

## Settlement Doesn't Guarantee End Of Post-Grant Proceeding

*Law360, New York (February 14, 2014, 5:31 PM ET)* -- Recent Patent Trial and Appeal Board rulings should lead patent owners involved in a post-grant proceeding to be even more careful when considering settlement offers.

Unlike previous re-examination proceedings before the U.S. Patent and Trademark Office, the America Invents Act allows for termination in the event of settlement of newly created post-grant proceedings. See 35 U.S.C. §§ 317(a), 327(a). As a consequence, just 16 months since these proceedings started, the PTAB is encountering an increasing number of joint motions to terminate the proceedings.

In ruling on these motions, the PTAB is applying broad discretion to consider the facts and circumstances of each case when determining whether and how to terminate a proceeding based on a settlement agreement. This discretion has led to some uncertainty, with patent owners emerging unsure whether a settlement will necessarily lead to termination of a post-grant proceeding, particularly where the settlement occurs late in the proceeding. This uncertainty, in turn, devalues and discourages settlement.

Under pre-AIA post-grant proceedings, termination of ex parte and inter partes re-examinations through settlement was never an option for patent owners. Rather, once the USPTO decided to institute a re-examination proceeding, the USPTO had sole discretion whether to dispose with the proceeding. Even when a third-party requester dropped out of an inter partes proceedings, presiding examiners often maintained previously asserted rejections, continuing the proceeding well after the third-party requester exited. Though the lack of a settlement mechanism took settlement leverage away from requesters, it left both parties with a clear understanding of the consequences of a re-examination request. A requester knew that it lost a certain amount of leverage upon filing its request for reexamination, and a patent owner knew that it would have to defend itself until the USPTO (and perhaps Federal Circuit) made a final determination.

Unlike the older re-examination proceedings, the AIA includes explicit settlement provisions for the new inter partes review, post-grant review and covered business method post-grant proceedings. These settlement provisions, codified at 35 U.S.C. §§ 317(a) and 327(a), provide that an instituted post-grant proceeding “shall be terminated with respect to any petitioner upon the joint request of the petitioner and the patent owner, unless the Office has decided the merits of the proceeding before the request for termination is filed.”

At first glance, the use of the word “shall” seems to leave the PTAB with little discretion in terminating a post-grant proceeding, assuming the statutory requirements have been met (i.e., joint request filed before the office has decided the merits). However, the final sentence of both 35 U.S.C. §§ 317(a) and 327(a) is more permissive: “If no petitioner remains in the [proceeding], the Office may terminate the [proceeding] or proceed to a final written decision under section 318(a).” 35 U.S.C. §§ 317(a), 327(a).

Taken together, the PTAB has interpreted these first and last sentences as mandating dismissal of a settling petitioner, while permitting the PTAB to maintain a proceeding with regard to the patent owner.

In support of that interpretation, the PTAB has stated that the office “is not a party to [a] settlement and may determine independently any question of patentability.” *Blackberry Corp. v. Mobilemedia Ideas LLC* (IPR2013-00036), Paper 64, p. 2 (Jan 21, 2014).

As a result of this interpretation, there have now been a number of post-grant proceedings in which the parties have reached a settlement agreement and filed a joint motion to terminate, only to find the PTAB deciding to continue the proceeding to a final written decision on the merits. See *id.* at 3; see also *Interthinx Inc. v. CoreLogic Solutions LLC* (CBM2012-00007), Paper 47 (Nov 12, 2013). On the other hand, in other cases, the PTAB has decided to completely terminate a post-grant proceeding as a result of a joint motion to terminate. See, e.g., *Samsung Electronics Co. Ltd. v. U.S. Ethernet Innovations LLC* (IPR2013-00384), Paper 11 (Jan 22, 2014).

### **To Proceed or Not to Proceed**

So what factors does the PTAB consider in determining whether to completely terminate or to continue a proceeding? Though the PTAB has not outlined a complete list of factors, its decisions to date have highlighted a number of considerations. The most important of these considerations appears to be the stage of the post-grant proceeding at which a joint motion to terminate is filed.

For example, a number of decisions in which the PTAB completely terminated a post-grant proceeding highlighted the early stage of the proceeding. See, e.g., *Aker Biomarine AS v. Neptune Technologies and Bioresources Inc.* (IPR2014-00126), Paper 15, p. 2 (Jan 21, 2014) (“This case is in the preliminary proceeding stage; no institution of a trial has been made”). In fact, the PTAB completely terminated most if not all of the proceedings in which it had not yet decided whether to institute a proceeding. See, e.g., *New Bay Capital LLC v. VirnetX Inc.* (IPR2013-00375), Paper 16, pp. 1-2 (Nov 12, 2013); *Federal Reserve Banks v. Leon Stambler* (IPR2013-00341), Paper 12, p. 3 (Dec 11, 2013).

