

Strategic Patent Protection in the “New World” after the America Invents Act

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Generally speaking, it can at times be difficult to change the status quo through the American legislative system. From bicameralism and presentment to the sometimes convoluted process of moving through committees and conferencing, it

takes what is called in Chinese “passing five gates and disarming six generals” to turn a bill into law. However, the Leahy-Smith America Invents Act (AIA), a major overhaul of U.S. patent law, rapidly moved through the United States Congress in nine short months—it was introduced in the Senate on January 25th, 2011 and signed into law by President Barack Obama on September 16th, 2011. This is a particularly impressive feat considering the degree of partisan politics that divided Congress (at that time, the Senate had a Democratic majority and the House of Representatives had a Republican majority) that, in fact, threatened repeatedly to shut down the federal government in 2011. Even more surprising was that the final bill passed with overwhelming support from both political parties (House: 304-117; Senate: 89-9), an occurrence few and far between in the current polarized American political environment.

Why was there so little debate over such a significant change to the patent system? Why did the patent reform that was 6 years in the making suddenly pass through Congress in 6 months? The key lies in the political/policy implications that flow from the AIA. The AIA was intended to target American job creation, innovation, and economic growth. Such policies have universal appeal across the American political spectrum, especially in the midst of current economic uncertainty. The White House called the AIA “much-needed reforms to the [US]

patent system” that “will speed deployment of innovative products to market and promote job creation, economic growth, and U.S. economic competitiveness.” The law’s sponsors, Senator Patrick Leahy and Representative Lamar Smith were less subtle: “this year [2011], for the first time, China is expected to become the world’s number one patent publisher, surpassing the U.S. and Japan in the total and basic number of patents. [The U.S.] must do more to help American innovators and job creators to keep pace in the global marketplace.”

While the new law seeks to protect American innovation, the law is not *prima facie* discriminatory toward foreign innovators. With an understanding of the legal changes and the resulting business implications, coupled with appropriate IP strategy, foreign companies and inventors will continue to enjoy strong patent protection in the U.S. This article will discuss some of the major changes in the AIA, their business implications, and provide a counter-strategy to best position foreign companies and innovators so as to benefit most from the AIA.

I. Major Changes to the U.S. Patent System

1. First-to-Invent to First-Inventor-to-File

What makes the AIA such a “major reform of the U.S. patent system” is the fact it is changing the linchpin of American patent law—First-to-Invent. The First-to-Invent system allowed innovators to file

for patents and receive priority over earlier filed patents by proving an earlier date of invention. This unique feature of the American patent system has been in place for quite some time, withstanding repeated challenges throughout history, until being recently uprooted by the AIA (amending 35 U.S.C. 102). The replacement, First-Inventor-to-File (FITF) is closer to the First-to-File system in China, a style which is also more prevalent internationally. However, there are important differences. The traditional first-to-file system demands absolute novelty, meaning no patent can be obtained if there is prior use or publication of information related to the invention. The U.S. FITF system retains the one-year grace period for the inventor's own public disclosures, but eliminates the ability to defeat an independent, third-party publication by demonstrating an earlier date of invention. The FITF system replaces the operative phrase "date of invention" with "effective filing date," signaling that it is no longer the date of invention that drives the determination of patent eligibility. The FITF clause will become effective on March 16th, 2013.

2. Post-Grant Proceedings

Policy makers were concerned that the high litigation risks and costs associated with the American patent system were inhibiting technological innovation and investment in research and development. Moving to an FITF system, to reduce patent uncertainty, was one method for promoting American innovation. Another method introduced in the AIA was to end interference practice, and replace it with a series of post-grant proceedings at the US Patent and Trademark Office (USPTO) that allow the patent to be challenged after issuance (35 U.S.C. 32). These post-grant proceedings are determined by a new Patent Trial and Appeal Board (Board), which is designed to offer "a cost effective and speedier alternative to litigation." While the AIA provided for five different types of post-grant proceedings, this article will focus on Inter Partes Review (IPR) and Post Grant

Review (PGR), highlighting the key features and potential pitfalls, and assessing their impact on foreign filers.

a. Post Grant Review: The First 9 Months

PGR proceedings, effective as of September 16th, 2012, allow third parties to file a petition with the USPTO to review the validity of a patent after a patent or a broadening reissue has been granted. The petition must be filed within 9 months of the issuance or reissuance of the patent, similar to Oppositions at the European Patent Office (EPO).

