

Federal Bar Association – San Diego, September 2012

***THE FUTURE OF PATENT LITIGATION UNDER THE AMERICA INVENTS ACT –
STRATEGIC USE OF NEW US PATENT OFFICE POST-GRANT PROCEEDINGS***

I. INTRODUCTION

The 2011 America Invents Act (“AIA”) made some of the most radical changes in the last 60 years in U.S. patent law. Among those changes, the new post-grant proceedings before the U.S. Patent Office, effective on September 16, 2012, provide specialized and rapid procedures for challenging patents in trials before an administrative forum that bypass the district courts and significantly alter the strategic landscape of patent litigation. Whether in-house or outside counsel, patentee or putative infringer, understanding the implications of these new post-grant proceedings is essential in today’s litigation environment.

The September 21, 2012 Federal Bar Association program will provide an overview of the practical aspects of planning an effective and comprehensive U.S. Patent Office strategy for challenging patents, including the determination whether to seek *inter partes* review or post-grant review, in view of potential estoppel consequences, the strength of different invalidity defenses and costs. The program also will address various procedural aspects, including the heightened requirements of proof for initiating the proceedings, the compressed schedule for briefing and decision, and the limited opportunities for a patentee to amend or correct challenged claims.

II. DISCUSSION

On September 16, 2011, the AIA was signed into law. The AIA made a number of dramatic changes, replacing, for example, historic novelty standards with a worldwide absolute novelty requirement, subject only to a limited “grace” period. The new statute also arms patent challengers with other potent new weapons, both by greatly expanding prior art applicable to future patents and, more importantly, by providing new U.S. Patent Office revocation proceedings. One of the most significant aspects of the AIA is the creation, for the first time in U.S. patent law, of comprehensive post-grant proceedings that will be conducted as trials by the Patent Trial and Appeal Board (formerly the Board of Patent Appeals and Interferences) to challenge the validity of issued U.S. patents. Challenges to patents in the U.S. Patent Office will provide an alternative, and much more rapid, administrative forum that bypasses the district courts and is intended to provide administrative resolution of many validity questions while avoiding the delay, uncertainty, and expense of district court litigation.

The impact of this new legislation will be far-reaching, especially for today's technology-based companies that rely heavily on their own intellectual property to remain competitive, while requiring the assurance that they are not infringing on valid intellectual property rights of others. It will be imperative for management, in-house counsel and outside counsel to have an appreciation of the strategic use of the AIA, both offensively to minimize business risk and preempt costly litigation, as well as defensively when faced with an infringement suit.

Apart from direct attacks on the validity of patent claims, the new proceedings will be valuable for their use in licensing negotiations, settlement of disputes, management of district court litigation, and limiting or avoiding infringement damages under the doctrine of intervening rights. The new proceedings will be an important part of a comprehensive IP management strategy that includes, but is not limited to, litigation of patent invalidity issues.

The panoply of patent challenges created by the 2011 Act includes post-grant review and *inter-partes* review, the latter replacing existing *inter-partes* reexamination with a more streamlined procedure. These new proceedings, in combination with existing *ex parte* reexamination, interferences, and new "supplemental" examination, will transform the practice of U.S. Patent Office administrative litigation. In high-profile disputes, companies have increasingly taken advantage of current *inter partes* reexamination, which is the fastest-growing area of U.S. patent litigation. However, unlike existing reexamination proceedings, the new post-grant proceedings will be fully "*inter-partes*" and will frequently involve discovery, depositions of fact and expert witnesses, and an extensive motions practice in a trial conducted by an Administrative Patent Judge on an extremely short schedule, with final USPTO decision expected within one year. The procedures for conducting post-grant proceedings will be complex and unforgiving, and it will be critical for a patent owner to respond immediately to a post-grant challenge by fashioning a comprehensive legal, factual, and procedural strategy to present an effective defense.

