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# ***INTER PARTES* REVIEW AND FEDERAL LITIGATION: PARALLEL PROCEEDINGS AND INCONSISTENT RESULTS**

STEPHEN N. KULHANEK<sup>†</sup>

## INTRODUCTION

Imagine that you own the patent on an incredible invention. You learn that someone is infringing on your patent by recreating and selling your invention without your permission. The infringer refuses to enter into a licensing agreement with you, so you sue for infringement. The trial is long and expensive, but you emerge victorious with a giant monetary judgment. However, during the course of the trial, the infringer petitioned the Patent Trial and Appeals Board (“PTAB”) for an *inter partes* review (“IPR”) challenging the validity of the most vital claims in your patent. Once the PTAB instituted IPR, the infringer moved for the district court judge to stay litigation pending the PTAB’s final judgment as to patent validity, but the judge denied the stay, resulting in parallel proceedings. The PTAB ends up ruling against you, eviscerating your patent by invalidating its essential claims, leaving you stuck with two conflicting judgments. You do not know which judgment stands, and either result significantly impacts your life.

This nightmare is a very real possibility. In 2011, Congress passed the America Invents Act (“AIA”), which created IPR procedures. Congress intended for IPR to serve as an alternative to federal litigation in which a party seeks to invalidate a patent in a quick, inexpensive proceeding before the PTAB. However, IPR uses more relaxed standards than litigation for claim

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construction and burden of proof, giving IPR a petitioner-friendly appearance. This has made IPR very popular, resulting in a high patent invalidation rate.

This Note addresses IPR's impact on the patent system and what further changes Congress should consider making. Part I discusses the patent system leading up to the enactment of the AIA. Part II explains the details of IPR, its statistics, and an example of IPR in practice. Part III proposes some further alterations Congress could make to help IPR become a more beneficial proceeding.

### I. THE PATENT LANDSCAPE BEFORE THE AMERICA INVENTS ACT

The United States patent system is rooted in the United States Constitution, which authorizes Congress to “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>1</sup> Congress exercised this constitutional power by enacting the Patent Act, which created the United States Patent and Trademark Office (“PTO”).<sup>2</sup> The patent system is founded on the premise that awarding a limited monopoly for inventions mutually benefits inventors and the public.<sup>3</sup>

The PTO reviews patent applications to ensure five requirements are met before issuing a patent: (1) the invention is patentable subject matter;<sup>4</sup> (2) the invention is useful;<sup>5</sup> (3) the invention has not been preceded in identical form in the public

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<sup>1</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>2</sup> 35 U.S.C. § 1(a) (2012).

<sup>3</sup> See *History & Background*, U.S. PATENT & TRADEMARK OFFICE, <http://www.uspto.gov/learning-and-resources/support-centers/patent-and-trademark-resource-centers-ptrc/history-and-0> (last visited Mar. 3, 2017) (“In return for full public disclosure, a U.S. patent offers certain rights to an inventor for up to twenty years, during which time the inventor may exclude all others from making, using, importing or selling his or her invention. The patent is published and disseminated to the public so that others may study the invention and improve upon it. The constant evolution of science and technology, spurred by the monetary incentive the U.S. patent system offers to inventors, strengthens our nation's economy. New inventions lead to new technologies, create new jobs, and improve our quality of life.”).

<sup>4</sup> 35 U.S.C. § 101 (2012) (“Whoever invents or discovers any new and useful *process, machine, manufacture, or composition of matter*, or any new and useful *improvement* thereof, may obtain a patent therefor . . .”) (emphasis added).

<sup>5</sup> *Id.* (“Whoever invents or discovers any new and *useful process* . . .”) (emphasis added).

prior art;<sup>6</sup> (4) the invention represents a nontrivial extension of what is known;<sup>7</sup> and (5) the invention is disclosed and described by the applicant in such a way as to enable others to make and use the invention.<sup>8</sup>

Patents are made up of specifications and claims, among other components.<sup>9</sup> A specification is a written description of the invention that names all the components of the invention, describes how they work, and illustrates how they work together to perform the invention's function.<sup>10</sup> A claim, often referred to as the heart of a patent, states the precise legal definition of the invention.<sup>11</sup> A claim defines the boundaries of the property rights that a patent will confer on an inventor.<sup>12</sup> Thus, claims are analogous to the "metes and bounds" description of a real property deed.<sup>13</sup>

The process of acquiring a patent from the PTO is known as "prosecution." The average prosecution lasts about 2.77 years.<sup>14</sup> Prosecution begins when an inventor files a patent application.<sup>15</sup> There is a three-step review process: first, by one of seventeen main examining groups; second, by a specific "art unit" specializing in the relevant technology; and third, by one of the PTO's patent examiners.<sup>16</sup> The examiner conducts an initial

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<sup>6</sup> *Id.* § 102 (describing the novelty requirement of patentability). Prior art is a reference that is sufficiently described so that the public can be said to be in possession of the reference, such as sufficiently labeled pictures and drawings. *See, e.g.*, MPEP § 2121.04 (9th ed. Rev. 7, Aug. 2012).

<sup>7</sup> 35 U.S.C. § 103 (2012) (describing the nonobviousness requirement of patentability).

<sup>8</sup> *Id.* § 112 (describing the enablement requirement of patentability).

<sup>9</sup> A more detailed discussion of the components of a patent is not relevant to this note.

<sup>10</sup> 37 C.F.R. § 1.71(a) (2013).

<sup>11</sup> MPEP § 1824 (9th ed. Rev. 7, Nov. 2015).

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

<sup>13</sup> ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 129 (6th ed. 2012).

<sup>14</sup> *See* John R. Allison & Mark A. Lemley, *Who's Patenting What? An Empirical Exploration of Patent Prosecution*, 53 *VAND. L. REV.* 2099, 2101 (2000).

<sup>15</sup> *See generally* 37 C.F.R. § 1.53 (2015).

