

# PTAB Update

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## Steep Drop in Discretionary Denials — But Will It Last?

The Patent Trial and Appeal Board (PTAB) may be becoming more petitioner-friendly following a [June 2022 memorandum](#) that significantly narrows a precedent-setting case's application for discretionary denials.

### *Fintiv* and Its Impact

The PTAB's decision in *Apple v. Fintiv*, IPR2020-00019, Paper 11 (P.T.A.B. Mar. 20, 2020) (designated precedential May 5, 2020), offered support to panels for discretionary denials of patent challenges in the PTAB where that patent was already being litigated in district court.

With a stated intention of balancing efficiency, fairness and the integrity of the patent system, *Fintiv* instructs the PTAB to analyze six nonexclusive factors — including the proximity of the court's trial date to the PTAB's deadline for a written decision and overlapping issues in the parallel proceedings — in allowing the PTAB to exercise its discretion to deny a petition.

The PTAB's rationale behind *Fintiv* is grounded in:

- Decreasing inefficient uses of its resources.
- Ensuring the PTAB is not doing redundant work.

Supporters of *Fintiv* have argued that the opinion allows the PTAB to manage its overflowing docket, decrease litigation costs and minimize conflict between PTAB and district court proceedings.

But there have been calls to end the *Fintiv* regime, with parties raising numerous arguments against the *Fintiv* rationale, such as:

- *Fintiv* insulates weak patents from review before a specialized tribunal.
- The *Fintiv* factors require the PTAB to predict trial dates, which are out of the PTAB's control and often delayed, but in any event may result in unequal treatment of cases depending on whether the trial court has a backlog of cases.
- *Fintiv* denials make it difficult to weed out competition-stifling patents in a cost-effective and efficient manner, which may drive up prices and lead to a longer time-to-market.

### The Memorandum and Its Impact

Discretionary denials peaked in the months following *Fintiv*'s issuance. However, these numbers dropped dramatically after U.S. Patent and Trademark Office (USPTO) Director Kathi Vidal published her June 2022 memorandum, significantly narrowing *Fintiv*'s application.

## PTAB Historically a Friendly Forum for Petitioners

Even accounting for the short-term impact of *Fintiv*, the PTAB remains a generally petitioner-friendly forum. Over the decade-long lifetime of the *inter partes* review proceeding, 66% of the PTAB's final written decisions have canceled all of the challenged claims.

**7,601**

Inter Partes  
Review Trials

**4,358**

Final Written  
Decisions

**2,879**

Decisions Canceling  
All Claims

Source: Docket Alarm, PTAB Analytics

In the memorandum, Director Vidal focused on the importance of the PTAB reviewing strong invalidity challenges and challenges where petitioners stipulate to not raise the same issues in the proceedings in the PTAB and district court. (See the June 2022 USPTO presentation “[Patent Trial and Appeal Board Parallel Litigation Study](#).”) She also called for the PTAB to de-emphasize the weight on district court trial timing.

A study of discretionary denials the authors of this article conducted on Docket Navigator reflects a steep downward trend in *Fintiv* denials following Director Vidal's memorandum.

- In 2021, there were **121** *Fintiv* discretionary denials.
- As of December 12, 2022, there were only **24** *Fintiv* discretionary denials total in 2022 — 20 before the June 2022 memorandum and four after.
  - Post-memorandum denials quoted Director Vidal's guidance heavily; they also largely involved stipulations the PTAB considered too narrow, coupled with trial dates only weeks away.

## Recent Director Guidance

Director Vidal issued a precedential decision on February 27, 2023, clarifying that the PTAB should consider the *Fintiv* factors as the first step in determining whether to exercise its discretion to deny a petition.

She also explained that while the PTAB may institute a petition that presents a strong invalidity challenge, the standard for doing so is whether the petition presents compelling evidence of unpatentability, which is a higher standard than the statutory standard for instituting an *inter partes* review.

**What this means:** Our research shows that, by the numbers, discretionary denials have taken a steep dive in the wake of Director Vidal's memorandum. It remains to be seen whether her recent guidance softens the impact of the memorandum.

