

## Background on Inter Partes Review

### What Is Inter Partes Review (IPR)?

*Inter partes review is a trial-like proceeding conducted at the Patent and Trademark Office to review the patentability of one or more claims of an issued patent.* Congress created inter partes review in the 2011 America Invents Act in response to concerns that the Patent and Trademark Office (PTO) was issuing large numbers of low-quality patents. In Congress's words, IPR was created to "improve patent quality and restore confidence in the presumption of validity that comes with issued patents" by giving the PTO significant power to revisit and revise earlier patent grants."<sup>1</sup> IPRs are conducted by the Patent Trial and Appeal Board (PTAB) within the PTO.

- *Streamlined and less expensive.* IPR allows members of the public to obtain review of an issued patent through a process that is more streamlined and less expensive than district-court litigation.
- *Review by experts.* It also provides a mechanism for obtaining review of patents by patent law and technical subject-matter experts, as opposed to generalist judges or lay juries.

### Why Is Inter Partes Review Necessary?

*Bad patents stifle innovation and impose enormous litigation costs on American businesses.* In enacting the America Invents Act, Congress explained "that questionable patents are too easily obtained and are too difficult to challenge."<sup>2</sup>

- *Patent examiners are overburdened.* In fiscal year 2018, more than 640,000 patent applications were filed,<sup>3</sup> but there were fewer than 8,200 patent examiners.<sup>4</sup> That means that a patent examiner spends an average of only 19 hours reviewing a patent application from start to finish, including reading the application, searching for and reading prior art, comparing the prior art to the application, drafting correspondence with the applicant, and responding to the applicant's arguments.<sup>5</sup> Patent examiners report that "they feel too crunched for time."<sup>6</sup>

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<sup>1</sup> H.R. Rep. No. 112-98 at 40 (2011).

<sup>2</sup> H.R. Rep. No. 112-98 at 39-40.

<sup>3</sup> PTO, FY 2018 Performance and Accountability Report 32, available at <https://www.uspto.gov/sites/default/files/documents/USPTOFY18PAR.pdf>.

<sup>4</sup> *Id.* at 12.

<sup>5</sup> Michael D. Frakes & Melissa F. Wasserman, *Is the Time Allocated to Review Patent Applications Inducing Examiners to Grant Invalid Patents? Evidence from Microlevel Application Data*, *The Review of Economics and Statistics* 99:3, 550-563 (2017).

<sup>6</sup> Brian Fung, *Inside the stressed-out, time-crunched patent examiner workforce*, *The Washington Post* (July 31, 2014), available at <https://www.washingtonpost.com/news/the-switch/wp/2014/07/31/inside-the-stressed-out-time-crunched-patent-examiner-workforce>.

- *Bad patents slip past overworked examiners.* Studies show that the pressure to make decisions too quickly may lead the PTO to grant “bad patents,” including patents that claim existing technology or “inventions” that were obvious in light of the prior art.<sup>7</sup>
- *Bad patents stifle innovation.* Manufacturing, technology, pharmaceutical, and other companies are exposed to patent-infringement claims based on patents that never should have issued. Companies may refrain from making products for fear of being sued—keeping goods out of consumers’ hands.
- *Bad patents can lead to major litigation costs.* If they are sued, litigation costs can put small companies out of business and drive up costs for consumers—even if a court ultimately finds the patent invalid. The American Intellectual Property Law Association has found that the median cost for litigating a patent case with \$1 million to \$10 million at risk is \$2 million.<sup>8</sup> For cases with more than \$25 million at risk, the median cost of litigating through trial is \$5 million.<sup>9</sup> Patent litigation also takes a long time—an average of 2.4 years to reach trial.<sup>10</sup> Because of this expense and time involved, 40% of surveyed startups reported “significant operational impact” after receiving patent-infringement demand letters, ranging from delayed hiring to change in business strategy or complete shutdown of their businesses.<sup>11</sup>

IPR provides an opportunity for the PTO to take a second look at issued patents and “screen out bad patents while bolstering valid ones.”<sup>12</sup> An IPR can be instituted by any member of the public, including a company that wants to use the technology claimed by a patent that it thinks is invalid or a company recently sued for patent infringement. That means that manufacturers can obtain certainty that they are not subject to a patent-infringement claim *before* making a product, and they can obtain review of a patent they are accused of infringing through a less expensive and quicker process than district-court litigation.