<sup>16</sup> MERGES, *supra* note 13, at 191. Generally, at least fourteen months pass before a patent examiner actually picks up an initial application. *Id.* at 191–92. During this period, applicants may file additional papers, such as an information disclosure statement, which describes the prior art known to the applicant at the time of filing, or preliminary amendments, which are changes made to the application before the patent examiner's first "office action," or response. *Id.* at 192.

review of the application, including a search of the prior art.<sup>17</sup> After the initial review, the examiner usually rejects most of the claims in the application, often for reasons of obviousness or lack of novelty.<sup>18</sup>

Applicants can amend their applications during prosecution; “the most common reason [applicants amend] is to respond to a rejection or other office action.”<sup>19</sup> Generally, amendments are permitted until the examiner issues a final rejection.<sup>20</sup> However, “final rejection” is a misnomer because an applicant can respond to a final rejection, typically by filing a continuation<sup>21</sup> or by amending after final rejection.<sup>22</sup>

Generally, patent applications are published eighteen months after their filing date.<sup>23</sup> Publication grants the applicant a limited version of the exclusionary right that accompanies a patent if the patent ultimately issues.<sup>24</sup> Publication also notifies interested third parties who are permitted to submit prior art references to be included in the prosecution file of the

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<sup>17</sup> MPEP § 904 (9th ed. Rev. 7, July 2015).

<sup>18</sup> MERGES, *supra* note 13, at 192. The examiner must state the reasons for each rejection and provide the applicant with information and references to aid in deciding the desirability of continuing prosecution. 35 U.S.C. § 132(a) (2012).

<sup>19</sup> MERGES, *supra* note 13, at 192. (“[A]pplicants can also correct mistakes, add or change drawings, and update the disclosure portion of the specification.”); *see also* 37 C.F.R. § 1.121(b) (2015).

<sup>20</sup> MERGES, *supra* note 13, at 192.

<sup>21</sup> “Filing a continuation resets the examination process” and has several variations. *Id.* A simple continuation essentially acts as an amendment because it “retains the benefit of the initial application’s filing date.” *Id.* A continuation-in-part adds new matter to the specification that does not “retain the benefit of the earlier filing date.” *Id.* at 192–93. Another variation of continuation involves filing an amendment after final rejection “when the examiner has decided to allow some claims but has issued a final rejection as to others.” *Id.* at 193. Essentially, this allows the applicant to acquire a patent on the acceptable claims while still battling over the rejected claims. *Id.* Additionally, applicants can communicate directly with patent examiners through an examiner interview. *Id.*

<sup>22</sup> *Id.* at 192; *see also* 37 C.F.R. § 1.116 (2015). Additionally, if the applicant believes there to be clear disagreements with the examiner, he or she may file an appeal to the PTAB. 35 U.S.C. § 134(a) (2012).

<sup>23</sup> 35 U.S.C. § 122(b)(1)(A) (2012). However, applications that are provisional, no longer pending, subject to government secrecy orders, or for design patents do not get published. *Id.* at (b)(2)(A).

<sup>24</sup> MERGES, *supra* note 13, at 193. This limited right allows the applicant to “recover a reasonable royalty from an infringer,” provided that the “infringer has actual notice of the published patent application” and “the claims in the published application are ‘substantially identical’ to the claims in the patent when issued.” *Id.*

application.<sup>25</sup> Additionally, significant third party participation is permitted through various administrative procedures established by the AIA.<sup>26</sup>

Prosecution ends when the PTO grants the patent, when all appeals are exhausted after final rejection, or when the applicant abandons the patent application.<sup>27</sup> Issued patents are made available to the public through publication in the Patent Gazette.<sup>28</sup>

Throughout the history of the patent system, Congress has worked to reduce the quantity of “low-level” or “weak” patents.<sup>29</sup> Many of these reforms were founded on the belief that additional and more rigorous procedures in the PTO would improve patent quality, thereby bolstering the integrity of the patent system through an increase in both the public and the patent owner’s confidence in the system.<sup>30</sup>

Congress’s attempts at patent system reform have led to the creation of post-issuance review proceedings that allow patent challengers additional and easier opportunities to invalidate patents.<sup>31</sup> In 1980, Congress created the process of ex parte reexamination, the first of these post-issuance review proceedings.<sup>32</sup> Ex parte reexamination permitted any member of the public to request that the PTO take a “second look” at a patent at any time during the life of the patent.<sup>33</sup> This type of post-issuance review proceeding failed to achieve Congress’s goals; ex parte reexamination was often employed multiple times

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<sup>25</sup> *Id.*

<sup>26</sup> *Id.* at 194. IPR is one of these administrative procedures. See *infra* Section II.A.

<sup>27</sup> MERGES, *supra* note 13, at 194. However, prosecution can potentially continue after issuance of a patent through a reissue. *Id.* A patentee can seek a reissue of a patent if he comes to believe that the patent claims are either too broad or too narrow, but reissues to broaden the scope of the patent claims must be initiated within two years of the original issuance. *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. REV. 881, 881 (2015).

<sup>30</sup> See *id.* at 882 (citing *Patent Policy: Hearing on H.R. 4564 Before the Subcomm. on Courts, Civil Liberties & the Admin. of Justice of the Comm. on the Judiciary*, 97th Cong., 2d Sess. 44 (1982) (statement of Gerald J. Mossinghoff, Commissioner of Patents and Trademarks); 126 CONG. REC. 29895 (1980) (statement of Rep. Kastenmeier)).

<sup>31</sup> Dolin, *supra* note 29, at 883.

<sup>32</sup> See Act of December 12, 1980, Pub. L. No. 96-517, 94 Stat. 3015 (codified at 35 U.S.C. § 302 (2012)).

<sup>33</sup> Dolin, *supra* note 29, at 884.

against the same patent, resulting in confusion among patent owners and the public as to the existence and scope of patent rights, and *ex parte* reexamination did not eliminate many patents because most patent claims survived the process either fully confirmed or moderately amended.<sup>34</sup>

In 1999, Congress enacted another alternative post-issuance review proceeding called *inter partes* reexamination.<sup>35</sup> *Inter partes* reexamination was created under the belief that “providing third parties with more opportunities for substantive participation during the reexamination proceeding”<sup>36</sup> would “build confidence in the reexamination process so that third parties [would] be inclined to raise patent challenges in this forum rather than through litigation.”<sup>37</sup> However, even with this additional post-issuance review proceeding, the reexamination process failed, in several ways, to fulfill its purpose of providing a more affordable, faster, and expert alternative to litigation.<sup>38</sup>

First, the reexamination proceedings only focused on the novelty and obviousness requirements for patentability.<sup>39</sup> Because federal litigation can analyze any grounds of invalidity, “the reexamination process simply bifurcate[d] the dispute for resolution in two different fora.”<sup>40</sup>

Second, the reexamination proceedings and federal litigation had no preclusive effect on each other with respect to the patent challenger.<sup>41</sup> Thus, the patent challenger could lose in one venue and challenge the patent again in the other venue, but the patent owner need only lose in one venue for his claims to be permanently invalidated.<sup>42</sup>

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<sup>34</sup> *Id.*

<sup>35</sup> American Inventors Protection Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501 (codified in relevant part in 35 U.S.C. §§ 311–18 (2006)) (repealed 2012).

