

What The Fed Circ. Says About IPR Estoppel

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The inter partes review estoppel provision (35 U.S.C. § 315(e)) says that a petitioner (or real party in interest) in an IPR that results in a final written decision on a patent claim may not assert validity in a U.S. Patent and Trademark Office proceeding, a civil action, or before the U.S. International Trade Commission with respect to that claim “on any ground that the petitioner raised or reasonably could have raised during the inter partes review.”

Based on this statutory language, many courts, commentators and practitioners have assumed that the IPR estoppel would be interpreted broadly, such that a final written decision on a claim would give rise to far-reaching estoppel of future invalidity arguments relating to that claim. See, e.g., *Star Envirotech Inc. v. Redline Detection LLC*, Case No. 12-01861, 2015 WL 4744394, at *3-4 (C.D. Cal. Jan. 29, 2015) (evaluating whether to strike defendants’ invalidity contentions because they relied in part on printed publications that could have been raised in an IPR petition). This conservative interpretation is perhaps underscored by other sections of the America Invents Act. The IPR estoppel language is broader, for example, than the corresponding statutory language setting forth the estoppel that results from a final written decision in a covered business method proceeding. The CBM provision precludes the petitioner from asserting, in a civil action or ITC proceeding, invalidity based on “any ground that the petitioner raised” during the CBM proceeding.

Assuming that 35 U.S.C. § 315(e) will be interpreted broadly — perhaps so broadly as to estop all invalidity arguments based on 35 U.S.C. §§ 102, 103 “on the basis of prior art consisting of patents or printed publications” (see 35 U.S.C. § 311(b)) — has undoubtedly impacted strategy decisions of defendants in determining of whether and when to file IPR petitions in response to allegations of patent infringement or during parallel litigation. If the potential estoppel is not as broad as previously assumed, however, then there is less risk to those defendants of raising an invalidity challenge before the Patent Trial and Appeal Board.

While the exact scope of the estoppel created by § 315(e) has not been decided by the Federal Circuit, the issue has been raised by parties to appellate proceedings, and both the PTO and the Federal Circuit have had the opportunity to comment. In those proceedings, both the Federal Circuit and the PTO have indicated that Section 315(e)’s estoppel might be narrower than many previously assumed. In fact, the Federal Circuit appears to interpret “raised or that could have raised” not to estop subsequent challenges at least on grounds that were raised by the petitioner in its IPR petition but not instituted by the PTO in the IPR proceedings.

For example, in *Schott Gemtron Corp. v. SSW Holding Co.*, Case No. 2015-1073 (Fed. Cir.), Schott petitioned the PTAB to review certain claims of a patent that was asserted against Schott in parallel litigation. The IPR petition relied on nine



Mindy Sooter



Gregory Lantier

grounds of unpatentability. The PTAB, however, instituted trial on just two of those grounds, finding that some of the uninstituted grounds were redundant of the instituted grounds. Then, the PTAB issued a final written decision declining to invalidate the challenged claims.

Schott appealed, challenging not only the PTAB's decision on the merits, but also challenging the PTAB's decision not to institute review on some of the uninstituted grounds. After Schott filed its opening brief, but before SSW filed its responsive brief, the Federal Circuit handed down the first *Cuozzo* opinion holding that 35 U.S.C. § 314(d) prohibits review of a PTAB decision whether to institute an IPR following a final written decision invalidating the challenged claims. *In re Cuozzo Speed Techs. LLC*, 778 F.3d 1271 (Fed. Cir. 2015). Following the *Cuozzo* decision, the director of the PTO intervened in the Schott appeal to address reviewability of the PTAB's decision not to institute the IPR on certain grounds. The PTO then filed a brief arguing that *In re Cuozzo* precluded review of the PTAB's decision not to institute on certain grounds.

The PTO's argument, however, raises a potential concern under a broad interpretation of the IPR estoppel provision. If a petitioner were to raise certain grounds in an IPR petition, and the PTO declined to institute some of those grounds (for example on the basis of redundancy, procedural efficiency or otherwise), then not only would the petitioner lack any ability to appeal the PTO's decision not to institute on those grounds, but also would lack any ability to use those grounds to argue invalidity in subsequent proceedings. In other words, the petitioner may lose the ability to rely on certain invalidity arguments without any ability to obtain review on the merits.