PGR offers an immediate "review" of patent validity. Broadly encompassing, the possible grounds of invalidity under a PGR include Sections 101, 102, 103, 112 and 251, but not the best mode requirement of Section 112. Note that the AIA has significantly reduced the importance of the best mode requirement by removing it as a basis for invalidity or unenforceability in any post-grant proceedings or litigation. By opening the door to most grounds of patent invalidity and unenforceability, PGR effectively gave the USPTO Board a second look at the patent after the examiners had conducted the first review and approved the application. The only difference is that the PGR proceeding is adversarial in nature with a third parties of interest challenging the validity of the patent in front of a judge-like arbiter, instead of the neutral review of USPTO examiners. Therefore, the PGR is, in essence, patent litigation conducted within the USPTO, except in a more condensed format and a more compressed time-frame.

PGR petitions cannot be filed anonymously—all real parties in interest must be identified. The petitions also must contain "in writing with particularity, each claim challenged, the grounds on which the challenge to each claim is based, and the evidence supporting the challenge to each claim," including patents, printed publications, and fact and expert affidavits. In contrast to the new heightened pleading requirement in federal civil litigation, articulated by *Bell Atlantic Corp. v. Twombly* (2009), where the plaintiff must have a

plausible theory supported by sufficient facts ("plausible grounds"), PGR seems to require a higher standard of proof to get in the door. The petition for PGR will be granted only if the USPTO finds: (1) "that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable" OR (2) there is a "showing that the petition raises a novel or unsettled legal question that is important to other patents or patent applications." Furthermore, there are strict format limits on the petition: 14-point font double-spaced with a maximum of 70 pages. If the USPTO grants the petitioner's request to initiate the review, the petitioner bears the burden of proof by preponderance of the evidence (more likely than not). The USPTO will make a decision on the petition within 5 months of its filing, with a preliminary response within 3 months of patentee statement, or lapse of the patentee's window of response.

If the petition is granted, parties enter the "PK" phase of the proceeding with an accelerated trial process no more than 12-18 months in duration; the statute requires completion of the proceedings within 1 year after initiation, with a 6-month extension for showing of good cause. Thus, the parties have much less time as compared to standard patent litigation at the district court. Nevertheless, the new proceeding does offer an expedited alternative to those looking for a quick decision on the validity and enforceability of patent. The key to success in a PGR is to be prepared and act quickly.

PGR has the standard "bells and whistles" of American civil litigation, including motions, discovery, oral hearing, and then a final written opinion by the Board. The parties are allowed to settle and the patentee may amend claims, as long as the amendments do not broaden the claims or add new matter. However, the PGR also has its limits, in order to make the process more manageable under the compressed schedule. For instance, discovery is limited to "evidence directly related to factual assertions advanced by either party in the proceeding." While

“directly related” has not been defined, the Board is likely to only permit a fairly narrow scope for discovery, with the parties also having the understanding that overly expansive discovery would not be practical.

By contrast, the U.S. District Courts, under the American Federal Rules of Evidence and Federal Rules of Civil Procedure, allow discovery of non-privileged matter that is relevant to any party’s claim or defense. The more expansive discovery in District Court could include discovery of any documents or tangible matter, and people who may have discoverable information. For instance, the depositions could cover inventors, company employees, experts, and prosecution attorneys, among others. In fact, it is often part of the litigation strategy to make broad discovery requests with the hope that the broad production would have increased potential for favorable evidence. That scenario will not occur with PGR or any other post-grant proceedings. The more limited discovery of PGR is merely to give the parties the opportunity to produce the evidence necessary for the Board to give a fair judgment, without the time and expense required for broad production of materials and depositions. Discovery excess is neither permitted nor possible in these post-grant proceedings.

