

# The Other Thirty Percent: An Economic Assessment of Duplication in PTAB Proceedings and Patent Infringement Litigation

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## I. Introduction

Congress “repeatedly stated [that] its paramount goal” in having *inter partes* review (IPR) before the Patent Trial and Appeal Board (PTAB or the Board) was to “serve as a cheaper, faster alternative to be used instead of – rather than in addition to – litigation in district court.”<sup>2</sup> More than five years after IPR trials were established, however, it is unclear whether Congress will achieve its goal.

The data thus far indicate success in regards to IPR proceedings being cheaper than district court litigation. A 2015 American Intellectual Property Law Association (AIPLA) Economic Survey found that the median cost of an IPR through a PTAB hearing was \$275,000 and through appeal was \$350,000.<sup>3</sup> In contrast, even with relatively low stakes (\$1 million to \$10 million at risk) patent infringement litigation typically costs nearly \$1 million through the end of discovery and \$2 million through final disposition.<sup>4</sup> As the stakes increase, so do the costs of litigation. For \$10-\$25 million at risk, median costs through discovery are \$1.9 million and are over \$3 million through final disposition.<sup>5</sup> If more than \$25 million is at risk, taking the case through discovery typically costs \$3 million, with a median cost of \$5 million to reach final disposition.<sup>6</sup> IPR proceedings are therefore clearly cheaper than district court litigation.

PTAB proceedings are also definitely faster than the typical district court litigation. The America Invents Act (AIA) requires that the Board issue a final written decision on the patentability of any

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<sup>2</sup> *Intellectual Ventures II LLC v. JPMorgan Chase & Co.*, No. 14-1724 (Fed. Cir. Apr. 1, 2015), Judge Hughes dissent at 1380.

<sup>3</sup> AIPLA, 2015 Report of the Economic Survey, p. 43. See also, Saurabh Vishnubhakat, Arti K. Rai & Jay P. Kesan, “Strategic Decision Making In Dual PTAB And District Court Proceedings,” 31 Berkeley Tech. L.J. 45 (2016), p. 60.

<sup>4</sup> AIPLA, 2015 Report of the Economic Survey, p. 37.

<sup>5</sup> *Ibid.*

<sup>6</sup> *Ibid.*

challenged claim within one year of instituting a trial.<sup>7</sup> Only if the Board can establish good cause can it extend the one-year statutory period by up to an additional six months.<sup>8</sup> Patent trials, on the other hand, can be very lengthy affairs. It is not uncommon that a trial does not even begin until 3 or more years after the initial complaint is filed.<sup>9</sup> And it can take at least 8 months and up to 15 months just to reach the *Markman* hearing phase.<sup>10</sup>

Of course, cost and speed matter, but what about Congress' main goal that PTAB proceedings actually substitute for district court litigation? Here, the record is far less favorable, with some arguing that "rather than an absolute alternative to civil litigation, the AIA's new proceedings increase the likelihood of duplicative concurrent *inter partes* administrative and judicial adjudication of a patent's validity."<sup>11</sup> Duplicative patent challenges within and across IPRs and district court litigation is the focus of this article.

## II. Why Not Stay?

PTAB proceedings have become a popular counter attack strategy for defendants in patent infringement litigation. According to Vishnubhakat et al. (2016), "about 86.7% of IPR- or CBM- [Covered Business Method<sup>12</sup>] challenged patents are also being litigated in the federal courts."<sup>13</sup> Hence, the potential for duplication is high.

While either or both parties in litigation can request a stay of the district court trial pending the Board's ruling, such stays are not always granted. Morgan Lewis studied all district court cases in which a stay motion had been filed, looking at data from the start of PTAB proceedings on September 16, 2011 through June 15, 2016. They identified a total of 752 decisions on stay requests pending IPR, with 529, or 70%, of those requests granted.<sup>14</sup> Thus, in 223 cases (30%) the parties had to contend with both a district court lawsuit and an IPR at the same time. Morgan Lewis then broke the granted stay figure down into stipulated and contested stay requests. The former comprised 45%, or around 238 of the 529 cases.

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<sup>7</sup> 37 C.F.R. §§ 42.100(c), 42.200(c).