<sup>36</sup> THE ADVISORY COMM. ON PATENT LAW REFORM: A REPORT TO THE SECRETARY OF COMMERCE 14 (Aug. 1992), <http://perma.cc/S29S-9BBS>.

<sup>37</sup> *Id.*

<sup>38</sup> Dolin, *supra* note 29, at 902–03.

<sup>39</sup> *Id.* at 903.

<sup>40</sup> *Id.* at 884.

<sup>41</sup> *Id.* at 903–04 (citing *In re Baxter Int'l, Inc.*, 678 F.3d 1357, 1364 (Fed. Cir. 2012)).

<sup>42</sup> See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971).

Third, the reexamination proceedings were not binding on each other.<sup>43</sup> While the reexamination process was meant to give the PTO a second look at a patent, the statute allowed unlimited looks, “with the PTO empowered to reexamine the patent multiple times with each subsequent decision to proceed to reexamination and the conduct of reexamination itself not bound by the result of previous reexamination processes.”<sup>44</sup> The lack of estoppel provisions between reexamination and litigation, and especially between multiple reexamination proceedings, further increased any uncertainty in the strength and quality of issued patents.<sup>45</sup>

Fourth, the lack of estoppel provisions between these proceedings increased potential costs by requiring participants to pay for both proceedings.<sup>46</sup> Patent owners were hurt more by the increased costs because a patent can be subject to unlimited reexaminations, resulting in a snowball effect.<sup>47</sup>

Finally, the reexamination process failed to resolve disputes faster than litigation because the average length of a reexamination proceeding was nearly equal to that of litigation.<sup>48</sup> Once again, because reexamination proceedings were not a substitute for litigation, the time spent in reexamination often compounded the time spent in litigation.<sup>49</sup>

These flaws in the reexamination process gave patent challengers the “opportunity to continuously cast doubt on legitimate patent claims and to ‘blackmail’ patent holders into lower royalty rates.”<sup>50</sup> Congress enacted the AIA to better reform the patent system by creating different mechanisms for eliminating weak patents and, arguably, it has been successful in these early years.<sup>51</sup>

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<sup>43</sup> See 35 U.S.C. § 303(a) (2012).

<sup>44</sup> Dolin, *supra* note 29, at 904–05.

<sup>45</sup> *Id.* at 908–09.

<sup>46</sup> See *In re Baxter Int’l, Inc.*, 698 F.3d 1349, 1352 (Fed. Cir. 2012) (denying rehearing *en banc*) (Newman, J., dissenting) (“[R]eexamination after a patent has been sustained in court is a multiplier of cost, delay, and uncertainty . . .”).

<sup>47</sup> Dolin, *supra* note 29, at 906.

<sup>48</sup> *Id.* at 907–08.

<sup>49</sup> *Id.* at 908.

<sup>50</sup> *Id.* at 909.

<sup>51</sup> See Colleen Chien & Christian Helmers, *Inter Partes Review and the Design of Post-Grant Patent Reviews*, STAN. TECH. L. REV. (forthcoming) (arguing that patent invalidation is a public good and that post-grant reviews, such as IPRs, can reduce uncertainty over the boundaries and validity of granted patents).



## II. A CLOSE LOOK AT *INTER PARTES* REVIEW AND ITS IMPLICATIONS

This Part examines the details of IPR proceedings, discusses the statistics concerning such proceedings, and provides an example of IPR in practice.

### A. *The America Invents Act and the Creation of Inter Partes Review*

In 2011, Congress reformed the patent law landscape by passing the America Invents Act.<sup>52</sup> Among other changes, the AIA created a new type of proceeding: *inter partes* review.<sup>53</sup> The AIA also established the PTAB, which is the PTO's administrative tribunal, composed of administrative patent judges who are charged with rendering decisions on appeals from adverse examiner decisions, post-issuance challenges to patents, and interferences.<sup>54</sup> IPR was created as a less expensive and quicker alternative to federal litigation, in which a third party challenges the validity of a patent before the PTAB.<sup>55</sup> The differences between federal litigation and IPR illustrate some issues that arise from offering IPR as an alternative to federal litigation.

Standing to institute an IPR poses almost no obstacle to a petitioner. Any person who is not the owner of a patent may petition the PTO for an IPR of the patent within one year of service of a complaint alleging infringement of the patent.<sup>56</sup> However, any party who has filed a civil action in a federal district court challenging the validity of a patent is barred from petitioning for an IPR of the patent.<sup>57</sup> But this bar does not extend to counterclaims challenging the validity of a patent.<sup>58</sup>

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<sup>52</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified as amended in scattered sections of 35 U.S.C.).

<sup>53</sup> 35 U.S.C.A. § 311(a) (West 2014).

<sup>54</sup> *Id.* § 6(a), (b).

<sup>55</sup> See Patrick Doody, *Post-Grant Proceedings: The Year Behind and the Year Ahead*, LAW360 (Oct. 1, 2013, 2:10 PM), <http://www.law360.com/articles/475387/post-grant-proceedings-the-year-behind-and-the-year-ahead> (last visited Mar. 5, 2017).

<sup>56</sup> 37 C.F.R. § 42.101(b) (2012).

<sup>57</sup> *Id.* § 42.101(a).

<sup>58</sup> 35 U.S.C. § 315(a)(3) (2012).

