

## Examining AIA's High-Speed Inter Partes Review System

Law360, New York (November 15, 2011, 12:17 PM ET) -- The Leahy-Smith America Invents Act (AIA) was signed into law by President Obama on Sept. 16, 2011. Starting in one year, on Sept. 16, 2012, the entire universe of existing U.S. patents<sup>[1]</sup> will suddenly be eligible for a new high-speed inter partes review system to resolve patent validity disputes under the AIA, which requires a conclusion in 18 months or less.

Many variables will impact how much this procedure will transform patent litigation in the U.S., including the U.S. Patent Office's funding level as determined by Congress (which impacts whether there will be adequate resources and enough administrative patent judges to handle the new proceedings), rulemaking by the U.S. Patent Office (e.g., the exact scope of discovery permitted in the patent office to attack expert declarants), and the willingness of courts to stay litigation in favor of new inter partes reviews.

In this article, we attempt to highlight some of the new features of the inter partes review proceeding under the AIA as compared to inter partes reexamination proceedings under the old statute, which will be phased out on Sept. 16, 2012. In addition, we attempt to provide preliminary answers to the following questions:

- Will inter partes review lead to a higher rate of patent invalidity than litigation?
- Will U.S. courts be more likely to stay litigation for an inter partes review?
- How much discovery will the U.S. Patent Office permit in inter partes review?
- Will parties be more likely to turn to inter partes review for the possibility of acquiring intervening rights, a remedy that is not available in litigation?
- Will inter partes review be a cheaper way to resolve validity questions than litigation?

## **Brief Overview of Inter Partes “Review”**

As mentioned, enactment of AIA means that inter partes reexamination proceedings will end as a procedure on Sept. 16, 2012. Beginning on that date, “petitions for inter partes review” will be accepted by the U.S. Patent Office.[2] Although at the time of this writing the U.S. Patent Office has not yet proposed any implementing rules for inter partes review, the new law has shed some lights on some of the ways the new “review” will differ from the current reexamination. Below are highlights on some of the differences (not in any particular order):

### *The Review Standard*

While the inter partes review scheme under the AIA will not commence for another year, the standard of the “review” begins to apply with the enactment of the AIA. In other words, effective between Sept. 16, 2011 and Sept. 16, 2012, although the inter partes reexamination proceeding still remains, the review standard of the reexamination has changed to that of the inter partes review.

Specifically, the previous “substantial new question” standard has been replaced with a new “reasonable likelihood” standard. The threshold is now that a requester must show there is a “reasonable likelihood” that s/he would prevail with respect to at least one challenged claim. Thus, it is required to conform immediately any new inter partes reexamination requests to the new standard; otherwise they may be denied.

### *The Scope of Estoppel*

A petitioner for inter partes review may not assert in district court litigation or U.S. International Trade Commission proceeding that a claim is invalid on grounds the petitioner raised or reasonably could have raised during review resulting in a final decision. The “raised or could have been raised” standard under the new scheme is the same as that under the current inter partes reexamination system under 35 U.S.C. § 315(c). One notable difference from the old statute is that AIA extends the two-way estoppel to ITC proceedings in addition to courts — the estoppel of inter partes reexamination did not apply to ITC proceedings.

### *When Permitted*

A petition for inter partes review must be filed within one year of litigation asserting a patent against the requester and at least nine months after the issue date of the patent. A requester may not petition for inter partes review in the event that the requester has already filed its own lawsuit challenging validity.

### *Patents Eligible for Inter Partes Review*

Current inter partes reexamination is available only for patents on applications filed on or after Nov. 29, 1999. By contrast, the new inter partes review will be retroactively available for all patents in existence on Sept. 16, 2012 (including those not currently eligible for inter partes reexamination). In other words, effective Sept. 16, 2012, one may request inter partes review on any patent in existence, assuming eligibility under the other requirements discussed in this article.

