

PATENTS POST GRANT PODCAST – S02 EP01, DISCRETIONARY DENIALS AT THE PTAB: WHAT TO EXPECT?

RECORDED ON: JULY 22, 2022

Maia Harris (00:04):

Greetings and welcome after a very long hiatus to Troutman Pepper's Patent Post-Grant Podcast. My name is Maia Harris, I'm joined today by two of my colleagues. Christina Shifton, and Andy Zappia, both out of our Rochester Office. Welcome Andy and Christina.

Andrew Zappia (00:22):

Thanks, Maia.

Christina Shifton (00:23):

Hi, Maia.

Maia Harris (00:24):

it's great to be back, right?

Andrew Zappia (00:24):

Absolutely.

Maia Harris (00:26):

Today we are going to take up a topic that has long been on our list, but has not been addressed yet related to discretionary denials. And we're taking this up now partly because there's been some new guidance that has recently been published. But let's start from the beginning, Christina can you walk us through kind of our history here and what's led us to this point with respect to discretionary denials at the PTAP.

Christina Shifton (00:50):

Absolutely. As people who practice in IPR world know to have an IMPR instituted you have to make a threshold showing that there's a reasonable likelihood that you'd prevail with respect to at least one challenge claim that it's unpatentable. Under 35 USC Section 314 the board has discretion to make that finding and decide whether or not to institute an IPR. That discretion that the board has held also gives the board the discretion to decide whether or not to institute not just whether the petition shows that reasonable likelihood. But also with respect to whether that's a good use of the board's resources. So the board has interpreted section 314 as allowing it to deny a petition institution depending on whether there is a parallel proceeding pending in district court.

Maia Harris (01:39):

Is this playing out differently depending on what venue you're in Christina?

Christina Shifton (01:43):

It definitely is. In 2020, they issued a decision in Apple Inc v Fintiv and that came down with six factors that they look at on whether to deny the institution based on a parallel proceeding. Two of those factors go to that pending proceeding in the district court. That's whether there's a stay or a likelihood of stay in district court and whether a trial would occur before a final written decision would issue in the IPR. Now, both of those can depend greatly on what court your district court litigation is venued in. Because district court's depending on what court you're in the schedule of time to trial can vary greatly and also the judges you're before can have a different view of whether to stay or not stay pending action. So depending what court you're in can really affect the six factor test that the board enunciated in Fintiv.

Maia Harris (02:37):

What are we seeing just in practical terms? In terms of the differences in the district courts? Does this mean then if you're in Eastern district Texas you might be more or less at risk of a discretionary denial?

Christina Shifton (02:49):

Absolutely. So if you're in a court particularly like in Texas that has a short time to trial or is unlikely to stay the action. Those factors would weigh against institution and IPR. Whereas if you're in a court that is slower to trial is going to take more time to reach trial or is more likely to stay it based on a pending IPR, you're more likely to get instituted. So where you are can definitely impact whether an IPR would be instituted and that can lead to some unpredictability in whether a patent would be subject to IPR.

Maia Harris (03:23):

I think that's why we're seeing also some differences between industry as to how important these Fintiv situations are to their patent litigation strategies. So let's switch over to Andy. We've heard a little bit of the background, what does the new guidance do for us if anything to solve some of these problems?

Andrew Zappia (03:40):

What led to the new guidance is there's been a lot of criticism of these discretionary denials based on parallel proceedings. And the reason is under the statute there's a time period to file an IPR or... This also applies to PGRs, post grant reviews. So there's a time period to file them and these discretionary denials lead to denial of institution of timely filed petitions and a lot of industry players and patent petitioners have objected to this. Because they feel that if they have a timely petition that presents a reasonable likelihood. They shouldn't be faced with this risk of discretionary denial and also the disparate impact of where your district court case is pending that Christina talked about. Also has led folks to criticize Fintiv and the other big criticism of discretionary denials is it's just so unpredictable. The point has been when you have a six factor test you really don't know what the board is going to do in any particular case. They might deny or not deny and this lack of predictability has been something that a lot of folks who are involved with IPRs have found to be a problem with the Fintiv approach. The PTAB has been aware of this, they've taken some comments on it. They're looking at doing a rule on it, but in the interim Director Vidal issued guidance on June 21 of this year. To try to bring a little more certainty and I think also my read is to answer some of the critiques that have been thrown at this approach of discretionary denial. That's sort of how we got here on discretionary denial. What this guidance

does, it really looks at four particular issues that the director Vidal [inaudible 00:05:20] should be able to give a little more concrete guidance and a little more certainty. Importantly, this new guidance doesn't vacate Fintiv, that six factor test is still in place. But it impacts how those factors are used and when you could or could not have a discretionary denial.

