

PTAB SNAPSHOT

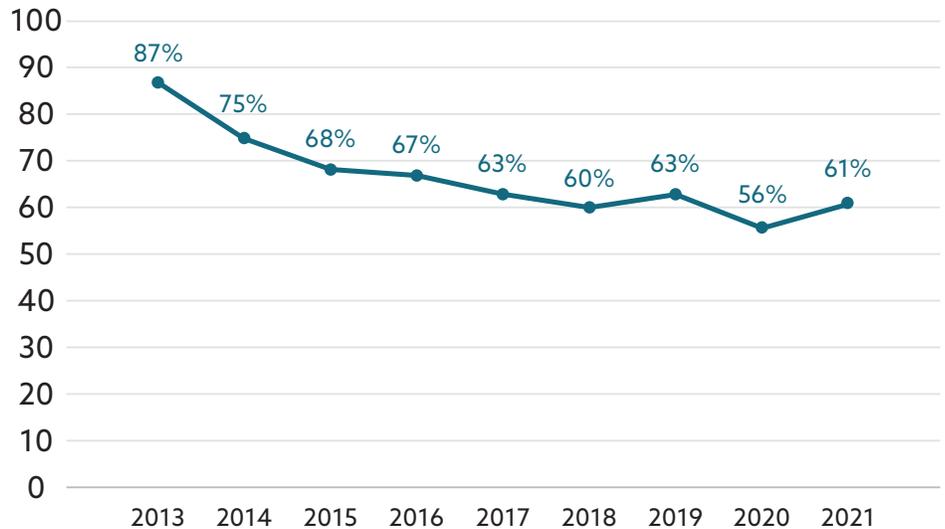
A Quarterly Report on Trends and
New Precedent at the PTAB

Q2 2021: INSTITUTION RATE, DISCRETIONARY
DENIALS, AND PTAB ESTOPPEL

Institution Rate Decline

In this first edition of Orrick's quarterly series on PTAB trends and precedent, we provide statistics on the falling institution rate, relatively steady challenger success rate, and rapid increase in discretionary denials. Institution decisions in Q1 of 2021 suggest that the upward trend in discretionary denials may subside this year and lead to an increase in the overall institution rate, and we spotlight developments suggesting this potential change. We also spotlight recent developments in district courts' application of IPR estoppel. On the one hand, for petitioners that receive adverse final written decisions, these developments will likely make mounting a district court prior use defense increasingly challenging, but, on the other hand, may provide an unlikely avenue to advance an invalidity defense based on printed publications despite estoppel.