### *Quota*

Under the new inter partes review scheme, the U.S. Patent Office has the ability to limit the number of inter partes review proceedings during the first four years if they exceed the number of inter partes reexaminations from the last fiscal year before implementation. If the quota is reached, a petitioner could be completely blocked from using inter partes review. However, there is no indication at the time of this writing what the quota is and how this will be implemented.

### *Time to Final Decision*

Once a petition (for inter partes review) is filed, the U.S. Patent Office determines whether to institute a review, and the AIA mandates that the U.S. Patent Office must issue a final determination within one year of the institution (with a six-month extension possible for a complex case).

“Institution” refers to the date upon which the Board of Appeals of the U.S. Patent Office issues an order finding that the petitioner has met a minimum threshold requirement for inter partes review. On average, current inter partes reexaminations take up to three years.[5][6] In other words, inter partes review will cut the average inter partes reexamination time by more than 60 percent.

### *Reviewing Authority*

Inter partes reviews from start to finish will be handled by the USPTO Board of Appeals. Hence, under the new scheme, the review bypasses altogether the examiner’s level and starts immediately at the board for adjudication — the board’s decision is appealable only to the Federal Circuit.

This addresses one of the key drawbacks of current inter partes reexamination proceedings, which have tended to be very slow in view of the multiple levels of review within the U.S. Patent Office (also contributing to reluctance by courts to stay litigation pending the outcome of a lengthy reexamination).

### *Limited Right to Conduct Discovery*

The AIA provides a limited scope of discovery during inter partes review, specifically in relation to expert declarations. The act states that:

“Director shall prescribe regulations ... setting forth standards and procedures for discovery of relevant evidence, including that such discovery shall be limited to —  
(A) the deposition of witnesses submitting affidavits or declarations; and  
(B) what is otherwise necessary in the interest of justice[.]”[7]

A critical part of the U.S. Patent Office’s rulemaking will be fleshing out discovery procedures for inter partes review. In particular, it will be a challenge to keep discovery compact enough to meet the statutory mandate of delivering a final decision within a year, or 18 months at most.

## *Ability to Settle*

Under the AIA inter partes review scheme, the parties have an absolute right to settle and terminate an inter partes review if the U.S Patent Office has not "decided the merits of the proceeding" — such an ability is not expressly provided under the current inter partes reexamination statute.[8]

## **Will Inter Partes Review Lead to a Higher Rate of Patent Invalidity than Litigation?**

A better way to ask the question is: Given the facts of a specific situation, will inter partes review or a court be the better forum to prove invalidity? Simply relying on general statistics to answer the question as phrased in the title above may be misleading for the reasons explained below.

When looking at a specific situation, among the important factors to consider will be (1) whether an administrative patent judge with a technical degree is a better audience than the court for the specific types of arguments that will be presented,[9] (2) whether written expert declarations with exhibits and limited deposition transcripts are adequate to convey the full scope of invalidity arguments based on the particular prior art being used (as opposed to the broader discovery available in litigation), and (3) whether the preponderance of the evidence standard applicable to inter partes review tilts in favor of a requester in cases which are close calls (as opposed to trying to satisfy the clear and convincing standard in litigation).

Because U.S. Supreme Court and Federal Circuit interpretation of our patentability laws continuously evolves, there will always be populations of U.S. patents granted under a prior standard that may be more susceptible after a court decision which changes the standard. For example, a large number of U.S. patents were granted prior to the Supreme Court's KSR Int'l Co. v. Teleflex Inc. decision.

Obviousness determinations post-KSR may be closer calls in some of these patents, depending on the strength of the prior art available. Not only does case law fine-tuning the standards of obviousness and anticipation create situations where patentability may be decided differently by the patent office in an inter partes review, but also case law relating to written description and enablement.

When the courts alter the standards of enablement and written description, a patent issued before the new standard may become more vulnerable to attack based upon assertion of intervening prior art that published between filing dates.[10]

It is tempting to examine the rate of invalidity in inter partes reexamination proceedings to get some idea of the success rate of requesters. Based on data published by the U.S. Patent Office,[11] of all of the about 1,280 inter partes reexaminations filed so far, 278 inter partes reexamination certificates have been issued. Of these issued certificates, 44 percent of the certificates were issued with all of the claims canceled and 43 percent were issued with some claim changes, triggering the possibility of intervening rights.

