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PERSPECTIVES

NEW US PATENT CHALLENGE PROCEDURES PROMOTE GLOBAL HARMONISATION, BUT CASUALTIES RUN HIGH

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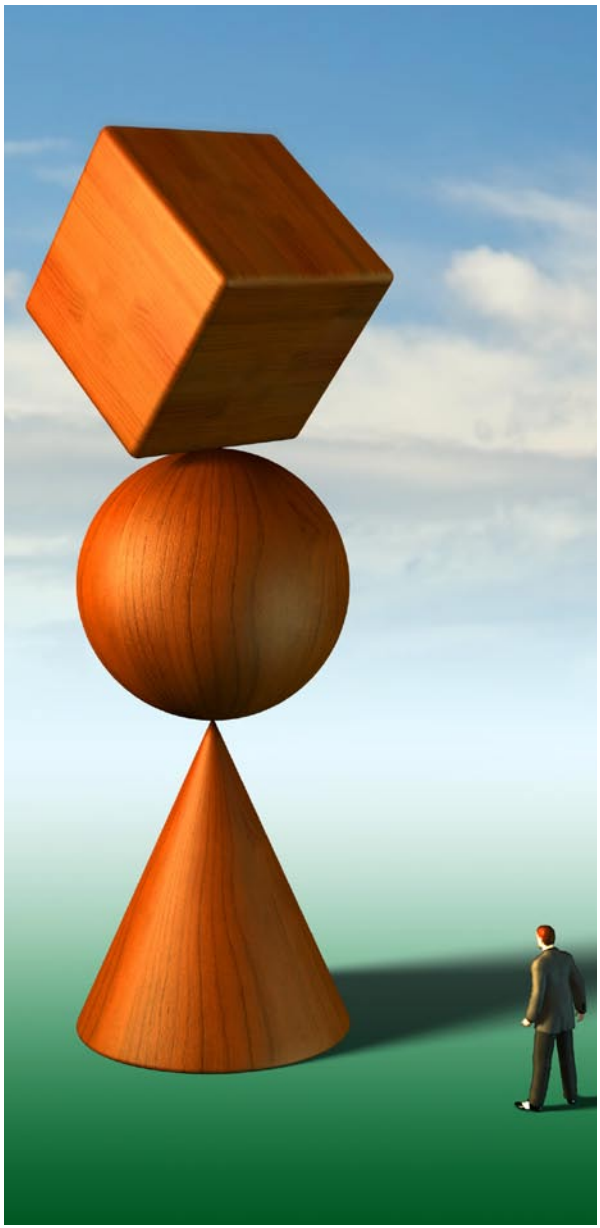
The introduction of post-issuance patent challenge proceedings before the US Patent and Trademark Office's Patent Trial and Appeal Board (PTAB) has had an extraordinary impact on US patent litigation practice. So-called IPR (inter partes review), CBM (covered business method review) and PGR (post-grant review) proceedings turned the PTAB into one of the busiest patent litigation venues in the country (and the world) virtually overnight.

Coupled with the Supreme Court's decision in *Alice Corp. vs. CLS Bank*, which makes it easier to invalidate US patents on the basis of unpatentable subject matter, PTAB proceedings have led to patent invalidations at a rate that gives pause to even the most outspoken critics of patent quality and 'patent trolls'. What has been largely overshadowed in the public debate during the first two years in which these proceedings have been available is one of the main reasons for their adoption in the first instance: global harmonisation.

Like the change to a 'first-to-file' priority system, the institution of robust post-issuance challenge

proceedings was meant to bring the US patent system more in line with other major patent jurisdictions around the world. A look at how PTAB proceedings compare to challenge proceedings in other major jurisdictions shows substantial progress in this regard, but also that revealing differences remain.



New US procedures

The America Invents Act created three main post-issuance patent challenge proceedings: IPR, CBM and PGR. While these procedures share similarities in form and substance, each has a somewhat different aim.

The most commonly used procedure is IPR. An IPR may be filed at any time after the issuance of a patent, with several important exceptions. First, for patents with filing dates after 15 March 2013, i.e., patents subject to the new 'first-to-file' rule, an IPR may be filed no earlier than nine months after issuance of the patent or after any and all PGRs pertaining to that patent have concluded, whichever event comes later.

Second, IPR is unavailable if the petitioner was served with a complaint alleging infringement of the patent more than one year prior to the petition, or brought a lawsuit challenging the validity of the patent at any time prior to the petition. The broad temporal availability of IPR is balanced by the narrow grounds upon which such a proceeding may be instituted. An IPR may only be instituted on the basis

of lack of novelty or obviousness in view of patents or printed publications.

Unlike IPR, PGR has a limited window of availability and applies only to newer patents. A PGR must be initiated within nine months of a patent's grant or reissue and it can only be initiated by a party who has not previously challenged the patent civilly. Importantly, PGR is available only for patents filed after March 2013; i.e., only for patents filed under the new 'first-to-file' system. Despite the limited temporal availability, PGRs may challenge a patent's validity based on a broad range of grounds including unpatentable subject matter, inadequate description, lack of novelty and obviousness.

CBM provides a targeted mechanism for challenging 'business method' patents, which many perceive to be a driver behind the proliferation of 'patent troll' litigation. Only parties who have been sued or charged with infringement of a 'financial product or service', not a 'technological invention', may initiate a CBM. But, if these criteria are met, the CBM may be based upon the same grounds as a PGR (with some minor differences in the type of anticipation challenges available). For 'first-to-file' patents, a CBM may be sought only after the period for initiating a PGR has passed (i.e., nine months after the grant of a patent). For all other patents, a CBM may be brought at any time, provided the foregoing criteria are met.