<sup>8</sup> *Id.*, 42.300(c).

<sup>9</sup> <https://www.quora.com/How-long-does-it-take-for-a-patent-lawsuit-to-go-to-trial-and-get-resolved>.

<sup>10</sup> Fish & Richardson, "A Guide to Patent Litigation in Federal Court," 2016, p. 14, available online at <https://www.fr.com/wp-content/uploads/2016/04/A-Guide-to-Patent-Litigation-in-Fed-Court-2016.pdf>.

<sup>11</sup> Sarah E. Craven, Ph.D. and Michael J. Flibbert, "Limits on Concurrent Administrative and District Court Patent Challenges Under the AIA's New Post-Grant Proceedings" IP Litigator, September/October 2013

<sup>12</sup> See USPTO Major Differences between IPR, PGR, and CBM, [www.uspto.gov/sites/default/files/ip/boards/bpai/aia\\_trial\\_comparison\\_chart.pptx](http://www.uspto.gov/sites/default/files/ip/boards/bpai/aia_trial_comparison_chart.pptx).

<sup>13</sup> Vishnubhakat, et al. (2016), *supra* note 3, p. 72.

<sup>14</sup> Morgan Lewis, "2017 PTAB Digest: The latest Trends and Developments in Post-Grant Proceedings," p. 26, available at <https://www.morganlewis.com/pubs/2017-ptab-digest-the-latest-trends-and-developments-in-post-grant-proceedings>.

Among this group, 97% were granted. When the stipulated stay requests were removed, however, the stay grant rate fell to only 58%. Moreover, it appears that grant rates are falling over time, as earlier reports had the overall stay grant rate from 2011 – 2014 at around 80%, 10 percentage points higher than the 2011-2016 70% figure reported by Morgan Lewis.<sup>15</sup>

District court judges have given a number of reasons for refusing to grant stays. The AIA lays out specific guidance for staying litigation when a CBM Review is underway, but the courts have applied similar logic in deciding stays for IPRs as well, albeit with considerable discretion.<sup>16</sup> The three factors listed in the AIA are:<sup>17</sup>

- 1) whether the stay will unduly prejudice the nonmoving party;
- 2) whether the proceedings before the court have reached an advanced stage, including whether discovery is complete and a trial date has been set; and
- 3) whether the stay will simplify issues in question in the litigation.

The first factor likely explains the far lower grant rate for contested stay requests. Because a stay delays the determination of infringement and damages, patent holders may be prejudiced.<sup>18</sup> Prejudice assessments can also depend on the business model of the patent holder: “courts typically have found that any harm to nonpracticing entities can be addressed through monetary damages and prejudgment interest. These lines of reasoning have led some to suggest that stays against nonpracticing entities should be automatic.”<sup>19</sup> On the other hand, even when the patent holder is a nonpracticing entity, the circumstances may warrant denying a stay:<sup>20</sup>

*In the 2014 case Walker Digital, LLC v. Google, Inc., for example, a different Delaware federal judge noted that “[a]lthough it is true that Plaintiff Walker Digital ('Walker') does not actively practice the patents and, therefore, does not compete with Google, it is also true that the longer Google is allowed to engage in allegedly infringing activity, the lower the value of the patents becomes as licensing assets. Moreover, the patents-*

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<sup>15</sup> Love and Ambwani (2014) found that “Litigation proceeding in parallel with an instituted IPR is stayed about 82 percent of the time.” Brian J. Love and Shawn Ambwani, “Inter Partes Review: An Early Look at the Numbers”, 81 The University of Chicago Law Review Dialogue 93, 2014, p. 2. The more recent Morgan Lewis study places that figure around 70% (see *supra* note 14).

<sup>16</sup> Jeffrey Miller and James Lyons, “Parallel Track Proceedings: Determining Whether to Stay Litigation,” PTAB Monitor: Developments in Inter Partes Review Practice, May 19, 2016, available at [https://www.apks.com/en/perspectives/publications/2016/05/2016\\_05\\_19\\_parallel\\_track\\_proceedings\\_de\\_12979](https://www.apks.com/en/perspectives/publications/2016/05/2016_05_19_parallel_track_proceedings_de_12979).

