

Inter Partes Review in the Patent Trial and Appeal Board: A Top Ten List

By Peter C. Schechter

I. Introduction

Since the *inter partes* review (IPR) procedure became available on September 2012 as part of the America Invents Act of 2011,¹ more than 1,000 petitions have been successfully filed² in the USPTO Board of Patent Trial and Appeal (PTAB) challenging the validity of patents on the basis of printed publications under 35 U.S.C. §§ 102 (anticipation) or 103 (obviousness). In contrast, in the thirteen years after *inter partes* reexamination was introduced as part of the American Inventors Protection Act of 1999, a total of 2,419 requests were filed in connection with that now-replaced mechanism for participatory validity challenges in the USPTO.³ At the current pace of IPR petition filings, use of the new procedure will eclipse that of the old in just its third full year of availability. By any reasonable measure, IPR is becoming the “new normal” for U.S. patent validity challenges.

There are a number of important reasons why IPR has become so popular so quickly, including both procedural and substantive IPR rules viewed as favoring the patent challenger and the apparent greater ease of obtaining stays of related district court infringement litigation. While IPR is not being used equally by patent challengers across all technology sectors, for many companies in broad technological categories, IPR is definitely becoming the weapon of choice when defending against the accusations and licensing advances of patent owners, whether in correspondence or in district court.

II. IPR Is Popular and Becoming More Popular Every Day

According to statistics and data available from the USPTO’s website portal for the PTAB, seventeen IPR petitions were successfully filed in the final two weeks of FY2012, when IPR first became available. In FY2013 (Oct. 1, 2012 through Sept. 30, 2013), 514 new IPR petitions were successfully filed, averaging about 43 per month. The average does not tell the whole story, however, as the pace of new filings has been steadily climbing. In the first part of FY2014 (Oct. 1, 2013 through March 6, 2014), 393 new IPR petitions were successfully filed, an average of about 75 new petitions each month. Even if the rate of new filings levels off, roughly 900 new petitions will be filed in FY2014. But there is nothing to suggest that the pace of filings will level off to a consistent monthly number anytime soon. In fact, no one knows what the eventual steady-state rate will be.

If Congress does not change any of the rules that make IPR so appealing to patent challengers, and if the

PTAB continues to issue “final written decisions” that make sense to the IP community at large (and especially to the “patent defendant community”), and those decisions are affirmed (both procedurally and substantively) by the Federal Circuit, it is fair to assume we will soon see at least 100 new IPR petitions filed every month. How high can the monthly number of new petitions go? According to the PricewaterhouseCoopers 2013 Patent Litigation Study (June 2013),⁴ “the number of patent lawsuits filed spiked by almost 30 percent in 2012 to over 5,000, with some of that increase attributed to the AIA’s ‘anti-joinder’ provision.” The study further noted that “[p]atent infringement litigation shows no signs of cooling off....”

In view of the effect of the AIA’s anti-joinder provision, it is not reasonable to conclude that there will be 5,000 separate defendants (i.e., one per lawsuit) ready, willing, and able to file IPR petitions each year because plaintiffs now file multiple lawsuits for infringement of the same patent by different infringers rather than a single multi-defendant suit. On the other hand, many suits involve allegations concerning multiple patents. Thus, the steady-state pace of new IPR petitions per year likely falls somewhere between the 900 new petitions that will be successfully filed in FY2014 and the 5,000 (or more) new infringement suits filed each year as the IP community becomes more familiar and comfortable with the IPR process.

III. How IPR Works

By now, there have been hundreds—perhaps thousands—of presentations, speeches, articles, papers, conferences, and symposia about how IPR works, and there surely will be more in the future. This article gives only a brief overview of the procedure before focusing on the many aspects of IPR that make the procedure so attractive to patent challengers.

IPR replaced *inter partes* reexamination as the mechanism for participatory challenge in the USPTO of any issued patent under 35 U.S.C. §§ 102 and 103 based on prior art patents or printed publications.⁵ A petition may be filed by anyone other than the patent owner, subject to certain restrictions.⁶ The restriction coming into play most often is that IPR is available only during the one year after the petitioner (or a privy) is served with a patent infringement complaint.⁷ IPR is unavailable to a party that has already filed a court action challenging patent validity.⁸ These restrictions are generally unimportant to entities that take prompt action upon being accused of infringement.

