CHAPTER 1

Introduction and Background of ADR

To put everything in balance is good, to put everything in harmony is better.
—Victor Hugo
The U.S. Patent and Trademark Office (USPTO) announced in early 2016 that it would encourage participants to use alternative dispute resolution (ADR) processes during post grant proceedings. Typical ADR proceedings include arbitration, mediation, expert determination, and early neutral evaluation. Each of these proceedings involves a neutral, such as an arbitrator or a mediator, as a decision maker. Some neutrals are retired judges and/or subject matter experts. This book will describe the expanding role that neutrals and ADR proceedings may play for resolving intellectual property (IP) disputes. Particular attention is paid to the use of ADR to resolve IP disputes that include proceedings at the USPTO.

Use of customizable ADR proceedings is becoming more prevalent to facilitate resolution of conflicts that have become exceedingly complex. In order to sort through the various levels of complexity, a customized ADR process may be a preferred proceeding. Also the ability to select neutrals with subject matter expertise makes ADR more desirable than traditional dispute-resolution processes, such as litigation. This book will describe how neutrals can be engaged to help parties more efficiently resolve IP conflicts. The use of mediation and arbitration during proceedings at the Patent Trial and Appeal Board (PTAB) is covered. In addition, potential new ADR processes—such as alternative licensing resolution and patent small claims court resolution systems—that could be used to streamline patent assertion and monetization efforts are discussed.

Assertion of IP to protect technology can raise many complex and challenging issues. Patents provide a means of disseminating crucial technological information and help patent owners to protect their inventions. The
intersection between patent law and technology raises many complex issues. Some of those issues are not efficiently addressed by judges or courts when disputes arise. Using new ADR processes and qualified neutrals to resolve complex IP disputes can streamline such challenging matters.

The flexibility and benefits of ADR proceedings are based on the experience of a qualified neutral. Many highly experienced IP attorneys and former judges and magistrates are available to help evaluate IP issues. Many of these potential neutrals also have subject matter expertise in many areas that can match with the technology issues present in ongoing IP conflicts. Leveraging such experience and qualifications during a carefully planned ADR proceeding can help resolve IP conflicts in a manner much more streamlined than a PTAB proceeding. By carefully considering the timing and procedural advantages of ADR proceedings from arbitration, mediation, early neutral evaluation (ENE), expert determination, alternative licensing resolution (ALR), or an opinion service, the most beneficial ADR process may be selected. Pairing the right ADR process with an appropriate neutral can provide the proper setting in which to resolve even the most challenging and complex IP disputes.

**Overview of Types of ADR**

*Alternative dispute resolution* refers to mediation, arbitration, or some hybrid type of process that would include early neutral valuation or expert determination. Those processes could include parts of mediation or arbitration.
As you well know, mediation is a settlement conference. Usually mediation takes a single day and the mediator will help the parties focus on settling the case. On the other hand, arbitration is more of a mini-trial. Arbitration culminates with an award that provides an opinion regarding some issues in the case but may not necessarily focus on settlement or use of the neutral to negotiate a settlement.

Proceedings at the USPTO PTAB have a high level of complexity. PTAB procedures, such as the inter partes review (IPR), covered business method (CBM) proceeding, or post-grant review (PGR) are complicated due to the expedited timeline of those procedures. Also, dealing with technology issues present in all patent disputes adds to the level of complexity. Combining these issues with the procedural context of ADR proceedings leads to further complexity. As a result, it is recommended that you find an experienced practitioner to help you set up and develop the right ADR process to resolve your IP dispute.

Parties should keep in mind the high level of flexibility that ADR processes provide. When parties work together to customize an ADR process based on the specific facts of an IP conflict, such as a PTAB proceeding, it is more likely that a streamlined resolution may be obtained. Each PTAB proceeding has its own set of issues, and each ADR process should be customized with respect to those PTAB proceeding issues in mind.

If you have seen American Ninja Warrior on TV, the participants are young, fit athletes who race to the finish through a difficult obstacle course during each episode. Similarly, navigating through all the issues to set up a
successful process at the PTAB will take additional skills beyond a typical patent litigator. So you should plan the ADR with someone like an ADR “ninja warrior,” who can avoid slipping off the swinging ropes course and getting your case all wet. Engaging an attorney who has some skill and experience with ADR is important.