- *IPR is much less expensive than litigation.* The average cost of IPR through a PTAB hearing is \$275,000—far less than the cost of district-court litigation.<sup>13</sup>
- *IPR is also quicker than litigation.* The statute establishes strict timelines for decision. The PTAB must issue a final decision within 18 months of the filing of a petition.

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<sup>7</sup> Brian Fung, *Inside the stressed-out, time-crunched patent examiner workforce*, The Washington Post (July 31, 2014), available at <https://www.washingtonpost.com/news/the-switch/wp/2014/07/31/inside-the-stressed-out-time-crunched-patent-examiner-workforce>.

<sup>8</sup> American Intellectual Property Law Association, *Report of the Economic Survey 2015* [hereinafter AIPLA 2015 Report]

<sup>9</sup> AIPLA 2015 Report

<sup>10</sup> PwC, 2018 Patent Litigation Study 14 (2018), available at <https://www.pwc.com/us/en/forensic-services/publications/assets/2018-pwc-patent-litigation-study.pdf>.

<sup>11</sup> Colleen Chien, *Startups and Patent Trolls*, 17 Stan. Tech. L. Rev. 461 (2014).

<sup>12</sup> 157 Cong. Rec. 9778 (2011).

<sup>13</sup> AIPLA 2015 Report

## How Does Inter Partes Review Work?

*IPR provides for a streamlined trial process in which all interested parties have an opportunity to be heard.* The stages of IPR are as follows:

- *IPR begins with a petition.* Virtually any member of the public can file a petition for IPR. The petition must “identif[y], in writing and with particularity, each [patent] claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim.”<sup>14</sup>
- *Response.* The patent holder has an opportunity to file a preliminary response to the IPR petition explaining why the patent claims are valid or why the PTAB should decline to review the patent.<sup>15</sup>
- *The PTAB decides whether to institute IPR.* The PTAB considers the petition and response, and may grant inter partes review only if the petitioner has “show[n] that there is a reasonable likelihood that [it] would prevail with respect to at least 1 of the claims challenged in the petition.”<sup>16</sup>
- *The patent holder responds again.* If the PTAB grants IPR, the patent owner is permitted to respond further to the IPR petition, and may move to amend the patent claims in light of the petitioner’s challenges.
- *Hearing and decision.* The PTAB holds an oral hearing, and then renders a final written decision within one year of the IPR being instituted.
- *Appeal rights.* Any party to the IPR can appeal a final written decision to the U.S. Court of Appeals for the Federal Circuit.<sup>17</sup>

## Has Inter Partes Review Been Successful In Weeding Out Bad Patents?

*IPR has been very successful in weeding out bad patents.*

- In fiscal year 2018, the PTAB granted 859 petitions to review issued patents, and denied 577 petitions.<sup>18</sup>

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<sup>14</sup> 35 U.S.C. § 312(a)(3).

<sup>15</sup> 35 U.S.C. § 313.

<sup>16</sup> 35 U.S.C. § 314(a).

<sup>17</sup> 35 U.S.C. § 319.

<sup>18</sup> PTAB, Trial Statistics 6 (Apr. 2019), available at [https://www.uspto.gov/sites/default/files/documents/trial\\_statistics\\_apr\\_2019.pdf](https://www.uspto.gov/sites/default/files/documents/trial_statistics_apr_2019.pdf). These numbers include IPR and a small number of petitions for post-grant review and covered business method review—post-issuance review proceedings similar to IPR.