The IPR petition is subject to exacting formal and substantive requirements, and the PTAB is generally unforgiving of mistakes. The details of those requirements are beyond the scope of this paper.⁹ The petitioner may—and usually does—submit declarations of technical experts containing supporting evidence and opinions along with the petition. In contrast, the patent owner is prohibited from filing any opposing testimonial evidence with the optional preliminary response; such evidence may be filed at a later phase of the IPR process. However, because the substantive content of the preliminary response may not include all of the patent owner's best arguments and evidence, many patent owners are opting to not file the optional preliminary statement at all, instead waiting to see what the PTAB decides with respect to the challenge grounds set out in the IPR petition. The PTAB—the successor to the Board of Patent Appeals and Interferences—conducts IPRs. The entire motion-based process is referred to as a “trial,” although it is nothing like a civil or criminal trial. The IPR is conducted by a panel of three “administrative patent judges” who make rulings regarding institution of the trial in response to the petition and any optional preliminary statement filed by the patent owner, decide certain discovery and evidentiary matters, and ultimately issue a final written decision cancelling any challenged claims, included proposed amended claims, that are deemed unpatentable. Any party dissatisfied with the final written decision may appeal to the Federal Circuit.¹⁰

Returning chronologically to the early stages of the IPR, upon review of the petition and any preliminary response by the patent owner, the PTAB determines whether there is a reasonable likelihood the petitioner will prevail with respect to at least one of the challenged claims.¹¹ Experience shows that the PTAB will likely narrow the issues by accepting only a few, or even only one, of the petitioner's asserted grounds of unpatentability; the other grounds are then denied, either substantively or on the basis that they are “redundant,” and the scope of the trial is thus limited to only the accepted grounds of challenge identified in the PTAB's institution decision.

It should be noted that, unlike the USPTO examiner in *inter partes* reexamination, the PTAB does not conduct its own examination of the patent claims and does not issue any grounds of rejection of its own. In other words, IPR is an adjudicative, not an examination, process.

Along with the institution decision, the PTAB issues a scheduling order setting in motion a process that ordinarily concludes within twelve months of the date of the institution decision. Although the process may be extended for six months for good cause, the author is unaware of any IPR that has been so extended. Only limited and strictly controlled types of sequential discovery are permitted. In addition, the patent owner may submit a motion to amend the claims along with the response to the grounds of the petition adopted by the PTAB in the

institution decision. A short evidentiary motions period is provided before the oral hearing. After the oral hearing, the PTAB issues a final written decision regarding the patentability of the challenged claims as well as of any proposed amended claims.¹²

Unlike in *inter partes* reexamination, the petitioner and patent owner are permitted to settle their dispute during the IPR proceeding.¹³ However, the PTAB has discretion to dismiss a settling petitioner and continue the process as to the patent owner, issuing a final written decision even without any further participation of the patent owner. Settling on the proverbial courthouse steps thus is not really a viable option for the patent owner, as the patent may be cancelled anyway, notwithstanding the settlement.

Estoppel against the petitioner (and its privies) applies immediately upon issuance of the final written decision and bars a subsequent validity challenge in any forum on any ground the petitioner raised or reasonably could have raised during the IPR.¹⁴ Estoppel also applies against the patent owner, barring it from subsequently obtaining in any USPTO proceeding (including original examination, continuation, division, continuation-in-part, reissue, or *ex parte* reexamination) a patent claim that is not “patentably distinct” from any finally refused or canceled claim.¹⁵

IV. Key Advantages of IPR

Many articles have touted four, five, even six reasons why IPR has quickly become so popular as compared with its predecessor, *inter partes* reexamination, and the alternative of proving patent invalidity in court. There is no reason to stop at even six reasons, however, as there are at least **ten** easily identifiable advantages of IPR:

1. Initiation (easier). Convincing the USPTO to conduct an *inter partes* reexamination required demonstration of a substantial new question of patentability (SNQ). For at least the first several years, this requirement was viewed as limiting validity challenges to those based solely on prior art not cited during original prosecution. Although the USPTO later eased up on the interpretation of the SNQ test and granted requests based on new arguments about previously cited and considered prior art references, it was still widely believed that a request for *inter partes* reexamination should rely on previously uncited prior art, given that the reexamination could be conducted by the same examiner who handled the original prosecution.

