

## Checks And Balances In The Inter Partes Review Statute

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The Leahy-Smith America Invents Act amended United States patent law to allow parties to challenge the validity of issued patents through new administrative procedures, including the very popular inter partes review.[1] An IPR is a streamlined proceeding in the U.S. Patent and Trademark Office, in which the challenger files a petition setting forth grounds on which one or more claims of the patent is allegedly invalid, and — within approximately six months — the PTO’s Patent Trial and Appeal Board determines whether to institute a trial on any of the requested claims. If a trial is instituted, a final decision on the patentability of the instituted claims issues within one year. During the trial process, discovery is typically limited to the cross-examination of declarants, the mandatory disclosure of evidence relied upon by a party, and the mandatory disclosure of evidence known to a party to be inconsistent with its positions. The new administrative procedures, including IPR, post-grant review and covered business method patent review, were intended to provide “quick and cost effective alternatives to litigation.”[2]

IPR decisions largely have favored petitioners, making IPR a powerful weapon in any accused patent infringer’s arsenal. As of March 3, 2016, 72 percent of IPR petitions were granted at least partially (i.e., a trial was instituted), and 71 percent of final written decisions have invalidated all of the instituted patent claims.[3] These high petitioner success rates have driven petition filing rates through the roof — 375 IPR petitions were filed in the last three months of 2015 alone — and have put the PTAB under pressure.[4]

When Congress authorized IPR in the AIA, Congress was aware that accused infringers might be tempted to launch “repeated litigation and administrative attacks on the validity of a patent,” which would upset the patent owner’s interest in quiet title.[5] Accordingly, Congress placed two important restrictions on IPR petitioners.

First, a party cannot file an IPR petition against a patent after filing a declaratory judgment action attacking the validity of the patent, or more than one year after being served with a complaint alleging infringement of the patent.[6] Second, following a final written decision in an IPR, the petitioner is estopped from continuing to challenge the validity of the patent claims subject to that decision — whether in an



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administrative procedure, such as at the PTO, or as a defense in district court — based on any grounds that the petitioner “raised or reasonably could have raised during” the IPR.[7] These restrictions apply with equal force to an IPR petitioner, to any “real party in interest” to that IPR, and to any “privy of the petitioner.” In a similar vein, Congress granted to the PTO broad rulemaking authority and the discretion to deny an IPR petition that raises issues previously presented to it.[8] In theory at least, these provisions ensure that the streamlined IPR process inures to the benefit of successful patent owners, not just to petitioners

Considering the high speed, low cost and high reward of a successful IPR, it is not surprising that petitioners have sought to use this new procedure to its full potential; it is not uncommon for a single patent to be subjected to attack by multiple IPR petitions. For example, United States Patent No. 6,805,779 (owned by Zond LLC) has been the subject of 20 IPR petitions by five petitioners.[9] Patent No. 7,490,151 (owned by VirnetX Inc.) has been the subject of eight IPR petitions by six petitioners.

To some extent, multiple IPR attacks on a patent should be expected, because patent owners often assert their patents against more than one infringer, each of whom is entitled to raise invalidity defenses. However, there is no standing requirement for filing an IPR petition. This means that not only accused infringers, but also other entities (e.g., indemnifiers, trade associations, public-interest groups, and even hedge funds that short-sell the patent owner’s stock), may mount challenges to the same patents, imposing costs and delays on patent owners potentially larger than a single full-blown patent litigation. In this vein, there has been a recent increase in member-funded trade associations and defensive patent aggregators that utilize the IPR process to their members’ benefits; and patent owners have complained.

One such association is Unified Patents Inc. (“UPI”), which was founded in 2012 as a bulwark against rising patent assertions by nonpracticing entities, i.e., companies that enforce a patent without making, using, or selling a physical embodiment of the patented invention. UPI boasts more than 100 members, including Fortune 500 companies. And, in exchange for annual membership fees, UPI provides anti-NPE services including: (1) prior art analysis; (2) opinions of counsel regarding patent validity; (3) preemptive acquisition of patents targeted by NPEs, with free licenses for its members; and (4) lobbying against NPE activity.[10]

However, the most controversial service provided by UPI is its use of IPRs to challenge patents being asserted by NPEs. UPI has filed at least 35 petitions since September 2013.[11] Some patent owners have alleged that this IPR use is UPI’s primary purpose, the rest of its activities lacking practical significance.[12] Because UPI is itself a nonpracticing entity of sorts, it is untethered by the AIA’s time-bar and estoppel provisions, which were targeted at accused infringers. This could be argued to shift the balance between patent owner and petitioner in petitioner’s favor. Already, the availability of IPR makes it wise for the patent owner to sue every possible defendant at the same time — an expensive undertaking — to avoid serial administrative challenges to the patent(s). If organizations like UPI can file IPR petitions freely, then these serial challenges may come despite a patent owner’s efforts to resolve its disputes within a reasonable timeframe.