The timelines and ramifications of these procedures are largely the same. The PTAB must conclude IPR, CBM and PGR proceedings within 12 months of institution, with a six-month good cause extension possible. The procedures also have similar estoppel effects. A final decision in an IPR estops a petitioner from raising in a later civil or International Trade Commission action any ground of validity it 'raised or reasonably could have raised'. Similarly, after a PGR is completed, the petitioner is estopped from raising any ground of invalidity it 'reasonably could have raised' in subsequent PTO proceedings or litigation.

> **"The PTAB must conclude IPR, CBM and PGR proceedings within 12 months of institution, with a six-month good cause extension possible."**

Finally, after a CBM, a petitioner is estopped from raising in litigation any ground of invalidity 'raised', and in subsequent PTO proceedings, any ground that

'reasonably could have been raised'. Together these procedures provide an attractive range of options for resolving disputes that primarily turn on questions of validity without resorting to costly and time-consuming civil litigation.

Comparison with international procedures

These new US procedures dovetail with other post-issuance patent challenge procedures in major patent offices around the world.

First, the deadlines for initiating these post-issuance procedures are similar across the USPTO, EPO and JPO. A patent challenge before the EPO must be filed within nine months of patent grant and a JPO Opposition proceeding must be filed within six months of patent publication (which normally occurs a few months after patent grant). Thus these proceedings share the filing deadline imposed on PGR before the USPTO. On the other hand, similar to how CBM and IPR proceedings before the USPTO may be filed any time following nine months after a patent has issued, Invalidation Trials before the JPO may be commenced any time after patent issue.

The grounds upon which these post-issuance challenge procedures may be initiated are also nearly identical. While US IPR may be initiated based only on anticipation or obviousness, CBM and PGR before the USPTO, as well as all challenge procedures before the EPO and JPO may all be grounded in any of the following: lack of novelty, lack of inventive step, unpatentable subject-matter and insufficient disclosure.

In contrast, the three patent offices diverge in their treatment of admissible evidence during proceedings. The USPTO limits the admissible evidence mainly to patents and printed publications; live testimony is rare. The EPO has broader procedures, allowing published documents, witnesses, affidavits, brochures and expert reports. The broadest of the three offices, the JPO, allows any evidence so long as it is linked to a fact required to be proven.

Once initiated, these procedures vary widely in duration. Procedures before the USPTO last a maximum of 18 months while challenges before the EPO are between 15 and 30 months on average. Recent changes to the JPO procedures cast uncertainty in their duration but it is estimated that the proceedings will last no less than 12 months.

Despite the longer proceedings, European Patent Office (EPO) determinations have no estoppel effect. As a result, and in contrast to US PTAB proceedings, arguments presented before the EPO may be raised again in litigation concerning the same patent.

Some reports estimate attorneys' fees for an EPO opposition proceeding to range between $15,000 and $45,000. By contrast, post-issuance challenges before the USPTO are more expensive and generally range from $300,000 to $400,000. Because the new Japanese opposition procedures have just recently been implemented, it is difficult to predict

the range of associated attorneys' fees, but some reports estimate between $25,000 and $125,000. Furthermore, the expectation is that Invalidation Trials – because they are adversarial and include oral arguments – will be more costly than Oppositions.

Of particular note is the large discrepancy in invalidation rates between the different venues. For opposition proceedings decided in 2014, the EPO invalidated all claims at issue in 31 percent of proceedings. The Japanese Patent Office invalidated more sparingly; only 24 percent of proceedings in 2013 invalidated a single patent claim. The USPTO, by contrast, has invalidated claims at such a high rate that a former chief judge of the US Court of Appeals for the Federal Circuit referred to the PTAB as a "death squad" for patents. The PTAB invalidated all instituted claims in 69 percent of IPR proceedings concluded in 2014, with data showing an even higher rate of 75 percent in 2015. This invalidation rate is even more drastic when considering the fact that IPR, the mainstay of USPTO post-issuance challenges, allows patent challenges on fewer grounds than the counterpart procedures available in Europe and Japan.

Future projections

Numerous changes to IPR, PGR and CBM procedure are currently under consideration, though none of the pending proposals would put US procedures meaningfully more or less in line with other jurisdictions.

All eyes remain on the remarkably high PTAB invalidation rates, however, and whether such rates will persist. A number of factors suggest that a decline in the invalidation rate is inevitable and imminent. First, while impossible to prove empirically, apocryphal evidence indicates that a large proportion of patents initially challenged at the PTAB were of low quality – precisely the sort of patents these procedures were intended to cull out, and thus the desired result. Second, and relatedly, the unexpectedly high invalidation rate has emboldened patent challengers to seek PTAB review of stronger patents. For example, life sciences patents – generally considered to be more rigorously prosecuted than business method patents – are faring better at the PTAB. As a more diverse range and a stronger group of patents undergo review, over time the invalidation rate will decline.

Third, limitations on PTAB resources will undoubtedly lead to lower institution rates as the PTAB will have to use a more critical eye at the petition stage to prevent a backlog of proceedings (a particular concern given the mandated timelines for resolution of these proceedings).

Whether invalidation rates at the PTAB will ever approach the above-cited levels in the EPO or Japan is difficult to predict. But it is likely that the days of the 'death squad' atmosphere at the PTAB will soon be behind us, and what will remain is a carefully constructed, highly effective means of resolving focused disputes over the validity of US patents, not

unlike what has been available to patent challengers elsewhere in the world for many years. CD

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