

Observations on *Inter Partes* Reviews and District Court Litigation Settlements

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Since the *Inter Partes* Review (“IPR”) procedure under the America Invents Act (“AIA”) became available in September 2012, the PTO has provided a new procedure to adjudicate the validity of a patent claim. As evidenced by the early and rapid adoption of IPRs, companies are seeing advantages to using these proceedings. Because most of the patents that are involved in an IPR are also asserted in district court litigation, both plaintiffs and defendants have had to factor IPR proceedings into their district court litigation strategies. This article reviews circumstances where parties have had both a district court litigation and an IPR proceeding(s) involving the same patent or patents, and describes some early trends with respect to the impact of an IPR on resolution of disputes.

EVALUATION OF CLAIM CONSTRUCTION AND INVALIDITY

Many parties consider one of the advantages of IPRs to be the reasonably quick and efficient nature of the proceedings. The Board must issue a decision on institution of the IPR within approximately six months from the filing date of the petition. See 35 U.S.C. § 314(b). When the Board issues its decision on institution, it also typically addresses claim construction issues.¹

The claim construction standards applied by the Patent Office and by the district court in litigation are different. The Patent Office, including the Board, has long applied the “broadest reasonable interpretation” standard for claim construction. In the Rules implemented by the Patent Office, the claim construction standard is explicitly stated as the “broadest reasonable construction.” See 37 C.F.R. § 42.100(b). District courts, in contrast, will apply what they view as the correct meaning of a claim term in light of the claim language, the specification, the file history, and to a lesser extent, extrinsic evidence (*i.e.*, a

“*Phillips* construction”).² Notwithstanding the differing standards, if an IPR petition is filed on a patent that has been asserted in litigation, the parties will have to establish positions on claim construction in the IPR proceeding. The Board’s determination may provide important insights for both sides on the possible scope of claim construction in the district court.³

Perhaps for all jurisdictions, but especially in those courts that appear to consider the Board’s constructions more fully in their claim construction determinations, an IPR may give the parties guidance on claim construction significantly faster than a district court proceeding. As noted above, a decision on institution must issue within approximately six months of the filing of the IPR petition, which is significantly faster than the 21 months that was the average time between commencement of patent litigation and a claim construction order from 2000 to 2010.⁴ However, the degree to which the Board’s constructions may influence the district court’s constructions depends on the particulars of any case and the court in which the litigation is pending. Although there is little case law on this issue, some courts have indicated that the PTAB’s constructions are informative, despite the differences in applicable standards, while others have indicated that they would be more inclined to determine the claim construction under *Phillips* (or similar precedent) and not adopt the Board’s construction. Compare, *e.g.*, *Unifi Sci. Batteries, LLC v. Sony Mobile Communs. AB*, No. 6:12cv225, 2014 U.S. Dist. LEXIS 129388, at *12 (E.D. Tex. Jan. 14, 2014) (denying motion for stay pending IPR and noting that “[w]hile an IPR record could certainly guide this Court’s claim construction analysis, the PTAB and district courts construe claims under different standards” (citing *C.R. Bard, Inc. v. U.S. Surgical Corp.*, 388 F.3d 858, 861 (Fed. Cir. 2004))), with *Black Hills Media, LLC v. Pioneer Elecs. (USA) Inc.*, No. cv-14-00471, 2014 U.S. Dist. LEXIS 133664, at *17 (C.D. Cal. May 8, 2014) (“The Court may also derive benefit

from the PTAB’s claim construction for the patents under review. While the PTAB interprets claim terms using the ‘broadest reasonable construction,’ . . . its analysis would likely prove helpful to this Court, no matter its final determination.”).

Relatedly, an IPR can also give both sides important and early insights regarding the strength of the invalidity case (involving prior art publications) against a patent. Although an accused infringer generally must serve invalidity contentions early in a district court case, these contentions sometimes include a much broader set of possible invalidity arguments than those that are ultimately presented at trial. In contrast, an IPR must set out specific grounds of unpatentability in a page-restricted petition, necessitating an early focus on identifying an accused infringer’s best arguments. Moreover, the Board will not institute an IPR unless there is “a reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition.” 35 U.S.C. § 314(a).

