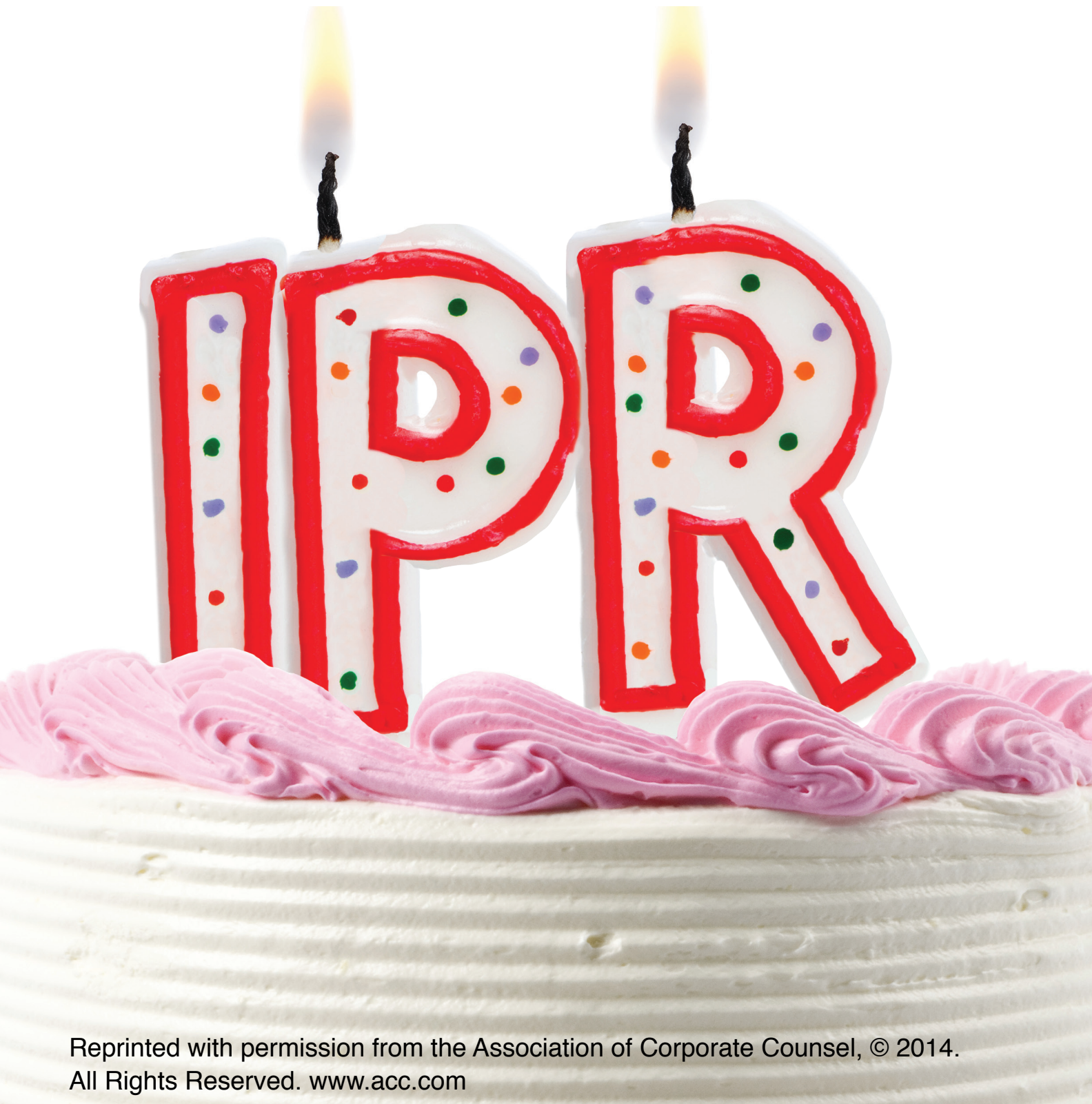


CHEAT SHEET

- *Limited discovery.* The two most denied types of motions for additional discovery relate to the issues of real party-in-interest and secondary considerations.
- *Joinder when merited.* The option to join related proceedings, if merited, saves time and money.
- *Finite timeline.* The proceedings are statutorily limited to a six-month duration from submission of a petition to a decision on whether to proceed with trial.
- *Streamlined amendment practice.* The ability to amend claims is limited by statute, with factors for a successful motion to amend set forth in an early Patent Trial and Appeal Board decision.