<sup>17</sup> See AIA § 18. See also *Lennon Image Techs., LLC v. Macy's Retail Holdings, Inc.*, Nos. 2:13-cv-235, 2014 WL 4652117, at \*2 (E.D. Tex. Sept. 17, 2014); *Market-Alerts Pty. Ltd. v. Bloomberg Fin. L.P.*, 922 F. Supp. 2d 486, 489 (D. Del. 2013); and *Sovereign Software LLC v. Amazon.com, Inc.*, 356 F. Supp. 2d 660, 662 (E.D. Tex. 2005).

<sup>18</sup> Jason Lang and Blake Davis, “The New Wrinkle for Patent Defendants Seeking Stays Pending PTAB,” The Recorder, April 6, 2016, available at <http://www.weil.com/articles/the-new-wrinkle-for-patent-defendants-seeking-stays-pending-ptab>.

<sup>19</sup> *Ibid.*

<sup>20</sup> *Ibid.*

*in-suit are set to expire in 2016 and any delay in determining their validity significantly prejudices Walker's ability to license the patents.”*

Courts also consider the amount of time that a party waits to file an IPR petition and request a stay. “[S]ome patentees contend that the delay may cause harm to the patentee’s business, provide a tactical advantage to the defendant hoping to learn about a patentee’s litigation positions before entering the IPR, or be unfairly prejudicial if the parties have expended significant resources and are close to trial.”<sup>21</sup>

The second factor listed in the AIA looks at the stage of litigation. Here, the key question is one of timing. Being either too early or too late in requesting a stay can lower the odds that the request will be granted. If the request to stay district court litigation comes before the Board has made a decision to institute the IPR, the district court judge is far less likely to stay the lawsuit.<sup>22</sup> Institution is not automatic: across all technology categories, the PTAB institution rate is currently around 53%.<sup>23</sup> Thus judges are reluctant to stay a district court trial before it is clear that the IPR will move forward. On the other hand, if the district court case is already far along, then staying the trial is unlikely to result in any cost savings or efficiencies. And the main point of staying district court litigation is efficiency: “the AIA furthers simplification by removing certain issues from litigation once the PTAB renders a final decision.”<sup>24</sup>

Finally, courts are more likely to grant a request to stay district court litigation if the overlap between the IPR and the district court trial is relatively high. As there is little efficiency or cost savings in staying a district court trial on wholly separate patent claims: “the party desiring the stay will typically need to challenge at the PTAB all patent claims that are likely to remain in the district court action.”<sup>25</sup> When all of the claims asserted in the suit are also challenged at the patent office, however, the IPR may resolve many of the patent issues obviating the need for litigation,<sup>26</sup> or at least simplifying it considerably or paving the way for settlement between the two parties. Thus, for trials involving additional claims in patents with an IPR, additional patents, and/or non-patent claims (e.g., trade secret misappropriation or

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<sup>21</sup> Benjamin A. Saidman and Jason E. Stach, “Maximizing the Likelihood of a Litigation Stay Pending Inter Partes Review,” IP Litigator, September/October 2016,

<http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=ba224a20-52a0-4f31-8caa-e80cde557535>.

<sup>22</sup> Jeffrey Kushan, “3 Years of Coordinating Litigation with PTAB Proceedings,” Law360, September 14, 2015.

<sup>23</sup> Kelly Knaub, “Drug Patents Fare Better At PTAB Than Others, Report Says,” Law360, June 15, 2017. Although note that this figure is misleading in that it does not account for settlements prior to institution; see Samson Vermont, “IPR Statistics Revisited: Yep, It’s a Patent Killing Field,” PatentAttorney.com, February 8, 2017, <https://www.patentattorney.com/ipr-statistics-revisited-yep-its-a-patent-killing-field/>.

<sup>24</sup> Kushan (2015), supra note 20.

<sup>25</sup> Ibid.

<sup>26</sup> Miller and Lyons (2016), supra note 16.

breach of contract allegations), the Board’s findings will not resolve the bulk of the issues being litigated and so there is likely little to be gained by staying the federal court case.