For those arguing that this activity is too “anti-patent” or too pro-industry incumbent, the law of real parties-in-interest has appeared to offer a way to limit this activity. For example, patent owners have asserted that when an entity like UPI files an IPR petition, UPI is not the real party-in-interest; rather, the entity is acting on behalf of its members who are accused of infringing the patent and who desire the benefits of the IPR procedure without downsides (such as contending with the one-year time bar or the estoppel stemming from an unsuccessful IPR). Therefore, the patent owners argue, the members —

who benefit financially from the cancellation of the challenged patent claims, and who allegedly pay their membership fees primarily for this purpose — are the real parties-in-interest.[13] If this argument were accepted, it would mean, among other things, that UPI and its ilk would be time-barred or estopped to the same extent as their members and therefore would be unable to present serial attacks on a patent any more than their members could.

However, the PTAB generally has not been receptive to this position. Broadly speaking, the “real party-in-interest” is “the party that desires review of the patent”;<sup>[14]</sup> but because anyone can file an IPR petition, for any reason, it is difficult to prove that one party’s petition was actually filed for someone else. In analyzing this issue, the PTAB has focused on the alleged real party-in-interest’s control over the IPR proceeding (or the petitioner’s control over a relevant previous proceeding).

UPI maintains that it exercises exclusive discretion and control over the filing and prosecution of IPR petitions; and, in fact, UPI sometimes produces entirely voluntary discovery backing this claim up. So far, this has been enough to satisfy the PTAB, which wrote in one case (*Unified Patents Inc. v. Dragon Intellectual Property LLC*) that, “even if we accept Patent Owner’s allegations that Petitioner [UPI] engages in no activity of practical significance other than filing IPR petitions with money received from its members, this does not demonstrate that any member paid, directed, or suggested to Petitioner to challenge the [patent at issue], specifically.”<sup>[15]</sup> In other words, so long as members of UPI are not specifically requesting challenges against particular patents, UPI’s business model is permissible.

There is disagreement among those in the patent community as to whether the filing of IPR petitions by UPI is ultimately a benefit or a burden. On the one hand, supporters of UPI would say that it is fulfilling congressional intent as expressed in the AIA, by challenging claims that are, more often than not, unpatentable. Moreover, UPI’s targets are generally NPEs which (the critics would say) engage in economically counterproductive rent-seeking behavior that places a burden on companies that are actually innovating. To the extent that UPI is helping to weed out weak patents (which often are the subject of NPE suits), it is performing a public service.

On the other hand, patent owners complain that allowing an entity like UPI unrestricted access to IPRs creates the appearance of unfairness, particularly if the entity is closely aligned with large industry incumbents who benefit from the entity’s patent challenge. In the AIA, Congress outlined procedures and rules for IPRs that were designed to protect patent owners by limiting an accused infringer’s ability to launch serial challenges — for example, the one-year time bar and the estoppel following a final decision — which procedures and rules are reduced in effectiveness, patent owners would say, by UPI and similar entities. Whether or not these unrestricted organizations act on behalf of their members (as patent owners have alleged), they unquestionably act for the benefit of their members, who in effect may receive the second (and third, etc.) chances Congress tried to deny them.

If, indeed, these entities have upset the desired balance between protecting patent owners from endless challenges to their patents and ensuring that only novel and nonobvious innovations receive patent protection, how could the balance be reset? Several entities, including the PTAB panels themselves, the PTO, the Court of Appeals for the Federal Circuit, Congress, or individual district courts could act — alone or in concert — to adjust the balance. Any action, however, may itself be subject to unintended consequences, which need to be scrutinized.

First, the PTAB could expand its inquiry into the real party-in-interest issue. In fact, the PTAB recently has shown some openness to scrutinizing real parties-in-interest, which may signal a reversal from its position in *Dragon Intellectual Property*, quoted above, in which the PTAB blessed UPI’s business model

(provided its members were not requesting or suggesting challenges against specific patents). In *Unified Patents Inc. v. American Vehicular Sciences LLC*,<sup>[16]</sup> the PTAB has allowed supplemental briefing on the patent owner's motion for additional discovery from UPI "regarding whether additional parties should be listed as real parties-in-interest in this proceeding."<sup>[17]</sup> The PTAB's reconsideration of its real party-in-interest analysis from *Dragon Intellectual Property* would be the most straightforward method of addressing the perceived imbalance in the IPR process, but also perhaps the least effective. PTAB decisions do not carry the weight of legal precedent unless specifically designated "precedential" — a designation requiring concurrence of the chief administrative patent judge, a majority of the entire PTAB, and the director of the PTO.<sup>[18]</sup>

The PTAB could also (or instead) apply the doctrine of privity to limit serial IPR petition filing in these scenarios. Both the one-year bar and estoppel provisions relating to IPRs are as applicable to privies as to real parties-in-interest. Yet, patent owners and the board have so far focused on the latter issue — likely because the law requires IPR petitioners to identify real parties-in-interest, but not parties in privity, in their petitions.<sup>[19]</sup> Privity may be a "more expansive" doctrine than real party-in-interest doctrine,<sup>[20]</sup> and it focuses on the relationship of the third party to the petitioner, rather than to the proceeding.<sup>[21]</sup> Thus, the fact that an industry group and its members act independently with respect to individual IPRs (thus precluding a real party-in-interest violation) may not preclude a finding of privity.