**Development of Use of ADR at the PTAB**

During the summer of 2015, there were many meetings between PTAB judges to discuss the ADR process and whether it could be useful to resolve PTAB proceedings. These meetings were spurred by a resolution promulgated in February 2015 by the American Bar Association (ABA) IP Section to promote the use of ADR during PTAB proceedings. The ABA resolution states:

RESOLVED, that the Section of Intellectual Property Law of the American Bar Association favors, in principle, consideration of alternative dispute resolution (ADR) policies and procedures by the United States Patent & Trademark Office (USPTO) Patent Trial and Appeal Board (PTAB). SPECIFICALLY, the Section favors that the PTAB consider promulgating ADR policies and procedures (for use in a pilot program) to aid in the efficient and early resolution of contested proceedings, reduce administrative burden, appeals to the Court of Appeals for the Federal Circuit and cost for the parties involved in contested proceedings at the USPTO.
The ADR Committee of the ABA IP Section helped to provide information and resources to the PTAB so that it could analyze and investigate the benefits of the use of ADR at the PTAB. A meeting was held at the satellite office of the USPTO in San Jose, California, in which IP stakeholders from the Bay Area attended. As a result of that meeting and previous meetings, the USPTO determined that it would encourage parties to use some type of ADR when there was settlement afoot during PTAB proceedings.

One of the motivating factors to encourage use of ADR is the success of the IPR process at the PTAB. IPRs have become a very popular mechanism for accused infringers to challenge patents. That process, along with the other PTAB processes, is targeted to be completed in a year. In view of the short time frame to complete a detailed determination, such as an IPR, it has become a less costly alternative to district court litigation. The popularity of IPRs has led to concern that PTAB judges may become overloaded. Due to the increasing case load of PTAB judges, there has been motivation to try to settle cases earlier, before trial, to save some of the resources of the patent office. Use of ADR is one means of sorting out some of the PTAB cases that do not warrant a full PTAB trial.

As a result of the overloading concern, the PTAB has developed a notice sheet to encourage the use of ADR. Figure 1.1 shows the form that will be issued by the patent office at the beginning of a PTAB proceeding. Once the petition for IPR, CBM, or PGR is submitted, this form will be mailed to the participants in order to encourage parties who are considering settlement to consider ADR.
The USPTO suggested potentially contacting the CPR Institute for Dispute Resolution, the American Intellectual Property Law Association (AIPLA), the World Intellectual Property Organization (WIPO), and the American Bar Association (ABA).

Figure 1.1

The Patent Trial and Appeal Board (PTAB) strongly encourages parties who are considering settlement to consider alternative dispute resolution as a means of settling the issues that may be raised in an AIA trial proceeding. Many AIA trials are settled prior to a Final Written Decision. Those considering settlement may wish to consider alternative dispute resolution techniques early in a proceeding to produce a quicker, mutually agreeable resolution of a dispute or to at least narrow the scope of matters in dispute. Alternative dispute resolution has the potential to save parties time and money.

Many non-profit organizations, both inside and outside the intellectual property field, offer alternative dispute resolution services. Listed below are the names and addresses of several such organizations. The listings are provided for the convenience of parties involved in cases before the PTAB; the PTAB does not sponsor or endorse any particular organization’s alternative dispute resolution services. In addition, consideration may be given to utilizing independent alternative dispute resolution firms. Such firms may be located through a standard keyword Internet search.

If parties to an AIA trial proceeding consider using alternative dispute resolution, the PTAB would like to know whether the parties ultimately decided to engage in alternative dispute resolution and the reasons why or why not. If the parties actually engage in alternative dispute resolution, the PTAB would be interested to learn what mechanism (e.g., arbitration, mediation, etc.) was used and the general result. Such a statement from the parties is not required but would be helpful to the PTAB in assessing the value of alternative dispute resolution to parties involved in AIA trial proceedings. To report an experience with ADR, please forward a summary of the particulars to the following email address: PTAB_ADR_Comments@uspto.gov

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These organizations have standing rosters of neutrals, such as mediators or arbitrators, and can be very helpful in identifying a neutral for your process. There are also other organizations you can consider for ADR services, such as the International Trade Commission (ITC). The ITC can also provide a roster of neutrals. Also, Judicial Arbitration and Mediation Services (JAMS) is a very popular arbitration and mediation provider. Finally, the Court of Appeals for the Federal Circuit has an ADR process and a roster of neutrals. Many other organizations can be found by searching the Internet for “ADR.”

**AIA Establishes IPR, CBM, and PGR for the PTAB**

There are three different types of proceedings at the PTAB: IPR, CBM proceedings, and PGR. All of those proceedings have in common a one-year duration target according to the America Invents Act (AIA), instituted by President Obama in 2011. The one-year timeline is measured following the Institution decision. Due to the short time frame required under the AIA law, it is unlikely that a PTAB judge would allow any stay of PTAB proceedings while the parties are attempting to settle by undertaking an ADR process.

