

# NOTES

## THE EFFECT OF ARBITRATION AGREEMENTS ON THE AMERICA INVENTS ACT'S INTER PARTES REVIEW PROCEDURE

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*In 2011, Congress created a new administrative pathway through which a party can challenge the validity of a granted patent: inter partes review (IPR). Like preexisting reexamination procedures, IPR is a mechanism through which a private party may ask the U.S. Patent and Trademark Office (PTO) to invalidate or narrow patents that fail to meet the standards of patent eligibility, thus returning subject matter to the public domain and protecting would-be patent infringers from the threat of costly infringement litigation. However, unlike the preexisting procedures, which were essentially extensions of the patent review process involving a back-and-forth between the PTO and the patent holder, IPR is adversarial in nature—an IPR is essentially a “mini-trial” between a challenger and a patentee.*

*Because the new IPR procedure closely resembles litigation between private parties, it may be possible for patent licensees to contract away their right to petition for IPR through arbitration agreements. And because patent licensees may often be the parties most incentivized and prepared to challenge bad patents through IPR, patent owners who can contractually prevent these licensees from using IPR will be able to minimize or even entirely avoid exposure to the risky and challenger-friendly new IPR procedure.*

*The enforceability of an arbitration agreement purporting to prevent a licensee from petitioning for IPR is unclear. This Note explores this doctrinal ambiguity and questions whether applying the strong federal policy in favor of arbitral dispute resolution to this issue would undermine the congressional intent behind Congress's new IPR procedure.*

### INTRODUCTION

Before 2011, challenging the validity of a patent that had been approved and issued by the U.S. Patent and Trademark Office (PTO) could be accomplished through two basic paths: First, the challenger could fight the patent in district court, either in response to an infringement suit brought by the patentee or as a declaratory judgment

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action.<sup>1</sup> Second, the challenger could take advantage of an administrative pathway that Congress has set up to allow third parties to request that the PTO reexamine patents on the basis of new evidence.<sup>2</sup> Congress created these administrative pathways based on the long-recognized fact that “imperfections exist in the [PTO] examination and issuance process,” which often result in issued patents that require further examination.<sup>3</sup> The administrative procedure of reexamination allowed the PTO to have a “second look” at patents after issuance and to “withdraw improperly granted patents, thereby [permitting it to] correct[] its previous errors at a much lower cost than litigation.”<sup>4</sup> The basic structure of these administrative procedures invites any party to submit new prior art to the PTO, which may in turn respond by reexamining the patent in light of the new evidence.<sup>5</sup> Importantly, these procedures were, in the past, primarily examinational in nature rather than adversarial: While a third party may have submitted the new evidence to the PTO, the PTO and the patent holders typically conducted the proceedings without significant participation from the party who originally submitted the evidence.<sup>6</sup>

In 2011, Congress passed the Leahy-Smith America Invents Act (AIA),<sup>7</sup> which created three new procedures through which issued patents could be challenged at the PTO: inter partes review (IPR),<sup>8</sup> post grant review (PGR),<sup>9</sup> and covered business method review (CBM).<sup>10</sup> One of the key features of these new procedures was the shift from an

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1. See Declaratory Judgment Act, 28 U.S.C. §§ 2201–2202 (2012); see also Lisa A. Dolak, Declaratory Judgment Jurisdiction in Patent Cases: Restoring the Balance Between the Patentee and the Accused Infringer, 38 B.C. L. Rev. 903, 910 (1997) (discussing the Declaratory Judgment Act and its subsequent interpretation by the Federal Circuit).

2. See, e.g., 35 U.S.C. § 302 (2012) (“Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited . . . .”); American Inventors Protection Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501A-552, 1501A-567 (creating an inter partes reexamination procedure), amended by Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 6(a), §§ 311–318, 125 Stat. 284, 299–304 (2011) (codified as amended in scattered sections of 35 U.S.C.).

3. Joanna Shepherd, *Disrupting the Balance: The Conflict Between Hatch-Waxman and Inter Partes Review*, 6 N.Y.U. J. Intell. Prop. & Ent. L. 14, 28 (2016).

4. *Id.* at 28–29.

5. *Id.* at 29 (“Ex parte reexamination . . . allows anyone . . . to request reexamination of a patent. The request can be made at any time during the life of a patent, but the reexamination is limited to issues of obviousness and novelty on the basis of prior art consisting of patents or printed publications.” (footnote omitted)).

6. See H.R. Rep. No. 112-98, pt. 1, at 46–47 (2011) (describing the pre-2011 administrative proceedings as “examinational” in nature); see also 35 U.S.C. § 305 (“[R]eexamination will be conducted according to the procedures established for initial examination . . .”).

7. Pub. L. No. 112-91, 125 Stat. 284 (2011) (codified as amended in scattered sections of 35 U.S.C.).

8. See 35 U.S.C. §§ 311–319.

9. *Id.* §§ 321–329.

10. Leahy-Smith America Invents Act § 18.

“examinational [proceeding] to an adjudicative proceeding.”<sup>11</sup> Under the new IPR procedure, the PTO, through its administrative law body, the Patent Trial and Appeal Board (PTAB), conducts “mini-trials” that rely on the direct involvement of the patent challenger during the proceeding.<sup>12</sup> Thus, the patent challenger adopts a role more similar to the role of a litigant in court.

For the past three decades, the U.S. legal system has welcomed the resolution of patent issue disputes through arbitration as an alternative to court litigation.<sup>13</sup> The embrace of patent arbitration in the United States falls in line with a general trend toward adoption of arbitral dispute resolution in all areas of U.S. law—described by the Supreme Court as an “emphatic federal policy in favor of arbitral dispute resolution.”<sup>14</sup> The benefits of arbitration—the ability to customize and design the procedure before disputes occur, the limited avenues for appeal, and the ability to select an experienced fact-finder to resolve the dispute—are uniquely well suited for patent disputes, which can be very costly, time-consuming, and risky to resolve in court.<sup>15</sup> In most cases,

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11. H.R. Rep. No. 112-98, pt. 1, at 46–47.

12. See Mark Consilvio & Jonathan R.K. Stroud, *Unravelling the USPTO’s Tangled Web: An Empirical Analysis of the Complex World of Post-Issuance Patent Proceedings*, 21 *J. Intell. Prop. L.* 33, 55 (2013) (“The most substantial modification to the inter partes procedure is that inter partes review replaces the paper administrative procedure of reexamination with a mini-trial conducted by a panel of three administrative patent judges—complete with discovery and depositions.”). In an IPR proceeding, the challenger is invited to present arguments and evidence, to file additional written comments in response to the patentee’s submissions, and to state its case during an oral hearing. See 35 U.S.C. § 312(a)(3) (requiring the IPR petitioner to identify “in writing . . . each claim challenged, the grounds on which [each] challenge to each claim is based, and the [supporting] evidence . . . including—(A) copies of patents and printed publications that the petitioner relies upon . . . and (B) affidavits or declarations of supporting evidence and opinions”); *id.* § 316(a)(13) (awarding the petitioner “at least 1 opportunity to file written comments”); *id.* § 316(a)(10) (awarding the petitioner an opportunity to present its case at an oral hearing). The other two administrative proceedings established by the AIA, CBM review (which is a provisional program that applies only to business method patents) and PGR (which covers challenges during the first nine months of a patent post-issuance), are not the focus of this Note.

13. See 35 U.S.C. § 294(a) (authorizing the voluntary arbitration of patent infringement disputes); see also *id.* § 135(f) (originally enacted as Patent Law Amendments Act of 1984, 95 Stat. 3383, 3385) (expanding the scope of arbitration to patent interferences).

14. *Marmet Health Care Ctr. v. Brown*, 565 U.S. 530, 533 (2012) (*per curiam*); see also *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 28 (1991) (noting that statutory claims, like those brought under the Sherman Antitrust Act, which “are designed to advance important public policies,” are “appropriate for arbitration”); *infra* notes 105–113 and accompanying text (noting that since the 1980s, the Court has supported the use of arbitration in a variety of public-law contexts, rejecting the argument that some claims are by nature ineligible for arbitration).

15. Peter L. Michaelson, *Patent Arbitration: It Still Makes Good Sense*, *Landslide*, July–Aug. 2015, at 42, 43 (noting that “once properly configured, an arbitral process can yield substantial cost and time efficiencies, along with other benefits unavailable through

arbitration of patent disputes happens when a dispute arises between a patent owner and a patent licensee who have previously signed a patent-licensing agreement that stipulates that they must resolve any disputes related to the underlying patent through binding arbitration.<sup>16</sup>

The aforementioned shift in the character of PTO post-issuance proceedings (from an examinational to an adjudicative model) may enable patent owners to prevent licensees from utilizing the new AIA-implemented, post-issuance proceedings on the basis of a licensee's agreement to resolve all disputes related to a particular patent through arbitration. Due to an exception to current arbitration doctrine, arbitration agreements do not preclude a bound party from utilizing a proceeding before an administrative agency (that is, a nonjudicial forum) that is investigatory and examinational in nature.<sup>17</sup> Two cases from the 1990s, *Gilmer v. Interstate/Johnson Lane Corp.*<sup>18</sup> and *Farrel Corp. v. U.S. International Trade Commission*,<sup>19</sup> affirmed that a party bound by an arbitration agreement is nonetheless still able to submit complaints and request investigation by an administrative agency, as long as the administrative procedures utilized follow a complaint-investigation structure, under which the party submitting the complaint has little to no involvement in the investigation (after the initial petition).<sup>20</sup> The pre-AIA reexamination procedures, which are very similar in structure to the procedures in the *Gilmer* and *Farrel* cases, were very likely still available to parties bound by arbitration clauses for this reason. However, the new, AIA-implemented post-issuance procedures may not be available to

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litigation"); *id.* at 45 (noting that "patent litigation suffers from a relatively high historic reversal rate on appeal" and that "[t]he finality of an arbitration award under the FAA eliminates all possibilities of such reversals"); *id.* ("[A]rbitration provides further significant benefits that are simply unavailable in litigation, including: avoidance of excessive or emotionally driven jury awards, ability to choose arbitrators with particular qualifications to cope with daunting and specialized issues of law and technology, avoidance of establishing legal precedents, relative confidentiality of the entire process . . .").

16. Anne Louise St. Martin & J. Derek Mason, *Arbitration: A Quick and Effective Means for Patent Dispute Resolution*, 12 N.C. J.L. & Tech. 301, 303 (2011) ("[M]ost arbitrations find their authority in arbitration clauses that are executed pre-dispute, which are often added to patent license agreements and research and development contracts."); see also *infra* section I.E (discussing *Ford v. Paice*, which involved two parties that signed a predispute arbitration agreement that was the basis of the dispute before the PTAB).

17. See *infra* notes 18–20 and accompanying text.

18. 500 U.S. at 28 ("An individual . . . claimant subject to an arbitration agreement will still be free to file a charge with the [administrative agency], even though the claimant is not able to institute a private judicial action.").

19. 949 F.2d 1147, 1153, 1155–56 (Fed. Cir. 1991) (finding that an arbitration did not release the administrative agency from a statutory obligation to investigate a violation), superseded by statute, Uruguay Round Agreements Act, Pub. L. No. 103-465, § 321(a)(2)(A), 108 Stat. 4809, 4943–44 (1994), as recognized in *InterDigital Commc'ns, LLC v. ITC*, 718 F.3d 1336, 1343 (Fed. Cir. 2013).

20. See *infra* section II.B (describing *Gilmer* and *Farrel* and the investigatory, nonadjudicative nature of the administrative procedures at issue in those cases).

parties bound by arbitration agreements because they are *not* characteristically investigational or examinational, and instead are much more similar to litigation and require continued participation from the complainant.

The possibility that the strong national policy favoring enforcement of arbitration agreements will apply to the new, adjudicatory post-issuance proceedings before the PTO may enable patent owners to dampen the use of these proceedings by forcing licensees to waive their rights to access these proceedings through arbitration agreements. Licensees are typically the parties with the most knowledge, capability, and financial motivation to challenge weak patents.<sup>21</sup> If arbitration agreements are allowed to operate as waivers of a licensee's rights to access these new post-issuance proceedings, the statutory structure envisioned by the AIA (under which interested parties call the PTO's attention to weak patents and the evidence that could be used to invalidate them) may be prevented from reaching its full effectiveness.<sup>22</sup>

This Note addresses the impact of an arbitration agreement binding two parties to resolve all patent-related disputes through arbitration on a bound party's ability to utilize the new post-issuance proceedings set up by the AIA. Part I introduces the concepts of patent arbitration and post-issuance proceedings; it also illustrates the conflict between the policy of enforcing arbitration agreements and the policy underlying the AIA's post-issuance proceedings. Part II examines the issue of whether an arbitration clause should be enforceable as a waiver of a party's recourse to administrative proceedings in light of the *Farrel* and *Gilmer* precedent set by the Federal Circuit and the Supreme Court, respectively, and applies the existing doctrinal logic to the AIA's IPR procedure. Finally, Part III argues on policy grounds that arbitration clauses should not be deemed waivers of a party's right to petition for IPR. Such a policy may prevent the parties most motivated to challenge patent validity by utilizing the AIA's procedures from doing so. Additionally, the PTO will inevitably encounter significant practical difficulties if it is required to enforce arbitration clauses in this context because of the permissive standing requirements set by the AIA's IPR statute.

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21. See *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (“Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.”).

22. See Maureen A. Weston, *The Clash: Squaring Mandatory Arbitration with Administrative Agency and Representative Recourse*, 89 S. Cal. L. Rev. 103, 110 (2015) (“Strict enforcement of arbitration clauses may deny access to administrative schemes otherwise established to address specific areas of public policy.”); *infra* section II.C.2 (describing the legislative history and intent behind the AIA).

## I. THE CONFLICT BETWEEN PATENT ARBITRATION AND POST-ISSUANCE REVIEW

This Part surveys the history and basic structure of both patent arbitration and post-issuance review proceedings at the PTO. It provides an explanation of the conflict between the broad federal policy favoring arbitration and the policy underlying the AIA's post-issuance procedures. Section I.A outlines two basic problems inherent to patent law relevant to both patent arbitration and post-issuance procedures: the PTO's administrative difficulty of properly examining the deluge of patent applications and the soaring cost of patent litigation. Section I.B explores the emergence of arbitration as a cheaper, faster alternative to litigation in the patent world. Section I.C outlines Congress's creation of post-issuance proceedings, focusing on IPR, as a "second chance" for the PTO to review weak patents. Section I.D discusses the intersection of arbitration agreements and these post-issuance proceedings and presents the problem of whether arbitration agreements can operate as waivers of a party's right to access the proceedings. Section I.E then provides an overview of the recent case of *Ford v. Paice*, the only case in which the PTAB has been presented with this issue thus far.

### A. *Two Systemic Problems in Patent Law*

Two persistent problems have haunted the U.S. system of patent law. First, deciding whether to issue a patent is an extraordinarily difficult task. The United States relies on a corps of examiners, employed by the PTO, to review each submitted patent application.<sup>23</sup> These examiners must speedily apply complex legal doctrines such as patent eligibility,<sup>24</sup> enablement,<sup>25</sup> and obviousness<sup>26</sup> to determine whether a patent application is worthy of the "embarrassment" of patent monopoly.<sup>27</sup> Too often, examiners have too little time or too few resources to accomplish

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23. The difficulty of balancing the need to thoroughly review each patent application and the need to deal with the increasing volume of new patent applications has plagued the U.S. patent administration system since the eighteenth century. See P. J. Federico, *Operation of the Patent Act of 1790*, 85 J. Pat. & Trademark Off. Soc'y (Supplement Issue) 33, 45 (2003) ("With respect to the granting of patents, the [1793 Act] went from the extreme of a rigid examination by high government officials to the opposite extreme of no examination . . . . It was not until forty-three years later—in 1836—that a happy medium between the two was found.").

