

# IPR Petitions as a Tool in Settlement Discussions

A well-drafted petition for inter partes review signals to a patent owner that it has something to lose, should discussions be unsuccessful.

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It is a scenario that every company dreads: your new product is on the market and receiving rave reviews, sales are outpacing all expectations, and smooth sailing is on the horizon, when you receive a letter from a competitor's attorney. "We write to bring the following patents to your attention ...." You have a decision to make, and your company's future might even be on the line. What do you do?

First, you should contact a patent litigator and make preparations for defending the potential patent infringement lawsuit. Depending on the circumstances, the patent litigator may recommend initiating a declaratory judgment action in order to seek out a favorable forum in which to contest such a lawsuit. Of course, concurrently with making preparations for litigation, you should also conduct settlement discussions with the other party before proceeding with a federal suit that might incur millions of dollars in legal fees, to say nothing of damages you might owe should the opposing party prevail. To aid in these settlement discussions, you should also contact qualified patent counsel to draft a petition for inter partes review (IPR). The petition can be a key weapon in the course of settlement discussions and will be ready to file should discussions fail.

Created by the Leahy-Smith America Invents Act, an IPR is an administrative proceeding in which the validity of at least one patent claim is challenged before the Patent Trial and Appeal Board (PTAB) of the U.S. Patent & Trademark Office (USPTO). To request an IPR, a party (referred to as the "petitioner") files an IPR petition with the USPTO. For each claim that is to be challenged, the petition must allege anticipation (i.e., every element of a challenged claim is taught by a single item of prior art, such as a prior patent or printed publication) and/or

obviousness (i.e., two or more items of prior art, in combination, teach every element of a challenged claim, and a person of ordinary skill in the relevant technical art would have been motivated to combine the prior art to arrive at the claimed invention). The IPR petition should be accompanied by affidavits or declarations from any experts on whose opinions the petitioner may wish to rely during the course of the IPR. With certain narrow exceptions, at least one of the attorneys representing each of the petitioner and the patent owner in connection with an IPR must be registered to practice in patent matters before the USPTO.

Once an IPR petition has been filed, the patent owner has the option to file a preliminary response to the petition within three months. The subject matter of the preliminary response, if filed, is limited to the reasons why an IPR should not be instituted. The preliminary response may include attorney arguments as well as expert affidavits or declarations.

Within three months after the filing of the patent owner's preliminary response (or, if no preliminary response is filed, after the last date on which the preliminary response could have been filed, i.e., within six months of the filing of the petition), the PTAB decides whether to institute the IPR. Institution is appropriate where the PTAB determines, in view of the petition and the patent owner's preliminary response, that there is a reasonable likelihood that the petitioner will prevail with respect to at least one of the challenged claims. This is a relatively low bar and is typically met in cases where the petitioner has made out a prima facie case of unpatentability. The rules implemented by the USPTO have established a timeline of no more than 12 months from the PTAB's decision to institute IPR until it renders its final written decision. Therefore, the total timeline for an IPR is no more than 18 months.

According to the USPTO's published statistics through Jan. 31, 2018, since the creation of IPR proceedings, the PTAB has instituted IPR based on 68 percent of all petitions, including 69 percent of petitions in the electrical/computer arts; 69 percent of petitions in the mechanical and business method arts; 66 percent of petitions in the chemical arts; and 62 percent of petitions in the biological/pharmaceutical arts. According to the same statistics, the PTAB has issued a final

written decision from 1,946 IPR petitions; *all claims have been invalidated in 65 percent of these decisions*, while only 19 percent have resulted in a ruling in which all claims are upheld.

The threat presented by a well-drafted IPR petition is all the more powerful in your negotiations because the U.S. Court of Appeals for the Federal Circuit (CAFC) affirms the vast majority of IPR decisions. According to the USPTO's published statistics through Jan. 15, 2018, the CAFC affirmed the PTAB on every issue in 198 of 268 appeals of IPR decisions (74 percent) and reversed or vacated the PTAB on every issue in just 32 instances (12 percent). This high affirmation rate is buoyed, in part, by the deference inherent in the "substantial evidence" standard of review the CAFC gives to PTAB findings of fact (see *Merck & Cie v. Gnosis S.P.A.*, 820 F.3d 432 (Fed. Cir. 2016), citing *Dickinson v. Zurko*, 527 U.S. 150, 152). This level of deference, which is greater than the CAFC accords to findings of fact by U.S. district courts, underscores the desirability of the PTAB as a forum in which to challenge patents.

It should be noted that in the infrequent instances in which the CAFC overturns an IPR decision, justification for reversal often arises where neither the petitioner nor the PTAB has set forth a well-reasoned explanation (in other words, more than mere conclusory statements) of why a person of ordinary skill in the relevant technical art would have been motivated to combine the cited prior art references to arrive at the claimed invention (see, e.g., *In re NuVasive*, 842 F.3d 1376 (Fed. Cir. 2016); *Cutsforth v. MotivePower*, 636 Fed. Appx. 575 (Fed. Cir. 2016); *In re Magnum Oil Tools Int'l, Ltd.*, 829 F.3d 1364 (Fed. Cir. 2016); *Polaris Indus. v. Arctic Cat*, 2018 WL 797462 (Fed. Cir. 2018)). This highlights the importance of engaging a qualified patent practitioner in connection with an IPR.

In view of the high rates of institution, unpatentability and affirmation noted above, an IPR petition that is ready for filing can be a powerful weapon in settlement discussions. Similar to the practice of filing a declaratory judgment proceeding but not serving process, the petition should be drafted but not filed. This strategy has several benefits. First, a well-drafted IPR petition signals to a patent owner that it has something to lose, should discussions be unsuccessful. Second, because of the relatively short timeframe during which an IPR is conducted (18 months

from petition until final written decision, as compared to the multi-year process of federal district court litigation), the risk of invalidation will be accompanied by a sense of immediacy. Third, because district courts grant about 60 percent of motions to stay litigation pending an IPR, patent owners may hesitate even to file suit once an IPR looms. Fourth, because of the expert affidavits and/or declarations that are typically included with an IPR petition, early preparation of the petition provides an opportunity for a petitioner-to-be to retain desirable technical experts before the opposing patent owner has cause to do so. Finally, the costs associated with an IPR proceeding, though not insignificant, are appreciably less than those involved with U.S. district court litigation. Accordingly, if you receive a cease-and-desist letter, you should reach out to qualified patent litigation and prosecution counsel to collaboratively develop a strategy that includes *drafting an IPR petition*.

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