TWO YEARS

A FAIR AND EFFICIENT LITIGATION ALTERNATIVE:

OF INTER PARTES REVIEW

By Laura A. Sheridan and Matthew L. Cutler

This past September marked the two-year anniversary of inter partes review (IPR), as created by the America Invents Act (AIA). Before IPR, the options available for challenging the validity of a patent were federal district court litigation and either ex parte or inter partes reexamination. The defendant-patent challenger could remain involved in the proceeding after initiation only through litigation and inter partes reexamination, but significant shortcomings limited the use of both options.

Inter partes reexamination suffered from an open-ended duration with almost unlimited claim amendment practice and no ability to end the proceeding if the parties settled. The high cost of bringing a declaratory judgment action, largely attributable to the complexity and breadth of discovery practices, as well as the requirement of standing, deter validity challenges in district court. When the AIA added the option of challenging a patent using IPR, patent challengers finally had a viable option for review of a patent without these downsides.

IPR is a necessary and important addition to the overall patent system, adding a level of quality control that is not otherwise feasible given the ex parte nature and the time constraints of the examination process. Congress balanced this need for additional quality control against a patentee's need for certainty, when it holds a strong patent, by including requirements designed to prevent harassment of patents owners by challengers. These requirements include the high bar to initiate IPR as compared to inter partes reexamination, and an estoppel provision that prevents two bites at the apple by petitioners. The PTO will not institute an IPR trial unless the challenger demonstrates that "there is a reasonable likelihood" that it would prevail, and challengers are prevented from raising in later proceedings any issue that they "reasonably could have raised" in the IPR.¹

Defendants have demonstrated their acceptance of IPR by consistent and significant usage of the proceedings, which has grown steadily from its inception. IPR petition submissions have averaged about 30 per week, and over 1,500 petitions have been submitted since the proceeding took effect on Sept. 16, 2012. These numbers make the Patent Trial and Appeal Board (PTAB or the Board) the second-busiest patent jurisdiction in the United States, with only the Eastern District of Texas seeing more proceedings.²

As of June 16, 2014, the 21-month anniversary of IPR practice, the rate at which petitions were granted was 81 percent. For those patent claims placed into trial, the rate of cancellation by the Board was 69 percent.³ This cancellation rate is lower when the total number of originally challenged claims is taken into account (i.e., 60 percent). While these statistics may show success by petitioners, the grant and cancellation rates also demonstrate that challengers carefully consider whether to petition for IPR and

are appropriately using the proceeding to efficiently weed out invalid patents that should not have been issued in the first place. To initiate an IPR trial, the petitioner must prove that there is a reasonable likelihood that one or more claims of the challenged patent are unpatentable.⁴ Given this high bar, the consequences for a defendant's litigation position if the Board rejects its petition, and the estoppel that applies once trial is underway, defendants are wise to raise IPR challenges only when they have strong invalidity arguments. Indeed, lower cancellation rates might arguably indicate that the framework of a high initiation bar plus estoppel was not sufficiently protecting owners of strong patents from unwarranted challenges.

As we pass two years of IPR practice, it is important to ask whether IPR is operating as Congress intended. Is IPR serving as an efficient alternative to litigation for weeding out invalid patents, while also preventing harassment of strong, valid patent owners? The answer appears to be yes. Given the PTAB's careful management of important aspects of the proceedings, IPR is proving to be both fair to the patent owner and efficient for the petitioner.