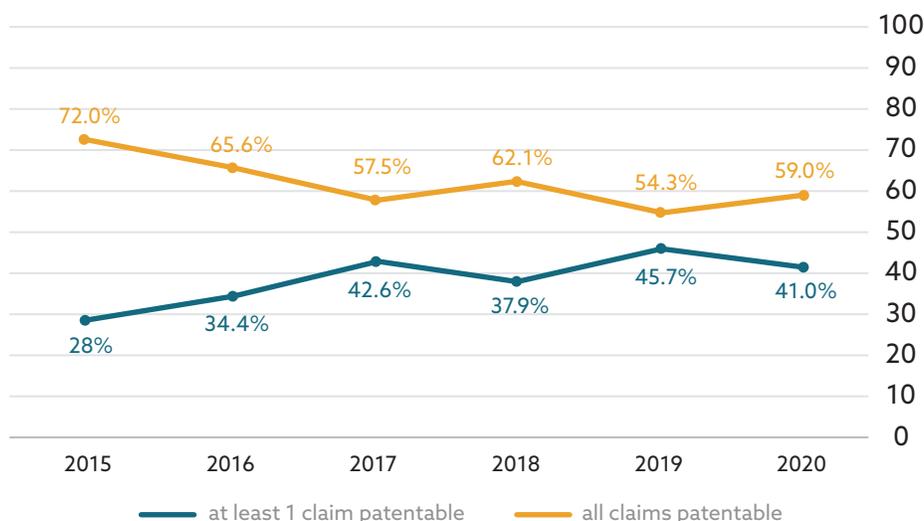
Petition Institution Rate



- The above statistics were derived from the PTAB's published trial statistics.
 - As shown above, when viewing the institution rate in 2020, the numbers suggest a continuing downward trend in the institution rate. Early data from 2021, however, suggests this trend may not continue.
 - Many commentators thought that the institution rate decline in the early years of IPRs was the result of less "vulnerable" patents being subject to challenges.
- And there certainly was a learning curve for patent owners to focus on areas that are more likely to get traction at the PTAB, e.g., motivation to combine. In any event, the numbers suggest that the new "normal" may be an institution rate of around 60% moving forward.
- As will be shown, a rapid increase in discretionary denials explains, in large part, the recent dip in the institution rate of 2020. But cases in 2021 suggest that we may not see this increase continue.

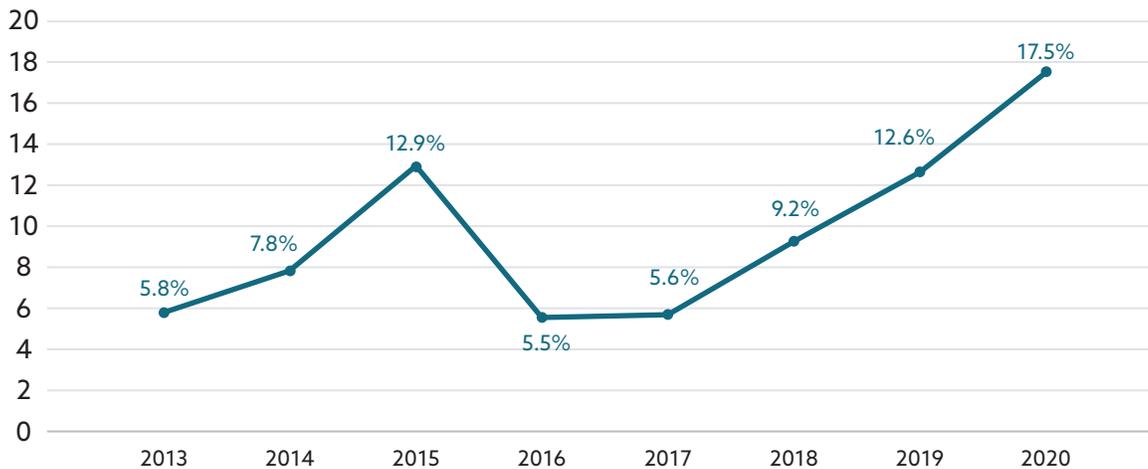
Challenger Success Rate Holding Steady

Final Written Decision Outcomes



- The above statistics were derived from the PTAB’s published trial statistics. The statistics for each year were calculated by using the final written decisions (“FWDs”) that issued in that year. The orange line represents the percentage of FWDs in which all challenged claims were found unpatentable, i.e., complete petitioner success. The blue line represents the percentage of FWDs in which at least one challenged claim was found patentable.
- In approximately 14-21% of FWDs (trending from 14% to 21% from 2015 to 2020), the PTAB found some claims to be patentable and other claims to be unpatentable. This is not shown to emphasize the relatively high percentage (around 40% of the last three years)—higher than often perceived—in which at least one claim is found patentable. In other words, in approximately 40% of cases in the last three years, the Patent Owner either won on all claims or on at least one claim. Typically, if one claim is found to be patentable, the IPR does not fully resolve the dispute between the parties or any related litigation.
- Many commentators thought the number of decisions in which at least one claim is found patentable would increase in 2020 because of the SAS decision, which requires that if the Board institutes a trial, it must do so **on all challenged claims** even if it found that the petition’s unpatentability showing was unpersuasive for some of the claims. But SAS does not appear to have had a significant effect on overall success rate.
- The instances in which the PTAB finds all challenged claims to be unpatentable have been holding steady at around 60% for the last three years.