Thus, the standing requirement for IPR is much more relaxed than Article III standing required by federal courts for all cases, including patent validity challenges.<sup>59</sup>

To institute an IPR of a patent, a petitioner must file after the later of either nine months after issuance of the patent or, if a post-grant review (“PGR”)<sup>60</sup> is instituted, termination of such PGR.<sup>61</sup> Petitions for IPR must identify each challenged claim and show how prior art, such as patents and printed publications, invalidates the claims as un-patentable under either 35 U.S.C. §§ 102 or 103, which require that patents are novel and nonobvious.<sup>62</sup> Petitioners must take care to include all arguments in the petition, because they cannot advance different arguments later in the proceeding.<sup>63</sup>

After the petitioner files for IPR, the patent owner has three months to file an optional preliminary response stating why an IPR should not be instituted.<sup>64</sup> At the end of the preliminary response period, the PTAB has three months to decide whether to

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<sup>59</sup> See *Valley Forge Christian Coll. v. Ams. United for Separation of Church & State, Inc.*, 454 U.S. 464, 472 (1982) (citations omitted) (“[A]t an irreducible minimum, Art. III requires the party who invokes the court’s authority to ‘show that he personally has suffered some actual or threatened injury as a result of the putatively illegal conduct of the defendant,’ and that the injury ‘fairly can be traced to the challenged action’ and ‘is likely to be redressed by a favorable decision.’”).

<sup>60</sup> Another creation of the AIA, PGR was enacted to make the U.S. patent issuance process similar to its European counterpart. See Filip De Corte et al., *AIA Post-Grant Review & European Oppositions: Will They Work in Tandem, or Rather Pass Like Ships in the Night?*, 14 N.C. J.L. & TECH. 93, 96–97 (2012). Any person who is not a patent owner may file a PGR request challenging the patent on any ground of invalidity. 35 U.S.C. § 321(a), (b) (2012). A petitioner may only file a PGR request within nine months of the patent issue or reissue date. *Id.* § 321(c). Once the PTO institutes a PGR proceeding, the PTAB has twelve months to render its final decision. *Id.* § 326(a)(11). Additional details about PGRs are not relevant for the purpose of this Note.

<sup>61</sup> 37 C.F.R. § 42.102(a) (2013).

<sup>62</sup> 37 C.F.R. § 42.104(b) (2012). Challenges based on novelty and obviousness are the top two reasons for invalidating claims in litigation. See John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 209 (1998) (noting that in federal cases where anticipation—no novelty—was raised in defense, courts invalidated 40.7% of patents, and where obviousness was raised in defense, courts invalidated 36.3% of patents).

<sup>63</sup> See Ryan Davis, *4 Mistakes That Can Doom AIA Petitions*, LAW360 (Aug. 25, 2014, 5:49 PM), <http://www.law360.com/articles/570192/4-mistakes-that-can-doom-aia-petitions> (last visited Mar. 5, 2017).

<sup>64</sup> 37 C.F.R. § 42.107(a), (b) (2016). New testimonial evidence, such as affidavits, and claim amendments are excluded from the preliminary response. *Id.* § 42.107(c), (d). However, the patent owner may disclaim one or more claims in the patent to prevent an IPR on those claims. *Id.* § 42.107(e).

institute an IPR.<sup>65</sup> An IPR may only be instituted if the information presented in the petition and any response “shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least [one] of the claims challenged in the petition.”<sup>66</sup>

Once an IPR is instituted, the PTAB has one year to reach its final determination.<sup>67</sup> IPRs are generally completed within eighteen months of filing the petition. However, two exceptions exist. First, the PTAB can extend the one-year review period, by not more than six months, upon a showing of “good cause.”<sup>68</sup> Second, the PTAB “may adjust the time periods” if several proceedings are joined together.<sup>69</sup> Therefore, IPRs can potentially settle patent disputes on a more timely basis than federal litigation.<sup>70</sup>

Moreover, the cost of an IPR is significantly lower than federal litigation, which can easily cost several million dollars.<sup>71</sup> The IPR fee is \$23,000.<sup>72</sup> Additionally, IPRs require \$200 for each claim in excess of twenty during the request phase and \$400 for each claim in excess of fifteen during the review phase of the proceeding.<sup>73</sup> However, if the PTAB declines the petition for IPR, the PTO will issue a refund of \$14,000.<sup>74</sup> Also, the quicker adjudication time means that the parties owe less in attorney’s fees, resulting in a total IPR cost of roughly \$300,000 per side.<sup>75</sup> Thus, IPR is certainly a more economically feasible option when compared to federal litigation.

The IPR proceeding itself is conducted like a streamlined trial, with the parties engaging in discovery, motions, and arguments.<sup>76</sup> First, the patent owner is granted a three-month

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<sup>65</sup> 35 U.S.C. § 314(b) (2012).

<sup>66</sup> *Id.* § 314(a).

<sup>67</sup> *Id.* § 316(a)(11).

<sup>68</sup> *Id.*

<sup>69</sup> *Id.*

<sup>70</sup> See Sylvia Hsieh, *More Patent Cases Are Being Taken on Contingency Fee Basis*, NEW ENGLAND IN-HOUSE (July 26, 2006), <http://newenglandinhouse.com/2006/07/26/more-patent-cases-taken-on-contingent-fee-basis/> (last visited Mar. 15, 2017) (“An average patent case will . . . take two to three years to litigate.”).

<sup>71</sup> *Id.*

<sup>72</sup> 37 C.F.R. § 42.15(a)(1)–(2) (2015).

<sup>73</sup> *Id.* § 42.15(a)(3)–(4).

<sup>74</sup> *Id.* § 42.15(a)(2).

<sup>75</sup> See Chien & Helmers, *supra* note 51, at 12.