While some practitioners still cling to this view with respect to IPR, experience is proving them wrong in a significant number of proceedings. Thus far, only about one-third of IPR petitions have been based entirely on previously uncited prior art. The PTAB clearly is willing to take a hard second look at prior art originally deemed unworthy by the examiner who handled the original

prosecution. This is a welcome development for patent challengers who are able to focus the PTAB's attention on specific aspects or portions of individual prior art references that may have been cited by patent applicants in information disclosure statements along with tens, scores, or even hundreds of others.

2. Preponderance (easier). In IPR, the petitioner bears the burden of proving a proposition of unpatentability by a "preponderance of the evidence."¹⁶ In contrast, patent claims in district court litigation are presumed valid under 35 U.S.C. § 282, and invalidity must be proven by "clear and convincing" evidence, a much higher burden for the challenger. The practical impact of this lowered burden of proof cannot be overstated.

3. "BRI" (easier). In addition, the complex rules of patent claim interpretation developed by the courts over the years, by which patent owners seek to assign definitions just broad enough to ensnare the accused infringer yet just narrow enough to avoid reading on the prior art, do not apply in IPR proceedings. Instead, the PTAB applies the USPTO's *In re Yamamoto* "broadest reasonable interpretation consistent with the specification" (BRI) approach used in original patent examination, which yields much broader interpretations that render claims much more susceptible to being deemed unpatentable. The rationale for applying the patent examination approach is that the patent owner may amend the claim to avoid any conflict with the prior art. (Given the difficulties of amending claims in an IPR (discussed below), however, criticism of the BRI approach is not completely unreasonable, and Congress is considering requiring the PTAB to use the same rules used by the courts to interpret the meaning of claims in granted patents.)

4. Amendment (harder). As just mentioned, it is possible for the patent owner to amend patent claims in an IPR. Specifically, for each challenged claim the patent owner can propose a reasonable number of substitute claims.¹⁷ The PTAB considers exactly one to be a "reasonable number" in most circumstances.

In practice, one of the main advantages of IPR over *inter partes* reexamination is the extreme curtailment of the patent owner's ability to amend claims or add new claims. Nothing was more frustrating to third-party requesters than watching patent owners add limitations to rejected claims that, although not disclosed in the cited and applied prior art, were nonetheless trivial, and arguing that the newly claimed trivial features rendered the claims patentable. Worse still was helplessly watching patent owners add scores of detailed independent "picture claims," narrowly drafted to cover the challengers' products, with no apparent limit or control by the USPTO. Happily, the tactic is no longer available, at least not in an IPR; the PTAB has erected a set of truly daunting hurdles the patent owner must overcome to save unpatentable claims through amendment.

First, there are procedural hurdles. The patent owner must initiate a conference with the PTAB to discuss the proposed motion to amend the claims, and it must occur very soon after the IPR trial is instituted. In contrast to, for example, opposition proceedings in some European tribunals where the judges encourage or invite rewriting of claims during the final hearing, the patent owner's motion to amend the claims is due along with the response to the decision instituting the trial. It is not possible to "see how it goes" and then amend only later when it goes "not so well." Forgoing an early motion to amend is a serious gamble for the patent owner.

The required conference is no mere formality. The Board will explore with the patent owner the proposed claim amendments and support therefor. Specifics are required, although not in the same level of detail as is required in the ensuing motion. As for the motion itself, it is substantively demanding. Not only must the patent owner explain how the amendment overcomes a ground of patentability involved in the trial, but the motion also must explain how the amended claim is patentable *over all other prior art known to the patent owner in any context*, whether cited by the IPR petitioner or not. This requires the patent owner to imagine additional possible grounds of unpatentability previously raised by no one and then overcome them. According to a number of interim decisions of the PTAB to date, doing so requires evidence of the state of the art, the level of ordinary skill in the art, and knowledge in the art about any features sought to be added to the claims by the amendment, as well as how the proposed added claim limitations should be construed. All of this must be done within the fifteen pages allowed for the motion, including a claim listing in the body of the motion, and the PTAB has steadfastly refused to grant extra pages.

