

# Today's GENERAL COUNSEL

## Intellectual Property

### Statistics Show IPRs Favor Patent Challenges

#### Reform Afoot

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**W**hen the America Invents Act was signed into law in 2012, it introduced inter partes review as a new way to challenge the validity (patentability) of patents before the U.S. Patent and Trademark Office. IPR has proven to be remarkably popular. Statistics released by the PTO in June 2015 show that more than 3,000 IPR petitions have been filed since the AIA was signed into law, and to date, 1,200 of these challenges have been instituted. Overwhelmingly, these challenges have attacked electrical/computer patents (63 percent), followed by mechanical/business methods (24 percent), biotechnology / pharmaceutical patents (eight percent) and chemical (five percent).

As of April 6, 2015, the PTO had issued final written decisions on 348 IPR petitions (including joined petitions), which challenged 5,114 patent claims within 290 patents (authors' own data).

The survival rate of these challenged claims is low. The PTO



found 61 percent unpatentable, and the patent owner cancelled or disclaimed another 13 percent. In other words, in the IPR challenges that were instituted, proceeded to trial, and for which the PTO issued a final written decision (as of April 6, 2015), 74 percent of challenged claims did not survive.

#### **PATENT REFORM MAY BE ON THE HORIZON**

This low survival rate has prompted calls for reform, and those calls are

gaining traction. Three bills have been introduced over the last six months: the Innovation Act (H.R. 9); the Support Technology and Research for Our Nation's Growth Patents (STRONG) Act (S. 632); and the Protecting American Talent and Entrepreneurship (PATENT) Act (S. 1137).

Each of these bills proposes reforms to the rules applicable to IPR. Chief among these are calls to impose the district court presumption of validity of issued claims; to amend the burden of proof on challengers

from the preponderance of the evidence to the district court standard of clear and convincing evidence; to amend the claim construction standard from the PTO broadest reasonable interpretation standard to the district court Phillips standard (ordinary and customary meaning); and calls to make it easier for patent owners to amend challenged claims during IPR by allowing motions to amend as of right, and by shifting the burden of proof from the patent owner to the challenger.

Any person who is not the owner of a patent can petition the PTO Patent Trial and Appeal Board seeking inter partes review of an issued patent, on the grounds that the claimed inventions were anticipated (known in the art) and/or were obvious as of the effective filing date of the patent. Petitions can be filed starting nine months after patent issuance (provided no post grant review, another new AIA procedure, is pending), and challenges can only be made on the basis of patents or printed publications.

The PTAB will institute IPR if the challenger shows that there is a reasonable likelihood of success in relation to at least one of the challenged claims. The IPR will generally proceed to trial and to a final written decision within 12 months. A final written decision is then appealable to the Court of Appeals for the Federal Circuit.

### IPR VS COURT CHALLENGES

There are a number of significant procedural differences between IPR challenges and challenges in the district court. Issued patents are not entitled to a presumption of validity before the PTAB, and a challenger in IPR need only show that a challenged claim is unpatentable by a preponderance of the evidence. In district court, issued patents are presumed valid, and defendants must show that challenged claims are invalid by clear and convincing evidence. This means that at least in theory, it is easier to invalidate

claims before the PTAB.

Other significant differences are the claim construction standard and the ability to amend claims during IPR. In district court, the Phillips standard applies to claim construction. This provides that terms used in patent claims should be given the ordinary and customary meaning that a person of ordinary skill in the art would have given them at the time of the invention, considering the content of the patent as a whole and, where appropriate, extrinsic evidence such as testimony from experts. In IPR, in comparison, claim terms are given their broadest reasonable construction in light of the patent specification. We will discuss these issues in more detail below.

### COMPARISON WITH EPO PROCEEDINGS

Turning first to the non-existence of the presumption of validity in IPR, and the lower burden of proof-issues which the STRONG and PATENT Acts address: In IPR both of these factors weigh against patent owners. Post-grant opposition procedures in Europe make an interesting comparison.

Post-grant Opposition proceedings challenging the patentability of patents issued by the European Patent Office have been available for 35 years. European Opposition proceedings are in some respects more aligned with Post Grant Review than IPR. (Challenges can only be filed within a nine-month window immediately following the mention of the grant of a European Patent; the grounds on which patents can be challenged, like PGR, extend beyond novelty and obviousness.) But as in IPR, there is no presumption of validity before the EPO, and the burden of proof is the balance of probabilities standard, which is broadly similar to the preponderance of the evidence standard before the PTO.

A big difference between IPR and European Opposition proceedings is the claim construction standard and the ability to amend challenged

claims. This strikes at the heart of the perceived imbalance in the United States against patent owners, and is tackled head-on in the Innovation, STRONG, and PATENT Acts.

As to claim construction, the general EPO rule is to construe claim terms using their normal and customary meaning in the relevant art. In other words, the EPO uses an arguably narrower standard than that employed in IPR.

As to claim amendments, the EPO is far more open to amendments than the PTAB. In European Oppositions, there is no official limit on the number of claim amendments a patent owner can propose, and provided that amendments satisfy the substantive law provisions of the EPC (including that the subject matter is new and not obvious) and that they do not add new matter or broaden the scope of protection, they are generally allowed.

Perhaps because of these differences, the statistics following European Opposition are telling. Of the approximately five percent of issued patents that are challenged in European Opposition proceedings, 31 percent are revoked, the patentability/validity of 31 percent is upheld, and the patentability/validity of the remaining 38 percent is upheld but with amended claims.

In contrast, during IPR, a patent owner needs the permission of the PTAB to file a motion to amend, and generally only one motion can be filed. Proposed amendments must not add new matter and must not enlarge the scope of the claims. However, the sting is that the patent owner bears the burden of showing (by the preponderance of the evidence) that the proposed amended claim is patentable, not only over the prior art of record, but also over all other relevant prior art that he/she is aware of.

This burden, and the expansive comparison to all prior art, sets a high procedural bar. It is therefore not surprising that motions to amend were filed in only 23 percent of the

317 IPR petitions on which there was a final written decision as of April 6, 2015, seeking the amendment of a collective 442 claims (nine percent of the total number in issue). What is more surprising is that the PTAB only granted permission to amend 22 of these claims across three IPRs.

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The Innovation, STRONG and PATENT Acts all propose making the Phillips claim construction standard mandatory in IPR. The STRONG and PATENT Acts go further, proposing that the burden of proof should be shifted to the IPR petitioner to show by a preponderance of the evidence that a proposed amended claim is unpatentable.

A direct comparison with IPR and European statistics is problematic, not least because there is no institution decision before the EPO – if an Opposition is admissible, the EPO will review the

challenge on the merits – and IPRs challenge particular claims, whereas European Oppositions challenge whole patents and statistics are not maintained on individual claims. However, an indicative comparison shows that approximately the same number of patents is knocked out in their entirety in final written decisions issued in IPR and European Opposition (27 percent versus 31 percent, per the authors' data).

The difference is in the number of patents in which all issued claims were challenged and in which all claims survived: Eleven percent (31 out of 290 patents) in IPR, versus 31 percent in European Opposition; and the number of patents that are upheld with amended claims, one percent in IPR versus 38 percent in European Opposition.

In March 2015, the PTO announced that it is considering allowing motions to amend as of right, and limiting the burden on patent owners to prove patentability only over the prior art of record (as is the case before the EPO). If these changes come to fruition, whether by PTO action or legislative reform, they will at least partly shift the odds away from challengers. Whether this will fully redress the currently perceived imbalance remains to be seen. ■



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