Inter partes review today

As an entirely new Patent Office proceeding, it has taken some time for petitioners and patent owners to understand the ins-and-outs of IPR

practice, and the education continues today. Parties to the proceedings have been guided along the way by the PTAB's application of the IPR statute and rules. With thoughtful decisions along the way, the PTAB has streamlined IPR proceedings through limited discovery for both parties and allowance of joinder where efficiency mandates it. The PTAB has also outlined the parameters for a successful motion to amend, all of which has allowed IPRs to meet their strict, statutorily mandated timeline at a fraction of the cost of district court litigation.

Limited discovery for both parties

The discovery process is a primary driver behind the high cost of federal district court litigation, due to its breadth and complexity. From the outset, the PTAB made clear that IPR was not going to go down the same road. The first major decision in the first IPR (*Garmin Int'l, Inc. v. Cuozzo Speed Tech. LLC*, IPR2012-00001) addressed that of discovery.⁵ Specifically, the PTAB's decision set forth a clear and comprehensive set of factors that are considered when deciding a motion for additional discovery.⁶

In practice, a motion for additional discovery begins with a conference call to the PTAB seeking authorization to file. Parties can expect the Board to encourage the parties to work together to come to a mutually agreeable solution on discovery. If the parties do



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not agree, and a motion for discovery is authorized and filed, the movant must set forth a specific rationale for justifying the discovery pursuant to the *Garmin* factors. The Board only allows narrowly tailored and targeted requests and interrogatories, with a grant rate of about 29 percent. As practitioners adjust to the *Garmin* factors and the Board's strict stance on discovery, the grant rate has begun to climb.

The two most denied types of motions for additional discovery relate to the issues of real party-in-interest and secondary considerations. For additional discovery into the real party-in-interest, mere speculation that another party is behind the control or funding of an IPR petition is not enough for the Board to grant a motion for discovery into whether all real parties-in-interest have been properly identified. Instead, some evidence that moves the inquiry beyond mere speculation is required. An increasingly successful technique is the propounding of targeted requests asking whether a specific party participated in the drafting of the IPR petition or had input into its filing, looking to "control" of the petition, or whether a specific party funded some or all of the petition.

With regard to secondary considerations, it is often the case in federal district court litigation that defendants are required to provide invasive and burdensome discovery on the topic in fishing expeditions designed to try to fabricate some sort of allegation of a nexus between the claimed invention and the defendant's activities. In litigation, such burdensome and invasive discovery rarely leads to the production of evidence allowed at trial. In IPR, the Board has routinely rejected this type of sweeping discovery, recognizing that it is of limited utility without more than a vague notion that information might exist on this topic. That is not to say, however, that all discovery requests are going to be denied.

In *Corning Inc. v. DSM IP Assets B.V.*, IPR2014-00043, the petitioner

The *Garmin* factors for obtaining "additional discovery"

1. *More than a possibility and mere allegation:* The mere possibility of finding something useful, and the mere allegation that something useful will be found, are insufficient to demonstrate that the requested discovery is necessary in the interest of justice. The party requesting discovery should already be in possession of evidence tending to show, beyond speculation, that in fact something useful will be uncovered.
2. *Litigation positions and underlying basis:* Asking for the other party's litigation positions and the underlying basis for those positions is not necessary in the interest of justice. The Board has established rules for the presentation of arguments and evidence. There is a proper time and place for each party to make its presentation. A party may not attempt to alter the Board's trial procedures under the pretext of discovery.
3. *Ability to generate equivalent information by other means:* Information a party can reasonably figure out or assemble without a discovery request would not be in the interest of justice to have produced by the other party. In that connection, the Board would want to know the ability of the requesting party to generate the requested information without need of discovery.
4. *Easily understandable instructions:* The questions should be easily understandable. For example, 10 pages of complex instructions for answering questions is *prima facie* unclear. Such instructions are counter-productive and tend to undermine the responder's ability to answer efficiently, accurately and confidently.
5. *Requests not overly burdensome to answer:* The requests must not be overly burdensome to answer, given the expedited nature of IPR. The burden includes financial burden, burden on human resources and burden on meeting the time schedule of IPR. Requests should be sensible and responsibly tailored according to a genuine need.

