

## Evaluating the Effectiveness of the Inter Partes Review Process

**WHEN INTER PARTES REVIEW (IPR) PROCEEDINGS** were first introduced with the 2012 America Invents Act (AIA),<sup>1</sup> they were welcomed as an important addition to the patent system. Prior to IPR, potential infringers could only challenge a patent's validity through federal court litigation or reexamination. Litigation required substantial time and costs, and reexamination proceedings often lasted over two years with no ability to conclude even if the parties settled. Given these significant shortcomings, Congress created IPR as a more efficient and cost-effective way for potential infringers to challenge a patent's validity. Now, it is possible to challenge a patent's validity before the Patent Trial & Appeal Board (PTAB) far more quickly and cheaply than through litigation. IPR proceedings, however, are subject to several important limitations. For instance, they are limited to grounds that may be raised under Section 102 or 103,<sup>2</sup> and only based on prior art consisting of patents or printed publications, i.e., the PTAB will not consider prior use or prior sales of the invention, among others, as a basis for invalidating the patent.

After receiving a petition for IPR from the petitioner—or a preliminary response from the patent owner—the PTAB will determine whether the petitioner has shown a “reasonable likelihood” of prevailing with respect to at least one claim challenged.<sup>3</sup> If so, the PTAB will initiate a trial and, if the proceeding is not dismissed (for example, if the parties settle), the PTAB will issue a final determination regarding the patentability of the challenged claims within one year.

Since the introduction of IPR proceedings, large companies—for example, Google, Samsung, Apple, Microsoft, and LG Electronics—have embraced IPR proceedings.<sup>4</sup> Nonpracticing Entities (NPEs), a euphemism for “patent trolls,” have been a frequent target of these proceedings, with familiar names like Intellectual Ventures, Innovative Display Technologies, and Acacia showing up in the top-10 list for 2015.<sup>5</sup>

The first wave of IPR proceedings saw most action occurring once the PTAB had granted the petition and initiated trial. Many patent owners did not even file a preliminary response to the challenger's petition, likely because they were unfamiliar with the process, did not want to tip their hand too early in the process, and/or were attempting to minimize fees and expenses.<sup>6</sup> Even when patent owners prepared a preliminary response, these responses rarely convinced the PTAB to deny the challenger's petition. Indeed, in 2013 patent owners achieved a dismal success rate, with the PTAB granting 86 percent of IPR petitions.<sup>7</sup> Recently, though, Patent Office statistics have shown a steady decline in the PTAB's rate of granting IPR petitions. By 2014, the rate had dropped 12 percent to approximately 74 percent and then dropped again in 2015 to approximately 65 percent.<sup>8</sup> Understanding the reasons for this decline, however, has been far from a simple task.

Some practitioners have suggested that political forces may be in play. At the October 2013 annual meeting of the American Intellectual Property Law Association, then Federal Circuit Chief Judge Randall Rader famously referred to the PTAB as “death squads killing

property rights.” This characterization did not go unnoticed by the PTAB, when Chief Judge James Donald Smith, attempting to defuse the situation, responded: “I personally do not believe if by death squad you mean there's an intention to find claims unpatentable.... Absolutely not. The board approaches its decisions in a very neutral manner.”<sup>9</sup> The PTAB has not outwardly given any sign that the views of Judge Rader, which seem to echo that of many practitioners, have played a role in the increased success seen by patent owners.<sup>10</sup> But the numbers certainly suggest the PTAB may be taking a more balanced approach to IPR petitions.

A more tangible reason patent owners are having greater success defeating institution decisions is their increased willingness to bring the fight earlier in the process. Patent owners are filing preliminary responses at a rate that has slowly crept up as the IPR process has matured. In 2014, approximately 80 percent of patent owners filed a preliminary response to the IPR petition.<sup>11</sup> That number increased to 85.6 percent in 2015 and 83.8 percent in the first part of 2016.<sup>12</sup> While the incidence of preliminary responses has certainly increased, that number alone does not adequately explain the PTAB's declining initiation rate. For example, while the patent challenger's success rate between 2014 and 2015 dropped 14 percent, the numbers show only a modest seven percent increase in patent owners who chose to file a preliminary response challenging the initial petition.<sup>13</sup>