Thus, within approximately six months of the filing of an IPR petition, the parties will receive feedback on both invalidity arguments and claim construction. Parties should be mindful, however, of the differences in claim construction standards between IPRs and the district court when evaluating the Board’s constructions. Also, because an IPR is restricted to certain types of prior art and certain invalidity arguments, not all invalidity positions will be fleshed out in an IPR proceeding. See 35 U.S.C. § 311(b).

POTENTIAL SETTLEMENT OPPORTUNITIES

One interesting trend suggested by IPR settlement statistics is that IPRs co-pending with district court litigations are providing parties an early incentive to consider settlement of their disputes, or at least to narrow the scope of their disputes. As of May 1, 2014, of the 205 IPRs that terminated, 132 settled, with 58 settling before institution and 74 settling after institution.⁵ Furthermore, an additional 25 IPRs resulted in a request for adverse judgment for the challenged claims.⁶ In a circumstance when the IPR(s) challenges fewer than all the claims in a patent, disclaiming the challenged claims may afford the patent owner an opportunity to minimize the effect of an IPR on the other claims of a patent.

Combined, settlements and requests for adverse judgment represent a total rate of some form of resolution of roughly 77%. In addition, of the IPRs that settled, at least 105 settled within the first 9 months of filing.⁷ This may suggest that the filing of an IPR petition causes a patent owner to consider the likelihood of its patent being found invalid sooner than it might in the district court litigation. The high settlement rate, coupled with the high rate of IPR filings with co-pending litigations, suggests that both petitioners and patent owners may be considering IPRs as a possible step toward an early resolution of disputes.

Of further concern to patent owners is that most challenged claims in IPRs that proceed to a final written decision are invalidated by the Board.⁸ As of October 2, 2014, of 124 IPRs that resulted in final written decisions on patentability (other than requests for adverse judgment), 85 resulted in *all* instituted claims being found unpatentable, while a further 20 resulted in at least some claims being found unpatentable. Patent owners aware of these statistics may view settling an IPR as the most likely way that the validity of the challenged claims can be preserved. In view of these statistics, an IPR settlement against one defendant can help a patent owner to preserve the validity of the claims against other defendants, as well as against future defendants in future litigations.⁹

Thus, if an accused infringer files an IPR petition, patent owners may find it advantageous to dismiss the patent infringement suit in exchange for settlement of the IPR. For example, after a patentee sues a party for infringement of several patents in a district court, the defendant may file IPRs challenging the asserted patents. Settling prior to the patent owner's preliminary response would give the patent owner the advantage of not having to take a position on claim construction, the prior art and the patentability of the claims in a preliminary response.

One possible reason that a relatively high percentage of IPRs settle before institution (44% using data as of May 1, 2014) may be that current statistics show that for any filed IPR petition, it is statistically probable that the Board will institute an IPR on at least one claim. As of October 2, 2014, out of 983 cases in which the PTAB made a decision on institution, the PTAB instituted trial in 731 cases, or 74% of the time.¹⁰ Given the high rate – 85% – at which the PTAB has invalidated at least

some claims in its written decisions, patent owners may be concluding after their own analyses of petitions that the chances of invalidation are high enough to warrant early settlement.


Settling before institution has other advantages for patent holders as well. Most importantly, settlement avoids a decision on institution by the PTAB that could contain statements adverse to the patent's validity or to any claim construction that the patent holder may wish to advance in a future infringement suit. In addition, settling before institution saves the patent holder the cost of preparing a preliminary response. For the petitioner, in addition to the removal of the litigation risk, which can sometimes be substantial, a settlement prior to institution reduces Patent Office fees and the cost of litigating the IPR through trial at the PTAB.