Garmin Int'l, Inc. v. Cuozzo Speed Techs., IPR2012-00001, Paper 20.

had taken the position that the subject matter of the challenged claims was unpatentable over prior art based on inherent properties not explicitly recited in such art.⁷ Petitioner's experts recreated the prior art compositions and tested them to prove that the properties from the patent claims were indeed inherent. The Board partially granted the patent owner's motion for additional discovery, requiring production of laboratory notebooks and documents related to the test results, but rejecting the request for actual samples of the compositions. In *Apple Inc. v. Achates Reference Pub., Inc.*, IPR2013-00080, the petitioner successfully moved for additional discovery

into an exchange of email correspondence between patent owner's experts, the existence of which had come out in a deposition.⁸

With the recitation of the *Garmin* factors right out of the gate, and the application of those factors in subsequent proceedings, the PTAB has made it clear that the expensive and inefficient discovery practices of district court litigation would not transfer over to IPR practice. By allowing only targeted and narrow requests, supported by more than a mere possibility that discoverable information will be uncovered, the Board has successfully streamlined IPR practice to the benefit of petitioners and patent owners alike.

Joinder where merited by efficiency

With one patent owner often accusing in parallel numerous defendants of patent infringement, another factor in presenting an efficient and cost-effective patentability proceeding is the option to join related proceedings if merited. The AIA gives the Board discretion in considering motions for joinder of proceedings when reviewing IPR petitions.

Under the AIA, 35 USC § 315(d) requires that a petition for IPR be brought within one year of the petitioner having been served with a complaint for patent infringement. However, the one-year bar does not apply when joinder is sought within 30 days of the Board's decision to institute a trial. This exception to the one-year bar was a nod to competing interests in multi-defendant litigation. If, for example, only one defendant brought an IPR proceeding, the patent owner

Holding to the one-year trial deadline benefits both patent owners and petitioners by setting a tangible date for resolution of the matter by the Patent Office.

could wait out the one-year bar for the other defendants and then settle the pending IPR. Those defendants that are not a party to the proceeding would then lose their ability to later challenge the patent in an IPR. Given this, the competing incentive in multi-defendant litigation would be for all defendants to file their own IPR petitions, an expensive and wasteful proposition that unnecessarily increases cost for petitioner-defendants and patent owners alike. The “joinder”

exception, therefore, strikes a balance, allowing one defendant to bring an IPR and the other defendants to join in if the Board institutes a trial.

This joinder does not come without a cost to the later-arriving petitioners. The Board has made clear that joinder will only be allowed if there is minimal impact on the original IPR proceeding. Subsequent petitioners, to date, have been forced to only file “me too” petitions that substantially mimic the arguments and expert testimony of the original filing. Subsequent petitioners have also been required to take a “second chair” in the proceedings, facing limitations, such as only having an extra seven pages of briefing, asking deposition questions after the original petitioner and arguing second in any oral hearing.⁹

While the joinder exception typically requires a petition to be brought within 30 days of trial institution, the PTAB has exercised its discretion

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Idle Free requirements for a successful motion to amend

1. Distinction over the prior art.
 - a. Identify specifically the feature added to each substitute claim, as compared to the challenged claim it replaces;
 - b. Technical facts and reasoning about those features;
 - c. Construction of new claim terms — not simply “plain and ordinary meaning”;
 - d. Identification of all art known to patent owner;
 - e. Representation about the specific technical disclosure of the closest prior art (anywhere, in any context); and
 - f. Declaration testimony of expert about significance and usefulness of the feature and level of ordinary skill in the art.
2. Distinction over all other proposed claims for the same challenged claim.
3. Distinction over a substitute claim for another challenged claim.