The decrease in granted petitions may also be tied to the type of patents now being challenged, in particular, the overall strength of those patents. The early IPR petitions appeared to focus on the weakest patents, a point that Judge Smith noted during a 2014 meeting of the U.S. Patent and Trademark Office's Patent Public Advisory Committee. Indeed the stated goal of the AIA was to give the Patent Office a “toolbox” of new proceedings to “weed out low quality patents... includ[ing] post-grant review, IPR, supplemental examination, and derivation proceedings, as well as a transitional post-grant review program for certain business methods patents.”<sup>14</sup> Although the success rate of patent challengers has remained high—at least at trial—challengers have been emboldened to utilize the process, resulting in an increased number of IPR petitions and, according to many practitioners, a higher caliber of patents being challenged.<sup>15</sup> For instance, patent office statistics show that the number of filed IPR petitions more than doubled between 2013 and 2014 and has remained relatively steady since then, evidencing that patent challengers have embraced the PTAB's IPR procedures as a desired alternative to district court litigation. The PTAB has become the largest venue for patent disputes, with 461 petitions filed in the first quarter of 2016, compared with 288 filings in the same period for its nearest competitor, the Eastern

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**Nate Dilger and John Lord are registered patent attorneys and partners at One LLP. Mr. Dilger's practice focuses on litigating patent disputes, including representation of patent challengers and owners in PTAB inter partes review proceedings. Mr. Lord's practice focuses on intellectual property litigation, including representation of companies in postgrant PTAB proceedings.**

District of Texas.<sup>16</sup>

There is evidence, however, that patent owners are becoming more successful in combating IPR petitions. Specifically, patent owners increasingly are able to chip away at the challenger's stated basis for initiating the IPR. A review of PTAB orders denying institution suggests that patents owners—now armed with three years' worth of PTAB decisions—have learned much about what it takes to win at the PTAB, particularly when it comes to poking holes in the initial petition. These decisions provide significant guidance to the patent owner on how to effectively fight IPR challenges.

First, the patent owner should consider whether the petitioner has properly identified all real parties-in-interest. A petition for IPR "may be considered only if...the petition identifies all real parties in interest."<sup>17</sup> This identification must be made as part of a petitioner's mandatory notices, required to be filed as part of the petition.<sup>18</sup> This requirement is particularly important because a petition that fails to name all real parties-in-interest must be corrected and refiled within the one-year time limit imposed by Section 315(b) of the U.S. Code or be dismissed.<sup>19</sup>

In the context of an IPR, a real party-in-interest is generally one who "desires review" of the patent at issue and "may be the petitioner itself, and/or it may be the party or parties at whose behest the petition has been filed."<sup>20</sup> This issue often arises when the relationship between the parent and subsidiary companies blurs corporate lines.<sup>21</sup> For example, in *Zhejian Yankon Group Ltd. v. Cordelia Lighting Group*, the petition only identified Yankon-China as the petitioner, not its U.S.-based subsidiary Yankon-US. The PTAB found that "in view of the totality of the factual evidence of record" Yankon-US "could have exercised control" over the proceeding and should have been included.<sup>22</sup> The PTAB has found that when a petitioner and nonparty in a parent-subsidiary relationship blur the lines of corporate separation such that one could control the conduct of the IPR, the nonparty should be considered a real party-in-interest to the proceeding.<sup>23</sup> The key inquiry concerns whether the nonparty had the opportunity to control the IPR proceedings, not whether the nonparty could exercise control over the named party.<sup>24</sup>

Additionally, the burden is on the petitioner to ensure compliance with the statute to identify all real parties-in-interest and not on the patent owner to prove noncompliance. "Where a patent owner presents evidence that reasonably brings into question the accuracy of a petitioner's identification of the real parties-in-interest, the petitioner alone bears the burden of establishing that it has complied with the statutory requirement to identify

all the real parties-in-interest."<sup>25</sup> Note that the petitioner's identification of real parties-in-interest at the time of filing the petition reflects a rebuttable presumption inuring to the petitioner's benefit; it does not, however, shift the burden of persuasion.<sup>26</sup>

Should the petition not comply with the statutory requirement to identify each real party-in-interest, the petition will be deemed incomplete and dismissed.<sup>27</sup> Thus, even if corrected, if the earliest filing date does not fall within the one-year period specified by Section 315(b), the petition will be denied as untimely. Given the practical realities of a short one-year window, it often happens that the corrected petition may be time-barred, meaning that the petition is denied outright and no trial can be instituted.<sup>28</sup> Thus, if the patent owner can show that the petitioner did not identify all real parties-in-interest, the PTAB will deny institution, often prohibiting the filing of a corrected petition due to the one-year time bar.