Once a patent holder is inclined to settle, there is a strong incentive to reach an agreement as soon as practicable. Termination of an IPR is at the PTAB's discretion, 37 C.F.R. § 42.74(a), and the PTAB has refused to terminate IPRs that have reached advanced stages. For example, in *Blackberry Corp. v. Mobilemedia Ideas LLC*, IPR2013-00016, the parties filed a joint motion to terminate seven months after institution of the IPR and just one day before a scheduled oral hearing. Because the issues in the IPR had already been fully briefed, the PTAB terminated the proceeding with respect to Blackberry, but *denied* termination with respect to Mobilemedia. *Blackberry Corp. v. Mobilemedia Ideas LLC*, IPR2013-00016, Paper No. 31 at 2-3 (PTAB Dec. 11, 2013).

Requesting adverse judgment may also be advantageous to patent owners, in certain circumstances, as it may enable them to strategically narrow the issues in a dispute with an accused infringer. A party can request an adverse judgment against itself at any time. See 37 C.F.R. § 42.73 (b) (1)-(3). When a patent owner has numerous patents in a portfolio and only a few challenged claims, it may be advantageous to disclaim the challenged claims to avoid a potentially costly proceeding which can affect the entire portfolio pending at the Patent Office. See *id.* § 42.73 (d) (3). Because a patent owner will have to explain the invention and how the claims are patentable, and the Board will construe the claims and ultimately make a decision regarding the validity of the challenged claims, it may be more advantageous to the

overall value of the portfolio to avoid an IPR of a few claims by disclaiming these challenged claims. Of course, each case is fact dependent, and this avenue should be pursued only after a careful review of the costs and benefits of the disclaimer.

CONCLUSION

The strategies mentioned here may be useful for petitioners or patent holders in situations where an IPR and district court litigation are co-pending, but parties on both sides must carefully consider factors such as the venue of litigation and the likelihood of success of the petition. As the Board renders more decisions on particular IPRs and as courts continue to generate a more robust body of case law regarding the interaction of IPRs and traditional litigation, additional strategies may emerge. 

ENDNOTES

1. See Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, 77 Fed. Reg. 48,612, 48,627 cmt. 17 & response (Aug. 14, 2012) (referring to the construction in the decision to institute trial as an "initial claim construction for the trial").
2. See, e.g., *Phillips v. AWH Corp.*, 415 F.3d 1303, 1315 (Fed. Cir. 2005).
3. For example, in a recent case discussing the "broadest reasonable interpretation" standard used for reexaminations, the Federal Circuit held that "[t]he broadest reasonable interpretation of a claim term may be the same as or broader than the construction of a term under the Phillips standard[,] but it cannot be narrower." *Facebook, Inc. v. PragmaTV, LLC*, No. 2013-1350, 2014 WL 4454956, at *4 (Fed. Cir. Sept. 11, 2014). Thus, the Board's statements on claim construction establish an upper bound – though not necessarily the least upper bound – on the breadth of the district court's claim construction.
4. See Pauline Pelletier, *The Impact of Local Patent Rules on Rate and Timing of Case Resolution Relative to Claim Construction: An Empirical Study of the Past Decade*, 8 J. Bus. & Tech. L. 451, 477 (2013).
5. See United States Patent and Trademark Office, *AIA Trial Roundtables*, May 3, 2014, p. 41.
6. *Id.* at 42. The Patent Office Rules permit a Request for Adverse Judgment under 37 C.F.R. § 42.73.
7. See http://www.uspto.gov/ip/boards/bpai/uspto_ptab_inter_partes_review_petitions-terminated_cases_as_of_20140402.pdf.
8. The authors note, though, that as of October 2014, few final written decisions have been reviewed by the Court of Appeals for the Federal Circuit.
9. Because an IPR is a public proceeding, a future defendant may be able to file its own IPR petition using the same invalidity positions in an earlier filed IPR by a prior defendant. It is clear that a settlement would not prevent another party from filing an IPR using the same prior art. There are other circumstances when a settlement may make strategic sense—e.g., the claims may be licensed to other parties.
10. See *AIA Progress, Statistics as of 10/2/14*, Patent Trial and Appeal Board, at 2, available at http://www.uspto.gov/ip/boards/bpai/stats/aia_statistics_100214.pdf (last accessed Oct. 13, 2014).