Idle Free Sys., Inc. v. Bergstrom, Inc., IPR2012-00027, Paper 26.

to join proceedings outside of this window as well, with safeguards put into place. In *Sony Corp. of Am. v. Network-1 Security Solutions, Inc.*, IPR2013-00495, the Board considered a request for joinder brought by Sony and Hewlett-Packard, with a petition that was brought outside both the one-year litigation bar and the 30-day joinder exception.¹⁰ In fairness to the patent owner, the Board went beyond the second-chair requirement that is typical of joinder, and required that Sony and Hewlett-Packard take no role in the IPR unless one of the more senior petitioners were to settle out.

The Board has also considered joinder with respect to multiple proceedings brought by the same party. For instance, where a petitioner brought a second petition against the same patent, asserting new grounds against claims set forth in the first petition, as well as additional claims from the patent, the Board allowed for joinder of the proceedings.¹¹ The Board found that doing so would be more efficient than having the proceedings move forward separately, citing the fact that the same patents and parties were involved, the overlap in prior art, the lack

of any discernible prejudice to either party, and the petitioner’s diligence in filing the motion.

With a flexible and fair application of the statutory joinder provisions, the Board has balanced the competing interests of patent owners and petitioners. This application has allowed for efficiencies for the parties and the Board, along with cost savings, all while adhering to the tight IPR schedule mandated by statute.

A focused motion to amend process

In pre-AIA inter partes reexamination, the patent owner had the opportunity to offer dozens, if not hundreds, of new patent claims throughout the proceeding. This amendment practice often led to reexamination proceedings that lasted many years, with the date for final resolution almost impossible to pinpoint. In AIA inter partes review, the ability to amend claims is limited by statute, with factors for a successful motion to amend set forth in an early Board decision.¹² The Board’s evolving guidance since that decision has provided additional clarity on the *Idle Free* requirements, including a recent decision to grant a patent owner’s motion to amend.¹³

The rationale behind the motion to amend process in IPR is grounded in how the process differs from regular Patent Office examination, as well as reissue and ex parte reexamination. Specifically, IPR amendment practice offers patent owners the opportunity to obtain claims without going through substantive examination. This comes with the trade-off that the patent owner provides detailed argument on how such claims overcome the prior art, as the Board does not conduct its own search of the prior art to determine patentability. If a patent owner desires to present a more robust claim set than is allowed under IPR practice, the Board has made it clear that alternative Patent Office proceedings, such as reissue and ex parte reexamination, can and should be used.¹⁴

The streamlined amendment practice is necessary to adhere to the short statutory timeframe for IPR proceedings. Holding to the one-year trial deadline benefits both patent owners and petitioners by setting a tangible date for resolution of the matter by the Patent Office.

A finite timeline for resolution

For practitioners used to litigating in federal district court, where judges are often open to amending scheduling orders upon request of a party, IPR practice stands in stark contrast. The proceedings are statutorily limited to a six-month duration from submission of a petition to a decision on whether to proceed with trial, and a one-year duration from trial institution to issuance of a final decision by the PTAB.

In practice, the Board has been unwilling to entertain extensions to the due date for the final decision, with limited exceptions. For instance, the Board has allowed amendments to the deadlines for the parties’ main briefing (e.g., patent owner response, motions to amend, and oppositions and replies thereto). That being said, the Board has rarely granted extensions

to later dates in the schedule (e.g., motions for observation, motions to exclude and the oral hearing date). The Board's rationale in denying such requests is that extending these later dates would potentially impact the Board's ability to render its final written decision on time.

Echoing the timeliness of federal district courts known for their speed, such as the Eastern District of Virginia and Western District of Wisconsin, the PTAB has created certainty for patent owners and petitioners on the timeline of events in an IPR proceeding. The result of such efficiency is predictability and cost savings for the parties involved.