Another issue the patent owner may encounter is whether there is sufficient evidence of publication. The patent owner should consider whether the petitioner has properly provided sufficient evidence that its prior art is indeed prior art. Section 311(b) provides that a petitioner's ground can be based on "prior art consisting of patents or printed publications." Public accessibility has been called the "touchstone" in determining whether a reference constitutes a printed publication bar under Section 102(b).<sup>29</sup>

Issues regarding public accessibility often arise in litigation, especially now as they relate to electronic documents. In an IPR context, the issue is no different than in litigation. If the patent owner can show that the petitioner did not provide sufficient evidence of publication, the PTAB will deny institution on grounds pertaining to that prior art. For example, the PTAB has denied institution when the petitioner failed to offer corroborating evidence that slides were publicly presented at a conference, or made available on a website, prior to the critical date.<sup>30</sup> The petitioner also failed to provide sufficient evidence of publication for the other pieces of prior art on which the petitioner attempted to rely.<sup>31</sup> Because the petitioner had not shown that each piece of prior art was a printed publication and because each of the petitioner's alleged grounds relied on those pieces of prior art, the PTAB ordered denial of the petition.<sup>32</sup>

The PTAB has found a petitioner's evidence of publication insufficient even when supported by declaratory evidence. When declaratory evidence stated that "it was common business practice for documents to bear a printing date such as '1201' indicative of a printing date of December 2001," the PTAB deemed insufficient an opinion that the prior

art was publicly available "shortly after" to demonstrate public accessibility prior to March 2002.<sup>33</sup> The printed publication requirement poses a problem for petitioners who often cannot gather the necessary discovery at the institution phase to meet the "publicly accessible" case law doctrine. Patent owners should use this valuable lesson to challenge petitions at the institution stage.

Patent owners have also been successful in attacking allegations of obviousness that do not properly articulate reasons underlying that conclusion. PTAB decisions have faulted petitioners for failing to provide a persuasive rationale for combining the teachings of multiple prior art references in an obviousness analysis. For example, the PTAB denied institution in *Askeladden LLC v. iSourceLoans LLC*, when the petitioner provided mere conclusory statements that it would have been obvious to a person of ordinary skill in the art to combine multiple references. In *Askeladden*, the petitioner contended that the challenged claims were unpatentable under Section 103.<sup>34</sup> The petitioner also provided expert testimony.<sup>35</sup> The petitioner argued that the prior art references all "relate to real estate transactions and financing" and then explained what each reference disclosed.<sup>36</sup> The PTAB held this to be an insufficient rationale for why one skilled in the art would have combined the specific teachings.<sup>37</sup> The PTAB reiterated that although the U.S. Supreme Court emphasized "an expansive and flexible approach" to the obviousness question under *KSR International Company v. Teleflex Inc.*, the Court reaffirmed the importance of determining an articulated reasoning to combine the known elements as claimed in the patent.<sup>38</sup>

The PTAB has also denied institution when the petitioner purported to rely on an expert declaration to support its obviousness showing. For example, the PTAB denied institution because the petitioner did not provide articulated reasoning with rational underpinning to combine the prior art references, and its expert declaration did "not provide any facts, data, or analysis to support the opinion stated."<sup>39</sup> In short, the patent owner can challenge the petition when the petitioner does not adequately explain why a person of skill in the art would have combined the elements from the specific references in the manner claimed.

