

Patents: Post-Grant Podcast: Director Review Rule**Host: Andrew Zappia****Guest: Kim Coghill and Bryan Smith****Recorded 10/10/24****Andrew Zappia:**

Greetings and welcome to Troutman Pepper's *Patents: Post-Grant Podcast* series. My name is Andy Zappia and I'm joined by my colleagues Kim Coghill and Bryan Smith. In this installment of our *Post-Grant Podcast* series, we're going to take a look at the new final rule that just issued for Director Review in post-grant proceedings. Bryan, before we get into the new final rule, I thought it might be useful to set the table a little bit about how we got to this issue of Director Review.

Bryan Smith:

Thanks, Andy. Sure. This story actually goes back to September 16th, 2011, when the American Invents Act was passed into law. That law created the Patent Trial and Appeal Board. It also created new proceedings that would be held before the Patent Trial and Appeal Board, including inter-parties review, post-grant review, and derivation proceedings. Under the original law, authority was delegated in those proceedings for the PTAB to make final decisions. In particular, the PTAB had the authority to grant rehearing of any decisions that were issued.

The constitutionality of that portion of the law was challenged all the way up to the Supreme Court. In the *Arthrex* decision, the Supreme Court held that the director as a principal officer must have review of final PTAB decisions. Therefore, the portion of the AIA that granted that authority to the PTAB was unconstitutional. In response to that decision, the PTO developed interim rules to establish a Director Review process. Those interim rules were updated a few times and allowing the director to review different decisions and different aspects of these post-grant proceedings. We'll talk about that a little bit more later.

Now, the final rule has issued. During the period of time that the interim rules were in place the director has been fairly active in evaluating decisions, both at the request of parties involved in the post-grant proceedings, as well as under the sua sponte authority given to the director to review decisions.

Andrew Zappia:

Yeah, thanks, Bryan. Yeah, it's quite an interesting story how we got here. Kim, now that we have a little bit of that background. Could you talk a bit about what types of proceedings are within the scope of Director Review?

Kim Coghill:

Sure. So, it applies to AIA proceedings. That includes IPRs, PGRs, and derivation proceedings. IPR is where a petitioner can challenge patent validity for anticipation or obviousness based on patents or printed publications. That's available after nine months from patent issuance. PGR is where a petitioner can challenge patent validity based on any ground available, so that includes 112 and 101. That's available within the first nine months from issuance. Derivation proceedings are proceedings for one to challenge who owns acclaimed inventions.

Andrew Zappia:

Thanks. You know, Bryan, I was looking at the filing rule and I noticed the scope of Director Review is pretty broad, like for the kinds of decisions in these AIA proceedings that the director can take a look at. Do you want to talk a little bit about the scope of the review rights of the director?

Bryan Smith:

Sure. The scope of the review rights are pretty consistent with how the interim rules actually developed. In that, the director can review any decisions of whether to actually institute an AIA proceeding, so those are decisions at the outset of whether the petition has met the legal requirements for actually instituting the proceeding, allowing the proceeding to proceed to trial.

The director can also review any final decisions that are issued in an AIA proceeding, for example, invalidating a patent, as well as any decisions that are issued by the panel that heard the trial for rehearing, or the petitioner or patent owner brings a request to the panel that heard the trial to rehear that trial. That reaches a decision. The director can actually review that as well.

The director also has authority to review any other decision that concludes an AIA proceeding. For example, if the proceeding is dismissed based on an adverse judgment against the party, for example, for failing to timely reply to the petition. One of the biggest authorities that the director has granted is the ability to sua sponte, look at decisions. Also, as part of the director's review of any decision, the director is also authorized to look at any interlocutory decisions that led to that decision as part of the review process.

Andrew Zappia:

Yeah. We'll talk a little bit about this when we give some examples of Director Review decisions, but I have noticed the director has also stepped in in sanctions decisions, which has been interesting. We actually talked about that in one of our prior podcasts. I've noticed the director will exercise her powers to police these proceedings pretty broadly.

Well, because now that we know a little bit about the areas where the director can act. It'd probably be useful to talk a bit about the mechanics of how the rule works. Kim, can you walk us through a little bit of how the final rule sets out the mechanics for these reviews?

Kim Coghill:

Sure. So, a party, not a party to an AIA proceeding, so not a third party can file a request with the PTAB and also send the request to a set email address. The timing for the request must be within 14 days of the entry of a non-final decision or decision to institute a trial as to at least one ground of unpatentability asserted in the petition or within 30 days of the entry of a final decision or decision not to institute a trial.

The same page limit as rehearing requests applies and that's 15 pages. Importantly, you can't do both. You can't file a request for rehearing and also a request for Director Review. If a party does vote, it'll just be treated as a request for Director Review. The request can't include any new evidence and there are no ex-party communications allowed with the director and third parties cannot contact the director about Director Review unless invited to do so by the director.

Requests once received or considered by an 11-member advisory committee that assists the director and that's currently chaired by a Director Review executive. It includes members from the PTO and the PTAB. The director can delegate review, but it's not common and the director ultimately keeps the final decision. There's no opposition briefing allowed to a Director Review request without leave and the Director Review decision can be appealed to the federal circuit.

The director can designate her review decisions as presidential. However, by default, they are not designated presidential. There's flexibility to the director to decide whether or not her review decision is presidential.