**Why this matters:** The immediate reaction to Director Vidal's memorandum suggests that the PTAB has significantly cabined its use of discretionary denials. We will closely monitor this area for any shifts in trends.

## Duties of Candor and Reasonable Inquiry: What Parties Need To Consider

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According to recent [USPTO guidance](#), corporations that are involved in PTAB proceedings may have broader disclosure obligations than some practitioners and parties may realize.

These obligations arise, according to a July 29, 2022, USPTO notice, based on the duty of candor before the USPTO in combination with the duty of reasonable inquiry that applies to the signatory of each document filed in a PTAB proceeding.

### Duty of Candor and Good Faith

All parties and individuals involved in a PTAB proceeding have a duty of candor and good faith to the USPTO. The duty extends to information that is material to the patentability of a claim under prosecution. If a party proposes a substitute patent claim in an *inter partes* review proceeding, the duty extends to information that is material to the patentability of that substitute claim.

Information is material to patentability when:

It is not cumulative to information already of record or being made of record in the application, and

- (1) It establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim; or
- (2) It refutes, or is inconsistent with, a position the applicant takes in:
  - (i) Opposing an argument of unpatentability relied on by the Office, or
  - (ii) Asserting an argument of patentability.

The duty of candor and good faith also extends to positions that a party takes in PTAB proceedings. As the USPTO reminded practitioners in the July 29, 2022, notice, a party in a PTAB proceeding should not take a position about patentability of challenged claims that is inconsistent with the positions taken in its submission to other government agencies. For example, the USPTO explained that, within the scope of these duties, submission to the Food and Drug Administration (FDA) should be consistent with a party's position before the PTAB.

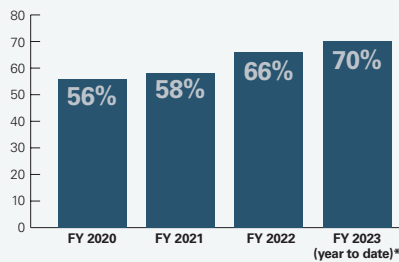
**The issue:** A dispute regarding the extent of disclosure required by the duty of candor and good faith arose in a recent *inter partes* review proceeding, *Spectrum Solutions v. Longhorn Vaccines*, IPR2021-847. The patent owner proposed substitute amended claims, the validity of which the PTAB then had to consider. The patent owner also retained an outside laboratory to perform microbial testing on a compound in an effort to support its position in the *inter partes* review. The patent owner disclosed a select set of those test results that supported the patentability of its patent claims.

When the petitioner learned through discovery that additional, undisclosed testing had been performed by the laboratory at the patent owner's direction, the petitioner asserted that the patent owner had violated its duty of candor by failing to disclose the complete set of tests.

Additionally, the petitioner alleged that the additional testing fell within the scope of routine discovery in an *inter partes* review proceeding. The Code of Federal Regulations (CFR) requires a party to serve as part of routine discovery "relevant information that is inconsistent with a position advanced by the party during the proceeding concurrent with the filing of the documents or things that contains the inconsistency."

## Inter Partes Review Institution Rates on the Rise

The *inter partes* review institution rate has fluctuated over time. The rate dipped to less than 60% in 2020 but has since risen to 70%. One factor for the increase in institution rates is the sharp drop in the PTAB's discretionary denial of institution.



Source: USPTO PTAB Trial Statistics, November 2022

\*Consists of data for October and November 2022

The petitioner argued that the additional test results should have been provided under this provision because the results contradicted the patent owner's position. The patent owner disagreed, arguing that that the additional tests were attorney work product and that the tests did not contradict its position.

**The decision:** The PTAB did not resolve this issue. It allowed the patent owner to amend its patent owner response and declaration to change the objectionable portions and remove any potential inconsistencies. The CFR allows a party accused of violating its duty to correct its statement prior to facing a motion for sanctions. This procedure is similar to the procedure for seeking (and for attempting to avoid) sanctions under Rule 11 in a district court.

