Patents: Post-Grant Podcast: S02E06: USPTO Director Review
Speakers: Andrew Zappia, Nick Gallo, and Bryan Smith
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Nick Gallo:

Greetings, and welcome to Troutman Pepper's *Patent Post-Grant Podcast* series. My name's Nick Gallo and I'm joined today by my colleagues Andy Zappia and Bryan Smith. In this installment of our post-grant podcast series, we are going to take a look at the PTO directors increasingly active role and inter partes review, IPR and post-grant review, PGR practice by a means of guidance documents and director reviews. Bryan, could you start us off by explaining the *Arthrex* decision and how led to a more central role for the director at IPR, PGR proceedings?

Bryan Smith:

Sure, Nick, I'd be happy to. The *Arthrex* decision arose from a challenge to a file written decision inter partes review proceeding or IPR that resulted in the invalidation of a patent. The patent owner appealed that decision to the federal circuit challenging whether the structure of the PTAB or the patent trial and appeal board violated the appointments clause. The challenge was based on the fact that the administrative patent judges or APJs that were issuing final written decisions on behalf of the PTAB were appointed by the Secretary of Commerce and not the president. The federal circuit found that the APJ's appointments were unconstitutional, in part because the director did not provide review of the decisions that the APJs were issuing.

The case then moved on to the Supreme Court, which also determined that the unreviewable authority provided to the APJs was inconsistent with their appointment by Secretary of Commerce. Specifically the APJs were deemed to be wielding executive power while being too insulated from executive review. As a result, the Supreme Court divested the APJs of vital authority and declared that the final authority must be placed with the director, a president appointed, and Senate confirmed officer. Thus, the director was required to take a more central role post-grant proceedings.

Although the *Arthrex* decision itself was in the context of an IPR or inter partes review, the director review process has been extended to other post post-grant proceedings including post-grant reviews and derivation proceedings, for example.

Nick Gallo:

Interesting. So as part of this more central director role, I understand the director has issued some guidance documents on procedures to seek director review. Did you explain how those work?

Bryan Smith:

Sure. In direct response to the *Arthrex* decision, the patent office established an interim directive review process for which the PTAB is issued guidance. That guidance delineates the types of decisions that are available for director review as well as the types of issues for which director review is appropriate. The guidance further sets forth the procedural requirements for filing a request. In particular, the request must be filed within the time period that was previously prescribed in the regulations for filing a request for rehearing. The request must include a priority ranked list of issues for which review is sought.

Although the guidance indicates that cases that present more than one issue should be rare, however, arguments that are not raised in the request may be deemed waived according to the guidance. Currently, there is no fee for requesting director review, although the guidance indicated that the patent office may consider applying a fee in the future. With respect to some of the procedural requirements, the guidance provides that no new evidence or arguments are to be included with the request unless specifically authorized by the director. For example, the director has granted one review where the parties

were authorized to file additional briefing regarding the proper interpretation of multiple dependent claims, which was deemed an issue of first impression before the PTAB. The guidance also sets up an advisory committee established by the director that is there to provide recommendations to the director as to whether review should be granted.

As a result of the director review, the director may issue a single decision granting review and resolving the identified issue. In other cases, the director has authority to grant additional briefing, additional discovery or oral hearing to help resolve the issue. Finally, the guidance provides that for cases where director of you is denied, the director does not need to provide any reasons for the denial.

Nick Gallo:

What about other topics? Has the director issued guidance on any other practice areas?

Bryan Smith:

Yes. The director has taken a central role in issuing other types of guidance. With respect to discretionary denial, the director issued guidance indicating that petitions will not be denied institution where the petition presents compelling evidence of unpatentability the discretionary denial cannot be based on a parallel ITC proceeding and also expressly providing that petitions would not be denied where the petitioner stipulates not to pursue the same grounds in a parallel district court action.

On obviousness, the director provided guidance indicating that applicant admitted art will not being available for forming the basis of an obviousness position could be considered in the board's obviousness determination to supply missing claim limitations, to support a motivation to combine or demonstrate the knowledge of a person of ordinary skill in the art. And in a third example, the director provided guidance aligning the board's indefiniteness approach with the approach applied in district courts.

Nick Gallo:

Okay. So back to director review. Under the new guidance, are parties required to choose between director review and petitions for re-hearing after file a written decision?