<sup>76</sup> See Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756-01, 48,757 (Aug. 14, 2012) (displaying a representative timeline of the proceeding).

discovery period.<sup>77</sup> The patent owner must file a response to the petition within these three months.<sup>78</sup> During this time, the patent owner may file a motion to amend the patent claims at issue.<sup>79</sup> Next, the petitioner is granted a three-month discovery period.<sup>80</sup> After this period, the petitioner must file a reply brief to the patent owner's response, as well as an opposition to any claim amendments.<sup>81</sup> The patent owner then has a one-month period for further discovery and briefing.<sup>82</sup> After the discovery periods end, the parties may request an oral hearing to present their arguments and live testimony before the PTAB.<sup>83</sup> Finally, the PTAB issues its final decision sometime after the oral hearing but before the end of the statutory review period.<sup>84</sup>

At the beginning of an IPR proceeding, the PTAB issues a claim construction regarding the patent claims at issue.<sup>85</sup> Also known as a claim interpretation, this defines the scope and meaning of a claim.<sup>86</sup> Claim construction is very important for determining whether prior art invalidates a patent claim, and this area represents a key difference between IPR proceedings and federal litigation. In the federal district courts, claims are given their ordinary meaning by reference to what a person having ordinary skill in the art ("PHOSITA") would understand.<sup>87</sup> However, during IPR proceedings, claims are given their "broadest reasonable construction."<sup>88</sup> While claims

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<sup>77</sup> *Id.*

<sup>78</sup> *Id.*

<sup>79</sup> *Id.* Such an amendment "may not enlarge the scope of the claims of the patent or introduce new matter." 35 U.S.C. § 316(d)(3) (2012). Also, the patent owner has the burden to show written-description support in the original disclosure for each added or amended claim. 37 C.F.R. § 42.121(b)(1) (2015).

<sup>80</sup> Office Patent Trial Practice Guide, 77 Fed. Reg. at 48,757–58.

<sup>81</sup> *Id.*

<sup>82</sup> *Id.* at 48,757.

<sup>83</sup> *Id.* at 48,757–58, 48,768.

<sup>84</sup> *Id.* at 48,757, 48,768.

<sup>85</sup> See Scott A. McKeown, *Early PTAB Claim Construction - The Faster, Cheaper Markman Order*, PATENTS POST-GRANT (Oct. 2, 2013), <http://www.patentspostgrant.com/lang/en/2013/10/early-ptab-claim-construction-to-drive-litigation-settlements> (last visited Mar. 5, 2017).

<sup>86</sup> *Renishaw PLC v. Marposs Societa' Per Azioni*, 158 F.3d 1243, 1247–48 (Fed. Cir. 1998).

<sup>87</sup> See, e.g., *L.B. Plastics, Inc. v. Amerimax Home Prods., Inc.*, 499 F.3d 1303, 1308 (Fed. Cir. 2007) (citing *Phillips v. AWH Corp.*, 415 F.3d 1303, 1314–19 (Fed. Cir. 2005) (en banc)).

<sup>88</sup> 37 C.F.R. § 42.100(b) (2016).

are still interpreted according to a PHOSITA's understanding,<sup>89</sup> the broadest reasonable construction standard is broader than the federal district court standard. "The broader the claim construction, the more likely it is to sweep prior art within its ambit," thus, making it much easier for patent challengers to prevail in an IPR.<sup>90</sup> After issuing its claim construction, the PTAB determines whether the challenged patent claims are invalid.<sup>91</sup>

Additionally, IPR proceedings differ from federal litigation in terms of the chosen evidentiary standard for patent invalidity. In the federal district courts, the party challenging the validity of a patent claim must prove invalidity by clear and convincing evidence.<sup>92</sup> However, in IPR proceedings, the petitioner must prove invalidity by a preponderance of the evidence.<sup>93</sup> Because IPR uses a relaxed evidentiary standard, the potential exists for inconsistent rulings where a patent claim is held invalid by the PTAB, but held valid by a federal district court judge.<sup>94</sup>

After the completion of an IPR, the petitioner is estopped from asserting any ground that was "raised or reasonably could have [been] raised" before the PTAB.<sup>95</sup> This estoppel attaches from the date of the PTAB's "final written decision."<sup>96</sup> Also, this estoppel applies to proceedings before the federal district courts, the International Trade Commission, and the PTO.<sup>97</sup> However, because the validity of patent claims can only be challenged on novelty and obviousness grounds in an IPR, this estoppel does not prevent a challenger from attacking a patent in multiple forums. This essentially gives the challenger two "bite[s] at the

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<sup>89</sup> See *Captioncall, L.L.C., v. Ultratec, Inc.*, IPR2013-00543, 2015 WL 981641, at \*5-6 (P.T.A.B. Mar. 3, 2015).

<sup>90</sup> Dolin, *supra* note 29, at 916.

<sup>91</sup> *Idle Free Sys., Inc. v. Bergstrom, Inc.*, IPR2012-00027, 2014 WL 824156, at \*6 (P.T.A.B. Jan. 7, 2014).

<sup>92</sup> *Microsoft Corp. v. i4i Ltd. P'ship*, 564 U.S. 91, 95 (2011) ("We consider whether [35 U.S.C.] § 282 requires an invalidity defense to be proved by clear and convincing evidence. We hold that it does.").

<sup>93</sup> 35 U.S.C. § 316(e) (2012).

<sup>94</sup> See David L. McCombs et al., *Federal Circuit Appeals from the PTAB: A New Game or Just the Same Old Practice?*, 95 J. PAT. & TRADEMARK OFF. SOC'Y 240, 246 (2013) (discussing different standards of review for invalidity determinations and the implications for the Federal Circuit).

<sup>95</sup> 35 U.S.C. § 315(e) (2012).

<sup>96</sup> *Id.*

<sup>97</sup> *Id.* at § 315(e)(2).

apple.” Moreover, this “estoppel provision[] [is] claim . . . specific, [thus,] subsequent IPR requests can be brought . . . against the same patent.”<sup>98</sup>

### B. *The Statistics Relating to Inter Partes Review Proceedings*

Since IPR became available on September 16, 2012,<sup>99</sup> it has become increasingly popular. Seventeen petitions were filed in the first few days in fiscal year 2012, 514 petitions were filed in fiscal year 2013, and 1,310 petitions were filed in fiscal year 2014.<sup>100</sup> During the first twenty-nine months of availability, approximately 2,300 petitions for IPR were filed.<sup>101</sup> Of the petitions it has reviewed, the PTO ordered around eighty percent into trial.<sup>102</sup>

As of January 18, 2015, the PTAB has conducted 163 IPRs through completion.<sup>103</sup> The results of these IPRs break down as follows: all claims were cancelled in 121 cases, some claims were cancelled and some claims were upheld—a split decision—in 18 cases, and all claims were upheld in 24 cases.<sup>104</sup> Thus, the PTAB has invalidated nearly seventy-five percent of the claims challenged through IPR proceedings.<sup>105</sup> In contrast, the invalidation rate in the federal district courts is only about forty-two percent.<sup>106</sup> However, this figure is misleading because in federal litigation patents can be invalidated on more grounds than novelty or obviousness.<sup>107</sup> When focused on patents invalidated on novelty or obviousness grounds, the invalidation rate in federal district courts drops to just over one-third.<sup>108</sup>

<sup>98</sup> Dolin, *supra* note 29, at 928–29.