For example, in *Schott*, the petitioner not only would be precluded from challenging the institution decision, but under a broad reading of the IPR estoppel provision, would also be estopped from raising the uninstituted grounds in subsequent litigation to challenge the claims that survived the IPR.

In its brief opposing Schott's appeal of the PTAB's institution decision, the PTO recognized this concern and sought to alleviate it. The PTO argued that the IPR estoppel provisions were not so broad as Schott believed because the uninstituted grounds were never part of the IPR proceeding and therefore would not give rise to estoppel. The PTO said: "estoppel does not prevent Schott from asserting the subset of proposed grounds that were not part of the IPR proceeding in this case." (Director's Brief, at 38.) The director continued: "Under the AIA, estoppel applies for 'any ground that the petitioner raised or reasonably could have raised during that inter partes review,'" but when the PTAB "instituted an IPR on some of Schott's proposed grounds and denied institution on other of Schott's proposed grounds, the denied grounds never became part of the IPR." (Id.) Therefore, "[s]ince the denied grounds were never part of the IPR proceeding, estoppel under section 315(e) does not apply against Schott with respect to those grounds." (Id. at 38-39.)

In its reply brief, Schott then agreed with the director's position on estoppel and requested that the Federal Circuit hold that estoppel would not attach to the Schott's uninstituted grounds.

The Federal Circuit (Judges Alan Lourie, Evan Wallach and Todd Hughes) did not address the estoppel issue, instead issuing a summary affirmance upholding the PTAB's decision. The colloquy with SSW Holding's counsel during oral argument, however, indicated that the panel was inclined to agree with the director's narrow reading of Section 315(e):

Question (by Judge Hughes): "You're saying that if you come into the PTO and you say I think this patent is obvious and here are 10 different combinations, and the PTO says we're only going to institute on two, that estoppel still applies to the other eight, even though they never got a chance to argue them?"

Answer (by SSW Holding): "I think that's consistent with the statute"

Question (by Judge Hughes): "I think that's untenable. That means they don't have the right to get review on those obviousness grounds here and they don't have the right to get review on those obviousness grounds in the district court."

...

Question (by Judge Hughes): "And it seems like, I mean you may have a legal argument, but it doesn't seem like one that's going to have a very good basis in the law. If they have no ability to appeal the Board's denial to institute on those obviousness grounds, then those obviousness grounds are never presented to a court."

...

Question (by Judge Hughes): "If they go to the district court if they get sued by you, they should have the opportunity to assert those eight grounds that weren't instituted by the Board, should they not?"

Answer (by SSW Holding): "No, and the reason why is that it's contrary to the meaning—"

Question (by Judge Hughes): "You know, you're going to get that decided either here now against you now or you're going to get that decided against you later. Would you rather have that decided now when it seems like an advisory opinion or later?"

Similarly, this year, in *Shaw Industries Group Inc. v. Automated Creel Systems Inc.*, the Federal Circuit did squarely address the issue. 817 F.3d 1293 (Fed. Cir. 2016). There, Shaw filed two separate IPR petitions challenging the validity of a patent owned by Automated Creel Systems. The PTAB instituted both proceedings on some but not all of the proposed grounds, and consolidated the proceedings. Following the final written decision, both parties appealed. In addition to its substantive appeal, Shaw petitioned for a writ of mandamus instructing the PTO to re-evaluate its decision not to institute the IPR on certain grounds. Shaw argued that extraordinary relief of mandamus was appropriate, in part because the PTAB's decision gave rise to estoppel under Section 315(e) thereby preventing Shaw from arguing those invalidity

grounds in the parallel litigation proceedings. As in *Schott*, the director of the PTO intervened and filed a brief arguing that the board's institution decision did not result in estoppel on the uninstituted grounds. (PTO's Brief, at 37-38.) As in *Schott*, the PTO explained: "[s]ince the denied ... ground was never part of the IPR proceeding, estoppel under section 315(e) does not apply against Shaw with respect to that ground," and therefore Shaw could not have "raised" that ground "during" the IPR, as Section 315(e) requires. (*Id.* at 38.)

