

4 Years In, Inter Partes Review May Not Be The Best Strategy

When the America Invents Act came into effect in 2012, patent infringement defendants immediately saw a new opportunity to fight patent infringement allegations. Most interest focused on the new inter partes review proceedings in front of the U.S. Patent and Trademark Office's Patent Trial and Appeal Board. IPR proceedings came with their own rules and standards for invalidating issued patents, a promise of prompt decisions with reduced discovery burdens, and the potential for staying related district court cases. For the first few years, IPRs were so successful in invalidating issued patents that they earned the "patent death squad"[1] moniker, and petition filings skyrocketed.

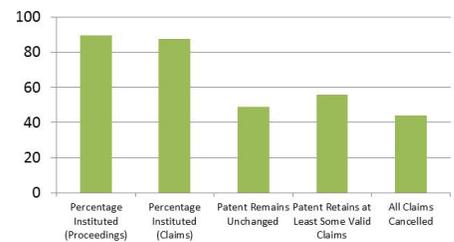
Four years later, filing an IPR has become almost a reflexive action for those accused of patent infringement. But does it remain the best strategy? Recent statistics certainly indicate that pursuing an IPR proceeding can provide early success for a patent infringement defendant, but also suggest that it should not be the only

course considered. In particular, in the event that an IPR fails, such a result may pose risks for a related district court case. This article explores those risks, which we argue should be carefully considered by defendants weighing whether to file an IPR.

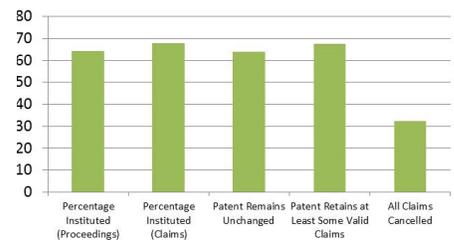
IPR Data: Filing a Petition Is No Longer a Golden Bullet

For the first few years, the data on IPRs told a story of unfettered success. Recent data, however, tells a changing story. While filings have continued to rise, institution and invalidation rates have declined, and perhaps reached a plateau. A comparison of various metrics for assessing success of closed IPR petitions in 2012 and 2016 shows a notable change. The charts below, generated by (and used with permission from) LegalMetric, illustrate that the percent of IPR petitions being instituted dropped from almost 90 percent in 2012 to less than 65 percent in 2016:

2012 Petitions for Inter Partes Review — All Closed Petitions



2016 Petitions for Inter Partes Review — All Closed Petitions



Additionally, and perhaps of most interest, the percentage of patents surviving IPRs is increasing. For example, in 2012, among all closed filings, less than half of the patents survived IPRs unchanged, with 44 percent having all claims canceled. This past year, however, among closed filings, almost two-thirds of patents remained unchanged, and only 32 percent of patents had all claims canceled. In other words, in four years, petitioners have become more than 20 percent less likely to have their petitions instituted, and 15 percent more likely to have the challenged patent survive unscathed. Filing an IPR can no longer be perceived statistically as having a high likelihood of success, and this decline in the rate of success only emphasizes the risks that filing an IPR petition can raise for patent infringement defendants.

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IPRs as a Double-Edged Sword: What Happens at the USPTO May End Up in District Court

The statistics show that IPR institution and claim invalidation rates are declining, but how does this impact a related district court proceeding? The short answer is that what happens at the USPTO (in many cases with a lower burden) can bleed into district court cases in a variety of ways.

First, as IPR institution rates are falling, some district courts have allowed evidence regarding the refusal to institute. Other commentators have identified that plaintiff-patent owners have sought to introduce evidence of the PTAB's refusal to institute an IPR petition with varying success, noting a split among four motions in limine to exclude such evidence.[2] In one of those cases where evidence of the PTAB's refusal was allowed to be introduced, *StoneEagle v. Pay-Plus*, the plaintiff won a patent infringement award of \$2.5 million, along with a finding of willful infringement.[3] While we cannot know how much this evidence may have impacted the jury's verdict, it seems logical that a jury would be influenced by the USPTO's finding that the petitioner (now the defendant accused of infringement) did not have a reasonable likelihood of success in invalidating the patent. As such, this should be a consideration for any patent infringement defendant contemplating an IPR petition.

The *StoneEagle* decision also highlights a related concern: IPR petitions that are not instituted, or where not all instituted claims are invalidated, can also be used to attack defenses to willfulness. This is especially true in light of the U.S. Supreme Court's recent *Halo v. Pulse* decision, that rejected the Seagate objective assessment (which had set a high bar for a finding of willfulness), in favor of a more fact-intensive and subjective evaluation. Plaintiffs are more likely to seek a finding of willful infringement under the *Halo* standard, and a PTAB rejection of an IPR petition

has the potential to be a cornerstone of a willfulness allegation.

Another issue is how a district court will view the PTAB's construction of patent claim terms.[4] Some district courts have viewed the PTAB's construction as intrinsic evidence owed some weight in construing claims, notwithstanding the lower "broadest reasonable interpretation" standard that is applied in an IPR proceeding.[5] In some cases, this could lead to a less favorable construction in the district court (perhaps dangerously so), where the PTAB's construction would be unduly broad in the context of a district court. These issues could undermine a defendant's success in a related district court case, as could more general concerns discussed below.

Impact of an Unfavorable IPR decision on Related District Court Actions

If a patent survives an instituted IPR petition, a patent infringement defendant may face the prospect of fighting in district court under a disadvantage, precluded from invoking invalidity defenses that they raised or could have raised in the IPR proceeding. In addition, assuming a jury becomes aware of the IPR result, jurors are likely to perceive that the asserted claims are battle-hardened from having survived a second USPTO review, irrespective of the lower standards used by the PTAB. All this serves to put the patent infringement defendant in a challenging position in a related district court action if the IPR proceeding is unsuccessful.

This makes sense in theory, but what impact has an unsuccessful IPR had on related district court actions in practice? The short answer is that it is too early to identify a direct connection. While there are a few cases that have resolved in circumstances that seem favorable to the plaintiff, such as a quick settlement after IPR resolution or a plaintiff-patent owner

jury verdict, there is not enough information currently available to correlate an adverse IPR ruling with an unfavorable resolution to the overall patent dispute.[6] Nonetheless, there is justification for hypothesizing that a connection exists, and the authors anticipate that as more information becomes available, the results will support that hypothesis.

This analysis is only the beginning. As more patents survive the IPR process, the data set will grow and we will have a better understanding of the risks associated with a failed IPR for the patent infringement defendant. Whether these risks will begin to deter defendants from pursuing the IPR route has yet to be seen, but the risks exist and should be part of the calculus for evaluating the filing of an IPR petition. For those considering filing IPRs, we hope this article serves as a reminder that the positives and negatives of filing an IPR should be considered with the same diligence as implementing any other litigation strategy.



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