A lower-cost litigation alternative

A significant downside to challenging a patent in district court litigation is the extremely high cost. American Intellectual Property Law Association (AIPLA) statistics indicate that for modest patent litigation (e.g., \$1 million to \$10 million at risk in the litigation), the cost per side is roughly \$2 million, with half of that cost attributable to the discovery process.¹⁵ For larger-stakes litigation (e.g., \$10 million to \$25 million at risk in the litigation), the cost per side is roughly \$3.3 million, with almost two-thirds of that cost incurred by the end of discovery.¹⁶

While estimates of potential costs for IPR proceedings varied widely at the outset, due to the uncertainty surrounding how the proceedings would unfold, the most common estimates ranged between \$250,000 and \$350,000 for a single IPR proceeding. As the uncertainty has been gradually wrung out of the proceedings for all of the reasons discussed above, estimates have fallen closer to the lower end of that range. And where multiple related IPRs are at issue, significant efficiencies can be realized, including consolidation of expert depositions, oral hearings and briefings. Compared to district court

litigation, IPR is an order of magnitude less expensive for parties.

Another factor that results in cost savings is the ability to settle. In over 10 percent of the IPR petitions brought to date, the parties have jointly terminated the proceeding due to a settlement of the related litigation. While settlements can occur for any number of reasons, a likely motivator is the presence of strong arguments in the petitions. The access to an efficient process for challenging patents has allowed parties to achieve resolution even sooner than in district court litigation, and at a fraction of the cost.

Conclusion

IPR has given those faced with patent litigation an alternative to challenging the validity of an asserted patent in court. To date, its usage shows that defendants appreciate this option, bringing their best arguments to the PTAB for consideration. In response, the PTAB has carefully applied the statute and rules around such important aspects as discovery, joinder, amendments and scheduling. This has allowed for IPR to be a cost-effective and efficient option for addressing patent quality. **ACC**

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Ramifications of the Final Inter Partes Review Practice and Trial Rules Under the AIA (Aug. 2012). www.acc.com/quickcounsel/aia_aug12

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NOTES

- 1 35 U.S.C. §§ 314(a), 315(e).
- 2 Filings from Jan. 1, 2014 – June 30, 2014: Eastern District of Texas – 912 complaints (PACER); Patent Trial and Appeal Board – 648 petitions (PTAB); and District of Delaware – 525 complaints (PACER).
- 3 Cancellation of a claim means that, after the completion of the IPR Trial, the PTAB has found, by a preponderance of the evidence, that the claim is not patentable.
- 4 35 U.S.C. § 314(a).
- 5 *Id.*, Paper 20.
- 6 Patent Office regulations allow for “routine discovery” as a matter of course. This includes the exhibits cited in a paper, cross-examination of declarants and information inconsistent with a position the party has advanced in the proceeding. 37 CFR § 42.51(b) (1). Additional discovery encompasses all the discovery tools of the Federal Rules of Civil Procedure, but is only allowed when “necessary in the interests of justice.” 35 USC § 316(a)(5).
- 7 *Id.*, Paper 27.
- 8 *Id.*, Paper 58; see also *Apple, Inc. v. Achates Reference Pub., Inc.*, IPR2013-00081, Paper 58.
- 9 See, e.g., *Kyocera Corp. v. Softview, LLC*, IPR2013-00004, Paper 15; *Dell, Inc. v. Network-1 Security Solutions, Inc.*, IPR2013-00385, Paper 17.
- 10 *Id.*, Paper 13.
- 11 See, e.g., *Microsoft Corp. v. Proxycorn, Inc.*, IPR2013-00109, Paper 15.
- 12 See *Idle Free Sys., Inc. v. Bergstrom, Inc.*, IPR2012-00027, Paper 26.
- 13 See *Int'l Flavors & Fragrances, Inc. v. U.S.*, IPR2013-00124, Paper 12.
- 14 See *Game Show Network, LLC v. John H. Stephenson*, IPR2013-00289, Paper 31.
- 15 AIPLA Law Practice Mgmt. Comm., Report of the Economic Survey 27, 34 (2013).
- 16 *Id.*