In allowing the amendment, however, the PTAB noted that it "recognize[d] Patent Owner's proposed amendments represent its attempt to undercut the contentions set forth in Petitioner's motion for sanctions. We do not determine, however, whether those amendments in fact achieve that purpose."

**Why this matters:** Parties, such as corporations, that conduct laboratory testing that is material to patentability of a claim at issue in a PTAB proceeding should consider whether they may have a duty to

disclose some or all of that testing to the PTAB — in particular, test results that could be considered inconsistent with the parties' position before the PTAB.

## Duty of Reasonable Inquiry

In addition to the duty of candor and good faith, each person signing a document (such as a declaration) that is submitted to the PTAB has a duty of reasonable inquiry. The signatory certifies that based on their reasonable inquiry, the facts stated in the submission have evidentiary support.

The USPTO explained in its July 2022 guidance that a party may have a duty of inquiry based on known circumstances and could be sanctioned for failing to inquire in those situations.

Further, the USPTO takes the position that it is improper to set up procedures that prevent the people under a duty of reasonable inquiry from learning material information as a way to avoid disclosing that information. It states: "For example, walling off the patent prosecution practitioners from the attorneys seeking FDA approval, as a way to prevent material information from being exchanged between the practitioners and attorneys, is inappropriate."

Based on its recent guidance, the USPTO may interpret the combination of the duty of reasonable inquiry and the duty of candor to require that the corporate party reasonably investigate and review activities that are potentially relevant to the subject matter of an ongoing PTAB proceeding, including the documents it submits to other government agencies.

**Why this matters:** Corporations that participate in PTAB proceedings may wish to consider the practices they have in place with respect to review of ongoing proceedings before the FDA and other agencies that may be related to the subject matter of ongoing PTAB proceedings.

## **Ex Parte Reexaminations May Now Be an Unexpectedly Speedy Option**

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For those who manage patent portfolios, *ex parte* reexaminations have had a reputation for being a relatively slow option for challenging the validity of a patent. That reputation may be changing, thanks to recent USPTO efforts to speed up these proceedings.

### **Average Time to Completion**

*Ex parte* reexaminations, including any appeals to the PTAB, are conducted with “special dispatch” by the USPTO. Highest priority is given to reexamination proceedings for patents that are involved in litigation. Despite this priority, the average time to completion for an *ex parte* reexamination has historically been more than two years.

Over the past 18 months, however, the USPTO has significantly reduced the time to completion for these proceedings. This trend is previewed in the most recent publicly available data on the USPTO’s website, which shows that for the third quarter of 2021 the average time from the filing of an *ex parte* review request to the grant of a Notice of Intent To Issue *Ex Parte* Reexamination Certificate fell to 12.4 months. (The average for FY 2021, without an appeal, was 10.6 months.)

Given that a patent litigation may take several years to reach trial, this relatively speedy process may now be of greater interest to those seeking to challenge a patent.

### **Potential Advantages of Ex Parte Reexaminations**

In addition to relative speed, *ex parte* reexamination offers several potential advantages over other options such as *inter partes* review.

For one, the threshold for granting a reexamination is lower than the threshold for institution of an *inter partes* review.

- The petitioner must show a substantial new question of patentability (SNQ).
- To find an SNQ, the examiner need only find that the asserted art is such that a reasonable examiner would consider the teaching to be important to deciding patentability.
- The question must be “new” in that the same ground must not have been previously decided by the USPTO.
- However, the petitioner need not show a *prima facie* case of unpatentability.

The grant rate for *ex parte* reexaminations is above 90%. Potential petitioners should consider the following:

- The rate of claim cancellation is lower for an *ex parte* review than for an *inter partes* reexamination.
- Unlike in an *inter partes* review, the petitioner is generally not estopped from later challenging the validity of the patent.
- *Ex parte* reexamination requests have no page limit. (*Inter partes* reviews do.) Therefore, a challenger could, if warranted, raise multiple validity challenges running hundreds of pages. And although the proceeding is *ex parte*, the petitioner will have the opportunity to respond if the patent owner files a statement in response to an order for examination.