Despite the national reach of the three criteria guiding whether or not to grant a stay, district courts have applied these factors unevenly. Certain districts – including the Northern District of Illinois, the Northern District of California, the Southern District of Ohio, and the District of Massachusetts – have strong records of granting contested stay requests when an IPR is pending, ranging from 61% to 82%.<sup>27</sup> Other districts, however, have dramatically lower rates. The Eastern District of Tennessee, the Eastern District of Texas, the District of New Jersey, and the Southern District of Indiana have granted contested stay requests at rates ranging from zero to 30%, respectively.<sup>28</sup> In a post-*TC Heartland* world, such differences across the districts are likely to matter more.<sup>29</sup>

While stay request timing issues (too early or too late requests) are likely to be worked out as law firms become accustomed to court preferences and the IPR process, the extent (or lack of) overlap between an IPR and a district court lawsuit suggests that federal litigation stays will never reach 100%. Even with full overlap on patent claims, differences in the procedures themselves suggest that IPRs will never be able to replace federal court patent litigation. For example, “In IPR, only printed publications can be used to attack patents. In district court, challengers can also attack with the other categories of prior art: prior public use or sale, public knowledge, derivation or incorrect inventorship, and invention by another.”<sup>30</sup> As a result, real world complications limit the extent to which the PTAB can replace litigation, even for those patents with instituted claims.

### **III. The Costly Implications of Concurrent Proceedings**

For the 30% of non-stayed court cases with IPR proceedings, the implications of doubling up can be significant. Even for those claims that overlap across the district court trial and the IPR, given the typical stakes, the parties cannot risk any reduction in efforts for either the district court case or the IPR. For patent holders, that means incurring expenses for outside counsel, infringement technical experts, invalidity rebuttal technical experts, and a damages expert for the district court trial as if no IPR were concurrently underway.

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<sup>27</sup> Morgan Lewis (2017), p. 28.

<sup>28</sup> *Ibid.*

<sup>29</sup> *TC Heartland LLC v. Kraft Foods* (SCT 16-341).

<sup>30</sup> Vermont (2017), *supra* note 23.

This is especially true since the PTAB follows a different and incompatible legal standard for patent review as compared to federal court. In addition to the prior art rules already noted above, validity standards differ as well:<sup>31</sup>

*In district court, patents enjoy a statutory presumption of validity and challengers must prove each patent claim invalid by clear and convincing evidence—the highest burden of proof in U.S. civil litigation. But no such presumption of validity applies in PTAB proceedings. Petitioners need only establish unpatentability by a preponderance of the evidence—i.e., that the claims are more likely than not unpatentable. This is a significantly reduced burden of proof compared to litigation.*

Moreover, claims construction is handled differently between the two proceedings. Federal courts rely on a “review of the patent’s intrinsic evidence” whereas the PTAB applies the “broadest reasonable construction.”<sup>32</sup> The PTAB’s rubric makes it easier to find invalidating prior art as compared to the district court standard. Thus, an IPR and a district court case looking at the exact same patent claims and the exact same proposed invalidating prior art can nevertheless arrive at very different outcomes.

### **A. Duplicative PTAB Proceedings**

Overlapping PTAB proceedings and federal litigation is not the only duplication to be concerned with. The “30%” no-stay statistic itself is misleading in that it glosses over the risks of repeat actions within the PTAB. Specifically, the 30% includes patents that have multiple IPRs filed against them. The U.S. Patent Office (USPTO) reports PTAB statistics on a petitions-filed basis.<sup>33</sup> So, for example, suppose that four heavily overlapping petitions are filed with the Board on claims within patent number 123,456, but the PTAB decides to institute only one of these petitions. The PTAB would then report a 25% institution rate, as 1 out of 4 petitions was instituted. That is an accurate statistic, of course, but also a misleading one in that it ignores the institution rate by patent, which in this simple example is 100%. For patent holders, the latter statistic is arguably far more informative of the odds they face in receiving an IPR petition filed against one of their patent holdings.

Multiple IPR filings against the same patents are not simply a theoretical problem, but one seen in practice. According to statistics reported by former USPTO head Michelle Lee, 68% of patents that reached the trial phase only had one IPR, which means that 32% of patents with instituted IPRs have faced more than one proceeding.<sup>34</sup> Applying that figure to the roughly 4,000 patents with instituted

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<sup>31</sup> Flibbert, Michael J., and Maureen D. Queler, “5 Distinctions Between IPRs and District Court Patent Litigation,” Corporate Counsel, December 16, 2015.