b. Inter Partes Review: After 9 Months

At month 9, the petitioner loses the right to file a PGR and gains the right to file an IPR, which is retained through patent expiration. If there is a pending PGR, the right to file an IPR is granted only after the PGR terminates. The IPR must be either filed before any civil allegation of invalidity (e.g. declaratory judgment) or only 1 year after the service of the infringement complaint in federal court. While PGR and IPR are similar, there are two important differences: (1) IPR has a significantly more limited basis for petition, only covering prior art patents or printed publications, essentially over 102 (novelty) and 103 (obviousness) issues and (2) the threshold for an IPR petition is reasonable likelihood of prevailing on at least 1 claim, which is

lower than the PGR standard of “more likely than not.” Basically, there are fewer grounds for filing an IPR than PGR, yet it is potentially easier to have a petition granted in IPR than PGR. However, the new *Inter Partes* Review has an elevated standard compare to its pre-AIA counterpart, *Inter Partes* Reexam, which only requires the existence of a “substantial new question (SNQ) of patentability affecting any claim of the patent” for a successful petition. The older *Inter Partes* Reexam was completely replaced by the new IPR on September 16th, 2012. Another minor distinction between IPR and PGR is the scope of discovery: the parties in an IPR are limited to depositions of witnesses who are submitting affidavits or declarations, or discovery otherwise necessary in the interest of justice.

Compared to the pre-AIA *Inter Partes* Reexam, the new IPR is a far more costly procedure (see table 1). These fees are much higher than the \$8000 fee for an *Inter Partes* Reexam. Additionally, there is no refund if the petition is denied in the new IPR, while the petitioner would get most of the \$8000 back if the petition was denied in an *Inter Partes* Reexam.

Similarly, although PGR is a new process, it also has a high fee schedule that is based on the number of claims, with a starting point of \$35,000. This augmented fee schedule is reflective of the fact that more grounds of invalidity can be raised under the PGR than IPR.

Number of Claims	Proposed Fee
1 to 20 claims	\$27,200
21 to 30 claims	\$34,000
31 to 40 claims	\$40,800
41 to 50 claims	\$54,400
51 to 60 claims	\$68,000
61+ claims	\$27,200 for each additional 10 claims

Table 1: Proposed Fees for *Inter Partes* Review.

The proposed fee schedule and new refund rules put the pressure on the petitioner to avoid frivolous and weak petitions. On top of the filing fees, the parties need to be aware of additional costs related to discovery procedures and the frontloading of costs due to the speed of the proceedings. In the post-AIA world, the stakes are higher on both sides: a greatly expedited procedure for the patent holder and higher petition fees for the petitioner. Proper preparation, organization, and due diligence will be very important for both parties in AIA post-grant proceedings.

3. Aftermath of Post-Grant Proceedings: Appeal and Estoppel

While procedurally abridged, these post-grant proceedings, are nevertheless conferred the deference of federal district court litigation. The parties may appeal the Board’s decision directly to the Federal Circuit Court of Appeals, skipping the lower court. Effectively, the Board decision replaces that of the lower court. There is, however, no appeal of the USPTO decision on whether to initiate review.

Additionally, the Board’s decision creates estoppels that may cause problems in future actions for the litigant that failed to cover the related issues in the initial USPTO proceeding. Estoppel is applied to both other proceedings before the USPTO and in civil action. After receiving a final written decision, the petitioners “may not request or maintain a proceeding before the USPTO or assert invalidity in a civil action with respect to the reviewed claim on any ground that the petitioner raised or reasonably could have raised during [the post-grant proceeding].” While “reasonably could have raised” has not yet been defined, the possibility exists that petitioners may lose the ability to raise any new ground of invalidity on the reviewed claims, which can catch the unprepared or inexperienced litigant off-guard. For the purpose of judicial economy and reducing litigation costs, the new system does not allow a second bite at the apple in federal court for any issue that was covered or

should have been reasonably covered by the post-grant proceeding.

Also, note that since an IPR has fewer grounds of invalidity (only 102 and 103) available, it has less potential estoppel effect than PGR, which effectively covers most of the grounds of invalidity that could be brought in civil litigation. The narrower scope of IPR now presents an advantage, allowing the petitioner to preserve certain issues until litigation, which can be a useful tactic, if the petitioner is not ready to litigate on all the issues of invalidity. The petitioners should weigh the estoppel “costs” of each type of proceeding and use these differences to their benefit.

