



## **Nuances in the interplay between PTAB policy and Federal Circuit's IPR estoppel ruling**

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A recent Federal Circuit decision on the application of inter partes review estoppel will pressure patent challengers and their counsel to decide quickly whether to file IPRs or challenge patent validity in district court. The precedent appears to disadvantage patent holders but there are situations where it could favour patentees with cases in rocket docket courts.

The US Court of Appeals for the Federal Circuit affirmed a jury verdict from the US District Court for the District of Delaware in support of Ingenico that invalidated IOENGINE's USB thumb drive patents based on prior art that was not raised in the IPR proceedings. The Federal Circuit held that IPR estoppel applies only to prior art consisting of patents and printed publications that were raised or could have been raised in an IPR – but did not cover inventions “known or used by others, on sale, or in public”.

IPR estoppel stops a patent challenger from later challenging a patent claim in district courts on any ground it raised or reasonably could have raised during the IPR proceeding. Patent owners prefer a broad IPR estoppel to limit patent challengers' ability to challenge the validity of their patents in subsequent proceedings.

Attorneys told IAM that outside factors make the Federal Circuit decision more of a toss-up than a straightforward win for patent challengers. For example, the US Patent and Trademark Office has returned to the board's Fintiv and Sotera precedents. A lot will depend on which jurisdiction the case is in, with the onus on patent owners to get into courts known to set fast trial dates. The situation also highlights a dichotomy between the Federal Circuit limiting estoppel and the Patent Trial and Appeal Board expanding it as a condition for patent challengers to secure institution. But attorneys question whether Congress will step in.

The case

In March 2018, IOENGINE filed a lawsuit against Paypal Holdings Inc alleging it infringed its thumb drive patents. Ingenico supplied PayPal's accused products and it filed a declaratory judgment action and IPR petitions challenging the validity of the patent claims. The PTAB determined that most of the claims were unpatentable.

However, in parallel district court proceedings, Ingenico introduced evidence of a prior art USB device known as the DiskOnKey Device, along with several publications.

Following an unfavourable jury verdict, IOENGINE argued that it is entitled to a new trial, alleging that the district court should have estopped Ingenico from introducing the DiskOnKey device with the publications at trial because it could have raised it during the IPR.

The appellate court disagreed.

“IPR estoppel does not preclude a petitioner from asserting that a claimed invention was known or used by others, on sale, or in public use in district court,” the Federal Circuit decided. “These are different grounds that could not be raised during an IPR.”

That interpretation allowed Ingenico to introduce the DiskOnKey System because it was known or used by others, on sale or in public use – and could now provide patent challengers a wider range of invalidity arguments to raise in district court.

The Sotera curveball

There has long been a split among district courts about the scope of IPR estoppel. Some courts hold it applies only to patents and printed publications that were raised or could have been raised in an IPR proceeding but not, for example, system or device prior art underpinned by patents and printed publications. Other courts apply IPR estoppel more broadly to include any device art underpinned by patents and printed publications.

The Federal Circuit applied a narrow definition of IPR estoppel, which appears to be a win for patent challengers.

“Taking a literal approach to the Federal Circuit's reading would give them two bites at the apple and possibly undermine congressional intent to some extent,” says Giri Pathmanaban, an attorney at Cleary Gottlieb Steen & Hamilton.

However, the USPTO rescinding former Director Kathi Vidal's 2022 memo – which curbed the volume of discretionary denials – and returning to the board's Fintiv and Sotera precedents makes the Federal Circuit decision more of a toss-up.

The Fintiv precedent led to the PTAB discretionarily denying petitions against patents that were also asserted in parallel district court litigation.

The Sotera precedent, where a patent challenger stipulates it will not raise the IPR's same invalidity grounds in underlying district court litigation, now extends not just to printed publications and patents but to device art as well. But it only matters if parties are in a jurisdiction where the trial date will arrive faster than the PTAB final written decision, says Pathmanaban.

“If you are in the Eastern District of Texas, for most circumstances, discretionary denials often come into play,” he suggests. “But if you are in the Northern District of California, stays are much more prevalent and it takes a lot of time to get to trial, then the discretionary denial is probably not much of a factor.”

Impact on parties

This means that patent challengers must make crucial decisions very early on about setting up their invalidity challenges in district court or an IPR proceeding.

“Do they think they have a good challenge at the district court relying on system art such that they want to preserve that, or are they going to put all their eggs in the IPR basket?” questions Matthew Shapiro, an attorney at Ropes & Gray. “That early, more front-loaded decision puts more pressure on the patent challenger, and may be beneficial to patent holders, to a degree, assuming the PTAB follows through in potential reductions in institution rates where challengers do not stipulate to broader estoppel.”

To get the IPR instituted, patent challengers will potentially have to give a very broad stipulation that pledges to omit any prior art in district court.

“Perhaps the PTAB is going to take a harder look at whether there is any overlap between what is being raised in the district court and at the PTAB and is going to, in some instances, encourage parties to file broader stipulations beyond what would be statutorily allowed to cover a broader scope of estoppel in order to secure institution,” suggests Shapiro.

However, if it's a jurisdiction where discretionary denials are unlikely to come into play because the time to trial is long enough, then patent challengers have an advantage. And it is that very prospect that worries patent owners.

“Without discretionary denials, patent owners are going to have to win on the same issues under this ruling, possibly in the patent office, and if you get through that, then you have to win in district court in front of a jury as to why the patent is valid,” explains Pathmanaban. “This ruling could potentially invite a scenario of recycled references in both jurisdictions. For a lot of very small entities and small inventors trying to uphold their rights, it puts more pressure on them to litigate in two forums across many years.”

Pathmanaban believes the ruling only amplifies the venue divide, further incentivising patent owners to file suit in the Eastern District of Texas or other rocket docket courts. Patent challengers will try to flee Texas as a general rule.

He explains that patent challengers will need to file broad stipulations or see their IPRs discretionarily denied. “Ironically, this decision may benefit patent owners,” he adds.

The ruling also highlights the dichotomy between the Federal Circuit and the current administration that is taking over the PTAB, note attorneys.

**“The recent rule changes at the PTAB indicate that it will be more patent-owner friendly,” says Scott Hejny, an attorney at McKool Smith. “But here, we see the Federal Circuit being patent challenger-friendly, opening the door to the assertion of more and more prior art, including the same prior art as in the IPR and in the district court case.”**

**In particular, Hejny says it illustrates a division between the executive branch (USPTO) and the judicial branch (Federal Circuit). “Is the legislative branch, Congress, going to step in and weigh in on the issue?” he asks. “It is very interesting because of the different bills that are pending before them, including the PREVAIL Act, which proposes some reforms for the PTAB.”**