Commentators have correctly observed that these early statistics may have outcome bias in favor of the requester to the extent they did not include appeals (meaning the patent owner just gave up at an early stage without fighting on appeal).[10]

Looking at an even smaller subset of completed inter partes reexaminations, in which appeals did occur, 54 percent had a full affirmance by the board and 29 percent had affirmances-in-part by the board,[11] but this does not really help because they do not inform one whether the patent owner appealed, the requester appealed, or both appealed, so the affirmance may represent an affirmance of a decision in favor of patentability.

There are a few high-profile cases involving inter partes reexamination that offer some lessons about the kind of situations where the patent office may be a more favorable forum than the court for establishing invalidity. In reexaminations associated with RIM Inc. v. NTP Ltd., a large number of claims were found invalid by the USPTO Board of Appeals in the reexaminations (even though the court had previously found them to be valid).[12]

Similarly, in Hitachi Ltd. v. Translogic Corp., a reexamination decision of patent invalidity from the Board of Appeals was affirmed by the Federal Circuit after a court had previously found the patent valid and infringed.[13]

### **Will U.S. Courts Be More Likely to Stay Litigation for an Inter Partes Review?**

Presently, the rate of litigation stays resulting from inter partes reexamination varies from judge to judge. Important factors include whether the reexamination is started early in the course of the litigation (late filing tends to diminish likelihood of a stay) and how long the reexamination is expected to take. The latter factor can be an important reason many requests for stay are denied, particularly due to the possibility of, for example, stale evidence, faded memories and lost documents.[14]

With a statutory mandate to complete inter partes review in no later than 18 months, it seems likely that the rate of granting stays may increase, assuming the U.S. Patent Office delivers on this mandate.

### **How Much Discovery Will the U.S. Patent Office Permit in Inter Partes Review?**

Under the AIA, the director must prescribe regulations “setting forth standards and procedures for discovery of relevant evidence, including that such discovery shall be limited to ... what is otherwise necessary in the interest of justice[.]” It is not clear whether the “in the interest of justice” standard of the AIA will be applied similarly by the U.S. Patent Office as it has been in interference proceedings, in which 37 C.F.R. 1.687 states, “upon a showing that the interest of justice so requires, an administrative patent judge may order additional discovery.”

In interference proceedings, the board has created a fairly limited scope of discovery. For example, in *Schubert v. McKernan*, the board held that “[a] mere broad assertion that discovery is needed for cross-examination per se is not considered sufficient to establish that the ‘interest of justice’ requires the discovery.” Thus, a specific showing may be required to support a discovery request in an inter partes review.

## **Will Parties Be More Likely to Turn to Inter Partes Review for the Possibility of Acquiring Intervening Rights, a Remedy That Is Not Available in Litigation?**

It has always been the case that narrowing amendments to the claims of a patent in reexamination create the possibility of intervening rights, a remedy that is not available in litigation. When intervening rights are found, all damages prior to issuance of the reexamination certificate are eliminated (this is called "absolute intervening rights"). As to future infringement, the court has discretion to determine if the defendant may continue selling the product and, if so, under what conditions.[15]

The Federal Circuit recently held in *Marine Polymer Technologies Inc. v. HemCon Medical Technologies Inc.* (Fed. Cir. Sept. 26, 2011) that merely arguing a new claim construction during reexamination of a single limitation can create intervening rights for defendants, even if no changes to the claims are made. If this decision holds up, it substantially expands the circumstances that can give rise to intervening rights. A requester may strategically choose to target a particular claim limitation in a way that forces the patent owner to provide a new construction in order to overcome a prior art reference.

## **Will Inter Partes Review Be a Cheaper Way to Resolve Validity Questions Than Litigation?**

The American Intellectual Property Law Association's 2011 "Report of the Economic Survey" indicates that the average cost of an inter partes reexamination is estimated to be about \$280,000, in contrast to the average cost of a patent litigation to the Federal Circuit, estimated by the AIPLA to be \$3 million for a low-stakes case (i.e., less than \$25 million at stake) and \$6 million for a higher-stakes case.