Inter partes review and post-grant review, which will more closely resemble litigation in district courts, will alter the course of patent litigation, by providing a parallel and less costly administrative path for challenging patent validity. In ongoing litigation, parallel post-grant proceedings will provide grounds for seeking a stay or opposing preliminary injunctive relief, and the unique opportunity to eliminate liability for past damages, as well as directly attacking validity. When filed early, post-grant proceedings can effectively delay or avoid litigation, by affording the opportunity to resolve or settle the dispute.

In addition to the *inter-partes* proceedings, *ex parte* reexamination will continue to be a preferred route for patent owners to strengthen their patents against prior art. Supplemental examination will provide a new avenue for patent owners to counter charges of inequitable conduct, eliminating the expenses of protracted and unpredictable district court proceedings.

The patent statute ordinarily requires a final U.S. Patent Office decision on issues of validity within one year, which will affect concurrent district court litigation stays, preliminary injunctions, and potential damages awards. The strategic uses of U.S. Patent Office post-grant actions will be an important consideration in managing, or avoiding, extended district court proceedings. In many cases, patent litigation may effectively be divided into U.S. Patent Office actions considering validity, and district court actions considering infringement and damages issues.

The complexity of the new post-grant proceedings will provide both strategic and tactical opportunities for companies challenging patents, apart from direct invalidation of challenged patent claims. Unlike current reexamination, it will be possible for the parties to voluntarily settle a post-grant proceeding at any time prior to the final written decision of the U.S. Patent Office Patent Trial and Appeal Board. This ability significantly increases the leverage of patent challengers in negotiations with patent owners, and will encourage the use of the new proceedings as an instrument in licensing negotiations, or settlement of ongoing litigation, rather than simply a means of invalidating patent claims.

Even if a challenger does not succeed in invalidating all of the challenged claims, if the patentee is required to amend the claims during the proceeding, the statute provides that intervening rights will eliminate damages for infringement of the amended claims, prior to conclusion of the proceeding. Looking back, in more than 80% of concluded *inter partes* reexaminations the challenged claims have been either canceled or amended, providing an additional incentive for infringement defendants to challenge patents in the U.S. Patent Office on a parallel path with concurrent district court litigation. Similar statistics can be expected under the new proceedings.

Among other advantages to defendants in a patent infringement suit, the U.S. Patent Office post-grant proceedings will involve a significantly lower burden of proving invalidity by a preponderance of the evidence, rather than “clear and convincing” proof in district court, and a broader construction of critical claim terms by the Patent Trial and Appeal Board, without the necessity of a district court claim construction hearing. Moreover, unlike district court judges and juries, the Administrative Patent Judges of the Patent Trial and Appeal Board are experts with years of experience in considering patentability issues, and are generally familiar with the patented technologies at issue.

Like current reexaminations, the new *inter-partes* review will be limited to questions of novelty and obviousness based on printed publications or patents. In post-grant review proceedings, however, the challenger may raise almost any ground of invalidity that could be presented in a district court action, including prior art, nonenablement, lack of written description or utility, and patent-ineligible subject matter, among other defenses. The opportunity will exist for an accused infringer to raise its contemplated invalidity defenses in the U.S. Patent Office, as an alternative to an anticipatory district court declaratory judgment action or during the course of infringement litigation. However, if the U.S. Patent Office ultimately determines that the challenged claims are patentable, and rejects the grounds of invalidity raised in a post-grant proceeding, the consequences for the challenger will be severe. An adverse decision in a post-grant proceeding creates an estoppel that will prevent the challenger from asserting any ground of invalidity in district court litigation that was actually raised in the post-grant proceeding, or that the petitioner “reasonably could have raised” in this U.S. Patent Office proceeding. A failed post-grant review could thus result in forfeiture of almost every invalidity defense in a district court infringement action.

