Patent Owners, Petitioners Not Far Apart on PTAB Value

Multi-Layered Views When Adding PTAB Outcomes’ Effects on Parallel District Court Litigation

Overview
The initial “death squad” complaints about the Patent Trial and Appeal Board’s (PTAB) decision results have largely subsided, especially with more recent statistics showing more patentee wins than in the early stages and a stabilizing trend in outcomes overall.

But Bloomberg Law and the American Intellectual Property Law Association (AIPLA) instituted a survey to understand challenger and patent owner attitudes on what, exactly, a “win” looks like.

A large majority of PTAB patent challenges, first available in 2012 under the America Invents Act (AIA), were expected to substitute for a validity challenge in an ongoing district court litigation. But evidence suggested that (1) a successful PTAB challenge didn’t always end the court case and the patent owner sometimes still won, and (2) an unsuccessful challenge wasn’t enough to stop a patent owner loss in court. Survey respondents confirmed those experiences.

The survey concentrated on the popular inter partes review (IPR) proceeding, featuring invalidity claims based on prior patents and documents. It also investigated attitudes about the IPR proceeding generally, including its impact on patent values, licensing and budgets.

The most surprising results were:
- The plurality of petitioners and patent owners alike indicate that IPR decisions at the PTAB resolve co-pending district court litigation. But a PTAB win can turn into a district court loss and vice versa in a strikingly high number of cases - 35% for petitioners and 18% for patent owners.
- Fully 48 percent of patent owners see a benefit in having IPR proceedings available, despite the narrative that the PTAB is more likely to find patents invalid.
- More experienced litigators are more likely to see the benefit of using PTAB proceedings, despite their presumed comfort level with district court proceedings.
- Petitioners’ reasons for preferring PTAB proceedings differ from patent owners’ reasons for disfavoring them.
- Petitioners and patent owners are likely to think that the average cost to determine validity in IPR proceedings is less expensive than litigating in court, as the AIA promised. But 16 percent of patent owners said the PTAB was “somewhat” or “significantly” more expensive.
- Petitioners and patent owners are about equally adept at predicting outcomes of PTAB proceedings. But their level of confidence was not as high as anticipated.
- The average value of licenses has stayed the same for the majority of in-house counsel surveyed since the availability of IPR challenges, but a plurality of respondents also indicated that the average value of their patents has somewhat decreased.
The Bloomberg Law and AIPLA online survey, available from November 14th to December 12th, 2016, was completed by 167 patent attorneys and agents, 62 in-house and 105 outside counsel. Eighty-two respondents most recently represented the patent owner, 71 represented a petitioner involved in a litigation and 14 filed challenges as a third party not accused of infringement. Unless stated otherwise, statistics for petitioners in the remainder of this paper will refer only to those involved in litigation.

In general, petitioners are pleased that Congress, in the AIA, created the IPR proceeding. By a bare majority, patent owners wish they hadn’t. But the results contained quite a few surprises, including suggestions that patent owners are, in fact, settling into the proceeding as familiarity with what works and doesn’t work before the PTAB grows.

This paper will focus on the surprises.

Where appropriate, Bloomberg Law sought explanatory commentary from — and wishes to expressly thank — Brad D. Pedersen of Patterson Thuente Pedersen, Minneapolis. Pedersen is the former chair of AIPLA’s IPR Committee and co-author of the AIPLA/Bloomberg BNA treatise, Patents After the AIA: Evolving Law and Practice (2016).

**General attitudes of value of IPR proceeding**

*Petitioners in litigation are more likely than patent owners to believe that the existence of the IPR option is beneficial, but patent owners are not as negative as generally perceived.*

As asked to rate on a scale of 1 (not at all beneficial) to 10 (very beneficial) whether the existence of the IPR option is beneficial to them, 85% of petitioners gave a ranking of 7 or above. The surprise was that 48% of patent owners also gave the IPR option a ranking of 7 or above, even though the prevailing narrative is that the vast majority of patent owners wish it didn’t exist.

Pedersen explained that result by pointing to a significant advantage to patent owners who succeed in fending off an IPR challenge. Essentially, if a competitor/challenger spent significant time...