24. See 35 U.S.C. §§ 101–102 (2012).

25. See *id.* § 112.

26. See *id.* § 103.

27. Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813), in 13 *The Writings of Thomas Jefferson* 326, 335 (Andrew A. Lipscomb & Albert Ellery Bergh eds., 1905) ("Considering the exclusive right to invention as given not of natural right, but for the benefit of society, I know well the difficulty of drawing a line between the things which are worth to the public the embarrassment of an exclusive patent, and those which are not.").

this task effectively, which results in the frequent issuance of patents that have not been properly reviewed for validity. PTO examiners typically have a very limited amount of time to assess the prior art and to evaluate the claims.<sup>28</sup> Commentators have indicated that other administrative problems, such as poor management, the strength of the patent examiner union, a general lack of resources, and lack of expertise in emerging fields of science also have a negative effect on the quality of initial patent review.<sup>29</sup> Additionally, some commentators have even indicated that the Agency's culture and funding incentives may also lean too heavily toward granting, rather than properly reviewing, patents.<sup>30</sup> Industry groups, such as the American Intellectual Property Law Association (AIPLA), have argued before Congress that these administrative problems have caused a sharp increase in patents of "questionable validity."<sup>31</sup> As a result, a great many patents emerge from the PTO that, if examined more thoroughly, may not be legally deserving of the protection of a twenty-year monopoly.<sup>32</sup>

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28. See Michael D. Frakes & Melissa F. Wasserman, Does Agency Funding Affect Decisionmaking?: An Empirical Assessment of the PTO's Granting Patterns, 66 Vand. L. Rev. 67, 72 n.16 (2013) ("[T]he PTO is so underfunded and, hence, hamstrung from spending sufficient time examining patent applications to reject patents."); Jarrad Wood & Jonathan R. K. Stroud, Three Hundred Nos: An Empirical Analysis of the First 300+ Denials of Institution for Inter Partes and Covered Business Method Patent Reviews Prior to *In re Cuozzo Speed Technologies, LLC*, 14 J. Marshall Rev. Intell. Prop. L. 112, 115 (2015) ("The process limits office examination time . . . [and] may not always accurately assess patentability."); see also Mark A. Lemley, Rational Ignorance at the Patent Office, 95 Nw. U. L. Rev. 1495, 1502 (2001).

29. Frakes & Wasserman, *supra* note 28, at 72–74 (describing the administrative issues at the PTO).

30. The Agency once asserted that its "primary mission" is to "help customers get patents." See USPTO, Corporate Plan–2001: Patent Business 23 (2001), <http://www.uspto.gov/about-us/performance-and-planning/corporate-plan-2001> [<http://perma.cc/G3B2-AB5D>]. See generally Frakes & Wasserman, *supra* note 28 (arguing that pressure to earn maintenance fees, metrics for rating examiners' performance, and high examiner turnover may lead the PTO to over-grant patents).

31. Joe Matal, A Guide to the Legislative History of the America Invents Act, 21 Fed. Cir. B.J. 539, 600 (2012) (quoting Patent Quality Improvement: Post-Grant Opposition: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary, 108th Cong. 29 (2004) (statement of Michael Kirk, Executive Director, AIPLA)).

32. 35 U.S.C. § 154(a)(2) (2012) (granting a patent term of twenty years); see also Consilvio & Stroud, *supra* note 12, at 38–39 ("[I]n reality, patent examiners have far too little time (often just eighteen hours—and, in many cases, less) or resources to always accurately assess patentability. If examiners knew everything and had less stringent deadlines, it is responsible to assume that at least some issued patents would be rejected."); Paul R. Gugliuzza, Patent Litigation Reform: The Courts, Congress, and the Federal Rules of Civil Procedure, 95 B.U. L. Rev. 279, 279–80 (2015) ("[T]he U.S. Patent and Trademark Office . . . issues too many 'bad patents,' that is, patents on inventions that represent only marginal improvements in the state of the art and that therefore do not warrant the exclusive rights a patent confers." (quoting Mark A. Lemley & Bhaven Sampat, *Is the Patent Office a Rubber Stamp?*, 58 Emory L.J. 181, 181 (2008))); In Defense of

Second, patent litigation is massively expensive, time-consuming, and risky.<sup>33</sup> By some estimates, even relatively low-stakes patent infringement suits can cost almost one million dollars to see through trial.<sup>34</sup> This cost stems primarily from the growing cost of discovery and extensive motions practice.<sup>35</sup> Patent litigation can also last five to ten years, especially if the case involves appeals to the Federal Circuit and subsequent remands to the district court.<sup>36</sup> Because many patent suits begin when a patent is young, “by the time litigation concludes, years of the patent’s life may have been lost, the technology may have been eclipsed, or the patent may no longer be viable from a profitability perspective for any number of reasons.”<sup>37</sup> Additionally, patent litigation is highly unpredictable, partially due to the high rate of reversal by the Federal Circuit and partially due to the fact that inexperienced, untrained juries decide most patent cases at the district court level.<sup>38</sup>

What results is a patent realm that is littered with many poorly reviewed, overbroad patent grants, which can be asserted by their owners against unsuspecting “infringers” who must decide whether to face a

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Innovation, Elec. Frontier Found., <http://www.eff.org/patent> [<http://perma.cc/WJ2Y-MPM5>] (last visited Nov. 3, 2015) (“The [PTO] . . . is failing in [its] essential task. The result: a flood of bad patents on so-called inventions that are unoriginal, vague, overbroad, and/or so unclear that bad actors can easily use them to threaten all kinds of innovators.”).

33. See David E. Sosnowski, *Resolving Patent Disputes via Mediation: The Federal Circuit and the ITC Find Success*, Md. B.J., Mar./Apr. 2012, at 24, 26 (describing how in patent infringement litigation cases with less than \$1 million at risk, the average total cost of litigation was \$916,000; \$2,769,000 when there was between \$1 million and \$25 million at risk; and \$6,018,000 for when there was greater than \$25 million at risk); see also AIPLA, *Report of the Economic Survey 37–49* (2015), [http://www.accmeetings.com/AM16/faculty/files/Article\\_482\\_7928\\_LitSpend\\_\\_AIPLA\\_2015\\_Report.pdf](http://www.accmeetings.com/AM16/faculty/files/Article_482_7928_LitSpend__AIPLA_2015_Report.pdf) [<http://perma.cc/7Q5M-7DEM>] (showing that the cost of even small-stakes patent infringement litigation can approach \$1 million).

34. See *supra* note 33.

35. See Inst. for the Advancement of the Am. Legal Sys., *Civil Litigation Survey of Chief Legal Officers and General Counsel Belonging to the Association of Corporate Counsel 16* (2010) (noting that survey “[r]espondents who reported an increase in pretrial litigation costs for the typical case most commonly cited discovery in general, and e-discovery in particular, as the basis for the trend”); Sosnowski, *supra* note 35, at 26 (“Much of the cost of patent litigation is due to the ever-growing cost of discovery as well as the extensive motions practice found in most, if not all, patent cases.”).

36. See Sosnowski, *supra* note 35, at 26 (noting that “[t]he patent litigation timetable, in light of modern business realities, is often unacceptable” and that “[f]rom start to finish, litigation sometimes takes in excess of five years and, in rarer cases, the duration approaches the better part of a decade”).

37. *Id.* at 27.

38. *Id.* (“The principle reason that patent litigation is speculative is because the outcome is so unpredictable . . . . The Federal Circuit’s standard of review is *de novo* and the reversal rate is high.”); see also Sarah Tran, *Experienced Intellectual Property Mediators: Increasingly Attractive in Times of “Patent” Unpredictability*, 13 *Harv. Negot. L. Rev.* 313, 316 (2008) (“Jurors are typically ill-prepared to resolve the complex technical issues inherent in most patent cases.”).

long and expensive legal battle or settle with the patentee.<sup>39</sup> In reality, in many cases it makes more financial sense for an alleged infringer to purchase a license from the patentee rather than fight an infringement claim by arguing that the patent is invalid.<sup>40</sup>

B. *A Brief Overview of Patent Arbitration in the United States*

Congress has attempted to address the issue of high patent litigation costs by supporting the use of arbitration as a dispute resolution mechanism for patent disputes. In the 1980s, Congress passed two laws that allowed for the arbitration of patent disputes in the United States.<sup>41</sup> Mirroring the structure of the Federal Arbitration Act (FAA),<sup>42</sup> the existing patent statute provides that arbitration clauses connected to a “contract involving a patent or any right under a patent” shall be “valid, irrevocable, and enforceable.”<sup>43</sup>

President Reagan, who signed the Patent Law Amendments Act into law, cited the “inordinately high cost of patent litigation” as one of the primary reasons for allowing arbitration of patent disputes.<sup>44</sup> Congress also recognized that the arbitration of patent disputes would “benefit both the parties to these disputes and the public” by both “enhanc[ing] the patent system” thus “encourag[ing] innovation” and “reliev[ing] some of the burdens on the overworked Federal courts.”<sup>45</sup>

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39. Mateo J. de la Torre, Note, *The Troll Toll: Why Liberalized Fee-Shifting in Patent Cases Will Do More Harm than Good*, 101 *Cornell L. Rev.* 813, 823 (2016) (“[High patent litigation] costs are . . . the most assured wrench for litigants to use as leverage against their adversaries to obtain ‘nuisance value’ settlements, which often result in licensing or royalty agreements in patent cases.”).

40. Gugliuzza, *supra* note 32, at 280.

41. Patent Law Amendments Act of 1984, Pub. L. No. 98-622, 98 Stat. 3383, 3385 (1984) (codified as amended at 35 U.S.C. § 135(f) (2012)) (expanding the scope of arbitration to patent interferences); Act of Aug. 27, 1982, Pub. L. No. 97-247, 96 Stat. 317, 322 (codified as amended at 35 U.S.C. § 294) (authorizing the voluntary arbitration of patent infringement disputes).

42. See 9 U.S.C. § 2 (2012) (“A written provision . . . to settle by arbitration a controversy . . . arising out of such contract or transaction . . . or an agreement . . . to submit to arbitration an existing controversy . . . shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.”).

43. 35 U.S.C. § 294(a).

44. Presidential Statement on Signing the Patent and Trademark Office Appropriations Bill, 1982 *Pub. Papers* 1087 (Aug. 28, 1982); see also Gregg A. Paradise, *Arbitration of Patent Infringement Disputes: Encouraging the Use of Arbitration Through Evidence Rules Reform*, 64 *Fordham L. Rev.* 247, 261 (1995) (“The cost of arbitrating a patent dispute usually is less than eighty-five percent of the cost of litigating the same dispute.”).

45. H.R. Rep. No. 97-542, at 13 (1982), as reprinted in 1982 *U.S.C.C.A.N.* 765, 777.

Since the enactment of the patent arbitration statutes, arbitration has been lauded as a quick and efficient way to resolve patent disputes.<sup>46</sup> Patent arbitration allows parties to tailor the procedures used to resolve a dispute.<sup>47</sup> Parties can avoid the risk and confusion of resolving a patent dispute in front of judges or juries who lack the technical expertise to properly understand the technological context and language at issue.<sup>48</sup> Additionally, parties can also cut down on costly motions practice, which generates approximately half of the massive costs of litigating patent disputes in court, by tailoring discovery and other procedures.<sup>49</sup>

Typically, parties who wish to utilize this mechanism will include an arbitration clause in a patent license agreement to ensure that, if a dispute arises over the scope of the relevant patent, the parties will be able to resolve the dispute quickly in front of an arbitral tribunal.

C. *A Brief Overview of Post-Issuance Review at the Patent Office*

1. *Post-Issuance Review*. — Another notable line of reforms Congress has implemented to solve the aforementioned problems of the U.S. patent system has focused on setting up reexamination procedures through which the PTO can reevaluate previously issued patents to confirm their validity.<sup>50</sup> By allowing the PTO, rather than the courts, to reassess the validity of a patent, Congress created a procedurally simple and relatively cheap mechanism to weed out patents that perhaps should not have been issued in the first place, often because the examiner was

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46. E.g., Karl P. Kilb, *Arbitration of Patent Disputes: An Important Option in the Age of Information Technology*, 4 *Fordham Intell. Prop. Media & Ent. L.J.* 599, 609 (1993).

47. The American Arbitration Association publishes a helpful guide to aid parties in tailoring an arbitration agreement to their specific needs. See Am. Arbitration Ass'n, *Drafting Dispute Resolution Clauses: A Practical Guide* 10–35 (2013), [http://www.adr.org/sites/default/files/document\\_repository/Drafting%20Dispute%20Resolution%20Clauses%20A%20Practical%20Guide.pdf](http://www.adr.org/sites/default/files/document_repository/Drafting%20Dispute%20Resolution%20Clauses%20A%20Practical%20Guide.pdf) [<http://perma.cc/5HWE-MATG>].

48. Mihir Chattopadhyay, *Recent Event: The Case for Arbitration of Patent Disputes*, *Kluwer Arb. Blog* (Feb. 25, 2016), <http://kluwerarbitrationblog.com/2016/02/25/recent-event-the-case-for-arbitration-of-patent-disputes/> [<http://perma.cc/S33X-5PW8>] (“A contributing factor [to the use of arbitration to resolve patent disputes] is that in a large number of patent disputes, judges or juries who lack the expertise to deal with intricate and technical patent cases often reach conclusions that are susceptible to successful challenges.”).

49. *Id.* (“The litigation of patent disputes can cost between \$2 and \$5 million. About half of these costs arise out of discovery and related motion practice.” (emphasis omitted)).

50. See, e.g., 35 U.S.C. § 302 (2012) (“Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited . . .”); American Inventors Protection Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501A-552, 1501A-567 (creating an inter partes reexamination procedure), amended by Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 6(a), §§ 311–318, 125 Stat. 284, 299–304 (2011) (codified as amended in scattered sections of 35 U.S.C.).

not aware of the relevant prior art.<sup>51</sup> These procedures invited private actors, who are often intimately familiar with the technological context and the universe of prior art, to call the PTO's attention to the reasons why a particular patent was not worthy of protection.<sup>52</sup> The assumption is that informed private actors, who have often been charged with infringement by a patent owner and thus have the greatest economic incentive to invalidate or narrow issued patents, will call the PTO's attention to the patents most worthy of reexamination.<sup>53</sup> Economists have suggested that this cooperation between private actors and the PTO is the most efficient way to ensure that the PTO's resources are focused on scrutinizing the patents that matter.<sup>54</sup>

In 1980, Congress passed the Patent and Trademark Law Amendments Act (also known as the Bayh-Dole Act), which for the first time established a system through which the PTO could reexamine the validity of an issued patent after the initial examination.<sup>55</sup> President Carter, who signed the bill, stated that the new "reexamination" procedures constitute the "most significant improvement . . . in more than a century":

Under these procedures, during the life of an issued patent any interested person . . . may obtain a prompt and relatively inexpensive reevaluation of its validity . . . . Patent reexamination will make it possible to focus extra attention on the most commercially significant patents . . . [and will] improve the reliability of reexamined patents, thereby reducing the costs and uncertainties of testing patent validity in the courts.<sup>56</sup>

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51. See *In re Constr. Equip. Co.*, 665 F.3d 1254, 1261 (Fed. Cir. 2011) (noting that reexamination "provide[s] a less costly way of removing or restricting patents that should not have been granted or that were granted too broadly, to permit such challenge even before litigation-inducing controversy has arisen, and also to enable patentees to bring overlooked references into the examination process").

52. *Consilvio & Stroud*, *supra* note 12, at 41 (discussing the role of third parties in the general reexamination procedures).

53. See *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) ("Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.").

54. See Adam B. Jaffe & Josh Lerner, *Innovation and Its Discontents: How Our Broken Patent System Is Endangering Innovation and Progress, and What to Do About It* 22 (2004).