Another strategy for patent holders to challenge the petition is to reduce some of the petitioner's grounds. Even when the PTAB has sided with the petitioner and instituted trial, patent owners can win small victories that later prove significant. For example, the PTAB has a policy called redundancy, under which, at its discretion, it may "deny some or all [of a petitioner's proposed] grounds for unpatentability or some or all of the challenged claims."<sup>40</sup> The PTAB has based this

policy on its regulatory and statutory mandates for “just, speedy, and inexpensive” resolution of its proceedings, explaining that “multiple grounds, which are presented in a redundant manner by a petitioner who makes no meaningful distinction between them, are...not all entitled to consideration.”<sup>41</sup>

The end result of the redundancy policy is that the PTAB tends to focus on the strongest grounds set forth by the challengers and to exclude weaker grounds from trial. Patent owners can capitalize on this by aggressively attacking these weaker grounds to exclude them from trial. As an example, a patent challenger may argue, in the alternative, that a certain piece of prior art both anticipates the claimed invention under Section 102, or at least obviates the claimed invention under Section 103. If a patent owner succeeds in having the PTAB discard the Section 102 arguments as redundant, the challenger must rely solely on Section 103 at trial. This means that the challenger must clear additional hurdles, such as proving the art is “analogous art,” establishing a secondary prior art reference to provide any missing claim limitations, pointing to an “articulated reason” for making the claimed combination, and overcoming any evidence of objective indicia of nonobviousness submitted by the patent owner.<sup>42</sup>

Patent owners can also score an important victory when a redundancy filing results in the elimination of one or more prior art references. For example, in *Volkswagen Group of America v. Farlight LLC* the PTAB instituted review for all seven challenged patent claims but narrowed the number of prior art references on which the petitioner could rely at trial: “[Petitioner] VGA proposes additional grounds of unpatentability for claims 1-3 of the [challenged] ‘959 patent based on Muller and Naka.... The grounds based on Muller and Naka are redundant to those based on Brown. We do not authorize IPR on these redundant grounds.”<sup>43</sup>

IPR proceedings have achieved their stated goal of providing an effective and efficient way to challenge a patent’s validity. Few would argue that these proceedings have largely favored patent challengers, particularly once an IPR has been instituted. For those patents that reach final decision, patent challengers continue to enjoy a success rate that has remained at a very high level.

Patent owners thus must fight early and hard to prevent IPR institution, if possible, or at least to narrow the issues for which trial is instituted. The data collected to date and the lessons learned from past decisions make clear that it should be an exceedingly rare case when a patent owner opts against

filing a preliminary response. This proves even truer given the revisions to Part 42 of the AIA rules, which apply to “all AIA petitions filed on or after the effective date [May 2, 2016] and to any ongoing AIA preliminary proceeding or trial before the Office.”<sup>44</sup> Perhaps the most important revision is that the patent owner may now include with its preliminary response testimonial evidence attempting to rebut petitioner’s required showing. Allowing the patent owner to provide such evidence at the outset provides a valuable tool when drafting the patent owner’s preliminary response.

Preparing a well-crafted and well-supported preliminary response involves time and expense on the patent owner’s behalf, but it gives the PTAB the opportunity to make a decision based on arguments from both parties early in the process. Patent owners have powerful arguments at the institution phase, thus they should explore all these possible arguments and invest heavily at the front end. When patent owners have done so, the investment appears to be paying dividends, either in securing denial of the petition entirely or at least narrowing the issues for trial. ■

<sup>1</sup> See generally *The Leahy-Smith America Invents Act*, 35 U.S.C. §§100 *et seq.*; Summary of the AIA, available

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<sup>2</sup> See 35 U.S.C. §§102, 103.

<sup>3</sup> 35 U.S.C. §314.

<sup>4</sup> Michael Loney, *Data: Top Petitioners, Patent Owners, Law Firms, and Attorneys at the PTAB in 2015*, MANAGING INTELL. PROP. (Feb. 29, 2016), available at <http://www.managingip.com>.

<sup>5</sup> *Id.*

<sup>6</sup> See AIA TRIAL STATISTICS, USPTO, available at <http://www.uspto.gov> (last visited April 15, 2016) [hereinafter AIA].

<sup>7</sup> *Id.*

<sup>8</sup> Erin Coe, *PTAB Grants Lower Rate of IPRs as Patent Owners Fight Back*, LAW 360 (Jan. 26, 2016), <http://www.law360.com> [hereinafter Coe]; see also AIA, *supra* note 5.