- *The selection process is working.* The 60% grant rate demonstrates that the PTAB found a “reasonable likelihood” that at least some of the challenged patent claims were invalid in a high proportion of cases.<sup>19</sup>
- *The PTAB is careful.* The PTAB has been appropriately selective in choosing which petitions to grant, declining to subject patent owners to the IPR process where the petition fails to make a substantial case for patent invalidity.
- *IPRs involve a miniscule number of patents.* The 859 petitions granted represent only 0.25% of the more than 338,000 patent applications granted in 2018, demonstrating that IPR properly poses little threat to the vast majority of patents.<sup>20</sup>
- The PTAB cancelled some or all patent claims (that is, found them invalid) or the patent owner conceded that the claims were invalid in more than 80% of IPRs that reached a final written decision.<sup>21</sup>
  - This high cancellation rate demonstrates that in the vast majority of instances in which IPR is instituted, the patent contains at least some “bad” claims. Patent holders are not put through the IPR process needlessly.

The IPR process has thus been successful in weeding out these bad claims at a much lower cost than district-court litigation. In fact, it has been estimated that in the first five years after IPR was created, IPR has helped patent owners and accused infringers avoid at least \$2.31 billion in deadweight losses by providing an efficient system for challenging patents.<sup>22</sup>

### **Are The PTAB’s Decisions Generally Upheld On Appeal?**

*The PTAB’s decision is upheld on appeal in the vast majority of cases.*

- The Federal Circuit reported that in Fiscal Year 2018, only 11% of appeals from the Patent and Trademark Office were reversed.<sup>23</sup>

These statistics demonstrate that IPR has been successful in weeding out only bad patent claims.

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<sup>19</sup> 35 U.S.C. § 314(a).

<sup>20</sup> PTO, FY 2018 Performance and Accountability Report 181, available at <https://www.uspto.gov/sites/default/files/documents/USPTOFY18PAR.pdf>.

<sup>21</sup> Elliot C. Cook, et al., *Claim and Case Disposition*, <https://www.finnegan.com/en/america-invents-act/claim-and-case-disposition.html>.

<sup>22</sup> Josh Landau, *Inter Partes Review: Five Years, Over \$2 Billion Saved*, Patent Progress (Sept. 14, 2017), <https://www.patentprogress.org/2017/09/14/inter-partes-review-saves-over-2-billion/>.

<sup>23</sup> U.S. Court of Appeals for the Federal Circuit, Appeals Filed, Terminated, and Pending During the Twelve-Month Period Ended September 30, 2018, available at [http://www.ca9.uscourts.gov/sites/default/files/the-court/statistics/05-\\_appeals\\_filed\\_terminated\\_and\\_pending\\_2018\\_revised\\_-\\_Final.pdf](http://www.ca9.uscourts.gov/sites/default/files/the-court/statistics/05-_appeals_filed_terminated_and_pending_2018_revised_-_Final.pdf). This statistic includes all appeals from PTO decisions, not only IPRs.

## How Does Inter Partes Review Affect Patent Infringement Actions?

*Decisions in IPR are binding in parallel or future district-court litigation.*

- *Only one bite at the apple.* A person who has filed a district-court action challenging patent validity may not file a petition for IPR.<sup>24</sup>
- *Decisions are binding on petitioners/defendants.* When a patent is upheld in IPR, the petitioner cannot assert invalidity in district court on any grounds that could have been asserted in the IPR.<sup>25</sup> This prevents companies from driving up costs by litigating in multiple fora.
- *Decisions are binding on patent owners/plaintiffs.* If the PTAB cancels patent claims in a final written decision of IPR, the patent holder may no longer assert those claims in a district-court patent-infringement action.

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<sup>24</sup> 35 U.S.C. § 315(a)(1).

<sup>25</sup> 35 U.S.C. § 315(e).