<sup>99</sup> *Inter Partes Disputes*, U.S. PATENT & TRADEMARK OFFICE, <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/inter-partes-disputes> (last visited Mar. 6, 2017).

<sup>100</sup> *Patent Trial and Appeal Board AIA Progress: Statistics (as of 01/01/2015)*, U.S. PATENT & TRADEMARK OFFICE 1 [http://www.uspto.gov/ip/boards/bpai/stats/aia\\_statistics\\_1\\_1\\_2015.pdf](http://www.uspto.gov/ip/boards/bpai/stats/aia_statistics_1_1_2015.pdf) (last visited Mar. 6, 2017).

<sup>101</sup> *See Patent Trial and Appeal Board AIA Progress: Statistics (as of 01/08/2015)*, U.S. PATENT & TRADEMARK OFFICE 1, [http://www.uspto.gov/sites/default/files/documents/aia\\_statistics\\_01\\_08\\_2015.pdf](http://www.uspto.gov/sites/default/files/documents/aia_statistics_01_08_2015.pdf) (last visited Mar. 6, 2017).

<sup>102</sup> *Id.* at 2.

<sup>103</sup> Dolin, *supra* note 29, at 926.

<sup>104</sup> *Id.*

<sup>105</sup> *Id.*

<sup>106</sup> John R. Allison et al., *Understanding the Realities of Modern Patent Litigation*, 92 TEX. L. REV. 1769, 1787 (2014).

<sup>107</sup> 35 U.S.C. § 282(b) (2012).

<sup>108</sup> Allison & Lemley, *supra* note 62, at 209.

Although supporters of the current IPR standards may consider the high patent invalidation rate as proof that the PTAB is successfully culling weak patents, this argument is undercut by the PTAB's use of a lower evidentiary standard and broader claim construction than those used by the federal district courts. Additionally, the high invalidation rate is not surprising given that the PTAB can only institute an IPR when the petitioner has shown a reasonable likelihood of success on at least one challenged claim. Thus, the high invalidation rate can be viewed as essentially a "reflection of the PTAB's ability to forecast correctly how it will decide on at least one claim."<sup>109</sup> However, this "selection mechanism"<sup>110</sup> is controlled by the lower standards used in IPR, so the existence of the high invalidation rate does not necessarily mean that only weak patents are being invalidated. Even if every invalidated patent were a weak patent, this does not justify using lower standards. Surely, a truly weak patent would not survive review under the district court standards.<sup>111</sup> Additionally, a closer look at the statistics may cast further doubt on the belief that only weak patents are being invalidated.

First, some of the patents in this early stage of IPR have already survived litigation, reexamination, or both.<sup>112</sup> More specifically, fifteen percent of these patents have previously survived reexamination—meaning that the patent claims at issue were reconfirmed—under the PTO's preponderance of the evidence standard and broadest reasonable claim construction.<sup>113</sup>

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<sup>109</sup> Rochelle Cooper Dreyfuss, *Giving the Federal Circuit a Run for its Money: Challenging Patents in the PTAB*, 91 NOTRE DAME L. REV 235, 253 (2015).

<sup>110</sup> Chien & Helmers, *supra* note 51, at 5.

<sup>111</sup> This may explain the not insignificant invalidation rate in the district courts.

<sup>112</sup> Dolin, *supra* note 29, at 927.

<sup>113</sup> *Id.*

Moreover, these patents account for over eight percent of IPR final decisions.<sup>114</sup> These specific decisions result in a *per claim* invalidation rate of eighty-three percent.<sup>115</sup>

Additionally, it seems that the PTAB awards no deference to the consideration of prior art references by the patent examiner during the patent prosecution process. Thirty-one percent of IPR petitions relied only on new—previously unconsidered—prior art, three percent relied only on old art—previously considered and found not to be invalidating—and sixty-six percent relied on a combination of old and new prior art.<sup>116</sup> Based on prior art references, the IPR final written decisions result in the following invalidation rates: ninety-three percent where the petition relied only on new prior art, ninety-three percent where the petition relied only on old prior art, and eighty-one percent where the petition relied on a combination of old and new prior art.<sup>117</sup>

Finally, the PTAB's treatment of motions to amend claims leads to the conclusion that this ability of the patent owner is "merely illusory."<sup>118</sup> The opportunity for patent owners to move to amend claims is an advantage that IPR proceedings offer over federal district court litigation.<sup>119</sup> However, patent owners have only filed motions to amend claims in fifty cases,<sup>120</sup> and the PTAB

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<sup>114</sup> *Id.* This difference between the percentages of patents reviewed and those that reached final decision is likely attributable to settlements that resulted in termination of the IPR proceedings. Roughly fifteen percent of all IPR petitions filed were ultimately settled between the petitioner and the patent holder. *See Patent Trial and Appeal Board AIA Progress: Statistics (as of Jan. 8, 2015)*, U.S. PATENT & TRADEMARK OFFICE 2–3, [http://www.uspto.gov/sites/default/files/documents/aia\\_statistics\\_01\\_08\\_2015.pdf](http://www.uspto.gov/sites/default/files/documents/aia_statistics_01_08_2015.pdf) (last visited Mar. 6, 2017) (noting 340 settlements out of 2323 total petitions).

<sup>115</sup> Dolin, *supra* note 29, at 928 n.335 ("Again, the number of observations is small (thirteen out of 163 decisions involved patents that have previously prevailed in reexamination), and therefore the great disparity in percentages does not indicate a great disparity in raw numbers. Nonetheless, it does not appear either from the numbers or from reading the PTAB's decisions that prior reexaminations have had much effect on the outcome of the IPR. Additionally, occasionally patent challengers have filed both IPR requests and *ex parte* reexamination requests in hopes of prevailing in at least one forum.").

<sup>116</sup> *Id.* at 928.

<sup>117</sup> *Id.*

<sup>118</sup> *Id.* at 929.