Procedural Denial Rate of All Institution Decisions



- The above statistics are from Unified Patents' 2020 Annual Report. This graph reflects the percentage of procedural denials out of all institution decisions. Procedural denials include discretionary denials under 35 U.S.C. §§ 314(a) (e.g., denial in view of the district court's trial date) and 325(d) (e.g., denial in view of previous petitions on the same patent or substantially the same arguments being made during prosecution of the application).
- Procedural denials accounted for more than 40% of all decisions denying institution in 2020. From 2016-17, this number held steady at only approximately 16%. The stated reasons that the Board denied institution on procedural grounds, e.g., parallel district court litigation or prior IPRs on the same patents, were largely the same in 2016-17 as in 2020.
- This trend is counterintuitive. As more precedent on procedural denials becomes available, common sense would suggest that petitioners would be better able to predict scenarios that are likely to lead to a procedural denial. And petitioners are motivated not to pursue IPRs that fit these scenarios given the increasing filing fees (not to mention the attorney and expert fees in preparing the petition and accompanying expert declaration).
- Uncertainty, however, remains because the Board has been more aggressively exercising its discretion under 35 U.S.C. § 314(a) to deny institution in view of parallel district court cases. In effect, the Board created a new framework for these types of denials between 2018-20. The Board provided new reasons to exercise its discretion that were hard to imagine in 2017, such as whether a claim construction hearing had occurred in a parallel district court action, whether the IPR prior art was included in the petitioner's district court invalidity contentions, etc.
- In 2016, there were only 5 such denials (out of 1,565 petitions filed). In 2019, there were approximately 75 (out of 1,394 petitions filed). And in 2020, there were approximately 150 (out of 1,513 petitions filed).
- As explained in the following pages, a review of the 2021 Q1 institution decisions suggests that the increasing rate of discretionary denials may subside. This may be good news for petitioners, because while the institution rate has been falling, the success rate for petitioners has been holding steady. In other words, if petitioners can better overcome the procedural hurdles and obtain institution, the overall success rate per petition is likely to increase (i.e., more petitions will actually be addressed on the merits, and the post-institution success rate has been holding steady).

Spotlight: Discretionary Denials

- On August 31, 2020, four technology companies filed a complaint against the Director of the USPTO, challenging the PTAB's ability to discretionarily deny institution in view of parallel district court litigation. On Oct. 19, 2020, the USPTO released a request seeking public comments on the Office's discretionary authority over IPR institution. The Office sought comments on whether to formalize the factors that it already applies in determining whether to exercise its discretion to deny institution, apply new factors, or adopt bright-line rules. The comment period closed on December 3, 2020, and over 800 comments were submitted covering a wide variety of perspectives. It is unclear when the Office will reach its decision on what, if any, rules to implement. The litigation against the Director has not yet resulted in a decision.
- On December 17, 2020, shortly after the public comment period closed, the PTAB designated two new cases involving discretionary denials as precedential, *Snap, Inc. v. SPK Technology LLC* and *Sotera Wireless, Inc. v. Masimo Corporation*. The designation of these cases as precedential suggests that the Office continues to weigh and consider

the proper scope of discretionary denials.

- o In *Snap*, the Board instituted proceedings based largely on the district court's decision to stay proceedings pending an institution decision. *Snap, Inc. v. SRK Technology LLC*, IPR2020-00820, Paper 15, 9 (PTAB Oct. 21, 2020). The Board considered the *Fintiv* factors "holistically" and did not deny institution because "the stay in the parallel District Court proceeding, the early stage of the parallel proceedings in the District Court proceeding and the challenges raised in the Petition allay any concerns regarding inefficiency, duplication of efforts, and conflicting decisions" *Id.* at 19. The pre-institution stay drove the decision. *Snap* appears of little relevance to most petitioners given the difficulty of obtaining pre-institution stays in many district courts with large patent litigation dockets.
- o In *Sotera*, the Board instituted IPR proceedings based largely on a Petitioner's stipulation to limit its district court invalidity challenges if a trial were instituted. *Sotera Wireless, Inc. v. Masimo Corporation*, IPR2020-01019, Paper 12, 20 (PTAB Dec. 1, 2020). The Petitioner filed a stipulation in district court stating