III. SUMMARY TABLE

The following table illustrates some notable differences between the *ex parte* reexamination, *inter partes* review and post-grant review:

	<i>Ex parte</i> Reexamination	<i>Inter Partes</i> Review	Post-Grant Review
What patents are eligible?	Any in-force patent	Any in-force patent	Patents issuing from applications subject to first-inventor-to-file provisions of the AIA (patents having an effective date that is on or after March 16, 2013) ¹
Timing of request	After issuance of any in-force patent	Nine months after issuance of the patent, or after termination of post-grant review	Within nine months of issuance of the patent

¹ Post-grant review will apply to applications having a priority date on or after March 16, 2013 (which is 18 months after the enactment of the AIA). However, for certain “covered business method patents,” a transitional process similar to post-grant review will apply to such patents that are issued after the date that this transitional process becomes effective (that is, issued after September 16, 2012).

	<i>Ex parte</i> Reexamination	<i>Inter Partes</i> Review	Post-Grant Review
Who can request?	Third parties, patent owner, USPTO Director	Third parties ²	Third parties ³
Grounds for request	Novelty and obviousness grounds, based on prior art printed publications and patents	Novelty and obviousness grounds, based on prior art printed publications and patents	Any grounds for invalidity of the patent under § 282(b) (2) or (3) (except for failure to comply with the best mode requirement)
Threshold for Institution	USPTO must determine whether there is a substantial new question (SNQ) of patentability affecting any claim of the patent based on printed publications and patents	USPTO must determine whether there is a reasonable likelihood that the requester would prevail with respect to at least one of the claims challenged	USPTO must determine whether it is more likely than not that at least one of the claims challenged is unpatentable; or whether the request raises a novel or unsettled legal question that is important to other patents or applications
Requester can remain anonymous?	Yes	No, real party in interest must be identified	No, real party in interest must be identified
Requester's participation	Third party is limited to making the initial request for reexamination	Requester may, <i>inter alia</i> , submit affidavits/ declarations, obtain limited discovery, submit observations on discovery, file replies and has the right to an oral hearing	Requester may, <i>inter alia</i> , submit affidavits/ declarations, obtain limited discovery, submit observations on discovery, file replies and has the right to an oral hearing
Discovery	None	Discovery is limited to the deposition of witnesses submitting affidavits/ declarations, and "what is otherwise necessary in the interest of justice"	Discovery is limited to "evidence directly related to factual assertions advanced by either party in the proceeding"

² An exception is that, under 35 U.S.C. §315, plaintiffs in a court action challenging the validity of a claim of a patent are not permitted to request post-grant review of that patent.

³ An exception is that, under 35 U.S.C. §325, plaintiffs in a court action challenging the validity of a claim of a patent are not permitted to request post-grant review of that patent.

	<i>Ex parte</i> Reexamination	<i>Inter Partes</i> Review	Post-Grant Review
Estoppel Effect	None	Requester/real party in interest is estopped from challenging a patent claim before the Patent Office and in district court by prior <i>Inter Partes</i> Review decision with respect to any ground that was raised or reasonably could have been raised in the <i>Inter Partes</i> Review	Requester/real party in interest is estopped from challenging a patent claim before the Patent Office and in district court by prior Post-Grant Review decision with respect to any ground that was raised or reasonably could have been raised in the Post-Grant Review

IV. CONCLUSION

The new *inter partes* review and post-grant review procedures under the AIA may become very important weapons for challenging patents (as alternatives to litigation before U.S. district courts), making the U.S. Patent Office a much more active forum for resolving disputes. Since *inter partes* review and post-grant review proceedings will be faster and likely cheaper than litigation, businesses should prepare for an increase in the number of patents being challenged and set up patent watch programs to alert them to patent applications that may be subject to challenge under the new proceedings. In particular, although post-grant review has a wider scope with respect to the grounds available to challenge a patent, the window for requesting post-grant review is much narrower (must be made within nine months of issuance of the patent) and thus businesses looking to take advantage of post-grant review likely will need to monitor patent applications and patents closely. While the resolution of patent disputes may become much faster, the complexity of the new proceedings has the potential to be more expensive than the current reexamination proceedings, yet still significantly less than district court litigation. Thus, patent owners and challengers should prepare appropriate budgets for defending and requesting *inter partes* review and post-grant review proceedings.