Second, the PTO has the authority to institute rulemaking procedures to address the potential for abuse in IPR proceedings. This may, indeed, be what Congress would prefer. Recognizing potential problems stemming from more attractive administrative patent challenges and the patentee's interest in "quiet title," the House Judiciary Committee specifically directed the PTO "to address potential abuses [of IPRs] ... under its expanded procedural authority." For example, the PTO could consider adopting rules concerning any second or successive IPR petition, providing for additional discovery and/or scrutiny of the petitioners in those instances. Or, the PTO could adopt specific rules for the PTAB to follow in analyzing real parties-in-interest, particularly with respect to member-supported organizations that file IPR petitions. But, to date, the PTO has shown no stomach for this approach. In recent PTO rulemaking, commenters expressed concerns regarding the incentives for "second bite" petitions, yet the PTO took no action to address those concerns, instead expressing a preference for "case-by-case" consideration of this fact-sensitive issue.<sup>[22]</sup>

Third, the Federal Circuit could overrule the PTAB's real party-in-interest analysis as an improper application of the law, but it may be difficult to convince the court that a broader standard is appropriate. The PTO derives its real party-in-interest analysis from *Taylor v. Sturgell*,<sup>[23]</sup> a U.S. Supreme Court decision addressing the preclusive effect of federal-court judgments on nonparties.<sup>[24]</sup> In relevant part, *Taylor* observed that "a party bound by a judgment may not avoid its preclusive force by relitigating through a proxy" (e.g., an agent); however, the Supreme Court also warned that preclusion on the basis of agency "is appropriate only if the putative agent's conduct of the suit is subject to the control of the party who is bound by the prior adjudication."<sup>[25]</sup> In that case, the plaintiff had submitted a Freedom of Information Act request to the Federal Aviation Administration less than a month after an appellate court had ruled against his friend on a suit seeking the same documents, and when the plaintiff filed suit, he raised issues his friend had neglected.<sup>[26]</sup> If these facts were insufficient to sway the court, then perhaps the PTAB is justified in its stringent standard and in its focus on control.

In any event, such a solution might be out of reach for the Federal Circuit, as the real party-in-interest analysis is considered part of the decision by the PTAB to institute an IPR (as opposed to part of the final written decision) — which is statutorily not subject to judicial review.<sup>[27]</sup> It is noteworthy, though, that

the Federal Circuit's holding in *In re Cuozzo Speed Techs. LLC* (and subsequent cases) — that virtually all aspects of the PTAB's institution decision are unreviewable — is currently before the Supreme Court of the United States on certiorari. If overturned on this point, the Federal Circuit could address threshold questions concerning the PTAB decision to institute an IPR, including its real party-in-interest analysis. Otherwise, the court will only be able to address these issues in the context of estoppel.

Fourth, and perhaps most effectively, Congress could amend the AIA to directly address the above issues. In fact, Congress is currently considering three bills<sup>[28]</sup> proposing amendments to various parts of the AIA, including one — the STRONG Patents Act (S. 632) — that includes an amendment to § 311(d) that would limit the persons that may petition for an IPR to those sued for infringement or “charged with infringement,” where “charged with infringement” mirrors the constitutional requirement that “a real and substantial controversy regarding infringement of a patent exists such that the petitioner would have standing to bring a declaratory judgment action in Federal court.”<sup>[29]</sup>

A similar standing requirement is already in place in CBM proceedings. And, while there is no such standing requirement for PGRs, those proceedings must be requested within nine months of a patent's issuance, significantly reducing the repeat-petition concerns expressed herein. In fact, there likely would be fewer objections to industry groups using PGR procedures to attack seemingly invalid patents right after issuance, and before potential economically wasteful litigation. One could even see an economic efficiency — antitrust concerns to the side — for industry groups to challenge new patents in their field as soon as they appear. The STRONG Patent Act has been heard by the Senate Committee on Small Business and Entrepreneurship, but has not been referred to the full Senate or placed on this term's legislative calendar.

