proactive approach may be a better strategy. Also consider the market. Is this a product you want to launch immediately or can you wait and potentially design around the patent?

As you can tell, planning a strategy involves a complicated decision making process that requires 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 one will be done on a case-by-case basis.

### Conclusion

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

District court may also be the better choice in certain cases because (1) broad discovery rights may outweigh PGR/IPR advantages; (2) no estoppel concerns; (3) the district court judge may be most

likely sympathetic finder of fact; and (4) greater financial pressure on the patent owner. 



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