



## EFFECT ON SETTLEMENT OF POST-GRANT PATENT REVIEW PROCEEDINGS

By James M. Amend, Esq.

The recent America Invents Act both modified and created procedures for challenging patents in proceedings before the United States Patent and Trademark Office (PTO) after they have been issued, which are called post grant reviews (PGRs). These include inter partes review (IPR) procedures, typically challenging validity based on prior art, and covered business method (CBM) challenges based on assertions that what is claimed is unpatentable subject matter. Very frequently, these proceedings are invoked by parties who have been sued for patent infringement, and proceed in parallel with the District Court infringement proceedings.

There are several reasons for the popularity of PGRs with infringement defendants. First, most challenges pass the initial threshold in the PTO, which is a finding that a sufficient question has been raised (*a prima facie* case) as to patentability. It is estimated that more than 80 percent\* of the PGRs filed are accepted for review on the merits by the PTO. Second, the standard for invalidation in the PTO is lower than in courts. In the former, it is preponderance of the evidence, while in the courts, invalidity must be shown by clear and convincing evidence, as required by 35 USC Sec. 282. As a result, so far, approximately 81 percent\* of the PGRs have resulted in the invalidation of some or all of the challenged patent's claims, which is considerably higher than as a result of patent infringement litigation. In addition, if the PGR is filed early enough in the litigation, it may be possible to obtain a stay order from the District Court pending the outcome of the PGR. PGRs, in addition to the more favorable invalidity standard for the challenger/defendant, are far less expensive for it than typical infringement cases, and still leave it with infringement defenses if the PGR ultimately fails.

A potential downside to the filing of a PGR is that it might work against the settlement of the underlying dispute. It should be kept in mind that more than 80 percent of patent infringement cases are resolved through settlement, in

part because of the very high cost of such litigation and the uncertain outcome of critical issues like claim construction. Anything that acts as an impediment to settlement threatens to increase the burden on overworked District Courts and provides a barrier to an avenue of resolution that parties frequently use to dispose of otherwise protracted and expensive patent litigation.

The relatively recent decisions of the PTO in the matter of *Interthinx, Inc. v. CoreLogic Solutions* illustrate the potential problem that PGRs pose for settlements. 35 USC Sec. 327(a), recently added to the Patent Act by the America Invents Act, provides that a PGR can be terminated by agreement of the petitioner and the patentee, but that even if no petitioner remains, the PTO may terminate the PGR or proceed to a final written decision on the validity of the patent. That is, it is within the PTO's discretion to decide whether or not to end the PGR despite the parties' agreement not to continue it, pursuant to settlement. For example, *Interthinx* involved an infringement suit based on a patent that covered computer-implemented methods for appraising real estate. During the pendency of the suit, defendant CoreLogic filed for a PGR based on the allegation that the patent was for an unpatentable business method. The PTO instituted PGR proceedings. Before the PGR was concluded, the infringement suit was tried in front of a jury, which found the patent not invalid, but not infringed, and the verdict was upheld on post-trial motions. Thereafter, the parties settled and, pursuant to the settlement agreement, petitioned the PTO to terminate the PGR proceedings, which were not yet concluded. However, the PTO refused to terminate the PGR. This was because (1) the PGR was at an advanced stage; (2) infringement suits based on the patent were pending against other defendants; and (3) CoreLogic did not further prosecute the PGR or attend the oral argument. Despite the fact that the patent was found not invalid in the District Court, it was later found invalid by the PTO. The PTO found that it was not bound by *res judicata* or collateral estoppel based on the

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validity judgment in the District Court because it was not a party to those proceedings and it reviewed validity under a different standard than the Court.

Obviously, the patentee, Interlogix, was surprised and unhappy that despite its settlement containing an agreement to dismiss the PGR, the PTO refused to dismiss it and proceeded to find its patent invalid. This represents a cautionary tale for patentees who settle a case where there is a co-pending PGR. Even if the defendant agrees to cooperate in petitioning for dismissal and to not participate further, there is no guarantee that the PTO will dismiss the PGR; therefore, the patent may still be in jeopardy. Whether this results in fewer settlements where there is a PGR pending remains to be seen, but that result would seem to follow.

What can the parties do to attempt to prevent a PGR from impeding settlement? First, the defendant can give the patentee notice of its intent to file a PGR before actually doing so, and the parties can attempt to negotiate settlement before one is filed. It might be wise to delay the ringing of the bell because it may not be unrung. However, there is also some pressure on the defendant to file a PGR as soon as possible if it intends to move the District Court to stay the infringement suit pending completion of the PGR.

Second, if a PGR is already on file, a settlement—if one is to be negotiated—should be done before the PGR proceeds too far. Finally, the patentee might be wise to defer filing additional suits under a patent subject to a PGR until after a settlement and a petition to dismiss the PGR pursuant to the settlement has been filed and ruled upon. The pendency of additional suits was a factor in *Interthinx* used by the PTO to refuse to dismiss the PGR filed pursuant to settlement. ■

*\* Recent trends have shown these numbers declining as the PTO and the parties to PGR's have more experience with the procedures.*

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