### **Serial Patent Challenges**

*Ex parte* reexaminations are subject to Section 325(d) of Chapter 35 of the U.S. Code, under which the USPTO director may reject petitions that attack a patent

## Did You Know?

2022 was the 10-year anniversary of the *inter partes* review procedure. It was enacted on September 16, 2012, as part of the America Invents Act.

**14,969**

**Total filings in  
the past 10 years**

Source: Docket Alarm, PTAB Analytics

using prior art or arguments that the USPTO has previously considered. Section 325(d) is not a complete bar to such petitions, however, and the USPTO has granted *ex parte* reexamination requests based on art previously asserted in an *inter partes* review proceeding.

Thus, a patent owner who successfully defeats an *inter partes* review challenge before the PTAB may find themselves facing an *ex parte* reexamination request based on similar prior art. For example, for one patent that had survived three *inter partes* review attempts (two denials and a settlement), the USPTO nonetheless granted a later, follow-on *ex parte* reexamination request.

A patent owner may file a petition prior to the grant of an *ex parte* reexamination request to advise the USPTO that the petition should be dismissed under Section 325(d). However, in one recently concluded *ex parte* reexamination, the examiner denied the patent owner's petition, noting that the "strong public

interest" that all prior art be considered in instituting an *ex parte* reexamination outweighed factors favoring denial under Section 325(d), including multiple prior *inter partes* reviews.

When a request for reexamination implicates serial reexamination concerns under Section 325(d), the USPTO undertakes additional procedures to evaluate whether to undertake examination. Thus, the USPTO may require closer to the three-month maximum time permitted to render a decision on a request for reexamination rather than the one month it typically takes to reach a decision on institution.

## Why This Matters

Patent challengers may wish to consider *ex parte* reexaminations as a tool for attacking patent validity due to the recently improved speed of completion of these reexaminations. A serial patent challenge via an *ex parte* reexamination, however, may result in a slower (by up to several months) overall *ex parte* reexamination process.

## The Administrative Procedure Act Offers Guardrails in PTAB Proceedings

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The saga of the *OpenSky Industries v. VLSI Technology*, in which OpenSky, a newly formed LLC that has not disclosed its financial backers, challenged several high-value VLSI patents via *inter partes* reviews, is well known among PTAB practitioners.

While the case may be best known for Director Kathi Vidal's *sua sponte* review and subsequent imposition of sanctions on OpenSky, the proceeding holds many lessons, one of which is that the provisions of the Administrative Procedure Act (APA) apply in PTAB proceedings to constrain the board's actions.

The USPTO chapter of the OpenSky case began shortly after VLSI won a jury verdict of over \$2 billion in a two-patent patent infringement trial in March 2021.

In April 2021 — one month after that verdict — OpenSky Industries LLC was formed as a Nevada LLC. OpenSky's sole business appears to be the filing of *inter partes* review petitions against the two patents on which VLSI obtained an infringement verdict. OpenSky filed one petition against each patent on June 7, 2021.

**The decisions:** The PTAB denied institution of OpenSky's *inter partes* review against one of those patents (IPR2021-01056, filed against the '373 Patent) because OpenSky relied on a copy of a prior expert declaration submitted in a previous *inter partes* review attempt, without itself retaining the expert.

The PTAB granted institution of OpenSky's *inter partes* review against the second patent (IPR2021-01064, filed against the '759 Patent). As the *OpenSky v. VLSI* jury had awarded \$675,000 for infringement of the '759 Patent, this instituted *inter partes* review gave OpenSky significant potential leverage over VLSI, the patent owner whose jury verdict was at risk.

**What happened next:** VLSI filed a request for rehearing of the PTAB's decision to institute IPR2021-01064 and also requested a Precedential Opinion Panel (POP) review. In support of its request, VLSI submitted an email that counsel for OpenSky had sent to VLSI in which OpenSky proposed that, in exchange for a settlement fee, OpenSky would work with VLSI to "secure dismissal or defeat" of OpenSky's petition. VLSI characterized this offer as an attempt to extract a "ransom payment."