55. Bayh-Dole Act, 35 U.S.C. § 302 ("Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited . . .").

56. Patent and Trademark System Reform: Presidential Statement on Signing H.R. 6933 Into Law, 16 *Weekly Comp. Pres. Doc.* 2803-04 (Dec. 12, 1980).

More recently, in 2011, Congress passed the Leahy-Smith America Invents Act.<sup>57</sup> The AIA implemented three proceedings at the PTO, which constituted improvements on the reexamination process established in the 1980s: IPR,<sup>58</sup> PGR,<sup>59</sup> and CBM patent review.<sup>60</sup> The next section discusses IPR.

2. *Inter Partes Review*. — IPR allows any person, other than the holder of a patent, to file a petition for an IPR proceeding at the PTO by presenting evidence of patents or printed publications that may undermine the validity of particular claims contained within an issued patent.<sup>61</sup> After the PTO receives the petition, the Director is permitted to institute an IPR if she finds that the petition filed “shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.”<sup>62</sup> Once instituted, the IPR proceeds as a “mini-trial” in front of three administrative patent judges sitting on the PTAB. Both parties (the patentee and the challenging petitioner) may file comments, submit evidence, and ultimately argue against each other in an oral hearing.<sup>63</sup> The AIA sets strict time limits for the IPR process as a whole in an attempt to make the IPR proceeding more attractive to petitioners than the preexisting reexamination proceedings proved to be.<sup>64</sup> The new AIA post-issuance proceedings must be completed within twelve months of the institution

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57. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified as amended in scattered sections of 35 U.S.C.).

58. IPR, the focus of this Note, focuses on novelty and nonobviousness challenges to patent validity and can be brought by any party on any patent from the date nine months after the patent’s issuance. See 35 U.S.C. §§ 311–319.

59. PGR allows immediate challenges to patent validity on any grounds (not just on novelty or nonobviousness grounds), but PGR must be petitioned for within nine months of the patent’s issuance. See *id.* §§ 321–329.

60. The Transitional Program for Covered Business Method Patents is similar to PGR and allows validity challenges on any grounds, as long as the patent constitutes a CBM as defined by the statute. See Leahy-Smith America Invents Act § 18 (“[T]he Director shall issue regulations establishing and implementing a transitional post-grant review proceeding for review of the validity of covered business method patents.”).

61. 35 U.S.C. § 311.

62. *Id.* § 314(a).

63. Consilvio & Stroud, *supra* note 12, at 55 (“The most substantial modification to the *inter partes* procedure is that *inter partes* review replaces the paper administrative procedure of reexamination with a mini-trial conducted by a panel of three administrative patent judges—complete with discovery and depositions.”).

64. Brian J. Love & Shawn Ambwani, *Inter Partes* Review: An Early Look at the Numbers, 81 U. Chi. L. Rev. Dialogue 93, 95 (2014), [http://uchicagolawjournalsmshaytiubv.devcloud.acquia-sites.com/sites/lawreview.uchicago.edu/files/Love\\_Ambwani\\_Dialogue.pdf](http://uchicagolawjournalsmshaytiubv.devcloud.acquia-sites.com/sites/lawreview.uchicago.edu/files/Love_Ambwani_Dialogue.pdf) [<http://perma.cc/LU33-RF7N>] (“[R]eexamination developed a well-deserved reputation for lengthy delays [and] a lack of decisive results . . .”); see also Stacy Lewis & Tom Irving, Very Few Appreciated Just How Bad AIA *Inter Partes* Reviews (IPRS) Would Be for Patent Owners, Although IPR Denials Have Been, for Patent Owners, a Glimmer of Hope, 11 Buff. Intell. Prop. L.J. 28, 33 (2015) (identifying that the old *inter partes* reexamination procedure took, on average, over three years).

of the proceedings or eighteen months for good cause shown;<sup>65</sup> the Director must decide whether to institute an IPR within three months of receiving the patent owner's preliminary response.<sup>66</sup>

Crucially, several features of IPR make the new proceeding a more challenger-friendly forum for patent validity suits than district courts.<sup>67</sup> Unlike patent validity litigation in district courts, the presumption of validity does not apply in IPR proceedings before the PTAB.<sup>68</sup> The petitioner in an IPR must show invalidity by only a preponderance of the evidence, while a challenger in district court must present clear and convincing evidence of invalidity.<sup>69</sup> Additionally, the PTAB examines patents using a broadest interpretation claim construction standard, which increases the likelihood that the patent claims will be invalidated.<sup>70</sup> The Supreme Court has affirmed the PTAB's use of this standard, recognizing that "construing a patent claim according to its broadest reasonable construction helps to protect the public" and that "an examiner's . . . use of the broadest reasonable construction standard increases the possibility that the examiner will find the claim too broad."<sup>71</sup>

IPR has proved to be an effective tool for narrowing and invalidating patents. Out of the 1,046 completed IPR trials at the PTAB as of June 30, 2016, 896 (85.66%) have invalidated at least one claim, and 736 (70.36%) have resulted in the invalidation of all claims at issue.<sup>72</sup> In contrast, when patents are challenged in district court, the patents are invalidated in

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65. 35 U.S.C. § 316(a)(11) (requiring "the final determination . . . be issued not later than 1 year after the date on which the Director notices the institution of a review under this chapter, except that the Director may, for good cause shown, extend the 1-year period by not more than 6 months").

66. *Id.* § 314(b).

67. Edward J. Pardon & Shane A. Brunner, *Boosting Creative Competition: America Invents Act*, Wis. Law., Oct. 2012, at 6, 10 ("[T]he main advantages of *inter partes* review over court proceedings are the lower burden of proof to invalidate a patent, the speed to disposition, and the potentially lower costs.").

68. Joseph W. Dubis, *Inter Partes Review: A Multi-Method Comparison for Challenging Patent Validity*, *Cybaris Intell. Prop. L. Rev.*, Summer 2015, at 107, 139.

69. *Id.* The STRONG Patents Act, introduced in the Senate in March 2015, proposes changes to these provisions, which would include a requirement that the PTAB apply the presumption of validity during post-issuance challenges and generally require a higher standard of review in post-issuance challenges. See *Support Technology and Research for Our Nation's Growth Patents Act of 2015 (STRONG Patents Act of 2015)*, S. 632, 114th Cong. (2015).

70. See *Guozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2144–45 (2016).

71. *Id.*

72. USPTO, *Patent Trial and Appeal Board Update 10* (2016), <http://www.uspto.gov/sites/default/files/documents/2016-6-30%20PTAB.pdf> [<http://perma.cc/7D3Q-YWFZ>]; see also Shepherd, *supra* note 3, at 33–34 (noting that "IPR is significantly more friendly to patent challengers than the previous reexamination procedures" and citing the PTAB statistics on invalidation).

fewer than 40% of cases.<sup>73</sup> Although these figures are startling (and likely worrying to some patent holders), they indicate that, at least so far, the IPR procedures may be fulfilling the exact purpose that Congress had in mind: the identification and invalidation of improperly granted patent monopolies.<sup>74</sup>

D. *The Intersection Between Patent Arbitration and the AIA's Post-Issuance Review*

Both patent arbitration and post-issuance procedures are essentially mechanisms to provide litigants with an alternative to costly patent litigation. However, arbitration of patent disputes has no preclusive effect.<sup>75</sup> Therefore, only the post-issuance procedures serve the unique purpose of helping to identify, narrow, and invalidate bad patents.

Given the ease of invalidating a patent through post-issuance proceedings and the resulting risk to patent owners' property rights, patent owners will inevitably attempt to use the enforceability of arbitration clauses in patent disputes to preclude their licensees from utilizing the new post-issuance procedures at the PTO. These clauses are embedded within licensing agreements and state that if a dispute arises over the scope of the relevant patent, the parties will be able to resolve the dispute in front of one or more arbitrators.<sup>76</sup> There is considerable disagreement among commentators regarding whether an arbitration agreement can, as a matter of law, function as a waiver of a party's right to petition for IPR.<sup>77</sup> The current state of arbitration law is unclear on

73. PricewaterhouseCoopers, 2016 Patent Litigation Study: Are We at an Inflection Point? 9 fig.11 (2016), <http://www.pwc.com/us/en/forensic-services/publications/assets/2016-pwc-patent-litigation-study.pdf> [<http://perma.cc/WM89-9DXH>].

74. See 157 Cong. Rec. 13,166–67 (2011) (statement of Sen. Schumer) (“[T]he bill streamlines review of patents to ensure that the poor-quality patents can be weeded out through administrative review rather than costly litigation. . . . Indeed, a good patent will come out of such a review strengthened and validated.”).

75. See 35 U.S.C. § 294(c) (2012) (“An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person.”).

76. The American Arbitration Association's standard arbitration clause is as follows: “Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration administered by the American Arbitration Association in accordance with its Commercial [or other] Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.”

AAA Clause Drafting, Am. Arbitration Ass'n, <http://www.adr.org/Clauses> [<http://perma.cc/55EM-R3GF>] (last visited Sept. 13, 2017).

77. See M.A. Smith et al., Arbitration of Patent Infringement and Validity Issues Worldwide, 19 Harv. J.L. & Tech. 299, 321 (2006) (“[T]he legislative overruling of *Farrel Corp.* might, however, lead courts and the Patent and Trademark Office to defer to arbitration agreements that are broad enough to include issues of validity. . . . These issues have not yet been the subject of judicial decision.” (footnote omitted)); St. Martin & Mason, *supra* note 16, at 314 (noting that in the context of the *Farrel* and *Gibner* cases, “it

the relationship between arbitration clauses and administrative proceedings. However, case law suggests that even though an arbitration agreement may be a contract to resolve *all* disputes in arbitration, that agreement functions as a waiver of access only to a judicial (and not necessarily an administrative) forum.<sup>78</sup> While this issue has not yet been presented to a court, the PTAB has encountered (and avoided) the arbitration issue in the context of an IPR proceeding in at least one case.

E. *Ford v. Paice and the PTAB's Avoidance of the Arbitrability Issue*

In one recent case, *Ford v. Paice*, the PTAB considered a patentee's objection to the institution of an IPR proceeding on the basis of an arbitration clause binding the petitioner.<sup>79</sup> In that case, an arbitration clause binding both Ford (the licensee) and Paice (the patent holder) required either party to provide written notice to the other party (an "Assertion Notice") ninety days before initiating any legal action related to the patents in question.<sup>80</sup> That arbitration provision also gave Ford the option to take the disputes to arbitration.<sup>81</sup> Paice served an Assertion Notice on Ford indicating that it intended to file a patent infringement case, and in response, Ford served an Assertion Notice on Paice indicating that it intended to challenge the validity of the Paice patents in question.<sup>82</sup> Ford then filed eight petitions for IPR with the PTO.<sup>83</sup>

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is not clear that administrative agencies are . . . required to issue a stay" in light of a valid arbitration agreement); Dylan Pittman, Note, *Allowing Patent Validity Challenges Despite No-Challenge Clauses: Fulfilling the Will of King Lear*, 48 *Ind. L. Rev.* 339, 366 (2014) (assuming that prelitigation no-challenge clauses would apply to prevent licensees bound by them from utilizing the new AIA procedures and noting that "the new AIA procedures might well be beneficial, but unless pre-litigation [no challenge clauses] are held unenforceable, those new procedures are of relatively little use"); David Plant, *Intellectual Property: Arbitrating Disputes in the United States*, *Disp. Resol. J.*, July 1995, at 8, 10 (arguing that *Farrel* holds "that an arbitration clause may permit resolution of patent . . . issues by way of binding arbitration in lieu of a proceeding before a U.S. court, but not always in lieu of a proceeding before a U.S. administrative agency"); Charles W. Shifley, *Goodbye Patent Arbitration?*, *Corp. Couns. Online* (Oct. 13, 2014), <http://www.corpcounsel.com/id=1202672879326/Goodbye-Patent-Arbitration?slreturn=20170820213413> (available in full on Lexis Advance and on file with the *Columbia Law Review*) ("[P]arties may not resort to PTAB proceedings when federal law forces them to resolve patent disputes exclusively in arbitration.").

78. See *infra* section II.B (describing the *Gilmer* and *Farrel* cases, in which the Supreme Court and the Federal Circuit considered the impact of arbitration agreements on a party's right to utilize administrative proceedings).

79. *Paice LLC v. Ford Motor Co.*, No. MJG-14-492, 2015 WL 9898135 (D. Md. Aug. 12, 2015) (denying Paice's motion for a preliminary injunction to stop several IPR proceedings); *Ford Motor Co. v. Paice LLC*, No. IPR2014-00570, 2014 WL 4961446 (P.T.A.B. Sept. 30, 2014) (instituting Ford's IPR petitions).

80. See *Paice*, 2015 WL 9898135, at \*1.

81. *Id.*

82. *Id.*

83. *Id.* at \*2.

Unfortunately, the arbitration clause in the case was ambiguous, and the real argument at bar was whether the arbitration clause required multiple Assertion Notices for multiple actions filed by Ford.<sup>84</sup> Paice argued before the PTAB that Ford was barred from requesting seven out of the eight IPR proceedings because Ford had breached the arbitration clause.<sup>85</sup> Based on a provision of the PTO administrative code, which requires the IPR petitioner to “certify . . . that the petitioner is not *barred or estopped* from requesting an *inter partes* review challenging the patent,”<sup>86</sup> Paice maintained that Ford’s single Assertion Notice permitted it, under the terms of the arbitration provision, to file only a single IPR petition.<sup>87</sup> Thus, due to this contractual ambiguity, the PTAB was able to avoid the issue of whether Ford would be barred or estopped from requesting IPR under Patent Office rules if the arbitration clause did in fact bar Ford’s IPR petitions. In dismissing Paice’s argument, the PTAB declined to rule on the proper interpretation of the arbitration clause in question, calling the issue an “unresolved breach-of-contract issue” that “falls outside the purview of our authority under the [AIA].”<sup>88</sup> The PTAB noted that the question of Ford’s potential breach of the arbitration agreement was under review by a district court in Maryland.<sup>89</sup> Paice had filed a motion in district court seeking a preliminary injunction to enjoin Ford from pursuing seven out of the eight IPR petitions on the basis of breach of the arbitration clause.<sup>90</sup> The district court ultimately rejected Paice’s injunction motion, interpreting the arbitration clause permissively in Ford’s favor and finding that Ford’s single Assertion Notice was sufficient to notify Paice of the actions that Ford intended to take.<sup>91</sup> It remains unclear from this decision whether an unambiguous arbitration clause, through which one party contracts away its right to resolve any disputes in nonarbitral fora, would constitute sufficient grounds to “bar[] or estop[]” that party from requesting IPR.<sup>92</sup>

A closely related question that arises out of the *Ford v. Paice* case is whether a district court would be willing to enjoin the PTO from proceeding with an IPR that a party petitioned for in breach of an

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84. See *Ford*, 2014 WL 4961446, at \*3–4.

85. See *Paice*, 2015 WL 9898135, at \*4.

86. 37 C.F.R. § 42.104(a) (2016) (emphasis added); see also *Ford*, 2014 WL 4961446, at \*3. The PTO has created a detailed set of regulations governing the IPR procedure, which build upon the basic structure set out in the AIA. See 37 C.F.R. § 42.100–123.

87. See *Paice*, 2015 WL 9898135, at \*4.

88. *Ford*, 2014 WL 4961446, at \*4.

89. *Id.* (“[T]he question of whether Ford has breached the arbitration agreement by requesting *inter partes* review . . . is currently the subject of a preliminary injunction motion filed by Paice in the co-pending district court action, and yet to be decided.”).

90. *Paice*, 2015 WL 9898135, at \*1.

91. *Id.* at \*6–7.

