

# The Fed. Circ. In March: Challenges To USPTO Rulemaking

By **Paul Stewart** (March 31, 2023)

In the March 13 ruling of *Apple Inc. v. Vidal*, the U.S. Court of Appeals for the Federal Circuit paved the way for the federal courts to step into the long-running dispute over the U.S. Patent and Trademark Office's discretion to deny institution of an inter partes review in deference to parallel district court litigation.



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The Federal Circuit held that the courts have no authority to address the substance of rulings that delineate the factors the USPTO will weigh in deciding whether to deny review. However, the Federal Circuit gave a green light to proceed with a challenge to the procedures used by the USPTO to issue its rulings.

The dispute has its roots in two decisions issued by the Patent Trial and Appeal Board several years ago: *NHK Spring Co. v. Intri-Plex Technologies Inc.* in 2018, and *Apple v. Fintiv Inc.* in 2020, both designated as precedential after issuance.

In *NHK*, the PTAB held that it has the authority to deny institution of an inter partes review when there is parallel district court litigation that is "nearing its final stages," with trial set to occur before the inter partes review could be concluded. The PTAB also noted that the two proceedings involved the same prior art. In light of these circumstances, the PTAB held that "the advanced state of the district court proceeding is an additional factor that weighs in favor of denying the Petition."

In *Fintiv*, the PTAB again was faced with a patent owner's request to deny an inter partes review based upon parallel district court litigation.

The PTAB requested additional briefing on the issue and listed six factors that it would consider in making its ultimate determination. These factors include:

1. Whether the district court has issued or likely will issue a stay of proceedings;
2. The relation between the trial date and the PTAB's deadline for issuance of a decision;
3. Investment in the parallel proceeding by the court and the parties;
4. Overlap of issues in the two proceedings;
5. Whether the parties in both proceedings are the same; and
6. Any other relevant circumstances.

Since the USPTO designated *Fintiv* as precedential, the PTAB has applied these factors in other cases.

Apple and other patent owners subsequently filed a 2020 action in the U.S. District Court for the Northern District of California challenging the USPTO's authority to deny an inter partes review as a matter of discretion in light of pending district court litigation.

The plaintiffs presented three challenges. First, they argued that discretionary denials in light of pending district court litigation are contrary to the inter partes review statute.

Second, they argued that the standards set forth in *Fintiv* were arbitrary and capricious, in violation of the Administrative Procedures Act, Title 5 of the U.S. Code, Section 706.

Third, they argued that the *Fintiv* standards should have been adopted by regulation, following the notice-and-comment procedures of the Section 553 of the Administrative Procedures Act, not through adjudication.

The California district court dismissed the case in its entirety in November 2021, citing Title 35 of the U.S. Code, Section 314(d), and U.S. Supreme Court precedents, all of which preclude judicial review of USPTO denials of inter partes review institution decisions. The plaintiffs appealed.

While the appeal was pending, USPTO Director Kathi Vidal announced in June 2022 several clarifications to the *Fintiv* standards "under the Director's authority to issue binding agency guidance to govern the PTAB's implementation of various statutory provisions."

In general, Vidal's clarifications made discretionary denials under *Fintiv* less likely, restricting the circumstances under which a denial is appropriate. The director did not publish the clarifications in the Federal Register, but stated that they would be binding in all future PTAB proceedings. The director also noted that the USPTO expected "to replace this interim guidance with rules after it has completed formal rulemaking."

The Federal Circuit considered the director's clarifications to be part of the *Fintiv* standards for which the plaintiffs sought review on appeal.

In its new Apple ruling, the Federal Circuit first addressed the plaintiffs' argument that discretionary denials in view of parallel district court litigation violate the language and intent of the inter partes review statute, Title 35 of the U.S. Code, Section 315(b), which explicitly precludes the filing of an inter partes review more than a year after district court litigation is filed.

The plaintiffs argued that the pendency of district court litigation should play no role in the denial of an inter partes review other than the one-year deadline set by statute. As a second and related argument, the plaintiffs also argued that the adoption of the *Fintiv* standards was arbitrary and capricious.

The Federal Circuit very quickly concluded that it had no authority to address these two arguments because Section 314(b), as well as Supreme Court precedents, expressly prohibit judicial review of a USPTO decision denying institution of an inter partes review. Here, the "Plaintiffs' statutory and arbitrary-and-capriciousness challenges in this case focus directly and expressly on institution standards, nothing else."

The Federal Circuit recognized that the plaintiffs' challenges were not to a specific denial of a particular inter partes review, but to the issuance of general standards applicable to all inter partes reviews.

However, the Federal Circuit concluded that this distinction made no difference. The statute giving the USPTO the discretionary authority deny inter partes reviews gives this authority expressly to the director. But Congress, the Federal Circuit explained, knew that the director would not personally be making all of these discretionary decisions.

The director necessarily needed to delegate that authority to individual PTAB panels. But nothing in the statute suggested that the panels' discretion must be unbridled. Thus, the director could issue direct guidance to the panels, or designate panel decisions as precedential to guide future panels.

The unreviewability of discretionary denials, the Federal Circuit held, did not depend upon the manner in which the director exercised her authority. As the court explained:

If the Director personally made an institution decision accompanied by an explanation containing the same reasoning as appears in the instructions here at issue, then the decision would be unreviewable for being contrary to statute or arbitrary and capricious. For the IPR system to function with the delegations that are inevitable and congressionally expected, the same conclusion must follow for the instructions given by the Director to the Board as delegatee. We therefore affirm the district court's dismissal of plaintiffs' first two challenges under 5 U.S.C. § 701(a)(1).

The same was not true of the plaintiffs' third challenge, which argued that the director's instructions to the PTAB needed to be issued through formal rulemaking, not through the adjudicatory process or an informal memorandum.

Citing regional circuit precedent, the Federal Circuit held that there is a critical distinction between a challenge to the substance of an unreviewable rule and a challenge to the procedures by which the rule was adopted. The Supreme Court precedent precluding judicial review of the director's institution decisions

does not cover, and we see no basis for extending it to protect as well, the Director's choice of whether to use notice-and-comment rulemaking to announce instructions for the institution decision. The government here has not shown that anything in § 314(d) or elsewhere in the IPR statute supplies clear and convincing evidence that there was to be no judicial review of the choice of announcement procedure.

Accordingly, the Federal Circuit reversed the district court's dismissal of the plaintiffs' procedural challenge to how the USPTO adopted its discretionary denial standards. Thus, in district court, the plaintiffs will be entitled to argue:

1. That the USPTO director was required to adopt the Fintiv standards through formal rulemaking, not adjudication; and
2. The director could not modify the Fintiv standards through an informal memorandum, but again was required to proceed through formal rulemaking.

Whatever the result, the USPTO director is free to issue formal rules governing discretionary denials of inter partes reviews in light of simultaneous pending district court litigation, and, while the public will be able to comment, those formal rules will not be subject to judicial review.

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