Similarly strict rules prevent patent owners from adding entirely new sets of claims that, despite not being "broadened," are still problematic for accused infringer/challengers when the new claims recite trivial features that are nonetheless absent from the specific prior art references involved in the proceeding. The patent owner estoppel rule prevents the patent owner from doing so in other USPTO contexts once the final written decision is issued, at least in theory. One wonders whether *inter partes* reexamination would have been more useful and attractive to challengers had this important feature of IPR existed previously.

5. Discovery (less). Discovery in an IPR is sequenced and limited to depositions of affiants or declarants and what is otherwise "necessary in the interests of justice."¹⁸ Discovery motions, demands, subpoenas, and the like are not permitted without PTAB authorization.

The PTAB has taken a very restrictive view of both "necessity" and the "interests of justice." While limited discovery is occasionally permitted into the relationship

between a petitioner and other litigants who have been sued by the patent owner to determine whether the petition is timely, i.e., filed within a year after the petitioner or a real party in interest has been sued for infringement, not much other discovery has been permitted by the PTAB. The overwhelming majority of topics that are fair game for discovery by the plaintiff in court litigation are generally off limits, even including evidence of “secondary considerations” that the patent owner might use to counter an obviousness assertion.

6. Access (more). While the term “*inter partes*” in *inter partes* reexamination suggested that the third-party requester would participate in the proceeding, in practice—both by statute and by rule—the challenger’s participation was significantly limited in procedurally and substantively important ways. For example, the “don’t speak unless first spoken to” rule prohibited the third-party requester from having any contact with the examiner, ever, except within 30 days after the patent owner filed a paper in response to an action of the examiner. Even then, the requester was required to submit any desired comments concerning the submission by the patent owner and whatever USPTO action the patent owner’s submission was responding to, in writing. This caused convoluted presentations in which the requester had to simultaneously argue that the examiner was mistaken and that the patent owner’s response to the examiner’s mistake was itself mistaken. This imbalance of access, and odd timing of submission of information by the challenger, is absent in IPR.

7. Settlement (possible). The ubiquitous availability of settlement is an important feature of American jurisprudence that was notably missing from *inter partes* reexamination. Once initiated, the proceeding could not be stopped, regardless of the wishes of the third-party requester and patent owner. An IPR trial, on the other hand, may be settled and terminated with respect to the petitioner before the PTAB’s issuance of a final written decision. Whether the PTAB will terminate the IPR in its entirety, or instead proceed to issue its final written decision in the absence of continued presence of the petitioner, depends on how close it is to issuing the decision. As a general rule, the longer the parties wait to request termination, the more likely the PTAB’s issuance of a final written decision becomes. A number of patent owners who assumed that the PTAB would stop the process completely upon settlement of their disputes have learned a hard lesson.

An institution decision determining that some or all of the challenged claims are likely unpatentable on the basis of the petition thus becomes a powerful negotiating tool in any settlement discussion. Because termination of the IPR without issuance of any final written decision avoids all estoppel consequences in both the district courts and in the USPTO, early settlement and termina-

tion may be equally important to both petitioner and patent owner, albeit for different reasons.

8. Speed (faster). IPR is much faster than all but the fastest district court litigation. The entire process, start to finish (excluding appeal to the Federal Circuit), takes 18–24 months, maximum, by statute. To date, the PTAB has shown distaste for doing anything, or allowing the patent owner (or petitioner, for that matter) to do anything, that slows the process in any material way. While certain deadlines set forth in the PTAB’s standard scheduling order may be extended by private stipulation, others are proving to be essentially unextendable except in rare circumstances.

9. Stay (likely). A major consequence of the relative speed of IPR, as compared to the open-ended time for completion of *inter partes* reexamination, is that most district court judges are granting motions to stay infringement litigation in view of instituted IPR proceedings. While a good number of courts have granted motions to stay simply upon the filing of a petition for IPR, a significant number of judges are delaying decisions on motions to stay until after the PTAB decides whether to institute the IPR trial in response to the petition, thus resulting in as much as six months of additional district court litigation before the motion is decided. Thus, the sooner the petition is filed, the better off the defendant/IPR petitioner will fare on its motion to stay.

A motion to stay following the filing of a petition for IPR is rapidly becoming standard operating procedure for defendants when litigation is commenced. As of early January 2014, LEXIS® research indicated that there had already been 74 decisions issued on motions to stay pending IPR, a number that must be viewed as significant when the timelines of litigation cases are considered alongside the roughly 16 months that IPR had been available at that time. It is virtually certain that the percentage of new infringement actions in which a motion to stay pending IPR has been filed is rapidly climbing.