92. 37 C.F.R. § 42.104(a) (2016).

unambiguous arbitration clause.<sup>93</sup> In the aforementioned district court opinion, which denied the injunction on the grounds of its permissive interpretation of the arbitration clause, the court pointed out that “although [Paice] cast[s] this injunction as one against [Ford], in reality it operates as an injunction against the IPR process itself.”<sup>94</sup> In another part of the opinion, the court explained that it was reluctant to interfere with the PTO’s IPR procedure because it recognized a “public interest in having the Patent Office determine whether it made any errors in regard to the Patents.”<sup>95</sup>

It is clear that the tension between this “public interest,” which reflects the congressional intent behind the AIA’s post-issuance procedures,<sup>96</sup> and the strong policy in favor of the enforcement of arbitration agreements<sup>97</sup> troubled the district court in *Ford v. Paice*. The considerable disagreement among commentators on this issue provides little guidance.<sup>98</sup> However, a close examination of arbitration doctrine and the limits to the “broad federal policy favoring enforcement of arbitration agreements”<sup>99</sup> can provide a doctrinal framework through which to examine the proper impact of an arbitration agreement on a party’s ability to access administrative proceedings.

## II. ARBITRATION DOCTRINE AND ADMINISTRATIVE PROCEEDINGS IN GENERAL

The question of the relationship between arbitration agreements and IPR is essentially a question about the breadth of the federal policy in favor of arbitration and whether this policy also extends to administrative proceedings. While the body of case law on arbitration

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93. In other areas of arbitration law, an often-requested remedy for breach of an arbitration agreement is an antisuit injunction, through which a court will enjoin another fact-finder from proceeding with a case because of a determination that the dispute should be submitted to arbitration. See generally Jean R. Sternlight, *Forum Shopping for Arbitration Decisions: Federal Courts’ Use of Antisuit Injunctions Against State Courts*, 147 U. Pa. L. Rev. 91 (1998) (discussing the use of antisuit injunctions issued by federal courts against state court proceedings on the basis of arbitration agreements).

94. *Paice*, 2015 WL 9898135, at \*6 (quoting *Senju Pharm. Co. v. Metrics, Inc.*, No. 14-3962 JBS, 2015 WL 1472123, at \*15 (D.N.J. Mar. 31, 2015)).

95. *Id.* at \*7.

96. See *infra* section II.C (discussing the congressional intent behind the AIA’s post-issuance procedures in light of applicable case law).

97. See *infra* section II.A (discussing the broad federal policy in favor of enforcement of arbitration agreements).

98. See *supra* note 77 and accompanying text (outlining the disagreement among commentators regarding the impact of arbitration agreements on administrative proceedings before the PTO).

99. *Farrel Corp. v. U.S. Int’l Trade Comm’n*, 949 F.2d 1147, 1151 (Fed. Cir. 1991), superseded by statute, *Uruguay Round Agreements Act*, Pub. L. No. 103-465, § 321(a)(2)(A), 108 Stat. 4809, 4943-44 (1994), as recognized in *InterDigital Commc’ns, LLC v. ITC*, 718 F.3d 1336, 1343 (Fed. Cir. 2013).

doctrine clearly establishes that *judicial* bodies must enforce arbitration agreements, developments in arbitration and administrative law in the 1990s suggest that arbitration clauses might not legally operate to prevent a party from availing itself of administrative procedures set up by Congress.<sup>100</sup> This Part examines the broad federal policy favoring arbitration in judicial contexts and two cases that deal with the relationship between arbitration agreements and administrative procedures in order to provide some doctrinal context to the issue at hand. Section II.A examines the national policy favoring arbitration and its development since the passage of the Federal Arbitration Act. Section II.B examines the limits to this policy and how the policy has been applied to administrative fora. Section II.C then examines the IPR procedure in light of the applicable case law and concludes that the administrative law cases from the 1990s<sup>101</sup> do not provide sufficient doctrinal clarity to determine the issue of whether arbitration agreements can operate as waivers of a party's right to access IPR.

A. *The National Policy Favoring Arbitration*

Over the past century, arbitration doctrine in the United States has slowly expanded to allow for the arbitration of a broad spectrum of legal disputes. The Federal Arbitration Act, adopted by Congress in 1925, endorsed the use of arbitration as a dispute resolution mechanism and provides that agreements between parties to settle disputes by arbitration are "valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract."<sup>102</sup> The Act was passed, in part, to "overturn the common law rule of judicial hostility toward arbitration."<sup>103</sup> The Supreme Court was initially hesitant to interpret the FAA widely due to the belief that Congress did not mean for the FAA to require the resolution of important public law matters through arbitration.<sup>104</sup> However, since the 1980s, the Supreme Court has

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100. See *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 28 (1991) ("An individual [Age Discrimination in Employment Act] claimant subject to an arbitration agreement will still be free to file a charge with the [Equal Employment Opportunity Commission], even though the claimant is not able to institute a private judicial action."); *Farrel Corp.*, 949 F.2d at 1156 (holding that the U.S. International Trade Commission's statutory responsibility to investigate violations "may not be privately contracted away").

101. See *infra* section II.B (describing the *Gilmer* and *Farrel* cases and the investigatory, nonadjudicative nature of the administrative procedures at issue in those cases).

102. 9 U.S.C. § 2 (2012).

103. Michael J. Gallagher, Note, Statutory Rights and Predispute Agreements to Arbitrate in Contracts of Employment, 66 St. John's L. Rev. 1067, 1083 (1993); see also *Southland Corp. v. Keating*, 465 U.S. 1, 14 (1984) (noting the primary purpose of Congress in enacting the FAA was to overcome the "old [judicial] hostility toward arbitration").

104. David Horton, The Federal Arbitration Act and Testamentary Instruments, 90 N.C. L. Rev. 1027, 1039–40 (2012). On this basis, courts denied motions to compel arbitration in antitrust cases, see, e.g., *Applied Dig. Tech. Inc. v. Cont'l Cas. Co.*, 576 F.2d

embraced a “liberal federal policy favoring arbitration,” which has eventually resulted in the wide enforceability of arbitration clauses in a variety of public law contexts.<sup>105</sup> The Court has indicated that “doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration”<sup>106</sup> and has confirmed that arbitration clauses should be treated “on equal footing with all other contracts”<sup>107</sup> and enforced strictly “according to their terms.”<sup>108</sup> In other words, the initial “mistrust of the arbitral process”<sup>109</sup> has been undermined in favor of a policy widely encouraging a party’s ability to waive its rights to resort to the judicial forum.<sup>110</sup>

In the 1980s, Congress endorsed this pro-arbitration policy in the patent context by allowing for arbitration of patent validity, enforceability, and infringement disputes.<sup>111</sup> Prior to 1982, the same skepticism of arbitration prevented the arbitration of patent law issues, which were thought to be “inappropriate for arbitration proceedings” and instead appropriately “decided by a court of law, given the great public interest in challenging invalid patents.”<sup>112</sup> However, Congress had decided by the 1980s that arbitration was a suitable mechanism to resolve patent disputes. Through the enactment of Public Law 97-247 and the Patent Law Amendments Act of 1984,<sup>113</sup> Congress wholly embraced the arbitrability of patent issues, including the determination of patent validity.

Interestingly, the statutory endorsement of patent-issue arbitrability seemed to be based primarily on pragmatic, administrative concerns, rather than on an endorsement of the Court’s freedom of contract

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116, 117 (7th Cir. 1978); *Am. Safety Equip. Corp. v. J.P. Maguire & Co.*, 391 F.2d 821, 828 (2d Cir. 1968), securities cases, see, e.g., *Wilko v. Swan*, 346 U.S. 427, 435 (1953), pension disputes, see, e.g., *Lewis v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 431 F. Supp. 271, 277 (E.D. Pa. 1977), and patent disputes, see, e.g., *Hanes Corp. v. Millard*, 531 F.2d 585, 593–94 (D.C. Cir. 1976), superseded by statute, Act of Aug. 27, 1982, Pub. L. No. 97-247, sec. 17, § 294, 96 Stat. 317, 322 (1982), as recognized in *Nat’l R.R. Passenger Corp. v. Consol. Rail Corp.*, 892 F.2d 1066, 1072 (D.C. Cir. 1990).

105. *Moses H. Cone Mem’l Hosp. v. Mercury Constr. Corp.*, 460 U.S. 1, 24 (1983).

106. *Id.* at 24–25.

107. *Buckeye Check Cashing, Inc. v. Cardegna*, 546 U.S. 440, 443 (2006).

108. *Volt Info. Scis., Inc. v. Bd. of Trs. of Leland Stanford Junior Univ.*, 489 U.S. 468, 478 (1989).

109. *Shearson/Am. Express Inc. v. McMahon*, 482 U.S. 220, 231 (1987).

110. *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 626–27 (1985) (“[W]e are well past the time when judicial suspicion of the desirability of arbitration and of the competence of arbitral tribunals inhibited the development of arbitration as an alternative means of dispute resolution.”).

111. See Act of Aug. 27, 1982, Pub. L. No. 97-247, sec. 17, § 294, 96 Stat. 317 (1982) (codified as amended at 35 U.S.C. § 294 (2012)).

112. *Beckman Instruments, Inc. v. Tech. Dev. Corp.*, 433 F.2d 55, 63 (7th Cir. 1970) (citing *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969)).

113. See *supra* notes 41–45 and accompanying text (describing these two laws).

principle.<sup>114</sup> Thus, it appears that the legislative motivations behind the patent arbitration acts at least partially align with the motivations behind the AIA. Both attempt to deal with the excessive cost and burden of litigating patent disputes through the public court system.

B. Gilmer, Farrel, and *Limits to the Pro-Arbitration Policy*

The Supreme Court has, however, left open the possibility that a “countervailing policy manifested in another federal statute” could potentially override the FAA’s language.<sup>115</sup> The Court clarified in *Mitsubishi Motors* that statutory rights are not suitable for arbitration if “Congress intended the substantive protection afforded by a given statute to include protection *against waiver of the right to a judicial forum*.”<sup>116</sup> The Court has noted that such a congressional intent should be “deducible from [the statutory] text or legislative history.”<sup>117</sup>

This language has been construed to limit the impact of arbitration clauses in cases in which Congress has set up administrative proceedings with the clear intent to make those proceedings widely available. In *Gilmer v. Interstate/Johnson Lane Corp.*, the Supreme Court considered the impact of an arbitration clause on a party’s ability to litigate a claim under the Age Discrimination in Employment Act of 1967 (ADEA) in federal court.<sup>118</sup> The Court noted that despite its holding that the arbitration clause was enforceable and should operate to force the litigant to bring the statutory claim to arbitration rather than district court, the litigant was *not* precluded from filing a charge with the Equal Employment Opportunity Commission (EEOC).<sup>119</sup> While the Court did not address in detail why the arbitration clause that waived the litigant’s right to resort to federal court did not also operate to prohibit recourse to the EEOC, an examination of the ADEA’s language clearly shows congressional intent to limit the impact of waiver agreements on the EEOC’s ability to enforce the provisions of the ADEA and to protect the

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114. See *supra* notes 44–45 and accompanying text (noting Congress’s motivation to “encourage innovation” and relieve some of the docket burden on federal courts handling patent litigation).

115. *Dean Witter Reynolds Inc. v. Byrd*, 470 U.S. 213, 221 (1985); see also *Mitsubishi Motors*, 473 U.S. at 627 (“Just as [the FAA] requires courts liberally to construe the scope of arbitration agreements, . . . it is the congressional intention expressed in some other statute on which the courts must rely to identify any category of claims as to which agreements to arbitrate will be held unenforceable.”).

116. *Mitsubishi Motors*, 473 U.S. at 628 (emphasis added).

117. *Id.* (“Having made the bargain to arbitrate, the party should be held to it unless Congress itself has evinced an intention to preclude a waiver of judicial remedies for the statutory rights at issue.”).

118. 500 U.S. 20, 23 (1991).

119. *Id.* at 28.

“right of an employee to file a charge or participate in an investigation or proceeding conducted by the [EEOC].”<sup>120</sup>

In *Farrel Corp. v. U.S. International Trade Commission*, the Federal Circuit dealt with the issue of whether the International Trade Commission (ITC) could terminate an investigation on the basis of an arbitration clause that bound the petitioner and the respondent.<sup>121</sup> In that case, Farrel (the patent holder) filed a complaint with the ITC alleging that Pomini (its former licensee) had misappropriated trade secrets and committed other trademark-related violations.<sup>122</sup> The Commission voted to institute an investigation, but later terminated the investigation, citing “the existence of the arbitration clauses” in the licensing agreements between Pomini and Farrel, as well as ITC precedent supporting the termination of an investigation in light of an arbitration agreement.<sup>123</sup> In its opinion terminating the investigation, the ITC relied heavily on the “broad federal policy favoring enforcement of arbitration agreements” and cited the *Mitsubishi Motors* case, arguing that there were no legal constraints that would justify ignoring the arbitration agreement and proceeding with its investigation.<sup>124</sup>

Farrel appealed the ITC’s termination of the case to the Federal Circuit, arguing that the ITC did not have statutory authority to terminate an ongoing investigation on the basis of an arbitration clause.<sup>125</sup> Farrel pointed out that the statute governing ITC investigations, 19 U.S.C. § 1337(b)(1) (“ITC statute”), used mandatory rather than permissive language (“[t]he Commission *shall determine*, with respect to each investigation . . . *whether or not there is a violation*”<sup>126</sup>), and that once the ITC institutes an investigation, there are only limited grounds on which the ITC can terminate the investigation.<sup>127</sup>

The Federal Circuit accepted Farrel’s position and reversed the ITC’s termination of the investigation.<sup>128</sup> The court’s decision relied heavily on statutory interpretation of the ITC statute, which convinced the court that Congress did not intend to allow the ITC to terminate

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120. 29 U.S.C. § 626(f)(4) (2012) (“No waiver agreement may affect the Commission’s rights and responsibilities to enforce this chapter. No waiver may be used to justify interfering with the protected right of an employee to file a charge or participate in an investigation or proceeding conducted by the Commission.”).

121. 949 F.2d 1147, 1150–51 (Fed. Cir. 1991), superseded by statute, Uruguay Round Agreements Act, Pub. L. No. 103-465, § 321(a)(2)(A), 108 Stat. 4809, 4943–44 (1994), as recognized in *InterDigital Commc’ns, LLC v. ITC*, 718 F.3d 1336, 1343 (Fed. Cir. 2013).

122. *Id.* at 1149.

123. *Id.* at 1150.

124. *Id.* at 1150–51 (citing *In re Certain Internal Mixing Devices & Components Thereof*, Inv. No. 337-TA-317, USITC Pub. 2414 (Nov. 2, 1990) (Preliminary)).

125. *Id.* at 1150.

126. 19 U.S.C. § 1337(c) (2012) (emphasis added).

127. *Farrel*, 949 F.2d at 1152–53.

128. *Id.* at 1155 (“[W]e ultimately conclude that the [arguments advanced by the Commission] do[] not support the ITC’s termination of the instant proceeding.”).

investigations before determining whether a violation had occurred.<sup>129</sup> Importantly, however, the Federal Circuit took the case as an opportunity to reflect on the scope of the broad, pro-arbitration policy found in the *Mitsubishi Motors* case. The Federal Circuit read narrowly the holding of *Mitsubishi Motors*, which had been cited by the ITC to support its deference to the parties' arbitration agreement, and implied that the cited "broad federal policy favoring arbitration" applied differently in judicial and administrative contexts:

[W]e ultimately conclude that the rationale of *Mitsubishi* does not support the ITC's termination of the instant proceeding. *Mitsubishi's* reasoning rests in large part on the Federal Arbitration Act, which, by its terms, has particular relevance to *judicial* recognition of arbitration agreements. *The Commission, of course, is not a court*, and it has exclusive jurisdiction to administer [the ITC statute], which lacks provisions allowing for private enforcement either in the courts or through arbitration.<sup>130</sup>

The *Farrel* opinion thus implies that administrative agencies may be able to disregard arbitration clauses more frequently than state or federal court judges. To support this holding, the court read the *Gilmer* opinion to show that an "arbitration agreement operate[s] as a waiver of the right of access only to the *judicial* and not the *administrative* forum."<sup>131</sup> According to the court's reasoning, while federal policy dictates that parties are free to choose an arbitral forum as a substitute for a judicial forum, the same federal policy does not equally apply to allow parties to choose an arbitral forum as a substitute for an administrative forum that Congress specifically created to supplement other dispute resolution mechanisms. In other words, an arbitration clause constitutes a waiver of the right to go to court but does not necessarily also constitute a waiver of the statutory right to access administrative proceedings that Congress intended to grant to a particular class of individuals.