**The ruling on the rehearing request:** The PTAB denied VLSI's requests.

**However:** The director *sua sponte* ordered a director review of the PTAB's institution decision. As part of this review, the director ordered OpenSky to provide broad discovery regarding its formation and purpose, and regarding any settlement discussions it had engaged in. OpenSky filed objections to this discovery and did not comply.

The director determined that OpenSky, among other sanctionable conduct, "engaged in abuse of process and unethical conduct by offering to undermine and/or not vigorously pursue this matter in exchange for a monetary payment." The director ordered OpenSky to show cause as to why it should not be ordered to pay compensatory damages, including attorney fees.

OpenSky argued that the director's actions did not comply with the APA. OpenSky alleged that the director review process did not apprise it of what factors the agency would rely on in judging its conduct. For one, "abuse of process" was an undefined term with no clear elements or standards, it claimed.

The director disagreed. The OpenSky saga continues.

**Why this matters:** The arguments made by OpenSky in this proceeding, while so far not successful, do serve as a reminder that the APA can be a significant constraint on the PTAB’s (and director’s) actions in an *inter partes* review proceeding.

## A Closer Look at APA-Based Rulings

In a formal adjudication, such as an *inter partes* review, the APA imposes procedural requirements on the PTAB. The PTAB must, as was detailed in the 2017 Federal Circuit appeal, *EmeraChem Holdings, LLC v. Volkswagen Grp. of Am., Inc.*, “timely inform the patent owner of ‘the matters of fact and law asserted’” and “give all interested parties the opportunity to submit and consider facts and arguments,” among other requirements.

**“Creating unfair surprise”:** In prior cases, the Federal Circuit has held that the PTAB violated the APA where, as in the 2019 case *Arthrex, Inc. v. Smith & Nephew, Inc.*, “the Board departed markedly from the evidence and theories presented by the petition or institution decision, creating unfair surprise.”

For example, the PTAB in certain circumstances may not switch invalidity theories and find a patent claim invalid under a theory that was not presented by the petitioner where the PTAB did not provide the patent owner notice or the opportunity to be heard on the new theory. A petitioner’s broad allegation that a prior art reference is relevant, for example, may be insufficient notice to the

patent owner to invalidate a patent claim based on that reference.

**Repurposing arguments:** The Federal Circuit has also held that the PTAB violated the APA when it relied on one of the petitioner’s arguments for a purpose that was not advanced by the petitioner or the PTAB during the proceeding. In an appeal decided in 2021, *Oren Techs., LLC v. Proppant Express Invs. LLC*, one of the challenged claims required a container that could support at least 30,000 pounds. The petitioner argued that a prior art reference — the so-called Smith reference — that was used in an invalidating obviousness combination satisfied this limitation. The petitioner reasoned that Smith would have been designed with a safety factor that would allow its capacity to exceed Smith’s stated (less than 30,000-pound) capacity.

The PTAB concluded that Smith satisfied the 30,000-pound limitation, but for a new and different reason. The PTAB applied the petitioner’s reasoning for combining Smith with other references to form an obviousness combination to conclude that it would have been obvious to modify Smith to have the required capacity.

The Federal Circuit concluded that the PTAB erred on these facts by relying on this theory in finding claims obvious. The court found that the PTAB’s conclusion was reversible error because the patent owner, Oren, had not had sufficient notice or opportunity to respond to the theory on which the PTAB relied.

**Why this matters:** Parties with matters before the PTAB should be aware of the APA guidelines that apply to those proceedings. For example, parties may wish to consider whether potential arguments in the proceeding have been raised in sufficient detail. Likewise, parties before the PTAB may wish to object if an opposing party or the PTAB relies on an argument that was not squarely presented to the PTAB.

## Inter Partes Review: A High Appeal Rate

Many parties to *inter partes* reviews appeal to the Federal Circuit. The appeal rate over the 10-year lifetime of this type of proceeding is nearly 40%.

**7,601**  
Trials Instituted,  
2012-2022

**2,963**  
Appeals Filed,  
2012-2022

Source: Docket Alarm, PTAB Analytics



# PTAB Update

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