10. Cost (lower). IPR costs less than district court litigation for a variety of reasons. First, the PTAB made it clear early on that litigation-style discovery has no place in the proceeding, regardless of the use of the word “discovery” in the enabling statute or rules. Second, while the entire proceeding is called a “trial,” in fact nothing happens that even remotely resembles what patent trial lawyers would call a trial. The final hearing is essentially an oral argument of counsel; exhibits, even purely demonstrative ones, generally are not permitted unless they have been filed and used or relied upon at earlier in the proceeding. Third, the process moves quickly, and since “time is money,” less time means less money. Fourth, patentability is the only issue, meaning no money is spent on any other issues. All of this is good news for patent challengers.

V. IPR Is Not Being Used Equally for All Technologies

PTAB statistics indicate that about 71 percent of petitions for IPR and Covered Business Method Review (CBMR) have been for patents in the “electrical/computer” technologies, and about 15 percent of all petitions are for IPR of patents in the mechanical arts (which are necessarily IPR petitions because such patents are not eligible for CBMR). While more granular data breaking down IPR petitions by technology are not easily generated, an Alston & Bird Intellectual Property Advisory in September 2013 stated that “software, e-commerce and electrical fields” made up about 71 percent of the IPR petitions filed in the first year of the procedure’s availability. A cursory review of the identities of the petitioners and patent owners involved in the IPR petitions filed since then suggests that the trend continues, with only about 15 percent of the IPR petitions relating to chemical, biotech and pharmaceutical, and design patents, combined. There are a number of possible reasons for this disparity, especially various effects of The Drug Price Competition and Patent Term Restoration Act, i.e., the Hatch-Waxman Act, in the case of pharma patents. These possible reasons, including the interplay between the litigation timing provisions of the Hatch-Waxman Act and the timetable of IPR, are beyond the scope of this article.

VI. Conclusion

All of the procedural and substantive advantages tipping in favor of the patent challenger combine to create odds of successfully invalidating a patent in IPR proceedings that are necessarily better, often by a considerable margin, than those of invalidating a patent in district court litigation—and faster and cheaper, too. In other words, if one cannot successfully challenge a patent in IPR before a 3-member panel of highly qualified PTAB administrative patent judges, then it is highly unlikely that one will successfully do so in court before a jury.

For all of the foregoing reasons, it appears that IPR is becoming standard operating procedure for defendants and others accused of infringing U.S. patents, at least

generally speaking. Despite the uneven use in different technology sectors, for validity challenges in at least the mechanical and electrical arts, the question is not “Why file a petition for IPR?” but rather “Why NOT file one?”

Endnotes

1. 35 U.S.C. §§ 311 et seq.
2. Many more petitions have been filed, but the PTAB statistics include only those petitions meeting the strict procedural requirements and which were thus actually accorded filing dates. For this reason, examination of the actual case data (at (www.ptabtrials.uspto.gov)) reveals gaps in sequentially assigned proceeding numbers.
3. *Inter Partes* Reexamination Control No. 95/002,419, filed September 15, 2012, is believed to be the last of such proceedings.
4. <http://www.pwc.com/us/en/forensic-services/publications/2013-patent-litigation-study.jhtml>.
5. 35 U.S.C. § 311(b).
6. 35 U.S.C. § 311(a).
7. 35 U.S.C. § 315(b).
8. 35 U.S.C. § 315(a)(1).
9. The PTAB “umbrella rules” covering IPR and other post-issuance validity challenge procedures are found at 37 C.F.R. §§ 42.1–42.80 and in the Office Patent Trial Practice Guide, 77 Fed. Reg. No. 157, Part V (Aug. 14, 2012). The PTAB trial rules specific to IPR are found at 37 C.F.R. §§ 42.100–42.123. All of these rules may be found on the USPTO’s website.
10. 35 U.S.C. § 319.
11. 35 U.S.C. § 314(a).
12. 35 U.S.C. § 318(a).
13. 35 U.S.C. § 317.
14. 35 U.S.C. § 315(e).
15. 37 C.F.R. § 42.73(d)(3).
16. 35 U.S.C. § 316(e).
17. 35 U.S.C. § 316(d)(1)(B).
18. 35 U.S.C. § 316(a)(5).

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