Bryan Smith:

That's correct. The guidance on director review expressly provides that a party is limited to requesting director review or rehearing by the board, but shall not request both. Thus, a party must elect which procedure to pursue. An improper request for both director review and panel rehearing of the same decision is treated as a request for director review only.

Interestingly, the guidance provides that a party may file one request for rehearing of a director review decision, but that such request be rare and specifically identify the matter which the director reviewed misapprehend or overlooked. Finally, director reviewed decisions of final written decisions are appealable to the Federal Circuit, as was the case with final written decisions issued by the APJs.

Nick Gallo:

So Andy, is there any advantage to director review both final written decision?

Andy Zappia:

There's a potential advantage, but I think to start the discussion, the grant rate on petitions for rehearing is very low, so people don't win on those very often and director review is similar, the win rate for those is low and the requests that the director then takes up and does a review, that rate is also low. But there is a potential advantage to director review because it gives a party in an IPR or PGR the opportunity to present the arguments to somebody different because with petitions free hearing, the argument is presented to the same panel that ruled against the party.

In director review, you are getting a new audience. So there's a benefit to that if you can raise an issue that the director thinks is worth her attention and effort. I do see in a lot of IPRs that I work on folks opting for director review instead of a petition for rehearing, and I think it's probably for that reason.

Nick Gallo:

Yeah, got it. That makes sense to me. So Bryan, on these new guidance documents, the director's done away with the presidential opinions panel, right?

Bryan Smith:

That's correct. The presidential opinion panel was used prior to this due guidance to establish binding agency authority concerning major policy or procedural issues or other issues of exceptional importance in limited situations. Parties could recommend presidential opinion panel review only in particular areas, and in particular the party would have to be specific that the board decision was contrary to a particular decision of either the Supreme Court, the Federal Circuit, or the board's own precedent or contrary to a constitutional provision, statute or regulation or required an answer to one or more precedent setting questions of exceptional importance.

Presidential opinion panel review was fairly inactive and this role will now be fulfilled with the director review process as director review decisions may be issued as precedential informative or in the case where they don't present new issues, they can be presented as routine decisions.

Nick Gallo:

So Andy, with director review, is it always the case that a party must request or can the director act sua sponte?

Andy Zappia:

The director can act sua sponte and this is a byproduct of the *Arthrex* decision and the view that under the appointments clause, the director has a right to be involved in really all elements of these PTAB proceedings. So parties can request director review and those requests are granted pretty rarely actually, but the director also will step in on her own in certain matters if she believes it is a matter of importance either from a legal standing or from a integrity of the process standpoint. The director has stepped in on a sua sponte basis.

Nick Gallo:

What types of cases do you see the director stepping in?

Andy Zappia:

The director's been active and she kind of steps in two different ways. One is through these guidance documents which bind the board. So she kind of sets the rules of the game through guidance documents on the parallel proceedings into applicant [inaudible 00:09:58], other things, indefiniteness. And then in particular proceedings, she has stepped in on obviousness determinations, on real party interest issues, most interestingly on questions of sanctions she stepped in several times. So I think when there's an issue that is important from a legal standpoint or from protecting the process standpoint, the director has been pretty active stepping in.

Nick Gallo:

Yikes, “sanctions” is a scary word for practitioners. Can you tell us more about what's happening there?

Andy Zappia:

There's a couple of very interesting sanctions cases that have come up in the last year or so where the director has stepped in sua sponte and really tried to police the integrity of the IPR and PGR process. So one of these cases is Spectrum Solutions versus Longhorn, and it really related to a duty of candor issue. There the patent owners counsel did testing to support a validity theory and relied on privilege and work product positions not to disclose bad test results. And those bad facts came out in some limited discovery in the IPR and then the petitioner filed a motion challenging the patent nurse's decision to withhold those results.

Under the IPR rules, parties are supposed to disclose information relevant to the issues in dispute, that's actually mandatory discovery into the IPR rules. So this is an instance where the director sua sponte stepped in and actually what happened was the board sanctioned the patent owners for their conduct and the director stepped in sua sponte just to reaffirm board's authority and right to issue those sanctions because there was some question about the ability of the board, a panel to step in and sanction and the director stepped in to be very clear that the board is allowed to do that.