Maia Harris (05:37):

Can I just interrupt you there for a short second? Andy, just to make sure that our listeners are on the same page. Now this six factor test, this is not set up by statute right? This is its entirely derived from the board?

Andrew Zappia (05:47):

It's based on the board's discretion in section 314, which is statutory. But this notion of parallel proceeding that's been created by board case law. So that notion of that as a basis for discretionary doubt is not statutory. It's really been case law developed. The first thing that the guidance says is that if a IPR petition presents a compelling case on the merits, it should not be discretionarily denied. And what the guidance said is the standard is... As Christine mentioned, reasonable likelihood that at least one claim was invalid. That's the standard for institution on the merits. The guidance basis says if a very strong petition is presented on the merits, it presents a compelling case. You shouldn't have discretionary denial and they support that with one of the goals of these proceedings which is to improve patent quality. So if there's a patent out there that the board strongly feels has a validity problem and it's a timely valid petition and all the other requirements are met. It shouldn't be denied based on a parallel petition.

Now the board doesn't lay out specifically what would be a compelling case. I think that there's still some ambiguity there, but it certainly is clear that it would be a petition that far exceeds the reasonable likelihood standard for an institution. So that's helpful because what it basically says is that, that element will outweigh the other factors. So if you have a compelling case all these other factors, stay, trial date, there's one of the factors is an overlap between the district court and the IPR and investment in the district court proceeding, all these different factors. There's a compelling case that outweighs everything else.

Maia Harris (07:21):

Obviously, as you just said it's a higher standard than a reasonable likelihood standard. Any sense for practitioners yet as to what that real difference is going to look like?

Andrew Zappia (07:31):

In IPRs to date the sixth factor in Fintiv is for other circumstances and folks usually argue when they're on the petitioner side. This is a really strong petition, so you shouldn't deny it. I think this new standard helps that position by petitioners. Now the board is going to assess whether they think it's a compelling case or not. But I do think it's helpful from a petitioner perspective because if they can lay out what they think is a very strong petition. They can say this petition is a really... The other factors of Fintiv really shouldn't apply.

Maia Harris (08:01):

[inaudible 00:08:01] The Fintiv suggest that just combines another layer of discretion.

Andrew Zappia (08:05):

It certainly does. I guess the idea is that what they're saying to folks who file IPRs. If you put a really strong petition together, your risk of discretionary denial is going to be less. I think that's what the board and the PTO was trying to accomplish with this first adjustment.

Maia Harris (08:22):

To your point, it flips that sixth element to really be the first.

Andrew Zappia (08:27):

So if it's a super strong petition you don't need to get to any of the other stuff. There is a simplification benefit there. The second part of the guidance is ITC proceedings. There have been numerous board decisions that had granted discretionary denials based on a pending and advanced ITC investigation and the guidance said that the ITC will no longer be a basis for discretionary denial. So if an ITC is pending that won't be considered for purposes of discretionary denial. The board is going to consider pending district court cases and the reason for that is the ITC does not have the power to cancel claims. The ITC proceeding is not going to resolve invalidity issues. So the board's thinking in the guidance and Director Vidal's thinking is that staying based on ITC proceedings doesn't further the efficiency goals and efficiency is the reason why they started down this discretionary denial road in the first place. So that's one where there's very clear guidance. ITC is no longer a basis for a discretionary denial. The next one also gives some pretty clear guidance, but not in my view a 100% clear.

The third way to bring certainty to discretionary denial issues set out in the guidance are what we call Sotera stipulations. Sotera is the case before the board where a petitioner stipulated that to avoid discretionary denial, stipulated that the petitioner would not pursue the same arguments or arguments that recently could have been raised in the IPR in the pending district court case. So the idea is you put in that stipulation, then there isn't overlap between the district court case and the IPR anymore. Because what's being argued or could have been argued in the IPR won't be argued in district court. So there's no overlap, there's no inefficiency, you shouldn't have discretionary denial. But under prior case law at the board that stipulation was helpful, but wasn't really binding on the discretionary denial. It was a factor invented to consider. The new guidance says that if you do a stipulation there will not be discretionary denial. Now the wording used in the guidance is that the stipulation should be on the same grounds and says, "Or any ground that could have been raised."