"unequivocally" that the Petitioner will not pursue the specific grounds of institution or "any other ground... that was raised or could have been reasonably raised in an IPR." *Id.* at 18. The Petitioner's "broad stipulation" assuaged the Board's "concerns" regarding duplicative efforts, strongly weighing against the exercise of discretion to deny institution. *Id.* at 19. Unlike *Snap*, a petitioner completely controls whether it enters a *Sotera*-type stipulation (or a stipulation with a narrower scope that may also assuage the Board's concerns).

- A review of 2021 institution decisions may indicate new trends in discretionary denials that may reduce the number of discretionary denials or at least provide a better roadmap to reduce the likelihood of discretionary denials:
 - o That the final written decision in an IPR will issue after the scheduled trial date may be diminishing in importance if the petitioner was reasonably diligent in filing the petitions. *E.g.*, 2020-01324 (institution despite FWD date being seven months after trial date); 2020-01563 (institution despite FWD date being five months after trial date); IPR2020-01421 (institution despite FWD date being three months after trial date).

o A *Sotera*-type stipulation (or a stipulation narrower in scope in which the petitioner at least agrees not to use any of the IPR art in district court for any reason) has been given significant weight in whether the Board exercises its discretion to deny institution. Panels have criticized narrow stipulations that, for example, only withdraw the same IPR grounds from district court (e.g., that leave open using

in district court a reference in the IPR in combination with a non-IPR reference). *E.g.*, IPR2020-01421 (citing stipulation as support for not exercising discretion to deny institution); IPR2020-01563 (same); IPR2020-01324 (same); IPR 2020-01352 (denying instituting and expressly criticizing narrow stipulation that only agrees to, in effect, not advancing IPR grounds in district court), IPR2020-1402 (same).

o A number of panels appear to be addressing the merits and denying institution on the merits—before even reaching the discretionary denial issues. *E.g.*, IPR2020-01548 (did not consider 314(a) given failure of the merits), IPR2020-01368 (same), IPR2020-01370 (same), 2021–00077 (same), PGR2020-00081 (same).

Spotlight: Is IPR Estoppel Getting Stronger Teeth?

Given that at least one claim is found patentable in roughly 40% of FWDs, the risk of estoppel under 35 U.S.C. § 315 is significant. One recent trend suggests that courts may apply IPR estoppel more broadly as it relates to defendants attempting to advance system prior art in district court after receiving an unfavorable FWD (e.g., a prior art processor that is on sale in the United States). Under 35 U.S.C. § 315(e)(2) (known as IPR estoppel), a petitioner whose IPR results in an adverse final written decision “may not assert” an invalidity claim in district court “on any **ground** that the petitioner raised or reasonably could have raised during the *inter partes* review.” Over the last few years, there has been a division among district courts over how to interpret “ground.”

Some courts have interpreted “ground” to refer to the precise prior art asserted in the IPR trial, i.e., the exact printed publications or patents. Accordingly, even if a party lost an IPR trial that raised a ground involving a manual describing a prior art product (e.g., a processor), these courts would allow the party to advance the substantively same invalidity argument in district court that relied on the product (e.g., the processor itself) because a product cannot be the basis for an IPR challenge (only printed publication and patents can be raised). Other courts have interpreted “ground” more broadly as meaning the underlying argument, regardless of the form of evidence that advances the argument. What follows from the reasoning of this latter group of courts is that

estoppel applies to system prior art if the same invalidity argument could have been made with printed publications and patents in the IPR.