The cost of inter partes review will ultimately depend on fees set by the U.S. Patent Office, the nature of the implementing rules and the scope of discovery permitted. Nevertheless, it is likely to be substantially cheaper than litigation and in line with inter partes reexamination.

## **Conclusions**

Whether to choose inter partes review under the AIA for resolving validity disputes will be a complex determination dependent on a number of factors discussed above. Despite the uncertainty as to how the U.S. Patent Office will implement this new procedure through rulemaking, the broad requirements spelled out under the statute, together with recent case law, suggest that it will be an attractive option, given its high speed, expected low cost relative to litigation and potential to generate intervening rights, and the ability for parties to settle before a decision on the merits.

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*The opinions expressed are those of the authors and do not necessarily reflect the views of the firm, its clients, or Portfolio Media, publisher of Law360. This article is for general information purposes and is not intended to be and should not be taken as legal advice.*

[1] Under the AIA, beginning on Sept. 16, 2012, inter partes review may be initiated for any US patent at least 9 months after grant by a requester who has not been sued on that patent more than a year ago. Other restrictions on availability of this new procedure are discussed below.

[2] Ex parte reexamination will still be available. The other new inter partes proceeding created by AIA, called post grant review, will only be available for patents issued on applications filed on or after March 16, 2013.

[3] Smith, "Inter partes Reexamination", Ed. 1E. 2009

[4] [http://www.US Patent Office.gov/patents/IP\\_quarterly\\_report\\_June\\_2011.pdf](http://www.US Patent Office.gov/patents/IP_quarterly_report_June_2011.pdf)

[5] 35 U.S.C. § 316(a)

[6] Current 35 U.S.C. § 317 requires a "final decision" from a court to terminate an inter partes reexamination. Settlements may or may not constitute a "final decision" depending on how they are structured. In addition, the extent to which claims have changed during the course of the reexamination will impact the extent to which estoppel acts as a bar against further reexamination proceedings.

[7] Ultimately, an appeal of a district court's decision on validity or an appeal of an inter partes review will be decided by the Federal Circuit. However, the latter proceedings will be reviewed under a preponderance of the evidence standard, with a "substantial evidence" standard applied to the board's fact-finding, as opposed to review under the clear and convincing standard with review of fact-finding by the district court under a "clearly erroneous" standard.

[8] See reexamination control No. 90/007,828, where the Federal Circuit's case law relating to written description was cited in support of priority denial, leading to anticipation of the claims based on intervening prior art references.

[9] [http://www.US Patent Office.gov/patents/IP\\_quarterly\\_report\\_June\\_2011.pdf](http://www.US Patent Office.gov/patents/IP_quarterly_report_June_2011.pdf)

[10] See Smith, <http://www.patentlyo.com/patent/2009/07/requester-success-rates-in-inter-partes-reexamination.html>.

[11] See McKeown, <http://www.patentspostgrant.com/lang/en/2011/05/recent-patent-reexamination-appeal-results>.

[12] See Maebius, Berkowitz and Smith, [http://www.foley.com/publications/pub\\_detail.aspx?pubid=6637](http://www.foley.com/publications/pub_detail.aspx?pubid=6637).

[13] Id. The authors note that the patents at issue were granted before the Supreme Court's KSR decision, and in the reexaminations of the NTP and Translogic patents, many of the claims were found to be obvious under the KSR standard.

[14] See e.g., *Cooper Notification Inc. v. Twitter, Inc.*, 2010 WL 5149351, \*4 (D. Del. 2010).

[15] In *Seattle Box v. Industrial Crating* (Fed. Cir. 1984), the court summarized three main types of equitable intervening rights:

- (1) confine the infringer to the use of those infringing items already in existence;
- (2) permit the infringer to continue in business under conditions that limit the amount, type, or geographical location of its activities; or
- (3) permit the infringer to continue in business unconditionally.

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