The other case which both sides got sanctioned really is OpenSky versus VLSI where the petitioner there, OpenSky, after a victory by the patent owner, VLSI, in the Western district, Texas, OpenSky, after that verdict, copied petitions that were previously filed by Intel and denied institution and then tried to get money from the patent owner saying it wouldn't actively pursue the IPR. And then when that didn't work, went to Intel and tried to get money from them to get them to support the IPRs. The IPRs were instituted and Intel was joined in that. The VLSI sought director review of the institution and the director got involved and issued sanctions really in both directions, sanctioned OpenSky for what the director viewed as litigation misconduct by basically trying to induce both sides in the fight to pay them somehow to engage in some kind of conduct view that as abuse of process.

And then the patent owner was also sanctioned because the director viewed the patent owners making certain arguments and taking certain positions inconsistent with the record. So they were admonished, OpenSky was barred from the proceeding and Intel who stepped in is now handling the challenges. That's another instance where the director wants to maintain the integrity of the process. And these are just two examples of cases where parties or counsel we're not meeting the standards the director thinks should be met in the conduct of these proceedings.

Nick Gallo:

Yeah, those are some wild facts.

Andy Zappia:

Yes, they really are.

Nick Gallo:

So how about on institutions which were not previously appealable, Bryan is the director now open the door to at least an appeal type forum through director review?

Bryan Smith:

That's correct. The guidance expressly provides that institution decisions are subject to potential director review in addition to final written decisions and decisions at Westbury hearing. Previously, the presidential opinion panel review was available for institution decisions but rarely granted and was limited in its application. Institutional review is available on decisions that either present an abuse of discretion or important issues of law or policy. So institutional review is a bit narrower than final written decision review by the director, which can also be available for erroneous findings of material fact or erroneous conclusions of law.

The director review, as Andy mentioned, gives an opportunity for review of the institution by someone other than the panel that made the decision and that relates to the advisory committee that's set up by the director and provides recommendations to the director on whether to grant director review. Director review has been granted with respect to at least one institution decision where institution was denied based on the advanced stage of a related litigation. In that case, the petitioner was denied a request to respond to the discretionary denial arguments raised by patent order and the director granted director review to allow the petitioner an opportunity to reply to those arguments, director of few decisions while they could be applied to institution remain unappealable to the Federal Circuit.

Andy Zappia:

And I'll just say that this is a big change in that I see a lot of parties in the denial of institution context doing director review instead of the Petition for rehearing. I think they're just hoping that they might get better results with director review. I'm not sure that's going to pan out, but the results are very poor on petitions for rehearing, for non-institutional decisions. So I'm seeing in a lot of IPRs I work on that people are opting for director review.

Nick Gallo:

And I think that may be because of what you mentioned earlier regarding the different audience. So Andy, have parties tried to make different types of arguments using director review?

Andy Zappia:

Yeah, they're still off the wall arguments get raised from time to time. One that's particularly interesting and I guess controversial relates to what's been called panel stacking. There was a case about the PTAB that went to the Merit System Protection Board, which is a board that handles claims by employees of the government, which would include PTAB judges.

And there was quite a bit of dirty laundry aired about the PTAB because there were all sorts of allegations in connection with a particular IPR proceeding. There was a judge who disagreed with the panel and was very vocal about what the panel was doing. And then the allegation was that the PTAB then removed the judge from the panel and then proceeded the way it wanted to. And this was controversial and there was a published decision about it. Well, some parties and other IPRs have sort of taken that up. I've seen in one case that I've been monitoring that party raised a similar panel stacking argument and made a director review request.

That one involved an IPR where the patent owner prevailed, and then a very similar IPR on that same patent filed by a different petitioner where the PTAB assigned a different panel. So same patent, two proceedings, two different panels, and there the petitioner won, it was invalidated and the patent owner filed for director review arguing improper panel stacking, basically asserting that the PTAB manipulated the panel to get a different result in the second IPR. That's just one example of a little bit of an off the wall argument that people have attempted using director review.

Nick Gallo:

That's really interesting. Sounds like the director's really changing practice at the PTAB. I want to thank Bryan and Andy for doing this podcast. Troutman Peppers Intellectual Property Team will continue helping its clients develop and implement global protection and commercialization strategies for intellectual property. For more information on how we can help you, please visit our website, troutman.com. You can also subscribe and listen to this and other podcasts and our series on post-grant procedures, including on Apple, Google, and Spotify. Thank you. And we hope you enjoyed the podcast.