In January 2020, Chief Judge Stark of the District of Delaware squarely addressed the issue, citing the split among district courts. See *Wasica Finance GmbH v. Schrader International, Inc.*, 432 F. Supp. 3d 448, 454-55 (D. Del. 2020). The court found that both of the above interpretations were “reasonable.” *Id.* at 454. But the court found that the more “persuasive” view is that “ground” refers to the invalidity argument itself, not the form of the underlying evidence. *Id.* at 454-55. The court reasoned that “where all the relevant features of that physical product have been disclosed in a patent or printed

publication," IPR estoppel extends to the system prior art because the invalidity argument (the "ground") was raised (or could have been raised) in the IPR. *Id.* at 453.

There appears to be a trend among district courts to adopt Chief Judge Stark's reasoning and view the evidence critically to determine whether the same invalidity argument ("ground") is being made via a prior art product:

- In *CliniComp International, Inc. v. Athenahealth, Inc.*, 2020 WL 7011768 *2 (W.D. Tex. Oct. 28, 2020), the court did not dismiss plaintiff's assertion of estoppel merely because the defendant was advancing a prior art product defense. Instead, like in *Wasica Finance*, the court looked to the substance of the evidence. Ultimately, the court distinguished the defendant's prior art product evidence from that in *Wasica Finance*, finding that estoppel did not apply because defendant's expert relied "extensively" on nonpublic documents. There was no showing made that the information in the nonpublic documents was duplicative of publications or was irrelevant to the invalidity showing.
- In *SPEX Technologies, Inc. v. Kingston Technology Corporation*, 2020 WL 4342254 *15 (C.D. Cal. June 16, 2020), the court made a similar finding. It found that defendant was not "seeking to 'cloak' what

might otherwise be a printed publication invalidity theory" and, therefore, did not exclude defendant's invalidity theory.

However, not all courts have followed *Wasica's* approach.

- In *Medline Industries, Inc. v. C.R. Bard, Inc.*, 2020 WL 5512132 *4 (N.D. Ill. Sept. 14, 2020), the court denied a motion to strike defendant's prior art defenses which relied on system prior art, holding that "any invalidity theory relying upon [a physical product] as a prior art reference is not a 'ground' that reasonably could have been raised during IPR." The court reasoned that if Congress had sought to "estop an IPR petitioner for pursuing invalidity grounds" when "a patent or printed publication discloses the same limitations as the product," Congress could have done so and Congress' silence on the issue "indicates that Congress did not intend for the IPR estoppel provision to be that broad". *Id.* However, the court then cabined its reasoning by requiring the defendant to rely on the physical product for its invalidity contentions rather than documents describing the product, which the defendant was able to do. *Id.* at *5.

On balance, there appears to be a trend towards courts looking more critically at estopped defendants' prior art product defenses to determine whether they are, in effect, printed publication invalidity defenses that could have been raised in an IPR proceeding.

Other recent cases, however, suggest that the scope of estoppel may be shrinking a bit when it comes to printed publications. Estoppel applies only to grounds that were "raised or reasonably could have raised during the *inter partes* review." 35 U.S.C § 315(e)(2). Courts have held that prior art which was not part of an IPR proceeding "could have been raised during the *inter partes* review" if "a skilled, diligent search reasonably should have uncovered the reference" in time for IPR. *M-I LLC v. FPUSA, LLC*, 5:15-cv-406 *32 (W.D. Tex. Aug. 20, 2020). The *M-I* court refused to apply IPR estoppel to prior art publications on summary judgment because the defendant created a genuine factual dispute regarding whether the publications were reasonably discoverable by the IPR date. *Id.* The defendant was able to create a material factual dispute by showing that it had hired two patent search firms who didn't find the art and that the relevant search terms necessary to uncover the prior art were not identified until after the IPR had been filed. *Id.* There was a similar ruling in the District of Massachusetts. *Palomar Technologies, Inc. v. MRSI Systems, LLC*, Case No. 1:18-cv-10236, Dkt. 765 (May 4, 2020). These cases suggest that IPR estoppel may not apply to printed publications where a defendant can show that reasonable, but unsuccessful, efforts did not initially locate the printed publications.