However, determining what stage is too late for settlement can be tricky. In *Sony Corp. v. Tessera Inc.* (IPR2012-00033), the parties sought to terminate over nine months into an instituted IPR proceeding — after the entire written record had already been submitted and an oral hearing had been formally requested. Despite this advanced stage, the PTAB completely terminated the IPR. See *Sony Corp. v. Tessera Inc.* (IPR2012-00033), Paper 46, p. 2 (Dec 20, 2013).

Conversely, in *Interthinx Inc. v. CoreLogic Solutions LLC* (CBM2012-00007), involving a CBM that was settled at the same stage of the proceeding (i.e., after submission of the written record but prior to oral hearing), the PTAB determined, “[i]n view of the advanced stage of the proceeding, ... the Board will proceed to a final written decision.” See *Interthinx Inc. v. CoreLogic Solutions LLC* (CBM2012-00007), Paper 47, p. 2 (Nov. 12, 2013).

The PTAB has also considered the status of co-pending litigations. See, e.g., *Smith & Nephew Inc. v. Bonutti Skeletal Innovations* (IPR2013-00604), Paper 15, p. 2 (Jan. 17, 2014) (specifically noting that the other defendants accused of infringement of the patent-at-issue were all barred from participating in post-grant proceedings as part of its rationale for completely terminating the proceeding). The manner in which the PTAB has addressed the existence of other potential petitioners suggests it would prefer not to terminate a proceeding when another defendant in copending litigation could force the PTAB to revisit the same issues again in the future.

For example, in the above-referenced *Interthinx CBM*, the PTAB made note of a copending litigation involving another party capable of filing a CBM petition for the patent at issue when providing context for its decision to proceed to a final written decision in spite of a settlement. See *Interthinx, supra* at p. 2 (“Patent Owner has identified ongoing litigation concerning the subject patent captioned *CoreLogic Solutions LLC, v. Redfin Corp.*, Civil Action No. 2:12-CV-305 (E.D. Tx.). Under these circumstances, the Board determines ...”). Notably, the other party to which the PTAB referred (*Redfin Corp.*) filed a nearly

identical CBM petition three days prior to the PTAB's decision. See *Redfin Corp. v. CoreLogic Solutions LLC* (CBM2014-00027), Paper 10, p. 2 (Nov. 9, 2013).

Another factor, though discussed with far less frequency, is whether the patent owner has filed a motion to amend the claims. In *Apotex Inc. v. Alcon Pharmaceuticals Ltd.* (IPR2013-00012), the PTAB specifically noted the patent owner "did not file a Motion to Amend" in support of their decision to completely terminate the IPR. *Apotex Inc. v. Alcon Pharmaceuticals Ltd.* (IPR2013-00012), Paper 73, p. 2 (Nov. 15, 2013). On the other hand, in *Blackberry Corp. v. Mobilemedia Ideas LLC* (IPR2013-00016), the PTAB highlighted the patent owner's motion to amend the claims in deciding to proceed to a final written decision. See *Blackberry Corp. v. Mobilemedia Ideas LLC* (IPR2013-00016), Paper 31, pp. 2-3 (Dec. 11, 2013).

### **Weigh All the Risks**

What is the takeaway for participants in these AIA post-grant proceedings? By waiting until later in a proceeding, particularly after all of the primary responses and replies have been submitted and the written record has been established, there is an increased risk the PTAB will proceed to a final written decision despite a settlement between the parties. In these cases, while the patent owner may benefit slightly from the absence of an adversary in the oral argument or any Federal Circuit appeal, its patent remains at risk despite the settlement.

By contrast, the petitioner is dismissed from the proceeding, alleviating it of estoppel under section 315(e) or 325(e). 35 U.S.C. 317(a) ("If the [proceeding] is terminated with respect to a petitioner under this section, no estoppel under section 315(e) shall attach to the petitioner, or to the real party in interest or privy of the petitioner, on the basis of that petitioner's institution of [the proceeding]."). Thus, while a late-stage settlement will almost certainly benefit petitioner, its benefit to the patent owner may be marginalized.

Accordingly, a patent owner would be well advised to recalibrate the benefits ordinarily associated with settlement when evaluating late-stage settlement offers, noting the likelihood of disproportionate benefits for the petitioner in settling. Moreover, to the extent a patent owner is interested in settlement, it should attempt to instigate the settlement as early in the proceeding as possible to maximize the chances of complete termination of related post-grant proceedings. While the risks of a late-stage settlement can be managed — for example, by making settlement contingent on complete termination of the proceeding by the PTAB — an unwary patent owner is gambling with its patent rights.

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