

Patent Owners Now Estopped From Relying On PTAB Estoppel

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A recent Federal Circuit decision on a writ of mandamus as to the scope of the estoppel provided in 35 U.S.C § 315(e) appears to be contrary to the scope that practitioners and the legislators had in mind when the America Invents Act was passed.

In *Shaw Industries Group Inc. v. Automated Creel Systems*, the Federal Circuit held that estoppel under 35 U.S.C. § 315(e) only attaches to those grounds which were instituted in the inter partes review, and does not apply to grounds that were denied in the institution decision. Prior to this decision, most people in the patent world had anticipated that the estoppel provision would preclude a party from raising most if not all printed publication invalidity defenses under §§ 102 and 103 at the district court if the patent survived the IPR challenge. That assumption turned out to be wrong.

Background

Shaw Industries Group Inc. was sued for infringement by Automated Creel Systems for infringement of U.S. Patent No. 7,806,360. The '360 patent was directed at creels for providing yarn and other stranded materials during the manufacturing process. While ACS had dismissed the infringement suit without prejudice, Shaw filed a petition for inter partes review of the '360 patent. The petition included 15 grounds. Of the 15 grounds, three grounds were relevant for the appeal. In the institution decision, the board granted institution on two of the grounds. However, the PTAB did not institute on the ground based on U.S. Patent No. 4,515,328 (referred to as the "Payne-based ground") because the Payne-based ground was redundant of the other two grounds which were instituted. The board did not provide any substantive analysis of whether the Payne-based ground had merit. The board went on the issue a final decision finding that Shaw had not proven that the challenged claims in the two instituted grounds were unpatentable. Shaw appealed and filed a writ of mandamus arguing that the board erred in not instituting or considering the Payne-based ground.

The Federal Circuit rejected Shaw's appeal argument that it could review the institution decision and reverse the board's decision on the Payne-based ground. However, and more important to this article, was the Federal Circuit's denial of Shaw's writ of mandamus. In support of its writ, Shaw argued that mandamus was appropriate because Shaw had a "clear and indisputable" right in having the board review all grounds raised in the petition because of the estoppel effect provided in 35 U.S.C. § 315(e)(2).



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In other words, Shaw argued that the board must review all grounds provided in the petition because Shaw would be estopped from asserting grounds in civil litigation that Shaw did or reasonably could have raised in the IPR. Here, Shaw asserted that it would be denied the right for a substantive review of the Payne-based ground because the board failed to substantively review the Payne-based ground and it was estopped from raising such ground in district court under 35 U.S.C. § 315(e)(2). As an intervenor, the U.S. Patent and Trademark Office argued that estoppel provision did not apply because the Payne-based ground was not part of the IPR as it was not a ground on which a trial was instituted.

The Federal Circuit disagreed with Shaw's interpretation of 35 U.S.C. §315(e)(2), and sided with the PTO. In particular, the Federal Circuit emphasized that the estoppel only applies to "any ground that the petitioner raised or reasonably could have raised during that inter partes review." Relying on the court's decision in *Cuozzo*, the court held that an "IPR does not begin until it is instituted." In other words, the estoppel only applies to grounds that were instituted by the board. As the case here, any ground on which the board denies institution is not subject to the estoppel provision because that ground was not raised "during" the IPR. In light of this statutory construction, the Federal Circuit denied Shaw's writ of mandamus.[1]

Legislative History of the America Invents Act and Estoppel

The decision in *Shaw* does not appear to be supported by the legislative history surrounding the America Invents Act. Indeed, numerous times during the course of the legislation, members of Congress stated that the purpose of IPRs was to provide an inexpensive alternative to challenge the validity of the patent, but not providing a means for continued harassment of the patent owner.

Indeed, Sen. Charles Grassley, R-Iowa, one of the main supporters of the America Invents Act, stated, "[IPR proceedings] also would include a strengthened estoppel standard to prevent petitioners from raising in a subsequent challenge the same patent issues that were raised or reasonably could have been raised in a prior challenge. The bill would significantly reduce the ability to use post-grant procedures for abusive serial challenges to patents. These new procedures would also provide faster, less costly, alternatives to civil litigation." 157 Cong. Rec. S952 (daily ed. Feb. 28, 2011).