Roundtable

Panel

Contributors



Christopher Geyer
Associate General
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Alyssa Caridis
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Vann Pearce
Partner, Orrick



Rich Martinelli
Partner, Orrick



Moderator
Jason Lang
Partner, Orrick

FOR IN-HOUSE:

Q. From a practical perspective, is the increase in application of discretionary denial affecting your view of filing IPRs? Or does the conventional wisdom that the PTAB is a better forum for an invalidity challenge drown out the unpredictability?

A. Christopher Geyer: As usual, context matters. I think the overall trend toward increased discretionary denial does not necessarily offset the benefits of seeking to challenge

validity at the PTAB because the trend does not account for the context of each case. Litigants have always needed to consider issues like the relative schedules of the IPR and the district court, whether a stay has been granted, the scope of the challenged claims, the available art, and more in their particular case when deciding whether to file an IPR. An increasing rate of discretionary denials, and accounting for the common justifications for such denials, simply adds more to the decision matrix.

In terms of the impact of an increased discretionary denial rate to patent practice, I happen to think it is a good thing. It gives the PTAB a tool to help effectuate Congress' intent to make the PTAB an alternative venue for validity challenges in a particular case rather than an additional one. In addition, it might increase the quality of decisions on validity by lowering the burden on PTAB judges.

FOR PARTNERS:

Q. A Sotera-type stipulation appears to be growing in importance. What factors do you consider when determining whether such a stipulation would be acceptable to a defendant in a district court case?

A. Alyssa Caridis: The biggest factor you should consider when determining whether to file a *Sotera*-type stipulation closely tracks what district court defendants should already be considering when deciding

whether to even file an IPR petition. Namely, parties considering an IPR should already be assessing what their district court defenses would look like if the IPR is unsuccessful and the estoppel of 35 U.S.C. 315(e)(2) were to attach. A *Sotera*-type stipulation merely binds the petitioner to that estoppel earlier than they ordinarily would, so that same analysis applies—what would your case look like without that prior art, and is that a risk you're willing to take?

In addition, petitioners should be assessing whether they believe discretionary denial is going to be a close call. If, for example, the *Fintiv* factors for your particular case are evenly weighted for and against a discretionary denial, then a *Sotera*-type stipulation may be useful to sway the PTAB to forego exercising discretionary denial.

Q. There is no doubt that petition success rate in IPRs is much lower in 2021 than in the early IPR days. How much of an effect has this had on your overall view of the benefits of the IPR route?

A. Vann Pearce: I still view IPRs as a valuable tool for defendants, they just must be deployed smartly and strategically. IPRs are no longer the default strategy like they were in the early days. This report touches on some of the many factors that must be considered carefully now in deciding whether to file an IPR: likelihood of district court stay (if desired), likelihood of procedural denial and how to reduce that risk, scope of possible estoppel, whether the IPR may undermine district court arguments now that the same claim construction standard is applied in both proceedings, and so on. It is impossible to generalize what

circumstances favor filing an IPR versus not, but I certainly would consider an IPR in any case where 1-2 focused, well-supported obviousness arguments are among the strongest defenses. It does seem clear that, in general, defendants should make the go/no-go decision on IPRs more quickly than in the past.

Q. Overall, the scope of IPR estoppel has gotten broader over the years. Does this have much of an influence on whether the IPR route is preferable over litigation only in district court?

A. Rich Martinelli: I don't think the scope of IPR estoppel has much impact on my preference for an IPR over litigation only. The PTAB judges do a fairly good job on prior art validity issues. The extensive briefing and narrow focus on prior art validity you obtain in the PTAB gives you a

very good mechanism to present your best case for invalidity. And the validity issue is not competing for attention with all the other issues before the district court. If you fail at the PTAB, I question whether another bite at the apple in district court presenting similar art is something that you should be counting on. On the other hand, if there is some unique aspect of your invalidity defense that makes it better suited for district court, I would consider foregoing the PTAB entirely. For example, if there was a prior art version of the accused product that does not materially differ from the accused product, it might be best to have one fact finder determining both infringement and validity because you could more readily show that if the accused product infringes then the prior art invalidates.

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