### Responses: How beneficial is the existence of an IPR option to you?

(% Rating 7–10 on a 10 point scale)

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<tr>
<th></th>
<th>Total</th>
<th>Law Firm</th>
<th>Corporation</th>
<th>Patent owner</th>
<th>Petitioner in litigation</th>
<th>&lt;11 years experience in patent litigation</th>
<th>11+ years experience in patent litigation</th>
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<td>% 66%</td>
<td>66%</td>
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<td>66%</td>
<td>48%</td>
<td>85%</td>
<td>61%</td>
<td>69%</td>
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(% Rating 10 on a 10 point scale - Very Beneficial)

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<th>Total</th>
<th>Law Firm</th>
<th>Corporation</th>
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<tr>
<td>% 29%</td>
<td>30%</td>
<td>27%</td>
<td>16%</td>
<td>42%</td>
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and money to try to knock out an issued patent and couldn’t convince technically competent administrative patent judges (APJs) to do so, the patent is twice blessed.

“Given the potential gold-plated patent downstream advantages (in litigation and/or settlement) of surviving an IPR (either at the Decision to Institute stage, or at the Final Written Decision stage), and given that 1/3 of patents survive at the Decision to Institute Stage, it is surprising, but not completely unexpected, that some portion of patent owners are starting to look more favorably on the IPR process,” Pedersen said.

Also, those who have 11 or more years of experience with patent litigation are more likely to think that the existence of the IPR option is very beneficial vs. those who have had 10 years or less of experience with patent litigation (39% vs. 15%).

Experienced litigators have developed a level of sophistication about patent law that they can count on when speaking with PTAB judges, potentially explaining this result. They may believe that the outcome is more random when arguing in a district court with relatively less technical training or patent focus.

Petitioners (80%) and patent owners (57%) alike agreed that an IPR proceeding speeds up resolution of a district court case.

A large majority of petitioners (88%) and over two-thirds of patent owners (68%) said that an IPR proceeding is less costly than resolving validity questions in district court. But one-sixth of the patent owners said it was somewhat more expensive (11%) or significantly more expensive (5%).

One likely reason for the patent owners’ response is that they are typically on the offensive in court—forcing discovery of the alleged infringer’s information—while they are on the defensive at the PTAB. The respondents may have calculated that the increased burden on the patent owner at the PTAB outweighed the decrease in motions practice, etc., that would otherwise have taken place in court.

Pedersen had another explanation, derived from the fact that a multi-patent, multi-defendant infringement strategy in district court might encounter multiple IPR petitions at the PTAB.

“For patent owners looking at multiple different infringers infringing a portfolio that has multiple different patents (especially large family patents), the concern is not the costs of defending an individual IPR, but rather the totality of the costs of defending multiple IPRs against multiple patents,” he said.

Some surprises in prediction of likely outcomes

Petitioners and patent owners are about equally adept at predicting outcomes of PTAB proceedings.

Respondents were asked to identify their level of success in predicting how the PTAB would rule on IPR petitions. The rate of accurate predictions was slightly less than might be expected.

The AIA positioned the proceeding as a replacement for a district court validity challenge, with quicker proceedings presided over by PTAB administrative patent judges who would, ostensibly, be more expert than generalist judges and lay juries. At least in theory, attorneys who specialized in patent law would have fewer false predictions because of the APJs’ expertise.

Nevertheless, only 55 percent of petitioners and 43 percent of patent owners said they predicted a win “the majority of time.” Additionally, 13 percent of petitioners and 12 percent of patent owners have been surprised by every loss.

Pedersen pointed to the fact that the IPR proceeding brought in a large number of attorneys who had never practiced in contested “trials” before the PTAB.
“Given the much larger number of ‘new’ practitioners involved in these contested proceedings, together with the relative newness and continual evolution of the proceedings, I am not surprised by the lower level of confidence in predictions,” he said.

**Factors affecting outcome differences – PTAB vs. district court**

*Petitioners’ reasons for preferring PTAB proceedings differ from patent owners’ reasons for disfavoring them.*

Respondents were given four choices to identify the reasons for differences between what the PTAB decides and—if the IPR proceeding didn’t exist—a district court would have decided.

About half of the patent owners identified two reasons most often: District courts must conduct litigation under the presumption the patent is valid, while the PTAB’s administrative patent judges do not; and the two tribunals use different standards for interpreting a patent—the PTAB’s “broadest reasonable interpretation” standard allows more prior art to be considered.

However, almost two-thirds of the petitioners credited wins at the PTAB to the fact that the APJs are technically competent compared to the fact finders in district courts—lay juries and generalist judges.