Andrew Zappia:

Great summary. Bryan, maybe it'd be helpful to talk a little bit about sua sponte review because the mechanics of when a party requests it makes sense, but the director can also on her own step in and say, "Hey, I want to review this." How does that work?

Bryan Smith:

Yes, the director has broad authority to step in and review any decision sua sponte that the director desires. The rule states that it should be typically reserved for exceptional cases. As you mentioned, Andy, we've seen it in the director stepping in with regard to sanctioned issues. I mean, there's a case with an adverse decision that we'll talk about a little bit later that is the most recent instance in which the director stepped in for a sua sponte review, but the director can step in sua sponte on any issue in the proceeding, so that includes institution decisions as well as final decisions or any other interlocutory decisions.

There's an internal team at the patent office that attempts to flag important issues that the director may wish to step in sua sponte to review. The director can also convene an advisory committee in order to assist on whether to step in sua sponte or not, assist in making that determination. When the director does step in sua sponte, the director advises the party and briefing is allowed. As Kim mentioned, typically third parties are not allowed to be involved, but the director can, in her discretion allow amicus briefing.

In terms of the timing, the director will typically step in within 21 days after the deadline for a rehearing request absent some exceptional circumstance such as a remand from the federal circuit that requires Director Review. Pursuant to the rule, the PTAB decisions are now final agency decisions unless a Director Review is requested, or the director does a sua sponte review that's granted. Upon the director's review decision, the decision then becomes final. A further note on the timing is that any appeal deadline is reset if Director Review is granted or sua sponte review is initiated.

Andrew Zappia:

Thanks. I guess one thing folks listening might wonder is how often is this happening? How often are parties requesting Director Review? How often is the director granting it? I know the PTO publishes statistics and numbers on that. So, Kim, can you tell us a little bit what those statistics show currently?

Kim Coghill:

Sure. Director Reviews are requested with some frequency, but it's not that often granted. As of August 1st, 2024, there had been 382 compliant requests and of those only 24 were granted. That's a less than 10% grant rate. The director has initiated review sua sponte as of August 1st, 36 times. The director had only delegated review two times as of August 2024.

Andrew Zappia:

Yeah. It's interesting that there's more sua sponte reviews than granted party-requested reviews. It shows that the director decides herself what she thinks is worth review. Thanks. Bryan, I thought it might be interesting just to finish up if you want to talk about a couple of recent Director Review decisions just to give our listeners a flavor for what the director's been doing recently.

Bryan Smith:

Sure. I'll touch briefly on some of the more recent decisions that have come down that highlight the issues that will attract the director's attention in granting one of these requests. In a couple of the recent decisions, including *PLR Worldwide Sales v. Flip Phone Games*, and *Samsung Electronics v. Slyde Analytics*, were both cases where the director granted a review based on improper claim construction.

In the first case, the director held that the board improperly based a claim construction of a key term on subjective views of the user of the claim system. In the latter case, the director held that the board failed to properly analyze intrinsic evidence as part of its claim construction analysis. Those were two examples of cases where the director granted review and sent the case back to the board for additional analysis on claim construction.

The board has also taken up issues of improper obviousness analysis. In *Hesai Technology v. Ouster, Inc.*, the director held that the board's evaluation of the prior art reference relied upon was improper as the board discounted the teachings of a particular figure in the prior art.

reference based on a typographical error in the patent. The director dug into that analysis and held that the typographical error did not apply to the aspect of the figure that the petitioner was relying on and therefore granted review for a revised obviousness analysis.

The director in *Luminex International v. Signify*, granted a Director Review based on an improper holding that a party was an RPI or a Real Party in Interest, which would have barred the petition and sent back to the board for additional analysis. In that case, the director expressly held that the party was not an RPI and advised the board to evaluate the merits of the petition.

Andrew Zappia:

Yeah. Just for our listeners on this issue of Real Party and Interest, the statute has certain timing rules for when IPRs can be brought. You have to do them within one year if you're getting sued, for example. If a party is held as a Real Party in Interest and they're outside that timing provision that could lead to denial of institution. That's why these real party and interest issues come up, because of some of these timing rules for when you can bring claims. That's just one example of one of the timing rules.

Bryan Smith:

Thanks, Andy. That's exactly what happened in this case. The board held the party was an RPI or a Real Party in Interest and therefore denied the petition based on that statutory ground and the director felt that the facts did not support that in granted review to send back to the board to evaluate the merits of the petition.

The final case I'll mention, the director, sua sponte granted Director Review based on an improperly issued adverse judgment. Here the patent owner failed to timely respond to the petition and the board entered an adverse judgment based on that and the director felt that the facts including the fact that the patent owner was in the process of changing counsel at the time did not support adverse judgment against that patent owner. So, the director sua sponte granted review and sent back to the board to evaluate the merits of the petition.

Andrew Zappia:

Yeah. Those are some interesting recent cases. One thing I'll just mention is that when the director steps in to do a review, sometimes she will decide the issue, right? Other times she'll lay out a mistake and give instructions and send it back to the board and ask the board to redo the analysis. It's not always the case the director makes the decision for the boards sometimes it's more correcting what she thinks the board did wrong and then sending – it's like when they remand when the appeals court remands back, the director does it that way also.

Well, I thank both of you for this discussion of the final Director Review. One of the takeaways is that the final rule is not that different from the interim rule. It tracks the interim rule pretty closely. So, for people practicing in this area, there aren't a lot of changes, but it's worth it to take a look through the final rule to see if there are any changes that impact how you've been handling Director Review.

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