Last, individual district courts may simply decide that the burden on a patent owner of facing serial IPR procedures weighs against granting a stay pending IPR. To a certain extent, patent owners' complaints about serial challenges would be ameliorated by ending what is now a near-certain stay of proceedings in district court. District courts grant approximately 70 percent of motions to stay pending IPR,<sup>[30]</sup> but could choose not to continue a stay to accommodate subsequent IPR petitions by third party challengers — especially those affiliated with the existing defendants. Assuming a median time to trial of 2.4 years,<sup>[31]</sup> and a median time for an appeal of one year,<sup>[32]</sup> patent owners' concerns might be partially ameliorated by having to face only a couple of complete IPR procedures (regardless of the petitioners' identities) before the end of the infringement litigation.

Ultimately, enacting any change to the AIA's IPR procedures would require consideration of the administrative burden of implementing changes and any foreseeable economic and business consequences, including the amount of increased, economically inefficient litigation. More basic, however, is the question of whether the use of the IPR procedure by UPI (and those like UPI) is an “abuse” of the IPR procedure rather than an intended (or unintended, but positive) consequence thereof. Those in the former camp welcome changes to limit and/or eliminate petitions by UPI and similar entities, while those in the latter camp would like to preserve the status quo. Discussion and engagement between these two camps is critical to determining whether and what actions should be taken.

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[1] See 35 U.S.C. §§ 311 et seq.

[2] H. Rep. No. 112–98, at 48 (2011).

[3] Source: docketalarm.com (retrieved March 3, 2016).

[4] Id.

[5] H. Rep. No. 112–98, at 48 (2011) (“The Committee recognizes the importance of quiet title to patent owners to ensure continued investment resources. While this amendment is intended to remove current disincentives to current administrative processes, the changes made by it are not to be used as tools for harassment or a means to prevent market entry through repeated litigation and administrative attacks on the validity of a patent.”).

[6] Id. § 315(b).

[7] Id. § 315(e).

[8] Id. § 325(d).

[9] Source: Patent Review Processing System, ptabtrials.uspto.gov (retrieved March 3, 2016).

[10] Unified Patents: Membership, available at <http://www.unifiedpatents.com/#pricing> (retrieved March 20, 2016).

[11] Information gathered from the Patent Review Processing System, <https://ptabtrials.uspto.gov/>.

[12] See, e.g., Patent Owner’s Preliminary Response (public version), IPR2014-01252, Paper 14, at 10.

[13] See, e.g., Patent Owner’s Preliminary Response to Petition, Unified Patents, Inc. v. Dragon Intellectual Property, LLC, IPR2014-01252, Paper 10, passim.

[14] Official Patent Trial Practice Guide, 77 Fed. Reg. 48756, 48759 (Aug. 14, 2012).

[15] IPR2014-01252, Paper 37 at 12.

[16] IPR2016-00364 (Feb. 25, 2016).

[17] Id., Paper 6.

[18] PTAB Standard Operating Procedure 2 (Revision 9), available at: <http://www.uspto.gov/sites/default/files/documents/sop2-revision-9-dated-9-22-2014.pdf>

[19] 35 U.S.C. § 312(a)(2).

[20] Official Patent Trial Practice Guide, 77 Fed. Reg. 48756, 48759 (Aug. 14, 2012)

[21] *Aruze Gaming Macau, Ltd. v. MGT Gaming, Inc.*, IPR2014-01288, Paper 13 at 13.

[22] See, e.g., Amendments to the Rules of Practice of Trials Before the Patent Trial and Appeal Board, Fed. Reg. Doc. 2015-20221 (Aug. 19, 2015).

[23] 553 U.S. 880 (2008).

[24] Official Patent Trial Practice Guide, 77 Fed. Reg. 48756, 48759 (Aug. 14, 2012); see also *RPX v. VirnetX, Inc.*, IPR2014-00171 (June 5, 2014) (using *Taylor v. Sturgell* to find Apple to be a real party-in-interest in subsequent IPR brought by entity with whom Apple contracted to file IPR).

[25] 553 U.S. at 895 (alteration in original).

[26] *Id.* at 887–88.

[27] *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268 (Fed. Cir. 2015). (PTAB Decision - *Garmin Int’l, Inc. v. Cuozzo Speed Techs., LLC*, IPR2012-00001, paper 59 (PTAB Nov. 13, 2013)).

[28] S. 632 (The “STRONG Patents Act”); S. 1137 (The “PATENT ACT”); H.R. 9 (The “Innovation Act”).

[29] S. 632

[30] Aashish Kapadia, *Inter Partes Review: A New Paradigm in Patent Litigation*, 23 *Tex. Intell. Prop. L.J.* 113, 131 (2015).

[31] PricewaterhouseCoopers LLP 2015 Patent Litigation Study at 14, available at <http://www.pwc.com/us/en/forensic-services/publications/patent-litigation-study.html>

[32] U.S. Court of Appeals for the Federal Circuit official statistics, available at <http://www.cafc.uscourts.gov/the-court/statistics>

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