The *Farrel* opinion can plausibly be read to hold that arbitration agreements may *never* operate to prevent parties from resorting to administrative proceedings.<sup>132</sup> However, in light of the *Mitsubishi Motors*

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129. *Id.* at 1152–54.

130. *Id.* at 1155 (emphasis added) (citation omitted).

131. *Id.* at 1156; see also Ronald A. Brand, Recent Development, International Trade Law and the Arbitration of Administrative Law Matters: *Farrel Corp. v. U.S. International Trade Commission*, 31 Colum. J. Transnat'l L. 181, 189 (1993) [hereinafter Brand, International Trade Law] (noting that this "single sentence" in *Gilmer* "became the foundation for the Federal Circuit's refusal to enforce" the arbitration agreement in *Farrel*).

132. Indeed, the *Farrel* court essentially stated this conclusion in the opinion. See *Farrel*, 949 F.2d at 1156 ("[A]rbitration agreement[s] operate[] as a waiver of the right of access only to the *judicial* and not the *administrative* forum."). Several commentators have hinted at this conclusion but in general conclude that *Farrel* simply stands for the proposition that administrative agencies do not *always* have to honor agreements to

opinion and the Supreme Court's approach to other arbitrability cases, it seems more plausible to conclude that the Federal Circuit made its distinction between the Federal Arbitration Act analysis in the judicial versus administrative context because of the inherent presumption that behind some administrative remedies is a specific congressional intent to make that remedy available to an entire class of complainants. Unlike issues of arbitrability in the judicial context, the use of an arbitration clause to prevent a party from availing itself of an administrative proceeding could frustrate the congressional aim behind the administrative structure. Essentially, the crux of the issue is the conflict (as described in *Mitsubishi Motors*) between the "congressional policy manifested in the Federal Arbitration Act that requires courts liberally to construe the scope of arbitration agreements"<sup>133</sup> and the implicit assumption that behind certain administrative procedures lies a congressional intent to encourage *all* members of a particular class of litigants to utilize the procedures so that the litigants, and the public at large, will benefit from their unique substantive or procedural elements.

Thus, the court's decision in *Farrel* ultimately turns on an examination of the broader dispute resolution framework into which the administrative procedures fit.<sup>134</sup> Because the statute at issue in *Farrel* did not illustrate a clear, explicit congressional intent to "preclude a waiver of [the administrative] remed[y],"<sup>135</sup> the court needed to look to the character of the ITC's procedures and authority in order to prove that allowing the Commission to terminate an investigation on the basis of an arbitration clause would frustrate the congressional purpose behind the statute.<sup>136</sup>

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arbitrate disputes. See, e.g., Ronald A. Brand, Agreements to Arbitrate—Section 337 ITC Proceedings—Intellectual Property, *in* *International Decisions*, 87 Am. J. Int'l L. 282, 292, 294–95 (Keith Highet & George Kahale III eds., 1993) ("The *Farrel* decision indicates that, despite Supreme Court decisions compelling arbitration of public policy matters, including issues involving securities law, antitrust law, RICO, and the Age Discrimination in Employment Act, the policy favoring enforcement of private agreements to arbitrate is not impregnable." (footnotes omitted)); Plant, *supra* note 77, at 10 (arguing that *Farrel* holds "that an arbitration clause may permit resolution of patent . . . issues by way of binding arbitration in lieu of a proceeding before a U.S. court, but not always in lieu of a proceeding before a U.S. administrative agency"); Smith et al., *supra* note 77, at 321 (indicating that the reasoning of the *Farrel* case "could apply to other administrative proceedings before the patent office such as an inter partes reexamination proceeding").

133. *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 627 (1985).

134. See Brand, *International Trade Law*, *supra* note 131, at 197 (noting that the Federal Circuit "inferred much from the language and history of [the ITC statute], and extracted a rule that trumps the broad judicial and legislative policy favoring arbitration").

135. *Farrel*, 949 F.2d at 1155 (internal quotation marks omitted) (quoting *Mitsubishi Motors*, 473 U.S. at 628).

136. See, e.g., *id.* at 1155–56 ("Furthermore, section 337(b)(1), limiting the discretion of the Commission to suspend investigations, provides additional evidence that Congress

Importantly, the court focused on the role of the administrative procedures in light of preexisting legal remedies. By finding that the ITC procedures (in *Farrel*) “supplement[ed] other provisions of law, which were viewed as inadequate to fully protect U.S. industries from unfair foreign trade practices,” the court bolstered its assumption that, in setting up the ITC procedures, Congress intended to create a “unique” role for the Commission that built upon existing available mechanisms and extended “beyond the scope of purely private enforcement.”<sup>137</sup> Because these procedures extended, rather than ran parallel to, the remedies that litigants could access through the judicial forum, the enforcement of the arbitration agreement would have the practical effect of allowing the complainant to waive the supplementary substantive and procedural rights that Congress intended to create by setting up the administrative procedure.<sup>138</sup> Under this reasoning, if an administrative procedure is sufficiently “unique” from other means of legal enforcement through the judicial forum, there may exist a presumption of a congressional intention to preclude waivers of the administrative remedy sufficient to meet the standard set out in *Mitsubishi Motors*.

The court identified several structural and procedural similarities between the EEOC procedure (in *Gilmer*) and the ITC procedure (in *Farrel*) that it used to justify its application of the *Gilmer* dicta<sup>139</sup> to *Farrel*. The court focused on three elements of the procedure set up by the relevant statute: (i) the procedure was made “by statute available to a specific class of complainants,” (ii) the Commission had “independent authority to investigate alleged or apparent wrongs,” and (iii) the Commission possessed a “statutory mandate to promote the public interest.”<sup>140</sup> Earlier in its opinion, the court described the procedures and noted their investigatory, rather than adjudicatory, nature.<sup>141</sup> The court noted that while the Commission does typically begin investigations in response to a complaint, it has the authority to institute an investigation “on its own initiative,” and the investigations are carried out “independently of the wishes of the parties.”<sup>142</sup> Additionally, the court quoted language from *Gilmer* suggesting that the fact that the EEOC could “receive information concerning alleged violations . . . ‘from any

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views the Commission’s role in investigating possible violations as unique and beyond the scope of purely private enforcement.”)

137. *Id.*; see also Brand, *International Trade Law*, *supra* note 131, at 196 (noting that the Commission’s role in *Farrel* “evinced a purpose to supplement otherwise inadequate legal remedies”).

138. See *Farrel*, 949 F.2d at 1156 (“Just as the EEOC’s unique [statutory] protection may not be privately contracted away, neither should the Commission’s.”).

139. See *supra* notes 126–127 and accompanying text (noting the *Farrel* court’s observation of relevant elements of the ITC procedure at issue).

140. *Farrel*, 949 F.2d at 1156.

141. *Id.* at 1152.

142. *Id.* at 1152; see also 19 U.S.C. § 1337(b)(1) (2012) (discussing the ITC’s power to initiate investigations “upon its initiative”).

source” had particular relevance.<sup>143</sup> The court also noted that the Commission, “in reaching its final determination on an alleged violation[,] *must* consider factors that may or may not interest the parties: the ‘public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers.’”<sup>144</sup>

It remains difficult to parse a broad principle of administrative law out of the Federal Circuit opinion in *Farrel*, perhaps because the court was primarily attempting to draw a conclusion based on the *Gilmer* dicta rather than setting out a holistic test through which later courts can investigate the congressional intent behind administrative procedures.<sup>145</sup> The opinion fails to provide an example of an administrative procedure that *could* be terminated on the basis of an arbitration agreement binding the petitioning party. However, one aspect of the court’s reasoning in *Farrel* may provide a principle to be followed in later cases. The court seemed to structure its logic around one central question: Did Congress intend to create the administrative procedure for primarily procedural, adjudicatory purposes (that is, as an alternative to litigation), or did Congress intend to create the procedure to change or improve the way a particular statute or public policy is enforced?<sup>146</sup> By focusing on the ITC and the EEOC’s independence (and ability to conduct an investigation independently of a complainant), and by stressing how agencies can commence investigations after receiving allegations “from any source,” the court highlighted the investigatory, rather than adjudicatory nature of the proceedings.<sup>147</sup> By focusing on the fact that the ITC statute “was designed to supplement other [existing] provisions of law” the court stressed the fact that the procedure was a congressional patch for what it considered a weak point in the enforcement framework.<sup>148</sup> And by stressing both the ITC and the EEOC’s mandates to enforce public policy and consider the broader public interest, the court characterized the

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143. *Id.* at 1156 (quoting *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 28 (1991)).

144. *Id.* at 1152 (quoting 19 U.S.C. § 1337(c)).

145. The court in *Farrel* seemed to tackle the broader arbitrability question by analogy to the facts of *Gilmer*, rather than through the enunciation and application of a broader principle. See, e.g., *id.* at 1156 (“Because the Commission, like the EEOC, is by statute available to a specific class of complainants, has independent authority to investigate alleged or apparent wrongs, and possesses a statutory mandate to promote the public interest, we see no compelling reason to treat the Commission any differently than the EEOC.”).

146. See Patrick O. Gudridge, Title VII Arbitration, 16 Berkeley J. Emp. & Lab. L. 209, 287 (1995) (noting, while discussing *Gilmer* and *Farrel*, that “[i]t is enough, I think, to note that statutory schemes might assign very different roles to agency action and litigation” and noting that agency action may take “[r]esponsibility for general considerations of public interest”).

147. *Farrel*, 949 F.2d at 1156.

148. *Id.* at 1155.

procedures as fulfilling some public purpose *other than* providing a better mechanism for the resolution of disputes.<sup>149</sup> Even though both the ITC and EEOC procedures at issue concerned bilateral disputes between two parties, by highlighting the above aspects, the court showed that the procedures were primarily motivated by the relationship between the public (via the administrative agency) and the alleged violator, rather than the relationship between the disputing parties. In both instances, the petitioner acted as whistleblower, rather than as litigant. Therefore, the use of an arbitration agreement to halt the proceedings, simply due to the relationship between the arbitration agreement and the provenance of the information that instigated the investigations, hardly seems appropriate.

After the *Farrel* decision, Congress amended the ITC statute to allow (but not require) the Commission to terminate any investigation before making a determination regarding the existence of a violation on the basis of an arbitration agreement—seemingly reversing the narrow holding of *Farrel*.<sup>150</sup> Some commentators have suggested that Congress's revision of the statute illustrates an intent for "both administrative agencies and courts [to] honor parties' intent to arbitrate disputes."<sup>151</sup> An ITC Report published after the statutory change describes the amendment as an effort to "bring Commission practice into closer conformity with district court practice with respect to . . . the deference accorded to arbitration agreements."<sup>152</sup> However, the report also indicates that the amendments were motivated by a need to correct a discrepancy between district court and ITC procedures that resulted in "imported goods [being] treated less favorably in Commission investigations than domestic goods are treated in district court infringement cases," which may have been a violation of the United States' obligations under the General Agreement on Tariffs and Trade (GATT).<sup>153</sup> Therefore, while the amendment did allow the ITC to defer

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149. See *id.* at 1156.

150. See 19 U.S.C. § 1337(c) (2012) ("The Commission shall determine . . . whether or not there is a violation of this section, except that the Commission may, . . . on the basis of . . . an agreement to present the matter for arbitration, terminate any such investigation . . . without making such a determination.").

151. St. Martin & Mason, *supra* note 16, at 315; cf. Smith et al. *supra* note 77, at 321 (indicating that the doctrinal holding of *Farrel* may have survived the legislative amendment and may support the application of the *Gilmer* dicta to other administrative proceedings at the PTO).

152. Procedures for Investigations and Related Proceeding Concerning Unfair Practices in Import Trade, 59 Fed. Reg. 67,622, 67,623 (Dec. 30, 1994) (related amendments codified at 19 C.F.R. pt. 210).

153. *Id.* This discrepancy had been identified as a major flaw in the *Farrel* court's reasoning. See Brand, International Trade Law, *supra* note 131, at 198–99 (asserting that *Farrel* creates a discrepancy between the treatment of domestic and foreign goods that violates the United States' commitments to the GATT).

to arbitration agreements, it is unlikely that this move evinces a congressional intention to reverse the doctrinal holding of *Farrel*.

C. *IPR and the Farrel Framework*

Because IPR is a “specialized [administrative] agency proceeding,”<sup>154</sup> like the procedures in *Farrel* and *Gilmer*, the *Gilmer/Farrel* analysis will likely define the impact of an arbitration clause on a party’s right to petition for the institution of an IPR proceeding. Ultimately, if a court determines that an IPR proceeding is sufficiently similar to the EEOC’s investigation of ADEA violations or the ITC’s investigations of unfair trade practices, case law dictates that an arbitration clause binding the petitioner is not a valid justification for the PTAB’s denial of a petition for IPR. However, because of both (i) the similarities between IPR’s oppositional, adversarial structure and the procedures of district court litigation and (ii) the differences between that structure and the largely investigatory structures of the procedures at issue in *Farrel* and *Gilmer*, it remains difficult to determine how a court will ultimately resolve this issue.<sup>155</sup>

1. *Comparing the AIA Post-Issuance Procedures with the Administrative Procedures in Farrel and Gilmer.* — IPR and the other AIA-implemented post-issuance review procedures do not grant the PTO entirely independent authority to conduct an investigation. While the statutes at issue in *Gilmer* and *Farrel* granted the EEOC and the ITC, respectively, independent authority to conduct investigations without having received a formal complaint,<sup>156</sup> the IPR statute requires that each proceeding be instituted in response to a petition filed with the PTO.<sup>157</sup> At least technically, nothing in the AIA allows the Director to institute IPR sua sponte. However, under 35 U.S.C. § 303, the Director of the PTO may “[o]n his own initiative, and [at] any time, . . . determine whether a substantial new question of patentability is raised by patents and publications discovered by him.”<sup>158</sup> In fact, the AIA created the ability of the Director to institute a reexamination on her own initiative.<sup>159</sup> While the resulting procedure of ex parte reexamination is procedurally distinct from IPR,

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154. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2143 (2016) (“[I]n other significant respects, inter partes review is less like a judicial proceeding and more like a specialized agency proceeding.”).

155. See Shepherd, supra note 3, at 32 (“The new [IPR] ‘mini-trials,’ it was believed, would more fairly balance the role of patent holders and patent challengers in a manner similar to litigation.”).

156. See supra notes 140–142 and accompanying text (highlighting that the *Farrel* court noted that both statutes at issue granted the Agency independent authority to conduct investigations).