Likewise, then Sen. Jon Kyl, R-Ariz., another major proponent of the legislation, reiterated that IPR proceedings, or "second window" as he referred to them, were to be a "complete substitute for at least some phase of the litigation" because the litigation was likely to be stayed during the IPR proceeding. S. Rep. No. 110-259 at 66 (2008). Indeed, the patent office agreed with Sen. Kyl and remarked during the legislative process that "the estoppel needs to be quite strong that says on the second window any issue that you raised or could have raised ... you can bring up no place else. That second window, from the administration's position is intended to allow nothing — a complete alternative to litigation." Patent Reform: The Future of American Innovation: Hearing Before the Senate Comm. on the Judiciary, 110th Cong. 13 (2007) (statement of Director Jon Dudas).

The Federal Circuit did not address the legislative history in its *Shaw* decision, but the court's holding does appear to be contrary to the intent of Congress as it relates to the scope of § 315(e) because § 315(e) no longer makes the IPR proceeding the "complete substitute" as to invalidity grounds based on printed publications under §§ 102 and 103.

Another aspect of the court's decision to consider is the impact on interpreting the estoppel provisions related to covered business method patents and post-grant review. Each of these proceedings has an estoppel provision, albeit a little different in scope.

Covered Business Method Review and Estoppel

For CBMs, Sec. 18 of the America Invents Act states that estoppel will only apply “on any ground that the petitioner raised during that transitional proceeding.” Sec. 18(a)(1)(D). Again, the key language is the same in that the estoppel will only apply to the ground raised “during that transitional proceeding,” in that only grounds on which instituted was granted in the CBM will be subject to the estoppel while grounds denied in the institution decision will not be subject to estoppel. However, the CBM estoppel provision does not have the same “reasonably could have raised” language like the IPR estoppel.

The question becomes: What is the net effect or difference that the “reasonably could have” language provides as compared to “any ground that the petitioner raised”? At first blush, it would appear that there is no difference. It seems unlikely that a district court would say the estoppel only applies to the arguments advanced after institution. In such scenario, the unsuccessful petitioner could make, for example, another § 101 argument that was different than the § 101 argument advanced in the CBM. Not only would such an interpretation be difficult for the district courts to manage, it would be contrary to the intended purpose of Congress that these proceedings by a “complete substitute.” This issue was not decided in *Shaw*, but seems like fertile ground to be explored in subsequent decisions.

Post-Grant Review and Estoppel

As to PGR, the estoppel provision is similar to that for IPRs. Indeed, § 325(e)(2) mirrors the language found in § 315(e)(2) stating that estoppel will only apply to “any ground that the petitioner raised or reasonably could have raised during that post-grant review.” Again, the same concerns that are present for the scope of the IPR estoppel are present for the estoppel related to PGRs. However, there is a tactical implication to be considered in light of the court’s decision in *Shaw*. PGRs contain two main differences from IPRs, namely they must be filed within nine months of the patent issuing and a petitioner can challenge the patent on any ground, such as §§ 101, 112, 102 and 103. While the need to file the petition within nine months of issuance is a significant concern, many potential PGR petitioners have been leery of using PGR because of the perceived large estoppel scope. In light of the *Shaw* decision, the estoppel scope may not be as large as once thought.

For example, if a petitioner only challenges a patent on § 101 grounds in the PGR, an argument would exist that the petitioner is not estopped in district court litigation from challenging the patent on § 102 because that ground was not instituted as part of the PGR. Indeed, it was not even raised. Such scenario would allow a petitioner to have the PTAB decide issues on patents outside of the coverage of CBMs. The same reasoning would apply to challenging certain patents based on § 112, especially highly technical patents where such arguments are more difficult to prove to a jury. This potential scenario would give the accused infringer several bites at the apple, and would present some significant hurdles for the patent owner to face when attempting to enforce its patent rights. While the nine-month deadline to file a PGR will still be a barrier to widespread use of PGRs, the narrow scope of estoppel may lead to more petitioners wading into the PGR pool to challenge patents.

The true scope of the estoppel provision for IPRs, and likewise for CBMs and PGRs, is still to be fleshed out by the district courts. However, the Federal Circuit’s narrow interpretation of when estoppel attaches appears to have some significant unintended consequences in how parties utilize these proceedings and how district courts will manage their dockets.

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[1] The Federal Circuit in *HP Inc. v. MPHJ Technology Investments, LLC*, 2015-1427 (Fed. Cir. Apr. 5, 2016), affirmed this statutory interpretation of the estoppel provision, and relied upon the reasoning in *Shaw*.

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