Pedersen tied the patent owners’ complaints about failed predictions to this result. That is, the “newness” of the proceeding included having to deal with a BRI standard that was unfamiliar to their litigation-oriented counsel but more familiar to the patent practitioners.

“For patent owners who lose when they don’t expect to lose in an IPR, my guess is that an unforeseen BRI construction is more often than not the primary reason for that ‘unexpected’ loss,” he said.
Note: The survey asked respondents to identify “all that apply,” accounting for the higher than 100% results. It gave an option to respond “Other, please specify,” as well. Of the substantive “other” responses, one petitioner attributed its PTAB win to the ability to get APJs to combine multiple prior art references (instead of just two, a typical limit in district court) to determine an invention could not be patented for obviousness. Two patent owners attributed PTAB losses to the board’s “procedural imbalance” against patent owners; another said, “The federal rules of evidence are applied in a more disciplined manner by district courts and provide a more robust gate-keeping effect”; and one said that having technically savvy judges is a bad thing (“I think a judge and jury are less susceptible to hindsight bias than are the PTAB judges.”).

**PTAB outcome no guarantee of litigation success**

The plurality of petitioners and patent owners alike indicate that IPR decisions at the PTAB resolve co-pending district court litigation, but a significant number of PTAB wins turn into litigation losses, and vice versa.

A PTAB win can turn into a district court loss and vice versa in a strikingly high number of cases (see the middle 31% and 7% for petitioners and the middle 11% and 9% for patent owners in the charts below, but note that some respondents checked both answers, so the actual number of respondents who saw reversal was 35% for petitioners and 18% for patent owners.

“These results are consistent with what I have seen and heard. It is very difficult from just the IPR decision alone to determine whether the case was a ‘winner’ or ‘loser’ or ‘push’ for each of the participants,” Pedersen said.

For patent owners, of course, an IPR win is on the question of validity for obviousness or anticipation only. The case would return to district court where the petitioner — now acting in defense as the alleged infringer — could make other validity...
Litigation results following PTAB outcomes

Petitioner responses
(Select all that apply)

I lost an IPR petition and realized there was no way I (or my client) could win the co-pending district court case.

I lost an IPR petition and I (or my client) abandoned product plans.

I lost an IPR petition, but it gave me what I (or my client) needed to win the co-pending district court litigation.

I won an IPR petition, but the district court case continued anyway and I (or my client) lost the district court case.

I won an IPR petition and the patent owner realized it couldn’t do anything to win in district court and the case ended.

I won an IPR petition, but the district court case continued anyway and I (or my client) won the district court case.

I won because the patent owner abandoned the challenged claims.

Patent owner responses
(Select all that apply)

I lost against an IPR petition and realized I (or my client) couldn’t win the co-pending district court case.

I lost against an IPR petition, but district court case continued anyway and I (or my client) lost the district court case.

I abandoned the challenged claims.

I lost against an IPR petition, but district court case continued anyway and I (or my client) won the district court case.

I won against an IPR petition, but it gave the petitioner what it needed to win the co-pending district court case.

I successfully defended against an IPR petition and the petitioner realized there was no way it could win the co-pending district court case, and settled.

I won against an IPR petition and the petitioner abandoned product plans (or otherwise went away).

challenges (indefiniteness, lack of enablement, etc.), and the patent owner now has the burden to prove infringement.

The latter point could be the biggest reason for the turnaround for petitioners-turned-defendants. Pedersen described the circumstance.

“In a recent IPR decision, we lost a Decision to Institute, but received a claim construction that was very favorable to the client’s non-infringement position in district court,” he said. “So, there were clear advantages to filing the petition, even though the petition was itself not successful.”
The 31% who checked the answer that the IPR result “gave me what I (or my client) needed” likely had similar experiences.

**Conflicting signals on IPR availability effect on patent value**

*Prospective licensees are less willing to license, but license values aren’t dropping; patent values are dropping, but budgets are about the same.*

In-house respondents were asked to describe how the existence of the IPR proceeding affected their patents’ valuation in the marketplace. For many companies, value is difficult to measure if the sole goal is to keep competitors from copying a product, feature or service that drives consumer purchase decisions. But more companies today are licensing technology—a combination of patents and know-how—with the value of the license providing a more reliable value metric.