157. See 35 U.S.C. §§ 311(a), 314(a) (2012).

158. Id. § 303(a).

159. H.R. Rep. No. 112-98, pt. 1, at 46 (2011), as reprinted in 2011 U.S.C.A.A.N. 67, 77.

the grounds on which the patent in question would be challenged are similar to the grounds on which a patent would be challenged during an IPR proceeding.<sup>160</sup>

Additionally, as noted above, any person “who is not the owner of a patent” may file a petition for IPR.<sup>161</sup> Such a permissive standing requirement is, following the Federal Circuit’s analysis in *Farrel*, strongly indicative of a congressional intent for the procedures to have an investigatory, rather than an adjudicatory flavor.<sup>162</sup> The procedures at issue in *Gilmer* and in *Farrel* had the same characteristic; the EEOC was free to receive information concerning violations “from any source.”<sup>163</sup> However, the fact that during an IPR proceeding, the PTAB may rely only on information and prior art submitted by the petitioner seems to characterize the procedures as decidedly noninvestigatory.<sup>164</sup>

One important aspect of IPR is the continued participation of the IPR petitioner throughout the entire process.<sup>165</sup> It is this aspect of IPR that supports the assertion that the new procedure is adjudicatory in nature, rather than purely investigatory. The House Report supporting the bill also describes the new procedure as a conversion of the preexisting inter partes reexamination procedure “from an examination to an adjudicative proceeding.”<sup>166</sup> Procedurally, this characteristic of IPR creates a strong contrast to the procedures at issue in *Gilmer* and *Farrel*, in which the administrative agency in question conducts the investigation “independently of the wishes of the parties.”<sup>167</sup> However, Congress’s decision to describe IPR as “adjudicative” may not necessarily indicate that Congress intended to emphasize the bilateral-dispute-resolution aspect of the procedure (over the patent-policy aspect); there are indications in the legislative record that suggest that Congress viewed the increased involvement of the

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160. A sua sponte institution of ex parte reexamination by the Director must be on the basis of a patent or printed publication. 35 U.S.C. § 303(a). Similarly, the grounds on which an IPR petition can challenge a patent are limited to patents or printed publications. *Id.* § 311(b).

161. *Id.* § 311(a).

162. See *supra* note 143 and accompanying text (noting that the *Farrel* court quoted language from *Gilmer* suggesting the relevance of the fact that the EEOC could receive information concerning alleged violations from any source).

163. *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 28 (1991) (internal quotation marks omitted) (quoting 29 C.F.R. §§ 1626.4, 1626.13 (1990)).

164. See 35 U.S.C. § 314(a) (indicating that the Director must institute IPR on the basis of information filed in the petition).

165. *Id.* § 316(a)(10) (requiring the Director to prescribe regulations “providing either party with the right to an oral hearing as part of the proceeding”).

166. H.R. Rep. No. 112-98, pt. 1, at 46 (2011), as reprinted in 2011 U.S.C.A.A.N. 67, 77.

167. *Farrel Corp. v. U.S. Int’l Trade Comm’n*, 949 F.2d 1147, 1152 (Fed. Cir. 1991), superseded by statute, Uruguay Round Agreements Act, Pub. L. No. 103-465, § 321(a)(2)(A), 108 Stat. 4809, 4943–44 (1994), as recognized in *InterDigital Commc’ns, LLC v. ITC*, 718 F.3d 1336, 1343 (Fed. Cir. 2013).

petitioning party as a mechanism intended to “expedite [the] proceedings” so that the PTO could meet the tight time limits imposed by the AIA.<sup>168</sup>

The procedures at issue in *Farrel* and *Gilmer* seem more similar to the ex parte reexamination procedure that the AIA left in place. Both the ex parte reexamination procedure and the procedures at issue in *Farrel* and *Gilmer* envisioned a process in which a member of the public submits information to the administrative agency, and the agency subsequently decides whether to commence an investigation in response.<sup>169</sup> If the agency chooses to do so, the investigation under each of the procedures at issue proceeds ex parte, without the continued participation of the petitioner.<sup>170</sup> Through ex parte reexamination, the PTO can consider prior art, consisting of patents or printed publications submitted, and then order reexamination of the patent if it finds that the prior art raises a “substantial new question of patentability.”<sup>171</sup> “Any person at any time” may submit prior art references to the PTO,<sup>172</sup> and once the PTO decides to commence a reexamination, the procedures are carried out without the involvement of the party who submitted the prior art reference.<sup>173</sup>

2. *Examining the Overall Structure Behind the AIA’s Post-Issuance Procedures.* — Perhaps more important to the *Farrel* analysis is the broader congressional purpose underlying the AIA’s post-issuance procedures. As noted above, a key part of the Federal Circuit’s reasoning in *Farrel* was its finding that the ITC procedures at issue “supplement[ed] other provisions of law, which were viewed as inadequate to fully protect U.S. industries from unfair foreign trade practices.”<sup>174</sup> A finding that Congress intended to grant the PTO a role “unique and beyond the scope of purely private enforcement” would lend weight to the argument that Congress implicitly intended to

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168. 157 Cong. Rec. 3429 (2011) (statement of Sen. Kyl). The PTO must complete an IPR within one year after a party institutes the proceeding, unless the Office can show good cause to extend the deadline by up to six months. 35 U.S.C. § 316(a)(11).

169. *Farrel*, 949 F.2d at 1152 (“[T]he Commission has exclusive authority to investigate, either on the basis of a complaint or on its own initiative, allegations . . . [and the Commission then,] through its staff, conducts the investigations independently of the wishes of the parties . . .”).

170. See *id.*

171. 35 U.S.C. § 303(a) (instructing the Director to determine whether a “substantial new question of patentability” exists on the basis of patents and publications “discovered by him or cited under the provisions of section 301 or 302”); *id.* § 304 (instructing the Director to issue an “order for reexamination of the patent for resolution of the question”).

172. *Id.* § 301(a).

173. *Id.* § 305 (“[R]eexamination will be conducted according to the procedures established for initial examination . . .”).

174. *Farrel*, 949 F.2d at 1155–56.

preclude a waiver of the administrative remedy through an arbitration agreement.<sup>175</sup>

One of Congress's purposes behind the AIA was clearly to provide an alternative dispute resolution mechanism by encouraging the resolution of post-issuance validity disputes at the PTO, which was recognized as "a particularly appropriate venue for making validity determinations in a cost-effective and technically sophisticated environment."<sup>176</sup> During the legislative debate, Congress paid considerable attention to the high expense and time commitment involved in litigating patent disputes in the pre-AIA world. Members of Congress called attention to the "lengthy and duplicative" procedures that are required to litigate patent validity post-issuance<sup>177</sup> and expressed concern that the high cost of patent litigation may discourage small parties from litigating infringement suits.<sup>178</sup> Testimony before Congress in the years leading up to the bill indicated a growing sentiment of the need to reform post-issuance proceedings at the PTO to respond to the "substantial disadvantages" of patent litigation, specifically its high expense.<sup>179</sup>

However, the legislative history of the AIA also clearly shows that Congress intended for the post-issuance proceedings to serve a broader purpose not directly related to providing an alternative to costly patent litigation. Congress acknowledged the concern that the administrative structure of the PTO was resulting in "a flood of bad patents on so-called inventions that are unoriginal, vague, overbroad, and/or so unclear that bad actors can easily use them to threaten all kinds of innovators."<sup>180</sup> In a

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175. *Id.*

176. *Perspective on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the S. Comm. on the Judiciary, 109th Cong. 51 (2005)* (statement of Q. Todd Dickinson, Vice President and Chief Intellectual Property Counsel, General Electric Co., and former Director, USPTO).

177. 154 Cong. Rec. 22,626 (2008) (statement of Sen. Kyl) ("Lengthy and duplicative proceedings are one of the worst evils of other systems of administrative review of patents.").

178. 157 Cong. Rec. 13,168 (2011) (statement of Sen. Hatch) ("These changes alone will decrease litigation costs so that small companies and individuals will not be dissuaded from protecting their patent rights by companies with greater resources.").

179. *Patent Quality Improvement: Post-Grant Opposition: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary, 108th Cong. 29 (2004)* (statement of Michael Kirk, Executive Director, AIPLA) ("While the validity of such patents may be tested through litigation or [post-issuance proceedings], these proceedings all suffer substantial disadvantages . . . . Litigation is very expensive . . . [and] [u]ntil the litigation has . . . concluded, there is uncertainty in the marketplace . . .").

180. *Elec. Frontier Found., supra note 32*; see also *supra* section I.A (discussing the administrative problems at the PTO and the "bad patent" problem); cf. Gregory Dolin, *Dubious Patent Reform*, 56 *B.C. L. Rev.* 881, 887-90 (2015) (arguing that the complaints about "bad patents" are nothing new and have been around since the early-nineteenth century).

previous 2007 attempt to reform the reexamination procedure, Congressman Howard Berman, when introducing the bill to the House of Representatives, expressed that the procedure merited an overhaul “to address the questionable quality of patents issued by the [PTO]” and noted that the intention of the bill was to “establish[] a check on the quality of a patent immediately after it is granted.”<sup>181</sup> During the legislative debate over the AIA, Senator Charles Schumer described the statute as a way to “streamline[] review of patents to ensure that the poor-quality patents can be weeded out through administrative review rather than costly litigation.”<sup>182</sup>

As noted above, the AIA post-issuance proceedings benefit from several procedural aspects that make it much easier for petitioners to succeed in invalidity challenges.<sup>183</sup> First, the presumption of validity does not apply in IPR proceedings.<sup>184</sup> Second, the petitioner in an IPR must show invalidity only by a preponderance of the evidence, while in district court, the challenger would have to overcome the presumption of validity with clear and convincing evidence that the patent is invalid.<sup>185</sup> Third, the PTAB examines patents using a broadest reasonable construction standard, which increases the likelihood that the patent claims will be found to be too broad and invalidated.<sup>186</sup>

Overall, Congress specifically designed these elements of the IPR procedure to make it easier for petitioners to bring patent invalidity challenges.<sup>187</sup> Many of these advantages existed under the preexisting reexamination procedures, but the AIA served to encourage the timely use of these procedures.<sup>188</sup> Congress’s concern over the current state of patent litigation, and the difficulty of invalidating bad patents through the preexisting reexamination procedures or through public litigation, seems to align with the congressional determination, as expressed by the *Farrel* court, that “other provisions of law . . . [were] inadequate to fully protect” the public from the problem Congress sought to remedy.<sup>189</sup>

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181. 153 Cong. Rec. 9292–94 (2007) (statement of Rep. Berman).

182. 157 Cong. Rec. 13,166 (2011) (statement of Sen. Schumer).

183. See *supra* notes 67–71 and accompanying text (noting the challenger-friendly elements of IPR’s procedural design).

184. *In re Swanson*, 540 F.3d 1368, 1377–78 (Fed. Cir. 2008).

185. *Dubis*, *supra* note 70, at 139; see also *Swanson*, 540 F.3d at 1377–78; *supra* note 71.

186. *Cuozzo Speed Techs., LLC v. Lee*, 136 S.Ct. 2131, 2144–45 (2016).

187. See *Shepherd*, *supra* note 3, at 33 (“IPR is significantly more friendly to patent challengers than the previous reexamination procedures.”).

188. *Id.* (“IPR offers users a significantly speedier resolution than did *inter partes* reexamination. An *inter partes* reexamination often took years to reach a decision. In contrast, the PTAB must, by statute, make a final decision on an IPR claim within twelve to eighteen months.”).

189. *Farrel Corp. v. U.S. Int’l Trade Comm’n*, 949 F.2d 1147, 1155 (Fed. Cir. 1992) (noting that previous law was inadequate to protect U.S. industries from unfair foreign trade practices and domestic owners of patents from violation of their patent rights),

Essentially, the AIA expanded a category of procedures that “supplemented” existing legal structures in the same way that the ITC procedures (at issue in *Farrel*) and the EEOC procedures (at issue in *Gilmer*) did.<sup>190</sup>

It remains unclear how the issue will ultimately be resolved once a court decides to address it. As noted, the Federal Circuit’s *Farrel* stops short of defining a clear legal test for the effect of an arbitration clause on a party’s ability to utilize administrative procedures.<sup>191</sup> At least conceptually, the issue seems to turn on which of the two “hybrid” purposes<sup>192</sup> underlying the IPR statute a court views as more indicative of congressional intent. It is entirely possible that a court could view the characteristically oppositional, participatory nature of the post-issuance proceedings as an indication that Congress intended for the procedures to be, primarily, a means for the resolution of disputes. Such a finding would bolster the argument that, because IPR is a dispute resolution mechanism that provides an alternative to district court litigation, an arbitration agreement should have the same force in an IPR petition as it would in district court. However, this conclusion may risk the frustration of another crucial motivation behind the IPR statute: to “protect the public’s paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.”<sup>193</sup> By preventing licensees from petitioning for IPR on the basis of arbitration agreements, this conclusion may prevent the use of IPR procedures by the parties most likely and most motivated to take advantage of them.

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superseded by statute, Uruguay Round Agreements Act, Pub. L. No. 103-465, § 321(a)(2)(A), 108 Stat. 4809, 4943–44 (1994), as recognized in *InterDigital Commc’ns, LLC v. ITC*, 718 F.3d 1336, 1343 (Fed. Cir. 2013).

190. See *supra* note 137 and accompanying text (citing language from *Farrel* in which the court pointed out that the ITC procedures at issue “supplement[ed] other provisions of law”).

191. See *supra* note 145 and accompanying text.

192. The Supreme Court in *Cuozzo* recognized the “hybrid” purposes of the IPR statute. See *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2135 (2016) (“Congress designed a hybrid proceeding. The purpose of inter partes review is not only to resolve patent-related disputes among parties, but also to protect the public’s ‘paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.’” (quoting *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945))).

193. *Id.* (internal quotation marks omitted) (quoting *Precision Instrument*, 324 U.S. at 816); see also *Weston*, *supra* note 22, at 134 (noting language from *EEOC v. Waffle House, Inc.*, 534 U.S. 279, 294 (2002), that said binding the EEOC by a private arbitration agreement would undermine “the detailed enforcement scheme . . . simply to give greater effect to an agreement between private parties that does not even contemplate the [agency’s] statutory function” (alterations in original) (internal quotation marks omitted)).

## III. POLICY CONSIDERATIONS CONCERNING THE ARBITRATION ISSUE

Despite the doctrinal uncertainty, Congress or the courts should take the opportunity to clarify that arbitration agreements should not operate as waivers of a party's right to petition for IPR at the PTO.<sup>194</sup> Such a clarification would be in line with previous PTAB decisions that have read the AIA to broadly define the class of persons who can petition for IPRs and that have declined to recognize contract-based defenses to IPR institution.<sup>195</sup> This Part introduces three arguments that counsel toward this result. Section III.A demonstrates that teachings from other corners of patent law also caution that precluding licensees from challenging patent validity poses a unique risk to the efficiency of the patent system. Section III.B rebuts the most prominent objection to the weakening of arbitration agreements, which advocates for the primacy of party autonomy and freedom of contract. This section argues that, while freedom of contract might lead to significant systemic and economic benefits in other contexts, the rigid and expansive interpretation of arbitration agreements in the IPR context is potentially injurious to the congressional scheme of dispute resolution set up by the AIA. Section III.C then shows that the practical difficulty of enforcing arbitration agreements against IPR petitioners also counsels against allowing these arbitration agreements to prevent IPR petitions. Because of the largely permissive standing requirements in the AIA, even if arbitration agreements are enforced by the PTO at the institution phase, the

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194. Such a clarification could take the form of a declaration that arbitration clauses purporting to prevent a party from accessing the IPR proceedings are unconscionable and unenforceable. See, e.g. *Weston*, supra note 22, at 119 (“Is a contract that bars access to state or federal administrative recourse contrary to public policy or unconscionable, and therefore unenforceable?”). The Federal Circuit may have the opportunity to address this issue by reviewing the PTAB's decision whether to institute an IPR proceeding in a case involving an unambiguous arbitration agreement, similar to *Ford v. Paice*. The question of the reviewability of the PTAB's IPR institution decisions has been the subject of significant litigation since the passage of the AIA. See, e.g., *Cuozzo*, 136 S. Ct. at 2141 (holding that PTAB decisions to institute IPR are not reviewable on statutory grounds, unless the request for review “implicate[s] constitutional questions, . . . depend[s] on other less closely related statutes, or . . . present[s] other questions of interpretation that reach . . . well beyond ‘this section’”). For example, the Federal Circuit has granted a petition for en banc rehearing of the issue of whether judicial review is available for a patent owner who wishes to challenge the PTAB's IPR institution decision on the basis of the timeliness requirement of 35 U.S.C. § 315(b). See generally *Wi-Fi One, LLC v. Broadcom Corp.*, 851 F.3d 1241 (Fed. Cir. 2017). Of course, Congress could also just resolve this issue by amending the Patent Statute.