That was the wording in the guidance for the stipulation. To me there's a little bit of ambiguity there because people have been doing two different kinds of stipulations in IPRs. One stipulation is we won't raise in district court any argument that could have been raised in the IPR. That means any invalidity argument based on patents or printed publications, so that's very broad. Another kind of stipulation that has been used is we won't raise in the district court the specific grounds we are arguing in the IPR. That's a more narrow stipulation. I think a fair reading of the guidance, because we use of the word or means that either type of stipulation should be enough to avoid discretionary denial. But to me the guidance is not crystal clear on that. So probably the board is going to be weeding through that one and maybe they'll say, well you have to have the broader stipulation to have the benefit of the guidance or the more narrow one is sufficient to get the benefit of the guidance.

So that one, I think the guidance provides some clarity but to me the wording is not a 100% clear which type of stipulation is sufficient to benefit from the guidance and just the last one to finish up what the guidance does on discretionary denial. Christina mentioned one of the Fintiv factors is trial date, but that's been heavily criticized. Because trial dates move all the time and as

Christina mentioned some courts get to trial fast, some get to slow. So that means you have more risk for discretionary denial if you're parallel cases in the Western district of Texas as compared to Delaware. There's been a lot of criticism because folks have said we don't like the discretionary denial case law that you really don't know when a case is going to go to trial. It's all really guesswork and also there's these disparate impacts. So what the guidance says is that for purposes of figuring out this trial date you use the median time to trial in that court, right? So it establishes a standard of median time trial.

So that you're not really stuck with the vagaries of any particular case and whether that particular case gets delayed or not. You look at median time to trial. Now there's still a disparate impact with that approach because Judge Albright is going to have a much quicker median time to trial than for example when you look at averages in Delaware, right? So you still have the same issue with a greater discretionary denial risk when you have a parallel proceeding in the Western district of Texas. So it doesn't clearly or fully deal with this issue but it does establish the metric that you should look at to determine the trial date element.

Maia Harris (13:01):

It seems to me like this clarifies, but to your point earlier on a couple of these factors that it also bids more questions. So starting I guess first with the trial date, it certainly doesn't get rid of the disparate impact of being in Western district of Texas versus Delaware. But does it at least provide you some certainty once you know that median trial date as to which line you might fall into in the yay or nay discretionary denial determination?

Andrew Zappia (13:33):

It definitely helps because an IPR as you pretty much know when you would get a final written decision. Because it's really 18 months and very close within a week or two of 18 months from petition filing. So you'll know when that final written decision is likely to come and with a median time to trial you'll be able to figure out at least the time of petition filing. How's that compared to trial date, right? For petitioners that does help because you may file your petition a little earlier to get ahead of that median time to trial date. Because if you've been sued you have one year to file suit on the patent that you're challenging, you have one year to file an IPR. You might be able to look at that median time to trial and the jurisdiction where you've been sued and say, well given that I need to get this petition drafted, and ready and filed within three months to make sure we're going to be ahead of the trial date in district court.

So yeah, it does help. But there is still this disparate impact depending on what venue the district court litigation is in.

Maia Harris (14:30):

But was that ever really... I mean, with respect to the guidance particular and I understand from a practitioners standpoint the disparity is ripe for debate as to whether or not it's fair or unfair. But from the PTABs perspective, I understand why they don't really want to touch that piece specifically nor would I think that there's a way to do that with this guidance.

Andrew Zappia (14:52):

Yeah, and it's hard. And one other thing the guidance says that does help on this is if the other Fintiv factors weigh against discretionary denial that the trial date one can't change the result. So it basically gives it the least weight of all the factors, because that's also in the guidance that the trial date can't outweigh the other factors.

Maia Harris (15:14):

That actually seems helpful and maybe is a nod to this disparate impact of being in one district over another.

Andrew Zappia (15:21):

Right. Because there were quite a few discretionary denial decisions that focus really heavily on the trial date and I think that might be the motivation for them to add that point. The trial they can't outweigh other factors that weigh against discretionary denial.

Maia Harris (15:34):

And last but not least, I do want to talk a little bit about the stipulation. Because it seems to me of all of these factors that's the one that's going to weigh most heavily in terms of near term strategy decisions by petitioners. What are your thoughts on the impacts there in the takeaway?