In theory, the perception that a patent is more likely to be invalidated in an IPR than was the case before the AIA enabled IPRs should give licensees more negotiating power, and lead to lower license values. The survey, however, did not strongly support that hypothesis.

Respondents first described the behavior of licensees since IPR challenges became available. Half said licensees are refusing licensing requests altogether significantly more (12%) or somewhat more (38%) of the time. However, only one-third of the respondents said the value of their licenses had decreased somewhat (26%) or significantly (7%).

On the other hand, when asked about changes to the value of their patents, the respondents did not align their answers to the changes to the value of their licenses. Fully 49% said the value of their patents had decreased somewhat (47%) or significantly (2%).

The misalignment between perceptions as to license and patent values is possibly explained by the identities of the respondents.

**Impact of IPR availability on patent licensing, value, budgets**

<table>
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<tr>
<th>Characterize the average value of your patents/licenses since the availability of IPR challenges. (in-house counsel)</th>
<th>How has your budget for patent application filing changed since the IPR challenges have been available? (in-house counsel who work mostly as patent owners)</th>
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<tbody>
<tr>
<td><strong>Value of Licenses</strong></td>
<td>62%</td>
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<td>5%</td>
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<td>9%</td>
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<td>Decreased significantly</td>
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<tr>
<td><strong>Value of Patent</strong></td>
<td>2%</td>
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<tr>
<td><strong>Budget for patent application filing</strong></td>
<td>7%</td>
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</table>
For aggregators and other patent licensing entities that depend entirely on licenses, whether negotiated directly or the result of litigation settlement, perceptions of license and patent value should be roughly identical, and it is not surprising that values would be perceived as lower than before IPRs were available. The survey did, in fact, ask respondents to identify themselves as patent aggregators or licensing entities. But only three respondents so self-identified.

Operating companies, on the other hand, also (and sometimes exclusively) gain patent value through the ability to exclude others, particularly competitors, from practicing the patented technology. Consequently, the higher perception of patent value compared to licensing value may suggest that the ability to exclude remains at a consistent level, despite the existence of the IPR proceeding.

Finally, respondents were asked separately whether their budgets for pursuing additional patent applications had changed, with only 7% claiming a budget decrease and 34% saying it had actually increased.

In theory at least, innovative companies would decrease budgets for patent activities if patent values decreased. However, Pedersen observed that the difference could be in a new approach to patent quality. Corporations may be maintaining the same budget, according to this theory, but seeking fewer patents, putting more money and effort into those patent applications perceived to be of the highest quality.

He said, “The follow-up question on the budget is: Are you reallocating your budget to keep the bottom line number the same but be more selective in choosing what cases to file for and spending more per case for those cases?”

Closing comments
The explanations in the previous section and other conjecture in this paper are intriguing and call for more study of the phenomena recorded in the results. And a real-data statistical analysis of the link between outcomes in the PTAB and district court final dispositions is still wanting.

But in general, the results indicate that IPR proceeding participants appear to be settling into the practice, now in the fifth year of its availability. And the gap between attitudes of patent owners and petitioners, as reported anecdotally in the media in the early days of AIA proceeding implementation, appears to be closing.

To comment or request more information, contact Tony Dutra, Legal Editor, Bloomberg Law, at adutra@bna.com

Survey details
In November 2016, the American Intellectual Property Law Association and Bloomberg Law conducted a survey of 167 patent law attorneys and agents who spend at least 1 percent of their time dealing specifically with patent cases, to explore attitudes toward the inter partes review (IPR) proceeding available at the Patent Trial and Appeal Board since 2012.

Of the participants, 105 work within a law firm and 62 work within a corporation.

Around half of participants worked mostly as patent owners or petitioners in litigation when dealing with IPR cases; only 8 percent worked as a third-party petitioner not involved in litigation.

Among all participants, almost nine in 10 spent the majority of their time (50%+) handling patent related issues and six in ten have 11+ years of patent litigation experience.

Among all participants, almost nine in 10, have both district court litigation and IPR litigation experience.

Among law firm participants, about a quarter were associates while about three quarters were partners/of counsel.

Among law firm participants, over seven in 10 worked in large law firms (50+ attorneys)

Among corporations, three quarters were in-house patent or licensing counsel and just over a tenth were general counsel.

Around seven in 10 worked for Fortune 1000 companies (1 billion+ annual revenue).
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