195. See, e.g., *Dot Hill Sys. Corp. v. Crossroads Sys., Inc.*, No. IPR2015-00822, at 9–10 (P.T.A.B. Sept. 17, 2015) (rejecting the patentee's argument that the IPR petitioner was contractually estopped from petitioning for IPR due to a settlement agreement under which the petitioner had agreed not to challenge the validity of the patent in question); *Athena Automation Ltd. v. Husky Injection Molding Sys. Ltd.*, No. IPR2013-00290, 2013 WL 8595976 at \*7 (P.T.A.B. Oct. 25, 2013) (rejecting the patentee's argument that the doctrine of assignor estoppel should apply to block the petitioner's IPR petition because of the “adjudicative nature of the proceedings”).

agreements themselves will be largely inoperative because of the ease with which a bound party can encourage another, unbound party to mount a separate IPR challenge to the relevant patent.<sup>196</sup>

A. *Lear v. Adkins and the Importance of Licensee Challenges to Patent Validity*

The ability of arbitration agreements to prevent licensees from utilizing the AIA post-issuance proceedings generates a risk that patentees will use these clauses to dampen the overall use and effect of the proceedings.<sup>197</sup> As mentioned, patentees have a strong incentive to do so: Once instituted, over eighty-five percent of IPRs result in the invalidation of at least one challenged claim.<sup>198</sup> Problematically, the parties who might be precluded from utilizing the AIA's post-issuance proceedings are precisely the parties likely to be most prepared, and most incentivized, to challenge patents that are overbroad or perhaps wholly invalid.<sup>199</sup> Parties bound by arbitration agreements will typically be licensees in privity with the patent holders.<sup>200</sup> By the nature of their agreements with the patent holders, licensees will be familiar with the technology inherent in and surrounding the patent, and they will likely also be familiar with the universe of prior art that could be used to invalidate the patent on the basis of lack of novelty or obviousness. Licensees will also be the parties with the greatest financial incentive to invest in attempts to invalidate or force a patentee to narrow the scope of a patent.<sup>201</sup>

Notably, several patent law cases decided over the past few decades have dealt with similar issues regarding patentee attempts to prevent licensees from challenging patents, and these cases have reinforced the right of licensees to challenge the patents on public interest grounds.<sup>202</sup> In *Lear v. Adkins, Inc.*, the Supreme Court affirmed that licensees are not prevented from challenging the validity of the patents they agree to license.<sup>203</sup> Before that decision, the doctrine of licensee estoppel operated to prevent a licensee from challenging the validity of a patent

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196. See 35 U.S.C. § 311 (2012) (allowing any person, other than the patent owner, to file a petition for IPR).

197. See *supra* section I.D (describing the potential conflict between arbitration policy and federal patent policy).

198. See *supra* note 72 (noting the source of this statistic).

199. See *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (“Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery.”).

200. See *id.*

201. See *id.*

202. See, e.g., *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007) (holding that a licensee is not required to break or terminate a license agreement before seeking a declaratory judgment in federal court that the patent underlying the license agreement is invalid); *Lear*, 395 U.S. at 670–71.

203. 395 U.S. at 670–71. Note that *Lear* and its progeny did not concern arbitration agreements and therefore do not resolve the issue at hand.

on the basis of the contract law principle that a purchaser cannot repudiate her promise “simply because he later becomes dissatisfied with the bargain he has made.”<sup>204</sup> In rejecting and overturning that doctrine, the Supreme Court noted that its decision was partially informed by the strong public interest benefits that come from licensee challenges to patent validity:

Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.<sup>205</sup>

*Lear* confirms that the efficacy of the patent system depends, in part, on the vigilance and participation of licensees. In other words, “muzzl[ing]” the licensees, or allowing their agreements with patentees to make it more difficult for them to challenge patent validity, hurts the effectiveness of the patent system as a whole.<sup>206</sup> It follows that allowing arbitration agreements to prevent licensees from utilizing the AIA post-issuance procedures poses a unique risk of undermining the very purposes behind the AIA: Such a rule would prevent a particularly well-prepared class of potential IPR petitioners (licensees bound by arbitration agreements) from accessing the procedures.

#### B. *Prioritizing Federal Patent Policy over Freedom of Contract*

The most likely objection to limiting the effect of arbitration clauses on the PTO’s administrative procedures is based on the principle of freedom of contract. Freedom of contract and the general principle of party autonomy have been described as the “very core” of U.S. arbitration doctrine<sup>207</sup> and the “highest priority in the pantheon of arbitration values.”<sup>208</sup> In fact, in the arbitration context, the party autonomy principle has been treated with such great importance that arbitration

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204. *Id.* at 668.

205. *Id.* at 670. Since *Lear*, the Supreme Court has extended this policy to allow licensees to challenge licensed patents through declaratory judgment actions without first terminating or breaching their licensing agreements. See *MedImmune*, 549 U.S. at 137 (“We hold that petitioner was not required . . . to break or terminate its . . . license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed.”).

206. See *Lear*, 395 U.S. at 670 (noting the argument that barring licensees from challenging patent validity would have a detrimental effect on the public).

207. Hiro N. Aragaki, Does Rigorously Enforcing Arbitration Agreements Promote “Autonomy”?, 91 *Ind. L.J.* 1143, 1143 (2016) (describing the importance of freedom of contract in U.S. arbitration doctrine); see also Thomas E. Carbonneau, At the Crossroads of Legitimacy and Arbitral Autonomy, 16 *Am. Rev. Int’l Arb.* 213, 258 (2005) (“Freedom of contract was heralded by courts as an absolute value in arbitration.”).

208. Edward Brunet, The Core Values of Arbitration, in *Arbitration Law in America: A Critical Assessment* 3, 5 (Edward Brunet, Richard E. Speidel, Jean R. Sternlight & Stephen J. Ware eds., 2006).

agreements “are not just enforced but *rigorously* enforced to a degree unknown in other contracting contexts.”<sup>209</sup> Under this principle, “[c]ourts must ‘rigorously enforce’ arbitration agreements according to their terms.”<sup>210</sup> As the argument goes, parties should be entirely free to decide and customize their method of dispute resolution. Thus, according to this principle, it should be within a licensee’s power to agree in an arbitration agreement *not* to resolve patent validity disputes before the PTO through IPR.

Commentators have argued that permitting this deference to the party autonomy principle leads to powerful systemic benefits. By allowing parties to take much of the risk out of dispute resolution (by designing the procedure of dispute resolution through an arbitration agreement or by ensuring that a particular licensee will not challenge the validity of a patent in a public forum), strict enforcement of arbitration agreements and “no-challenge” clauses<sup>211</sup> allows parties to reduce the uncertainty implicit in commercial contracts and thus encourages the patent holder to spread access to the patented subject matter through licensing agreements.<sup>212</sup> Alternatively, when licensees are made increasingly “able to challenge inventors’ patents, [patent owners] assume the risk that there is a higher likelihood [that] their patents will be invalidated . . . [and are thus] more likely to increase up-front costs . . . to hedge against

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209. Aragaki, *supra* note 207, at 1144–45.

210. *Am. Express Co. v. Italian Colors Rest.*, 133 S. Ct. 2304, 2309 (2013) (quoting *Dean Witter Reynolds Inc. v. Byrd*, 470 U.S. 213, 221 (1985)).

211. In a line of cases following *Lear*, several circuit courts have considered the question of the enforceability of no-challenge clauses in prelitigation settlement agreements. These cases have held, on the basis of the federal policy of encouraging licensee challenges to patent validity, that no-challenge clauses are void and unenforceable as a matter of law. See, e.g., *Rates Tech. Inc. v. Speakeasy, Inc.*, 685 F.3d 163, 164 (2d Cir. 2012); *Massillon-Cleveland-Akron Sign Co. v. Golden State Advert. Co.*, 444 F.2d 425, 428 (9th Cir. 1971) (“If a patent holder can exact from another a promise not to infringe, and thereby recover from one inducing the breach of that promise, in the absence of a valid patent, the patent holder is afforded more protection than the patent laws allow.”); *Bendix Corp. v. Balax Inc.*, 421 F.2d 809, 816 (7th Cir. 1970). However, the Federal Circuit has diverged from the approach of the Second, Seventh, and Ninth Circuits, holding that despite the policy rationales outlined in *Lear*, a no-challenge clause in a prelitigation settlement agreement is enforceable based on standard contract principles. See *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1370 (Fed. Cir. 2001) (holding that, in a settlement agreement, a “clear and unambiguous” waiver of the right to “challenge validity and/or enforceability” of patents is enforceable); see also Melissa Brenner, *Slowing the Rates of Innovation: How the Second Circuit’s Ban on No-Challenge Clauses in Pre-Litigation Settlement Agreements Hinders Business Growth*, 54 B.C. L. Rev. E. Supp. 57, 65–67 (2013), [http://bclawreview.org/files/2013/02/05\\_Brenner9.pdf](http://bclawreview.org/files/2013/02/05_Brenner9.pdf) [<http://perma.cc/PL3B-TY3W>] (applauding the Federal Circuit’s approach and arguing that freedom of contract should be the governing principle for these disputes).

212. Brenner, *supra* note 211, at 67 (“Although freedom of contract may limit the public’s exposure to the free exchange of ideas in the short term, decreased licensing costs will provide more innovation on the whole, allowing consumers to access more inventions in the long term.”).

the risk of invalidation by licensees later.”<sup>213</sup> When the risk that a licensee can successfully challenge a patent goes up, licenses will be more costly, leading to fewer licenses overall and a general increase in the cost of products produced under patent licenses.<sup>214</sup> Therefore, allowing parties to freely determine ex ante the procedures through which patent validity challenges will be resolved (and thus to avoid the challenger-friendly IPR proceedings) may increase the volume of patent licensing and, in turn, promote the widespread (licensed) use of the subject matter covered by a patent monopoly.<sup>215</sup>

The freedom of contract argument is thus based on the idea that rigorous enforcement of arbitration agreements leads to a greater public benefit—by bolstering a tool intended to decrease litigation risk—via (i) the more vigorous dissemination of innovations covered by patent monopolies and (ii) the lower cost of patent licenses, which may be passed on to the public in the form of lower prices. This argument has particular strength if one assumes that most of the patents in force are valid and correctly issued—under this assumption, exposing patent owners to the risk of invalidation through IPRs would increase the expected costs of defending the patents in front of the PTAB, perhaps leading to a narrower dissemination of patented technology and higher prices downstream. However, as has been extensively noted above, one of the primary motivations behind the AIA’s new procedures was the observation that many of the patents that come out of the PTO are, in fact, improperly granted.<sup>216</sup> The fact that most IPRs today lead to patent invalidation or narrowing provides sufficient support for the assumption that there are indeed problems with the examination process, which result in the issuance of a significant number of improperly granted

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213. See *id.* at 66.

214. Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives to Innovate After MedImmune*, 24 *Berkeley Tech. L.J.* 971, 974 (2009) (“[P]atent holders . . . will raise licensing fees to compensate for assuming a new risk, or . . . they will require licensees to pay the full cost of the license upfront . . . [As a result,] fewer deals will likely be made and fewer inventions will be put to socially-beneficial uses.”); *id.* at 983 (“[T]he patent holder can charge the licensee more to offset these risks. But that would raise the cost of the products produced under the license and reduce the potential pool of licensees, possibly leading to underutilization of the patented invention.”).

215. See David M. Treadway, Comment, *Has the Supreme Court Forgotten the Patentee? Recent Patent Licensing Decisions Contradict Patent Policy, Harm Licensors, and Alter Negotiation*, 33 *U. Dayton L. Rev.* 303, 303–04 (2008) (noting that recent decisions “favoring free challenge of patents” may lead to a situation in which patentees may not “even decide to license their inventions at all,” “more technology will be withheld from the public,” and patent licenses will have higher royalties upfront and “higher prices passed along to consumers”).

216. See *supra* note 31 and accompanying text (noting the concern over patents of “questionable validity”).

patent monopolies.<sup>217</sup> As the Supreme Court noted in *Lear*, overbroad or invalid patents cause direct harm both to potential licensees and to members of the public, who “may continually be required to pay tribute to would-be monopolists without need or justification.”<sup>218</sup> By enabling the relatively low-cost invalidation or narrowing of improperly granted patents, the AIA post-issuance proceedings target the wider dissemination of technological developments through an expanded public domain.

Therefore, while the rigorous enforcement of arbitration agreements may lead to some efficiency gains,<sup>219</sup> such a rule would undermine the far broader public benefit that follows from encouraging vigorous use of the AIA’s post-issuance proceedings: the identification and invalidation of bad patents and the resulting broader public domain, which enables increased *unlicensed* use of technology previously restricted by undeserving patent monopolists. While it may be true that the *cost* of this particular method of identifying and invalidating bad patents is a slight increase in the risk associated with patent licensing, it is highly likely that the detriment to the public of allowing a “would-be monopolist” to extract rents from a patent that should never have existed far outweighs the detriment to the public of exposing the “would-be monopolist” to the risk of having its patent challenged before the PTAB.

Moreover, many of the proposed efficiency losses underlying the freedom of contract argument may be overstated. First, it is unclear that patent owners would actually restrict the dissemination of their patented technology as a response to the increased risk that licensees may challenge patents through IPRs. The licensing of intellectual property rights in the United States is a massive market, accounting for over \$100 billion in revenue to patent holders annually.<sup>220</sup> While it is certainly conceptually sound to suggest that an increase in the risk implicit in licensing agreements may incrementally discourage patent licensing, it

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217. See *supra* note 74 and accompanying text (noting that as of 2016, eighty-six percent of completed IPR trials have led to the invalidation of at least one claim, and seventy-percent have resulted in the invalidation of all claims at issue).

218. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969). More recently, businesses from the software industry have noted that “[l]ow-quality patents, particularly in the high-tech space, make it nearly impossible for small businesses and startups to productively engage with the patent system” and that patent trolls “thrive on low quality patents, of which there is unfortunately no shortage.” See *The Impact of Bad Patents on American Businesses: Hearing Before the H. Judiciary Subcomm. on Courts, Intellectual Prop., & the Internet*, 115th Cong. 2, 5 (2017) (statement of Julie P. Samuels, President of the Board, Engine).

219. See *supra* notes 211–215 and accompanying text (describing the argument that enforcing arbitration agreements reduces licensing risk and leads to wider dissemination of technology).

220. Econ. & Statistics Admin. & USPTO, *Intellectual Property and the U.S. Economy: 2016 Update*, at ii (2016) <http://www.uspto.gov/sites/default/files/documents/IPandtheUSEconomySept2016.pdf> [<http://perma.cc/4W58-RDFP>] (“Revenue specific to the licensing of IP rights totaled \$115.2 billion in 2012 . . .”).

seems unlikely that patent owners will substantially forego such a major source of revenue simply to reduce the risk of having to defend their patents. This seems especially true for nonpracticing entities (NPEs, otherwise known as “patent trolls”) whose business models rely entirely on licensing their patents to third parties.<sup>221</sup>

Second, while exposing patent owners to the risk of having to defend their patents in front of the PTAB does partially decrease the risk-limiting benefits of arbitration clauses, patent owners can still take advantage of the congressional endorsement of the arbitration of patent disputes<sup>222</sup> insofar as arbitration clauses can allow patentees to effectively avoid the inconveniences of litigating in the federal district courts.<sup>223</sup> In fact, as noted above, the intended benefits of the congressional endorsement of the arbitration of patent disputes were to provide litigants with a way of customizing their proceedings, keeping their disputes out of the hands of inexperienced district court judges and juries, and limiting the costs of dispute resolution—and all of these benefits would be available to the patent owner even if the patent owner was unable to preclude licensees from challenging patents through IPRs.<sup>224</sup> The IPR procedure was structured to avoid many of the pitfalls of patent litigation in district court: IPR “mini-trials” are conducted in front of experienced patent professionals, and the procedure has a limited timeframe to ensure speedy resolution of disputes.<sup>225</sup> Thus, patent arbitration clauses still effectively shield patent holders from the risks of public litigation in the federal district courts, even if they do not operate to shield patent holders from the risks of defending patents in the administrative forum. In other words, affirming the inalienability of the right to access IPR will not *unduly* increase the level of uncertainty that arises when parties sign licensing agreements—such a rule would only increase the level of uncertainty to the extent necessary to ensure that improperly granted patents can be sniffed out, narrowed, or invalidated through the procedure Congress has designed and implemented.

