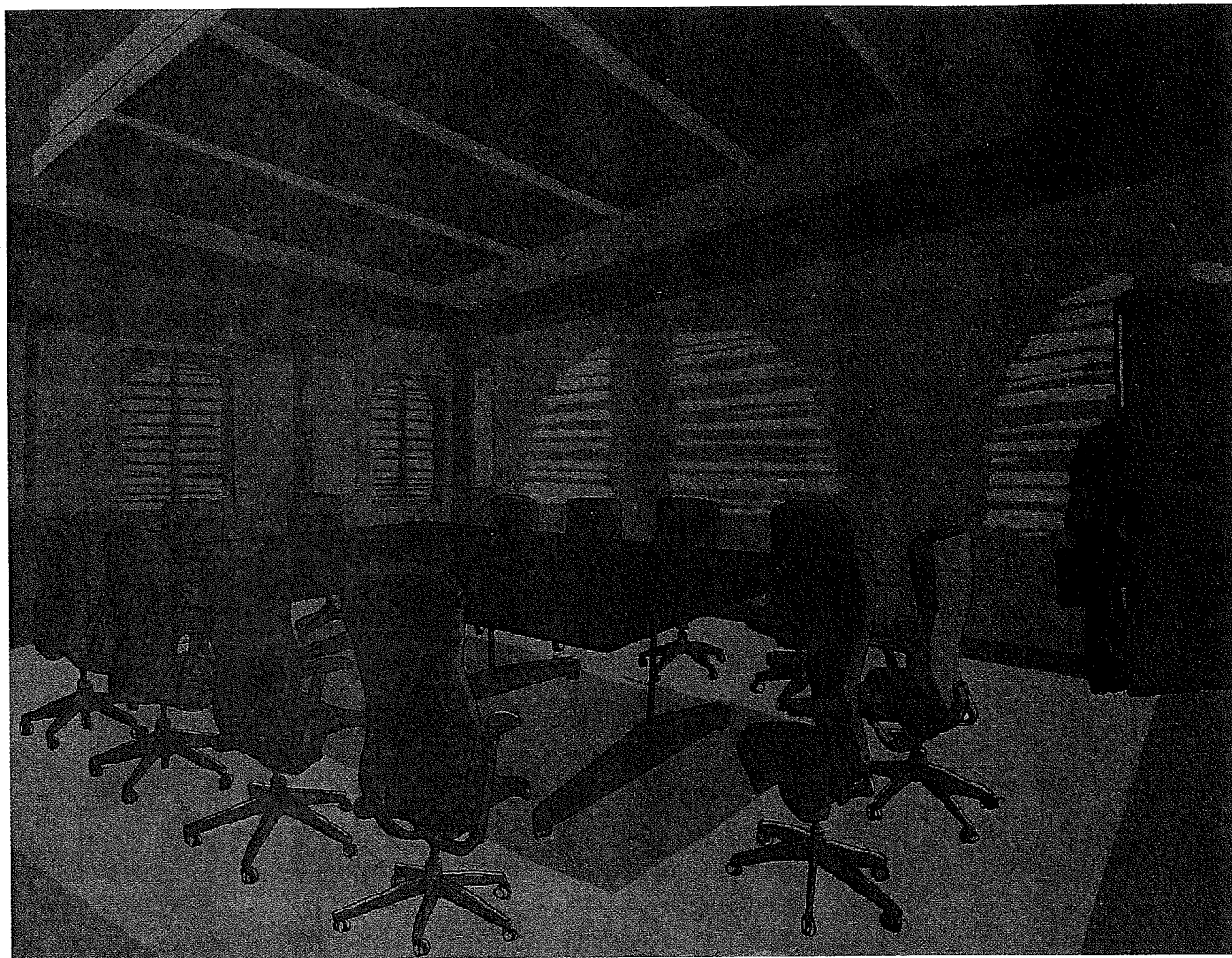


GOODBYE PATENT ARBITRATION?

Cheaper and faster alternatives may spell the end for a popular solution.

BY CHARLES W. SHIFLEY



Patent dispute resolution has been trending into arbitration, while arbitration has been looking like litigation. But now patent reviews through the U.S. Patent and Trademark Office (PTO) offer the fast, cheap proceedings that arbitration is supposed to provide—and they just may kill the old way of arbitrating those disputes.

According to the American Arbitration Association, in its rules for patent disputes, “a growing number of intellectual property disputes are arbitrated [by the AAA] each year.” Several milestone events encouraged this trend. President Ronald Reagan signed legislation that became 35 U.S.C. 294 in 1983, authorizing federal courts to enforce agreements to arbitrate, whether

made in advance or at the time of any patent disputes. A National Patent Board, now merged with the AAA, was organized by corporate lawyers in 1998. The board offered a six-month schedule, one-day hearings with briefs, a pretrial conference, oral argument and a decision by patent lawyers. The Federal Arbitration Act, 9 U.S.C. Sections 1-14, enacted in 2000, made arbitration awards of all types, including patent, subject to only limited review by courts. In 2004 one author wrote that patent arbitration had become a highly utilized alternative to patent litigation.