Andrew Zappia (15:51):

For IPR practitioners some always use those stipulations and some hate to use them and the reason some folks don't like to use them is you don't want to put all your eggs in one basket and the broader stipulation. Any ground that was raised or could have been raised basically means that in district court you're taking art based anticipation obviousness arguments out of your toolbox for defense against a claim. But I haven't looked at the statistics on this in just the many IPRs I've handled. In most of these you see these stipulations because people are so scared of discretionary denial. I mean, discretionary denial literally terrifies folks who are filing IPR petition. This is pre guidance, right? But folks really worry about it because they'd say, well I've got this district court case and the board might say it's advanced and they're not going to grant my petition. So people were doing these stipulations. Now it's possible given some of these other factors, it depends how risk averse you are.

Because some folks may say, I'm not going to do this stipulation now because I think I can get enough certainty from these other factors and I don't think I need to do it. But folks who are really worried about the risk of discretionary denial they're going to do the stipulation

Maia Harris (16:57):

To me though the question means it may not come down to whether you do the stipulation or not. Although I think that's step number one. But to your earlier point, what scope of stipulation do you choose? Because if the standard here is the broader scope you're giving up a lot of territory there to try and avoid a discretionary denial.

Andrew Zappia (17:19):

I figure folks are going to gravitate to the more narrow stipulation, just the same grounds presented in a petition and we've used that more narrow one also. The board pre guidance has said we don't weigh that one as much as the broader stipulation, but they would still pay attention to it. But I think you're probably going to see more folks do the more narrow stipulation.

Maia Harris (17:37):

That would be my expectation too, it's certainly something I'd be more comfortable with. So what are our takeaways here just from a practical point of view?

Andrew Zappia (17:45):

I'll just start and Christina can add at the end. The guidance helps on discretionary denial, but it's not going to take away the heartburn that IPR filers have over discretionary denial. Fintiv is still in place, but some of the elements that have worried folks who are on the petitioner side are addressed in the guidance. But discretionary denial is still something you have to be very careful about and think about when you're preparing petitions and how quickly you want to file petitions if you've been sued in district court. ITC, then you don't have to worry about so much. But most ITC investigations there's a parallel district court proceeding filed. Now often those parallel district court proceedings get stayed, so that would help you on Fintiv. But if you're in a circumstance where you only have an ITC investigation then you don't have to worry about discretionary denial anymore. If that's the only parallel proceeding that's pending.

Christina Shifton (18:40):

Yeah. Just to echo points we've brought up here and how to position this for a petition to hopefully escape discretionary denial or to argue for discretionary denial. This guidance looking at the Fintiv factors, it gives you sort of a roadmap of the way you want to argue that there isn't a duplication of efforts that the IPR is a good use of resources. If you want it to be instituted or on the flip side to try and position yourself in a court to argue that any invalidity issue should be tried in the court because the IPR proceeding would somehow waste the PTOs resources. This guidance and Fintiv in particular gives that sort of roadmap of stipulations and timing ideas that can help to guide you as you make these arguments.

Andrew Zappia (19:21):

Oh, and the last thing I'll just mention is the guidance is binding until the rule comes out. Because the guidance notes that they're working on the actual rule but this is designed to be binding on the board in the interim.

Maia Harris (19:33):

All right, Christina and Andy thanks as always for an engaging discussion. Thank you to our listeners as well. We invite you to join us for our next installment of this podcast series, discussing strategy trends and other happenings at the PTAB. In the meantime Troutman Pepper's intellectual property team will continue helping its clients develop and implement global protection and commercialization strategies for intellectual property assets and virtually all industry areas. For more info on how we can help you visit the intellectual property section of troutman.com. You can also subscribe and listen to other Troutman Pepper podcasts wherever you listen to podcasts. Including Apple, Google and Spotify. Thanks again, Andy. Thanks Christina.

Copyright, Troutman Pepper Hamilton Sanders LLP. These recorded materials are designed for educational purposes only. This podcast is not legal advice and does not create an attorney-client relationship. The views and opinions expressed in this podcast are solely those of the individual participants. Troutman Pepper does not make any representations or warranties, express or implied, regarding the contents of this podcast. Information on previous case results does not guarantee a similar future result. Users of this podcast may save and use the podcast only for personal or other non-commercial, educational purposes. No other use, including, without limitation, reproduction, retransmission or editing of this podcast may be made without the prior written permission of Troutman Pepper. If you have any questions, please contact us at troutman.com.