As a result, it is important that the ADR process be completed quickly, so that the traditional PTAB process can continue on its normal timeline. As well, IPRs, CBMs, and PGRs deal with patentability issues. Since patentability is a primary issue in the PTAB proceedings, it may be important to also deal with patentability during the ADR process. As a result, the parties may
wish to establish a hybrid-type ADR process, such as Early Neutral Evaluation (ENE), so that a neutral may provide some input regarding patentability (e.g., validity), in addition to facilitating settlement negotiations, vis-à-vis a mediation-type proceeding. A traditional mediation typically would not provide any evaluation or decision regarding patentability, so the parties may wish to modify the mediation process to insert some substantive review and feedback from the neutral.

In promulgating rules for the PTAB trial proceedings, the aim of the Board was to fulfill the legislative intent of the AIA, to create a timely and cost-effective alternative to litigation. Because the PTAB trials themselves were seen as a type of ADR to resolve corresponding, ongoing federal district court litigation, adding further ADR proceedings at first blush may seem somewhat redundant. PTAB proceedings may provide a lot of the same benefits or advantages that arbitration provides. For example, the judges are expert in patent law and also have a technical background that often matches the technology of the case. The PTAB provides relative speed and less cost and more economy than a full district court litigation. Also a PTAB proceeding provides ease of enforcement.

However, PTAB trial proceedings have a narrow focus on patentability and validity. They will not directly resolve the other disputes present in a district court proceeding, such as infringement, inequitable conduct, inventorship, ownership, or essentiality issues (e.g., whether a patent is essential for complying with a standard). The PTAB cannot resolve all those other issues because of its limited jurisdiction to determine patentability of challenged claims. The PTAB cannot
adjudicate other issues pending in a corresponding district court litigation, such as whether patent claims are infringed. Hence, the use of ADR during a PTAB proceeding can help reintroduce those other issues in order to help the parties reach a resolution of the entirety of the IP conflicts at issue.

PTAB Trial Volume Increasing

PTAB statistics show the popularity of AIA post grant proceedings: 6,510 total PTAB petitions have been filed as of February 28, 2017. The PTAB instituted 871 out of 1,565 IPR petitions filed in fiscal year 2016 (55.6 percent). As of February 28, 2017, 4,345 IPR petitions were filed and 1,494 were completed through trial (34.3 percent).

The continued growth of IPRs demonstrates the success of these proceedings. Parties continue to file high numbers of IPRs in order to short-circuit the district court litigation process to reduce costs. Such motivation to reduce costs will also spur the use of ADR during PTAB proceedings. With respect to 6,510 PTAB petitions filed, the statistics underscore the need for ADR at the PTAB. While a PTAB trial costs far less than a district court trial, the attorney’s fees for a PTAB trial alone may still surpass six figures. By exploring settlement options through ADR, prior to a PTAB trial, parties may further reduce expenses. Also, since the PTAB trial may only resolve the patentability issues, an ADR process is also desirable since it may resolve all issues between the parties (especially where a district court proceeding may be “un-stayed” and be re-instituted following conclusion of the PTAB proceedings).
One important reason for the popularity of PTAB proceedings is their relatively short duration. Figure 1.2 illustrates the twelve-month maximum time frame for PTAB proceedings. Under the AIA rules, each IPR, CBM, and PRG must be completed within twelve months following the institution decision. Only under special circumstances may the proceeding extend beyond twelve months. This is an aggressive timeline considering that each of the following steps in the proceeding must occur:

1. Patent owner preliminary response to petition
2. Institution decision from the PTAB
3. Patent owner response
4. Motion to amend claims
5. Petitioner reply to patent owner
6. Opposition to motion to amend
7. Patent owner reply to opposition to amendment
8. Oral hearing
9. Final written decision from the PTAB

While the parties must pay their patent attorneys significant fees to accomplish the condensed actions within a year, as depicted in figure 1.2, PTAB proceedings are

Figure 1.2
still much less costly and take less time to complete than a typical patent infringement suit in a district court.

More Than 400 PTAB Trials Have Settled

As of February 28, 2017, 413 IPRs, 26 CBMs, and 1 PGR have been settled prior to completion of the PTAB trial process.\(^1\) If the USPTO were to study the circumstances surrounding such settlements and the settlement agreements filed (under terms of confidentiality) with the PTAB, particular indicia could be identified that appear to lead to settlement of IPR or CBM trials. In particular, an analysis of why cases having parallel district court proceedings (“dual-path cases”) have settled at the PTAB may provide guidance for establishing PTAB ADR processes that may be more successful than district court ADR processes. Over 80 percent of AIA trials have parallel district court proceedings. So, to some extent, a PTAB trial may be used as a dispute-resolution process with respect to the district court litigation. Also, many of the more than 413 PTAB settlements include dual-path cases.

Most of these PTAB settlements have occurred prior to the institution of the ADR program by the USPTO. Presumably, many of the 413 settlements occurred in private settlement discussions instituted among the parties.

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