<sup>32</sup> *Ibid.*

<sup>33</sup> Peter Harter & Gene Quinn, “How IPR Gang Tackling Distorts PTAB Statistics,” IP Watchdog, April 5, 2017.

<sup>34</sup> Bryan Koenig, “PTAB Not Mowing Down Patents, USPTO Head Says,” Law360, May 16, 2017.

petitions thus far,<sup>35</sup> that means 1,280 patents have had multiple IPR trials. Such multiple proceedings may reflect “harassment” by a single party<sup>36</sup> or coordinated/collusive efforts by a group of patent challengers.<sup>37</sup>

Note that the figures reported by Ms. Lee are limited to instituted IPR trials; statistics for patents at earlier phases of IPR proceedings reflect far higher duplication. Vishnubhakat, Kesan, and Rai collected IPR filing statistics in follow on work to their 2016 paper.<sup>38</sup> They find that out of 5,173 petitions filed with the Board (including both IPRs and CBMs), 2,555, or 49%, reflect what they term “serial petitions,” meaning a second (or higher) petition filed by the same petitioner.<sup>39</sup> On a per patent basis, out of 3,460 patents with an IPR challenge filed, 842 (24%) were “serially petitioned patents.”<sup>40</sup> Among the patents with three or more IPR challenges, the serial petitions involved an overlap in claims, an overlap in the prior art asserted, or both.<sup>41</sup>

A review of the serial PTAB petitions involving the same prior art reveal an inconsistency within the PTAB reveals a troubling inconsistency: “Out of 294 patents, 63 patents (21.43%) had 1 or more prior art references admitted after the Board had already denied this very same prior art”<sup>42</sup> in an earlier petition. In other words, it appears the Board is not applying a stable, reliable approach to accepting prior art as grounds for institution, which is likely to encourage more serial petitioning. The PTAB was provided with tools to deal with multiple filings in the AIA, including petition joinders, consolidations, terminations, or stays,<sup>43</sup> but the Board has thus far chosen not to employ these tools in any meaningful way.<sup>44</sup>

## **B. Duplicative Federal Court Proceedings**

Not only can multiple actions against the same patent be filed at the PTAB, we can also see multiple lawsuits in the federal courts challenging patent validity. A key element of the repeat litigation risk derives from the rules on estoppel relating to IPR challenges. 35 U.S.C. §315(e) states

*(1) Proceedings before the office.—The petitioner in an inter partes review of a claim in a patent under this chapter that results in a final written decision under section 318(a), or the real party in interest or privy of the petitioner, may not request or*

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<sup>35</sup> Ibid.

<sup>36</sup> Gene Quinn, “PTAB refuses to institute harassing IPR challenges against Finjan,” IP Watchdog, February 1, 2017.

<sup>37</sup> Vishnubhakat et al. (2016), supra note 3, p. 48.

<sup>38</sup> Kesan, Vishnubhakat, and Rai, “Serial Petitioning at the PTAB: Joinder, Denial, Precedent and Finality,” Presentation, PatCon 7, Northwestern University, April 7, 2017.

<sup>39</sup> Id, slide 2.

<sup>40</sup> Id, slide 3.

<sup>41</sup> Id, slide 7.

<sup>42</sup> Id, slide 16.

<sup>43</sup> See 35 U.S.C. §325(c) and (d).

<sup>44</sup> In over half of the petitions filed, §315 options were never even discussed in the PTAB proceedings. Kesan, Vishnubhakat, and Rai (2017), supra note 37, slides 26, 27, 31, and 32.