<sup>9</sup> Erica Teichert, *PTAB Says It's Not A "Death Squad" For Patents*, LAW 360 (Apr. 15, 2014), <http://www.law360.com>.

<sup>10</sup> Peter J. Pitts, "Patent Death Squads" vs. Innovation, WALL ST. J. (June 10, 2015), available at <http://www.wsj.com>.

<sup>11</sup> Coe, *supra* note 7.

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

<sup>13</sup> *Id.*

<sup>14</sup> Sarah Tran, *Policy Tailors and the Patent Office*, 46 U.C. DAVIS L. REV. 487, 498-99 (2012).

<sup>15</sup> Erin Coe, *PTAB's Skyrocketing Petition Rate Starts To Stabilize*, LAW 360 (Feb. 11, 2016), <http://www.law360.com>.

<sup>16</sup> Q1 2016 PATENT DISPUTE REPORT, UNIFIED PATENTS, <http://unifiedpatents.com/q1-2016-patent-dispute-report/> (Last visited, Apr. 15, 2016).

<sup>17</sup> 35 U.S.C. §312(a)(2).

<sup>18</sup> 37 C.F.R. §42.8(a)(1).

<sup>19</sup> 35 U.S.C. §315(b).

<sup>20</sup> Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,759 (Aug. 14, 2012).

<sup>21</sup> See, e.g., Zhejiang Yankon Group, Ltd., v. Cordelia Lighting Group, IPR2015-01420, Paper 9 (P.T.A.B. Nov. 25, 2015).

<sup>22</sup> *Id.* at 18.

<sup>23</sup> Reflectix, Inc. v. Promethean Insulation Tech. LLC, 2015 WL 1927414 at \*5 (P.T.A.B. Apr. 24, 2015).

<sup>24</sup> Zhejiang Yankon, IPR2015-01420, Paper 9 at 13.

<sup>25</sup> *Id.* at 8.

<sup>26</sup> See Zhejiang Yankon, IPR2015-01420, Paper 9 at 8.

<sup>27</sup> See 37 C.F.R. §42.106(b).

<sup>28</sup> See Zhejiang Yankon, IPR2015-01420, Paper 9 at 19.

<sup>29</sup> In re Hall, 781 F. 2d 897, 898-99 (Fed. Cir. 1986). See 35 U.S.C. §102(b).

<sup>30</sup> Air Liquide Large Inds. U.S., L.P. v. Praxair Tech., Inc., IPR2015-01074, Paper 11 (P.T.A.B. Oct. 26, 2015).

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> Kinetic Techs., Inc. v. Skyworks Solutions, Inc., IPR2014-00529, Paper 8 at 19 (P.T.A.B. Sept. 23, 2014).

<sup>34</sup> Askeladden LLC v. iSourceLoans LLC, IPR2015-00129, Paper 8 (P.T.A.B. Apr. 15, 2015)

<sup>35</sup> *Id.* at 3.

<sup>36</sup> *Id.* at 9.

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

<sup>38</sup> *Id.*, citing KSR Intl Co. v. Teleflex Inc., 550 U.S. 398, 415 (2007).

<sup>39</sup> Kinetic Tech., IPR2014-00529, Paper 8 at 14-15.

<sup>40</sup> 37 C.F.R. §42.108(b).

<sup>41</sup> Liberty Mutual Ins. Co. v. Progressive Casualty Ins. Co., CBM-2012-00003, No. 7 Notice at 2 (P.T.A.B. Oct. 25, 2012).

<sup>42</sup> See, e.g., In re Kahn, 441 F. 3d 977 (Fed. Cir. 2006).

<sup>43</sup> Volkswagen Group of America v. Farlight LLC, IPR2013-00238, Paper 15 (Sept. 26, 2013).

<sup>44</sup> 37 C.F.R. Pt. 42.



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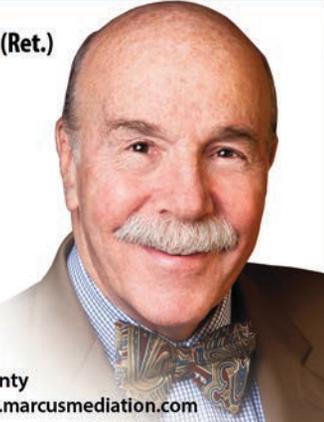
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