### C. *The PTO’s Practical Ability to Enforce Arbitration Clauses*

The most significant practical problem with the enforcement of arbitration clauses in the IPR context stems from the wide-open standing re-

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221. Sannu K. Shrestha, *Trolls or Market-Makers? An Empirical Analysis of Nonpracticing Entities*, 110 Colum. L. Rev. 114, 115 (2010) (“NPEs are firms that rarely or never practice their patents, instead focusing on earning licensing fees.”).

222. See *supra* note 43 and accompanying text (describing the two laws through which Congress endorsed the arbitration of patent disputes).

223. See *supra* notes 35–38 and accompanying text (describing the downsides to litigating patent validity in federal district courts).

224. See *supra* notes 48–51 and accompanying text (describing the benefits of arbitration in the patents context).

225. See *supra* notes 61–66 and accompanying text (describing the structure of the IPR procedure).

quirements created by the AIA. As mentioned, the AIA allows any party other than the patent owner to petition for IPR,<sup>226</sup> as long as the petitioning party adequately names the real parties in interest in the petition,<sup>227</sup> and no real parties in interest or privies of the petitioner are estopped from challenging the claims on the grounds identified in the petition<sup>228</sup> or are barred themselves from petitioning for IPR due to the statutory time bar.<sup>229</sup> The current test adopted by the PTO for determining the existence of a “real party in interest” is a fact-specific inquiry, which hinges on evidence that the alleged “real party in interest” specifically requested, suggested, or controlled the petitioner’s request for IPR of a particular patent.<sup>230</sup> Therefore, even if a licensee is prevented by an arbitration agreement from petitioning for IPR, it remains possible for a related party (for example, an investor, an industry group, or a trade association) to petition for an IPR to challenge the validity of the patent in question, as long as the petitioner does not do so in response to a specific request from the party bound by the arbitration clause.<sup>231</sup> Such a strategy would avoid the effect of an arbitration clause to prevent IPR, rendering it, in effect, useless to protect the patent holder

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226. 35 U.S.C. § 311(a) (2012).

227. *Id.* § 312(a)(2).

228. 37 C.F.R. § 42.101(c) (2016).

229. See 35 U.S.C. § 315(a)(1) (“An inter partes review may not be instituted if, before the date on which the petition for such a review is filed, the petitioner or real party in interest filed a civil action challenging the validity of a claim of the patent.”); see also *id.* § 315(b) (“An inter partes review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent.”).

230. *RPX Corp. v. VirnetX Inc.*, No. IPR2014-00171, 2014 WL 6779195, at \*7 (P.T.A.B. June 5, 2014) (“An entity named as the sole real party in interest *may not receive a suggestion from another party that a particular patent should be the subject of a request for inter partes reexamination . . . without naming the party [as a real party in interest] . . .*” (quoting *In re Guan*, No. 95/001,045, 2008 WL 10682851, at \*7–8 (Dec. Comm’r Pat. May 26, 2008))); see also *Unified Patents Inc. v. Dragon Intellectual Prop., LLC*, No. IPR2014-01252, 2015 WL 632391, at \*12 (P.T.A.B. Feb. 12, 2015) (“[E]ven if we accept Patent Owner’s allegations that Petitioner engages in no activity of practical significance other than filing IPR petitions with money received from its members, this does not demonstrate that any member paid, directed, or suggested to Petitioner to challenge the . . . patent, specifically.”).

231. Commentators have noted that it will be relatively easy to circumvent the “real party in interest” issue if the PTO continues to use the standard set out in the *RPX* case. See Rochelle Cooper Dreyfuss, *Giving the Federal Circuit a Run for Its Money: Challenging Patents in the PTAB*, 91 *Notre Dame L. Rev.* 235, 286–87 (2015). Note also that the PTO has proposed several procedural changes to IPR practice that would permit the introduction of more evidence and additional discovery to determine the real parties in interest at the institution phase. See *Amendments to the Rules of Practice for Trials Before the Patent Trial and Appeal Board*, 80 *Fed. Reg.* 50,720, 50,729 (proposed Aug. 20, 2015); Michelle K. Lee, *PTAB’s Quick-Fixes for AIA Rules Are to Be Implemented Immediately*, *USPTO: Director’s Forum* (Mar. 27, 2015), [http://www.uspto.gov/blog/director/entry/ptab\\_s\\_quick\\_fixes\\_for](http://www.uspto.gov/blog/director/entry/ptab_s_quick_fixes_for) [<http://perma.cc/WM5P-NJLX>].

against these proceedings. The bound party would still benefit from the possibility of the patent in question being invalidated by the PTAB during the IPR proceeding, and that bound party may even be able to successfully request a stay of arbitration pending the PTAB's decision in the IPR proceeding initiated by the third party.<sup>232</sup>

The existence of industry groups that focus on challenging patents that threaten their member companies' industries through IPR compounds the problems stemming from the AIA's loose standing requirements.<sup>233</sup> These entities exist in part to take advantage of the wide standing requirements in the IPR statute by challenging patents that threaten their member companies without direct participation from the member companies themselves.<sup>234</sup> For example, Unified Patents, one such entity, has an independent process for deciding which patents to challenge through IPR, and it specifically excludes member companies

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232. Since the implementation of the AIA-implemented procedures, several district courts have granted a stay of infringement litigation pending the PTAB's decision in an IPR or CBM proceeding initiated by a third-party. See *DataTreasury Corp. v. Fiserv, Inc.*, No. 2:13-cv-431-JRG-RSP, 2014 WL 12704813, at \*8 (E.D. Tex. Aug. 14, 2014); *Intellectual Ventures I LLC v. PNC Fin. Servs. Grp.*, No. 14-cv-0832, 2014 WL 3942277, at \*2 (W.D. Pa. Aug. 12, 2014); *Evolutionary Intelligence, LLC v. Facebook, Inc.*, No. C 13-4202 SI, 2014 WL 261837, at \*4 (N.D. Cal. Jan. 23, 2014); *Evolutionary Intelligence, LLC v. LivingSocial, Inc.*, No. 13-cv-04205-WHO, 2014 WL 213179, at \*3 (N.D. Cal. Jan. 17, 2014); *e-Watch, Inc. v. ACTi Corp.*, No. SA-12-CA-695-FB, 2013 WL 6334372, at \*7 (W.D. Tex. Aug. 9, 2013). Typically, a district court will consider three factors when deciding whether to grant a stay of litigation pending Board review of a patent: (a) whether a stay will simplify the issues in the case; (b) whether discovery is complete and a trial date has been set; and (c) whether a stay would unduly prejudice or present a tactical disadvantage to the nonmovant. See, e.g., *Bonutti Skeletal Innovations, L.L.C. v. Zimmer Holdings, Inc.*, No. 12-cv-1107 (GMS), 2014 WL 1369721, at \*2 (D. Del. Apr. 7, 2014). District courts have usually granted stays pending a third-party IPR after recognizing that a stay has the potential to simplify litigation because the Board decision "will become part of the intrinsic records of the patents, and will therefore, simplify the issues to be decided by [the] Court." See *Intellectual Ventures I*, 2014 WL 3942277, at \*2. While it is not clear whether an arbitral tribunal will implement the same standards when deciding whether to stay arbitration pending a parallel IPR proceeding initiated by a third party, several of the provisions permitting arbitration of patent disputes indicate that arbitrators should consider the same defenses and acts and generally apply the same standards that a district court would apply in a similar case. See 35 U.S.C. § 294; see also *id.* § 282.

233. See *infra* note 235 and accompanying text (describing Unified Patents, one such group); see also Rich Hung & Alex Haddock, *Inside Views: Defendants, Non-Profits, Defensive Aggregators and Hedge Funds: Common and Less Common Uses of Inter Partes Review*, *Intell. Prop. Watch* (July 16, 2015), <http://www.ip-watch.org/2015/07/16/defendants-non-profits-defensive-aggregators-and-hedge-funds-common-and-less-common-uses-of-inter-partes-review/> [<http://perma.cc/36ZA-ATZE>] ("Although patent litigation defendants have brought most IPR petitions, they have not been alone in using these new procedures. Both non-profit and for-profit organizations have initiated IPR proceedings to benefit (in their view) the public, their membership, or themselves.").

234. See Hung & Haddock, *supra* note 233 ("For-profit organizations also have raised IPR challenges, even though not themselves the subject of patent lawsuits or assertions. The three best examples of organizations availing themselves of IPR proceedings to benefit their client base are Unified Patents Inc., RPX Corp., and Iron Dome LLC.").

from this decision in order to “allow members to benefit from *inter partes* review of dubious patents without becoming the ‘real-parties-in-interest.’”<sup>235</sup> Another company, Iron Dome, actively monitors any infringement suits against its members and then initiates IPR proceedings to challenge the validity of patents held by the suing patentee if the patentee refuses to dismiss the lawsuit against the member company.<sup>236</sup>

The existence of these patent industry groups illustrates the practical issue with enforcing arbitration clauses as a bar to a party’s right to petition for IPR. The party bound by the arbitration clause may be the party most qualified to petition for IPR and to meet the evidentiary burden required to get the IPR past the institution phase.<sup>237</sup> Forcing these parties to remove themselves from the IPR process and to instead rely on independent entities to challenge the validity of the patents in question would require the independent entity to conduct its own prior art research and incur significant legal costs to prepare for the IPR filing. Assuming that any coordination between the bound party and the filing independent entity would jeopardize the entity’s ability to exclude the bound party from the “real party in interest” part of the IPR petition, the independent entity may have to prepare for its IPR petition without the involvement of the parties most knowledgeable about the scope of the patent, the industry at hand, and the universe of prior art that could potentially be used to invalidate the patent.

Additionally, attempts to deal with this issue by restricting the availability of IPR may introduce graver issues or may entirely defang the AIA’s post-issuance proceedings and the administrative regime set up to weed out improperly granted patents. One proposed solution is to adopt a wider “real party in interest” definition, which may, on the basis of an arbitration agreement, prevent not only the party bound by such agreement but also any industry groups or associations affiliated with the bound party from utilizing IPR on the basis of an arbitration

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235. Marta Belcher & John Casey, Juelsgaard Intellectual Prop. & Innovation Clinic, *Hacking the Patent System: A Guide to Alternative Patent Licensing for Innovators 5* (2014), [http://www.eff.org/files/2014/05/22/hacking\\_the\\_patent\\_system.pdf](http://www.eff.org/files/2014/05/22/hacking_the_patent_system.pdf) [<http://perma.cc/XR6L-EC2A>]; see also Dreyfuss, *supra* note 231, at 284–85 (“There are . . . firms—UnifiedPatents [sic] is an example—formed specifically to use IPRs to clear the technology space of their members.”).

236. See Hung & Hadduck, *supra* note 233 (“When a member is sued, Iron Dome investigates the asserted patents and ‘collateral patents’ . . . . If the NPE refuses to dismiss the lawsuit against the defendant, Iron Dome initiates IPR proceedings against one or more of these patents.”).

237. Cf. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (“Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery.”).

agreement.<sup>238</sup> However, such a solution would create the awkward situation of allowing one industry participant to contract away the right of other nonprivies to access IPRs. Thus, even if an industry group represented multiple industry participants, its affiliation with a single participant who had bargained away its right to challenge a patent through IPR would prevent it from challenging patents important to the businesses of its other members. Commentators have noted that these industry groups play an important role in the IPR system by “solv[ing] the collective action problem by pooling the resources of their members” in order to challenge potentially invalid patents.<sup>239</sup> Thus, preventing these parties from utilizing IPR will unnecessarily disarm these actors from effectuating the purpose behind the AIA’s post-issuance procedures.

Another possibility is to implement standing requirements to the IPR statute similar to those used in district court litigation. For example, the STRONGER Patents Act, introduced in 2017, proposes to restrict the availability of IPR only to parties who have been “sued for” or “charged with infringement” of a particular patent.<sup>240</sup> However, under such a solution, the only parties who would be able to trigger IPR proceedings would be either (i) patent licensees who have not signed arbitration agreements and who have been “sued for” or “charged with infringement” or (ii) nonlicensees who have been “sued for” or “charged with infringement.” Given the fact that the effectiveness of IPR relies in part on licensee challenges to patent validity,<sup>241</sup> and the fact that patentees may have the bargaining power to force licensees to sign arbitration agreements, such a solution runs the risk of severely diminishing the use and effectiveness of the post-issuance proceedings that Congress chose to implement with the AIA. Several commentators have noted that proposals to implement “case or controversy”-type standing requirements threaten to undo “one of the most significant patent-restrictive reforms of the last decade by weakening the IPR procedure.”<sup>242</sup>

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238. See Dreyfuss, *supra* note 231, at 292 (“Congress could protect patent holders from multiple attacks by revising the AIA to limit standing and the PTO could probably, by regulation, enlarge the scope of privity or the concept of real party in interest . . .”).

239. *Id.* at 293.

240. STRONGER Patents Act of 2017, S. 1390, 115th Cong. § 102 (2017); see also STRONG Patents Act of 2015, S. 632, 114th Cong. § 102 (2015).

241. See *supra* section III.A (describing the importance of licensee challenges to patent validity).

242. Mark A. Lemley, *The Surprising Resilience of the Patent System*, 95 *Tex. L. Rev.* 1, 13 (2016); see also Lionel M. Lavenue, R. Benjamin Cassady & Michael Liu Su, *A Review of Patent Bills in the 114th Congress*, *Law360* (June 15, 2015), <http://www.law360.com/articles/664670/a-review-of-patent-bills-in-the-114th-congress> [<http://perma.cc/A9P4-MM3T>] (making a similar criticism of the STRONG Patents Act’s proposed limitation of IPR standing).

Therefore, because the effectiveness of the AIA's post-issuance proceedings relies in large part on the participation of licensees or industry associations affiliated with licensees, and because it may be unworkable to allow those licensees to bind themselves and their affiliates to promises not to utilize IPR as a means for challenging patents, it seems impractical to apply the "broad federal policy favoring arbitration" to attempts to commence IPR proceedings. Any attempt to enforce licensee promises not to utilize IPR would either prove entirely ineffective (because of the ease of encouraging a third-party industry association to petition for IPR) or would threaten to undermine the policy goals underlying the AIA's post-issuance proceedings.

#### CONCLUSION

One of the primary goals of the AIA's IPR procedure is to encourage parties to call the PTO's attention toward potentially invalid patents and the prior art that could prove their invalidity. The parties most capable of fulfilling this function are typically the same parties who may be bound by arbitration agreements. Therefore, the ability of a patentee to use an arbitration agreement to prevent a licensee from accessing this procedure poses a unique risk that these private agreements will be used to frustrate the congressional policy underlying the AIA—by legally protecting a patent holder from the use of these procedures by the parties most likely and capable to use them. Congress or the courts should take the first opportunity to extend the *Farrel* and *Gilmer* doctrine to the AIA's post-issuance procedures and hold that arbitration agreements cannot operate as a waiver of the right to access this particular administrative forum. Doing so would help to serve the policy interests advanced in *Lear v. Adkins* and its progeny. It would also help the PTO avoid the considerable practical issues that would arise if arbitration agreements were in fact held to be waivers of the administrative forum.