II. Business Implications and Potential Strategies for Foreign Companies

What does this revolution to the US patent system mean to foreign filers? What strategies can Chinese businesses use to strengthen their American patent protection under the new system?

The answer is the three Ps: Plan, Prosecute and Predict. To plan is to outline a patent strategy that works broadly for the business entity and narrowly for the individual product. To prosecute is to draft and shepherd a strong patent application through the Patent Office that will not only pass examination smoothly, but also be defensible in subsequent proceedings. To prepare is to do the due diligence upfront in order to be ready to defend against any post-grant proceeding that can potentially bombard the patent at issuance. These three steps are synergistic, with each step done well benefiting the next.

Step 1 “Plan” involves:

a. Gaining an understanding of the new American patent law landscape sufficient to map out a patent strategy;

b. Outline a general patent strategy for the company that is aligned with its business initiatives and US market plans, taking into account post-grant proceedings and other features of the new AIA;

c. For the products or classes of products

of interest, have a patent “vision” (have a set of goals that you want to achieve within prosecution and post-grant proceedings) and conduct a “diagnosis” (understanding the strengths and weaknesses of the patents);

d. Understand the fit between the company patent plans and the individual product plans and prepare a “forecast” with upside-baseline-downside predictions that thoroughly explore any limitations that potential petitioners may rely on to launch a post grant challenge.

Step 2 “Prosecute” involves:

Working with skilled legal counsel to craft the claims, draft specifications, and fulfill USPTO regulatory requirements. The goal is to use the patent examination process to address any potential weakness of the patent, but without unduly narrowing the scope or delaying its issuance. Generally, it is preferable to have the issues addressed during prosecution by the examiner than in front of the Board during a post-grant proceeding.

Step 3 “Predict” basically includes:

Be ready to defend the patent before the patent is ready. This step can be likened to the pre-suit investigation in standard civil litigation. As noted above, time may be of the essence, as several post grant avenues will be available to challenge a patent, resulting in having to defend a patent much sooner, as compared to pre-AIA. Here, the entire procedure occurs within 1 to 1.5 years, with the discovery phase only a few months in length. Because of the potential for an immediate PGR attack upon issuance and the expedited procedure of these proceedings, the patent owner needs to have a “post-grant strategy” with possible legal arguments and discovery plans ready immediately upon patent issuance. The preparation may include mock petition responses based on the known strengths and weaknesses of the patent and scouting business intelligence that may indicate potential challenges from competitors.

The need to prepare also applies to the

petitioner. With the high cost of filing a petition and the risk of losing in a failed petition under the no-refund policy, the patent challenger also needs to have a plan of attack. The petitioner may want to determine which path is best suited for a patent challenge. Scope, cost, time, and estoppel are all factors that should be considered between the three possible avenues of challenging a patent—the pseudo-judicial actions of (1) PGR and (2) IPR, or (3) civil litigation.

In some ways, for the inventor and the potential challenger, no due diligence is too detailed. Even smaller considerations can make the difference in a patent challenge. For instance, the petitioner may want to weigh the cost against the page limitation. In some cases, it may be worthwhile to break down the claims and file separate petitions to get more space to address each set of claims, especially considering the fees are dictated by the number of claims. Another consideration is that the challenger will have to decide how a failed petition may potentially affect future litigation. A failed petition may provide a 70 page roadmap of a petitioner’s litigation strategy that would put the petitioner at a disadvantage for future challenges.

III. The Road Ahead for Chinese Innovators

Chinese inventors are emerging as leaders in global innovation as they are fostered by increasing research and development budgets, favorable governmental policies, and an increasing number of Chinese studying abroad returning to China after the completion of their studies. With the American patent system undergoing tectonic changes, Chinese inventors are facing new challenges presented by the AIA. However, with a good understanding of the new patent legal landscape, due diligence and representation by competent legal counsel, and a solid plan and proper strategic assessment, these challenges should not affect the patent protection of Chinese inventions in the United States. 