<sup>119</sup> *See Process Control Corp. v. HydReclaim Corp.*, 190 F.3d 1350, 1357 (Fed. Cir. 1999) ("[W]e do not permit courts to redraft claims.").

<sup>120</sup> Dolin, *supra* note 29, at 929.



has only granted such motions twice.<sup>121</sup> One of these granted motions to amend yielded no opposition brief from the petitioner.<sup>122</sup> Thus, it seems that another aspect of IPR proceedings swings in favor of the petitioner because “[w]hat was meant to be the counter-balance to the [petitioner]’s lower burden of proof in practice does not exist.”<sup>123</sup>

The popularity of IPR proceedings has led many litigants to request the federal district courts to stay litigation pending the final decision of the IPR.<sup>124</sup> Through staying litigation, the parties hope to resolve their disputes through the faster, less expensive IPR proceeding.<sup>125</sup> In ruling on a request to stay litigation, a federal district court judge will usually balance three factors: “(1) whether a stay will unduly prejudice or present a clear tactical disadvantage to the nonmoving party, (2) whether a stay will simplify the issues in question and trial of the case, and (3) whether discovery is complete and whether a trial date has been set.”<sup>126</sup>

Since the inception of IPR proceedings in 2012, there have been more than 170 motions to stay litigation.<sup>127</sup> Federal district courts grant these motions at an average rate above seventy percent.<sup>128</sup> When the parties disagree on the motion, the grant rate is about sixty percent, but when the parties agree, the grant rate is nearly ninety-eight percent.<sup>129</sup>

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<sup>121</sup> See *Int’l Flavors & Fragrances Inc. v. United States*, No. IPR2013-00124, 2014 WL 2120542, at \*10 (P.T.A.B. May 20, 2014) (Final Written Decision); *Tandus Flooring, Inc. v. Interface, Inc.*, No. IPR2013-00333, 2014 WL 6983455, at \*32 (P.T.A.B. Dec. 8, 2014) (Final Written Decision).

<sup>122</sup> *Int’l Flavors & Fragrances Inc.*, 2014 WL 2120542, at \*1.

<sup>123</sup> Dolin, *supra* note 29, at 929.

<sup>124</sup> Aashish Kapadia, *Inter Partes Review: A New Paradigm in Patent Litigation*, 23 TEX. INTELL. PROP. L.J. 113, 125 (2015).

<sup>125</sup> *Id.*

<sup>126</sup> *Soverain Software LLC v. Amazon.com, Inc.*, 356 F. Supp. 2d 660, 662 (E.D. Tex. 2005) (citing *Xerox Corp. v. 3Com Corp.*, 69 F. Supp. 2d 404, 406 (W.D.N.Y. 1999)). Additionally, the Federal Circuit has advised against granting both a preliminary injunction and a motion to stay in the same case. See *Procter & Gamble Co. v. Kraft Foods Global, Inc.*, 549 F.3d 842, 849 (Fed. Cir. 2008) (noting that both preliminary injunctions and motions to stay depend on whether there is a “substantial issue of patent validity”).

<sup>127</sup> Kapadia, *supra* note 124, at 131.

<sup>128</sup> *Id.*

<sup>129</sup> *Id.*

### C. *Inter Partes Review in Practice*

Through its decisions, the PTAB demonstrates willingness, if not a desire, to invalidate patents. For example, in *Microsoft Corp. v. Proxyconn, Inc.*,<sup>130</sup> the PTAB invalidated eleven claims of Proxyconn's challenged patent.<sup>131</sup> On September 18, 2012, Microsoft petitioned for IPR of claims 1, 3, 10, 11, 12, 22, 23, and 24 of U.S. Patent No. 6,757,717 ("the '717 Patent"), then on January 11, 2013, Microsoft filed another petition for IPR of claims 6, 7, 9, 11, 12, and 14 of the '717 Patent.<sup>132</sup> After the PTAB granted IPRs to review all challenged claims, Microsoft moved for joinder, which the PTAB granted.<sup>133</sup> All challenged claims were challenged on both novelty and obviousness grounds.<sup>134</sup>

The '717 Patent described a system for data access in a packet switched network, consisting of a sender/computer and a receiver/computer that communicate through the network.<sup>135</sup> The '717 Patent "provide[d] a way to reduce the amount of redundant data transmitted over a network."<sup>136</sup> The PTAB applied the broadest reasonable claim construction standard to interpret six claim terms. First, the PTAB determined that "data access" referred to the freedom or ability to obtain or use data.<sup>137</sup> Second, the PTAB interpreted "permanent storage memory" to mean "any non-volatile memory that supports multiple write operations." Third, the PTAB concluded that "sender/computer" means "a computer that sends data," "receiver/computer" means "a computer that receives data," and that each respective computer "can encompass multiple devices including intermediaries."<sup>138</sup> Fourth, the PTAB concluded that the term "gateway . . . connected to said packet-switched network in such a way that network packets sent between at least two other computers pass through it[]" did not "limit which computers may constitute the 'two other computers' between which the gateway

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<sup>130</sup> Nos. IPR2012-00026, IPR2013-00109, 2014 WL 721998, at \*1 (P.T.A.B. Feb. 19, 2014).

<sup>131</sup> *Id.* at \*34.

<sup>132</sup> *Id.* at \*1.

<sup>133</sup> *Id.*

<sup>134</sup> *Id.* at \*5.

<sup>135</sup> *Id.* at \*2.

<sup>136</sup> *Id.*

<sup>137</sup> *Id.* at \*6.