In 2006 the AAA rules for patent disputes took effect. The AAA asserted that arbitration has the advantages of relative speed and economy, privacy, reduced likelihood of damage to

ILLUSTRATION BY MATT ROTA

ongoing business relationships, ease of enforcement in the international context and the ability of the parties to customize the process and select arbitrators who are experts familiar with the subject matter of the dispute.

Those rules, however, ran contrary to speed and economy. After selection of arbitrators, a hearing is held with a resulting scheduling order. The order is to require initial disclosures of asserted patent claims, initial exchanges of (a) preliminary infringement contentions of literal and equivalent infringement; (b) preliminary invalidity contentions of anticipation and obviousness; (c) charts of accusations; and (d) several groups of documents. These include conception, on sale and prior art documents, followed by a patent claim construction process and hearing, identification of experts and exchange of experts reports, discovery deadlines, a protocol for introducing sworn statements and deposition testimony, a prehearing conference, a hearing and, if desired, a reasoned award.

The procedures are much like those required by the local patent rules common in patent-heavy federal courts. They front-load cases with high expenses by requiring thoroughly prepared initial exchanges at the risk of being blocked from introducing evidence not in the disclosures, and by taking early positions with which experts may later disagree.

But here's the good news. The America Invents Act of 2011 has given the "Pea-Tab"—the Patent Trial and Appeal Board (PTAB) of the PTO—quasi-trial-like, and rocket-docket-like, jurisdiction over issued patents. The PTAB cannot decide issues of infringement, but it can judge that patents and their claims are unpatentable in judgments the PTO will respect by canceling both patents and claims. As a result, since late 2012, 1,100 petitions for PTAB reviews of patents have been filed. In the first half of 2014, filings increased 125 percent over the total filings in 2013.

PTAB proceedings like this come in three flavors: inter partes reviews (IPRs), postgrant reviews (PGRs) and covered business method reviews (CBMs). All three are intended to begin and end in about 12 months. They are implemented after a challenger files a petition, which is unlike a federal court complaint and

detailed in specifics similar to a patent case summary judgment motion. The patent owner may or may not respond. The PTAB will next decide whether to institute the proceeding based on the petition, by determining, for an IPR, whether there is a reasonable likelihood of success, and for a PGR or CBM, whether success is more likely than not. A scheduling order will enter, and the "trial" will have begun.

If the patent owner chooses, he or she responds to the petition, and/or moves to amend the patent, typically within three months. Direct testimony is by affidavit. If the patent owner wants to take cross-examination depositions, this is the period for them. An equal petitioner's period for

The PTO's Patent Trial and Appeal Board has "rocket-docket-like" jurisdiction over issued patents. And filings are way up.

similar depositions follows. Wide-ranging discovery is blocked. More activities and due dates follow closely. Once these are complete, the quasi-trial concludes, typically, with an oral argument. Judgment soon follows, if the dispute has not been settled, and confirms claims or concludes they are not patentable.

Compared to arbitration, PTAB proceedings certainly have benefits for patent challengers. Perhaps foremost, the PTAB decisions to date have held many patent claims unpatentable. There is no baby-splitting or decision-dodging on patent validity with the PTAB. Plus, canceled claims cannot be infringed. While petition filing fees run into the low tens of thousands of dollars, in PTAB proceedings, no arbitrators are charging hourly fees comparable to those of well-paid lawyers for case management, discovery and other interim dispute resolutions—not to mention claim construction deliberation and hearings; live-witness days-long trials; case decision making and "rational decision" writing.

The parties' counsel are also not engaged in a wide-ranging set of disputes, motions and paper filings—all made possible, and in many instances required, by either the AAA patent rules or arbitrators who like them. Also, PTAB judges are typically well-trained, experienced patent

lawyers who are also "precedent-attuned" and in their primes. Furthermore, patent owners cannot assert that invalidity must be proven by clear and convincing evidence, or that their patents must be presumed to be valid. And in the event of losses, design-arounds of patent claims may be made much easier by binding statements of patent owners about the limits of their inventions during the proceedings.

For patent owners, there are also benefits. PTAB judges follow PTO approaches to the patent law. For example, PTAB judges often give little respect to extravagant arguments about what was known in the fields of the inventions when not proven by cold, hard evidence. Challeng-

ers who fail in PTAB proceedings also do not get second bites at patent validity; they are blocked, in most situations.

So, what will the future hold for the resolution of patent disputes? Arbitration agreements are made in both forward-looking, blanket forms by parties in long-term relationships, and in "one-off" forms by parties to flared-up disputes. Parties in both types may see arbitration agreements, however, as forcing them to stay away from the best forum for their disputes—the PTAB. That is because parties may not resort to PTAB proceedings when federal law forces them to resolve patent disputes exclusively in arbitration.

The upshot of the rise of PTAB proceedings may be, then, that in the near future the arbitration of patent disputes withers away and dies. Arbitration agreements that might have been made will go unmade, or will exempt patent disputes from arbitration. PTAB proceedings may take over the role of arbitration for those who want nonlitigation resolutions of their patent disputes.

Charles W. Shifley is a principal in Banner & Witcoff Ltd.'s Chicago office. He has served as lead and cocounsel in numerous successful IP trials and appeals for Fortune 100 (and other) companies nationwide.