In its opinion, the Federal Circuit (Judges Kimberly Moore, Jimmie Reyna and Evan Wallach) reiterated that the court lacked jurisdiction to review the PTAB's institution decision. The court then addressed Shaw's estoppel concern. The court observed that the uninstituted grounds, which Shaw could not have addressed "during" the IPR proceedings, did not give rise to estoppel in subsequent proceedings. *Shaw*, 817 F.3d at 1300.[1] Interestingly, Judge Reyna specially concurred, and commented that "[w]hether estoppel applies, however, is not for the Board or the PTO to decide. Nor is it for us to decide in the first instance, despite the invitation from Shaw Industries, because the issue is not properly before us." *Id.* at 1305. Instead, according to Judge Reyna, "whether the [rejected] grounds are subject to estoppel must be determined in the first instance by the district court or the U.S. International Trade Commission." [2] *Id.* Nevertheless, the court's opinion is an indication of how it will rule on the issue in the future.

One caveat is a dissent by Judge Pauline Newman in *SAS Institute Inc. v. ComplementSoft LLC*, ___ F.3d ___, 2016 WL 3213103, at *8 (Fed. Cir. June 10, 2016). In this dissent, Judge Newman argued that the PTAB should be required to include in a final written decision, analysis of all grounds raised in the petition. *Id.* Judge Newman reasoned that the IPR estoppel provision of 35 U.S.C. § 315(e) is broad, and would preclude petitioners from raising the uninstituted grounds in subsequent proceedings; therefore, the PTAB should decide all grounds raised if it decides any grounds raised. *Id.* at *11. In support of her argument, Judge Newman examined the legislative history of the IPR estoppel provision and determined that Congress intended broad estoppel. *Id.* at *12. For example, Judge Newman quotes then-Director David Kappos' congressional testimony on IPR estoppel saying: "Those estoppel provisions mean that your patent is largely unchallengeable by the same party." *Id.* at *13.

While providing some guidance, however, the Federal Circuit and PTAB's decisions leave many important questions unaddressed. It is unclear, for example, to what extent estoppel under § 315(e) will apply to publication prior art that was not included in the petition for inter partes review. Where the board has instituted review on some grounds, but denied institution of others based on a perceived redundancy or other nonmerits ground, there may be little reason to believe that the board would have instituted review based on other grounds not raised. In that case, there may be a question as to whether those other grounds "could have been raised" even if petitions were filed.

Similarly, the Federal Circuit and PTAB decisions to date do not directly address whether alternative grounds that were denied institution on the merits (i.e., because the board made an affirmative determination that petition did not meet its burden to demonstrate a reasonable likelihood that at least one claim would be found invalid based upon that ground) are available to the petitioner after a final written decision issues on the basis of other, instituted grounds.

These and other questions may have significant practical implications for litigants and for the PTAB. Most obviously, the Federal Circuit's statements in *Shaw* may be interpreted as suggesting that petitioners hoping to insure against a broad estoppel should raise a multitude of grounds challenging the patent. Doing so could result in the board denying certain grounds as redundant or for other nonmerits reasons — leaving them available in district court in the event of a pro-patent owner final written decision. But it may be that this strategy has its own limits, as the petitioner may be unhappy with the ground that the PTAB elects to institute, and if it views the number of grounds as extreme, the PTAB may decline to review the petition altogether. See, e.g., *Zetec v. Westinghouse*, IPR2014-00384, Paper 10 (Jul. 23, 2014) (exercising discretion to deny petition because, among other things, it presented an overwhelming number of grounds) (“Therefore, we decline to expend our resources scouring the numerous grounds for one that demonstrates a reasonable likelihood that Petitioner would prevail in showing unpatentability of at least one of the claims challenged in the Petition.”) There are other practical implications as well with respect to the manner in which petitions are drafted and the ideal strategies for proving invalidity in a corresponding district court case.

Litigants should carefully consider these precedents and questions as they formulate strategies for achieving their goals.

—By Mindy Sooter and Gregory Lantier, [WilmerHale](#)

[Mindy Sooter](#) is a partner in WilmerHale's Denver office. [Gregory Lantier](#) is a partner in the firm's Washington, D.C., office.

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[1] On July 21, 2016, ACS filed a petition for certiorari with the U.S. Supreme Court.

[2] Since the court's opinion in *Shaw*, yet another panel (Judges Lourie, Alvin Schall and Hughes) agreed with *Shaw*. See *HP Inc. v. MPHJ Tech. Inv., LLC*, 817 F.3d 1339, 1347 (Fed. Cir. 2016) (saying that “[T]he noninstituted grounds were not raised and, as review was denied, could not be raised in the IPR. Therefore, the estoppel provisions of § 315(e)(1) do not apply.”).