<sup>138</sup> *Id.* at \*8.

is connected.”<sup>139</sup> Fifth, the PTAB determined that the “means for comparison between digital digests” refers to a structure that can compare any digital digest received from the network with any other digital digest.<sup>140</sup> Finally, the PTAB concluded that “‘searching for data with the same digital digest in said network cache memory’ requires an ability to identify a particular data object with the same digital digest from a set of potentially many data objects stored in the network cache memory.”<sup>141</sup>

Applying these claims constructions to the prior art, the PTAB determined that Microsoft established by a preponderance of evidence that claims 1, 3, 6, 7, 9, 10, 11, 12, 14, 22, and 23 were unpatentable due to anticipation, and that claims 1, 3, and 10 were unpatentable due to obviousness.<sup>142</sup> Additionally, the PTAB determined that Microsoft’s challenge to claims 6, 7, 9, 11, 12, and 14 on the grounds of obviousness in light of combined prior art was moot; they were cancelled because they were anticipated by one of the prior art references relevant to the obviousness challenge.<sup>143</sup>

Following the PTAB’s final written decision, Proxyconn appealed to the United States Court of Appeals for the Federal Circuit.<sup>144</sup> First, Proxyconn challenged the PTAB’s construction of the phrase “gateway . . . connected to said packet-switched network in such a way that network packets sent between at least two other computers,” because Proxyconn argued that the “‘two other computers’ referred only to the sender/computer and the receiver/computer.”<sup>145</sup> The court, in light of the language of the claims and specification, agreed with Proxyconn’s construction and found the PTAB’s construction to be “unreasonably broad.”<sup>146</sup> The court vacated and remanded the PTAB’s findings as to claims 6, 7, and 9 because they were based on an unreasonably broad construction of the term.<sup>147</sup>

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<sup>139</sup> *Id.* at \*9.

<sup>140</sup> *Id.* at \*9–10.

<sup>141</sup> *Id.* at 10.

<sup>142</sup> *Id.* at 34.

<sup>143</sup> *Id.* at 16–17, 26.

<sup>144</sup> *Microsoft Corp. v. Proxyconn, Inc.*, 789 F.3d 1292, 1295 (Fed. Cir. 2015).

<sup>145</sup> *Id.* at 1298.

<sup>146</sup> *Id.* at 1299.

<sup>147</sup> *Id.*

Additionally, Proxyconn challenged the PTAB's construction of the terms "sender/computer" and "receiver/computer," arguing that they should be limited to just those two computers.<sup>148</sup> Again, the court analyzed the language of the claims and the specification and agreed with Proxyconn's construction, finding the PTAB's construction unreasonably broad.<sup>149</sup> Because the PTAB's determination that claims 1, 3, 10, 22, and 23 were unpatentable was based on an unreasonably broad construction, the court vacated and remanded the PTAB's findings as to claims 1, 3, 10, 22, and 23.<sup>150</sup>

On remand, the PTAB again concluded that claims 1, 3, 6, 7, 9, 10, 22, and 23 of the '717 Patent were unpatentable.<sup>151</sup> Addressing the obviousness challenges to claims 6, 7, and 9 that it found moot in the initial IPR, the PTAB found "that the Federal Circuit's instruction that the gateway be separate from the [two] 'other' computers . . . [was] met by the combination of" prior art.<sup>152</sup> Hence, the PTAB concluded that claims 6, 7, and 9 were unpatentable because they would have been obvious over the prior art.<sup>153</sup> Likewise, the PTAB used the Federal Circuit's construction of "sender/computer" and "receiver/computer" to again find that claims 1, 3, and 10 were unpatentable because they were obvious over prior art.<sup>154</sup> Additionally, the PTAB used the Federal Circuit's construction of "receiver/computer" to again find that claims 22 and 23 were unpatentable due to anticipation by prior art.<sup>155</sup>

Although this case was the first time the Federal Circuit reversed and remanded an IPR final written decision, it demonstrates the potential effectiveness of IPR. Under two very different claim constructions, the PTAB found that Microsoft met its evidentiary burden to invalidate Proxyconn's patent claims. Perhaps this means that Proxyconn's patent was indeed weak and deserved to be invalidated. If so, cases such as this justify

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<sup>148</sup> *Id.* at 1299–1300.

<sup>149</sup> *Id.* at 1300.

<sup>150</sup> *Id.*

<sup>151</sup> *Microsoft Corp. v. Proxyconn, Inc.*, Nos. IPR2012-00026, IPR2013-00109, 2015 WL 8536725, at \*2 (P.T.A.B. Dec. 9, 2015).

<sup>152</sup> *Id.* at \*5.

<sup>153</sup> *Id.* at \*6.

<sup>154</sup> *Id.* at \*6–7.

<sup>155</sup> *Id.* at \*8.

the creation of IPR. But Congress needs to make further changes to achieve its goal of eliminating weak patents while offering a viable alternative to federal district court litigation.

### III. HOW TO MAKE *INTER PARTES* REVIEW A MORE EFFECTIVE PROCEEDING

In many circumstances, the simplest solution is the greatest solution. By creating IPR, Congress may have finally found a way to resolve the issue of weak patents. By mandating patent challengers—or infringement defendants—to file for IPR whenever they challenge the validity of patent claims on novelty or obviousness grounds, and by making PTAB decisions binding on federal district courts, Congress would potentially eliminate weak patents while providing a faster, less expensive alternative to litigation.

By forcing patent challengers to use IPR, the PTAB would have more opportunities to invalidate weak patents. Additionally, because the petitioner must demonstrate a reasonable likelihood of success before an IPR is instituted, a denial of IPR would be very instructive for a federal district court's validity analysis. By denying IPR, the PTAB is essentially telling the court that, based on the petitioner's prior art references, the challenged patent claims are strong enough to survive IPR's relaxed standards. If the challenged patent claims are strong enough to survive IPR's relaxed standards, they are certainly strong enough to survive federal litigation's heightened standards. Thus, the court could use the PTAB's decision in place of its own validity analysis and move on with the trial. Conversely, if the PTAB institutes IPR and invalidates the challenged patent claims, then the federal litigation is likely resolved as well.

To fully implement this proposal, Congress would have to mandate that the federal district courts stay litigation until IPRs are resolved and that the PTAB's decisions are binding on the courts. This would eliminate the possibility of parallel proceedings and ensure consistency in patent validity determinations.

## CONCLUSION

After several years in practice, IPR proceedings have, by themselves, proven to be faster and less expensive than federal litigation. However, when both IPR and litigation are allowed, prices soar. Congress could give IPR the test of time or it could make periodic adjustments, like a pilot constantly making minor corrections to stay on course. Increasing the frequency of IPR and making the PTAB's decisions binding on federal district courts could be one such adjustment. This adjustment could help make IPR a desirable alternative for dispute resolution, leading to time saved, costs reduced, and, potentially, a better way to solve the problem of weak patents. Overall, the patent system would improve and Congress would fulfill its constitutional charge to promote scientific progress.