*maintain a proceeding before the Office with respect to that claim on any ground that the petitioner raised or reasonably could have raised during that inter partes review.*

- (2) *Civil actions and other proceedings.—The petitioner in an inter partes review of a claim in a patent under this chapter that results in a final written decision under section 318(a), or the real party in interest or privy of the petitioner, may not assert either in a civil action arising in whole or in part under section 1338 of title 28 or in a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930 that the claim is invalid on any ground that the petitioner raised or reasonably could have raised during that inter partes review.*

Following the Federal Circuit’s *Shaw v. Automated Creel* decision in 2016,<sup>45</sup> district courts have taken a very narrow view of estoppel under §315(e). The Federal Circuit determined that an IPR proceeds in two phases: first, the PTAB evaluates the petition to determine whether or not to institute an IPR; second, the PTAB conducts the IPR itself and makes a final decision based on the evidence. Therefore, in *Shaw*<sup>46</sup>

*[T]he court reasoned, if the PTAB rejects a ground in its institution decision, it never becomes part of the IPR itself, and so is not a “ground that the petitioner raised or reasonably could have raised during that inter partes review.” Since the PTAB’s redundancy decision did not give rise to estoppel with respect to the anticipation ground, as it specifically prevented Shaw from raising that ground in the IPR, Shaw may argue that ground in the future court proceedings, and mandamus was not warranted.*

In other words, patent holders can be forced to defend the same patents on the same (redundant) grounds over and over. Even when it appears that a district court judge disagrees with the *Shaw* ruling, many have failed to find a way around it. For example, Judge Robinson in the U.S. District Court in Delaware worried that allowing the defendant to assert at district trial “references that were never presented to the PTAB at all (despite their public nature) confounds the very purpose of” the IPR.<sup>47</sup> Nevertheless, Judge Robinson could not “divine a reasoned way around the Federal Circuit’s interpretation in *Shaw*,” and as a result the Delaware judge refused to apply estoppel.<sup>48</sup> Similarly, Judge Illston in the U.S. District Court for the Northern District of California denied estoppel on two grounds that were actually presented to the PTAB, but that were not instituted.<sup>49</sup>

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<sup>45</sup> *Shaw Industries Group v. Automated Creel Systems*, 817 F.3d 1293, 1296 (Fed. Cir. 2016).

<sup>46</sup> Mondaq Business, “District Courts Split On Scope Of IPR Estoppel,” Patent Trial and Appeal Board, inter partes review, Mar 22, 2017, internal cites to *Shaw* omitted.

<sup>47</sup> *Intellectual Ventures I LLC v. Toshiba Corp.*, 2016 U.S. Dist. LEXIS 174699, at \*38 (D. Del. Dec. 19, 2016).

<sup>48</sup> *Ibid*

<sup>49</sup> *Verinata Health Inc. v. Ariosa Diagnostics Inc.*, No. 3:12-cv-05501-SI, Case No. 3:14-cv-01921-SI., 3:15-cv-02216-SI (ND CA, March 8, 2017).

I am aware of only one district court case that has taken a broader view of estoppel post-*Shaw*: Third Circuit Judge Jordan (sitting by designation in the U.S. District Court of Delaware) in *Parallel Networks Licensing LLC v. IBM*.<sup>50</sup> In that case, Judge Jordan argued that “[a]llowing IBM to raise arguments here that it elected not to raise during the IPR would give it a second bite at the apple and allow it to reap the benefits of the IPR without the downside of meaningful estoppel.”<sup>51</sup> Aiming “to prevent that unfair result,” Judge Jordan “conclude[d] that IBM is estopped from asserting prior art references that it could have reasonably raised before the PTAB.”<sup>52</sup> Unfortunately, Judge Jordan appears to be in the minority.

#### **IV. Conclusions**

It is always a happy occasion when legislation achieves its originally desired aims – and indeed achieving this aim is the purpose of conducting careful cost-benefit analysis before enacting legislation. In this case, however, it appears that reality is falling short of Congressional goals. PTAB proceedings have clearly reached some of the sought after benefits of IPR, like establishing a faster and cheaper process for patent challenges as compared to federal court litigation. But a significant number of patents face a duplicative and costly regime post-AIA, wherein challengers can file serial IPR petitions and, whenever any of those petitions fail, they can repurpose the same or nearly the same arguments for district court. This outcome is neither “efficient” nor a “simplification” of the patent challenge process, and certainly does not meet the Congressional goal of having IPRs substitute for federal patent litigation.

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<sup>50</sup> *Parallel Networks Licensing LLC v. International Business Machines Corporation*, No. 1:2013cv02072 (D. Del. 2017).

<sup>51</sup> *Ibid.*

<sup>52</sup> *Ibid.*