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A recent Federal Circuit ruling calls into question the assumption that inter partes review necessarily narrows the issues for trial for the reason that estoppel applies only to grounds instituted in the review and not to grounds that were denied in the institution decision or any other prior art that the petitioner might reasonably have raised.

Inter Partes Review Estoppel: Don't Sweat It Anymore



By CYRUS MORTON AND RYAN SCHULTZ

Many practitioners and courts have assumed that even a failed inter partes review would substantially narrow the issues for trial because, if the petitioner loses in a final decision, they may not argue any patents or printed publications in court that they “raised or reasonably could have raised” at the Patent and Trademark Office.

But a recent Federal Circuit decision on a writ of mandamus says quite the opposite. *Shaw Industries*

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Group, Inc. v. Automated Creel Systems held that estoppel under 35 U.S.C. § 315(e) only attaches to those grounds which were instituted in the IPR, and does not apply to grounds that were denied in the institution decision, let alone other prior art the Petitioner reasonably could have raised.

This seemingly narrow estoppel scope will likely impact the number and arguments in future IPR petitions, and should provide pause to district courts that rely on the estoppel in Section 315(e) as a mechanism for simplifying the issues when deciding motions to stay pending litigation.

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 lawsuit 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 offer 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 petition for a writ of mandamus arguing that the board had 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).

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 had 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 PTO 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" (emphasis in original).

Relying on *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 was the case here, any ground 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 mandamus petition.¹

The Federal Circuit's statutory construction of the estoppel provision in 35 U.S.C. § 315 provides both potential petitioners and patent owners some additional factors to consider as it relates to these post-grant proceedings.

Even the district courts may view this decision as altering the calculus used to decide motions to stay pending a post-grant review proceeding.

Factors related to Petitioners

For petitioners, this decision may offer additional incentives to file a petition for post-grant review.

One of the important considerations was the impact of the estoppel provision.

Indeed, petitioners frequently considered questions like: Did the petitioner conduct a thorough prior art search? How confident did the petitioner feel in that it had identified the closest prior art? What were the potential ramifications of losing at the PTAB and having only limited invalidity defenses, such as Section 101, Section 112, or prior public use, to rely on at trial?

¹ *HP Inc. v. MPHJ Technology Investments, LLC*, No. 15-01427 (Fed. Cir. Apr. 5, 2016), affirmed this statutory interpretation of the estoppel provision, and relied upon the reasoning in *Shaw*.

However, the answers to these and similar questions and the impact of those answers may be minimized given the Federal Circuit's narrow interpretation of the estoppel provision in Section 315(e).

For example, if the petitioner is only estopped from arguing invalidity based on the grounds instituted, the petitioner would likely not be as concerned about the scope and depth of its prior art search.

It would, instead, be able to assert any later found art in the district court litigation.

Likewise, the petitioner may decide to assert its "B" level art in the petition for post grant review, and continue to hold in its pocket the "A" level art for trial in case the petitioner is not successful at the PTAB.

With this decision, the petitioner is not facing as much risk in filing a petition, much less filing a petition early in the one-year time period.

Another consideration for petitioners is what and how many grounds to raise in a petition.

As discussed in *Shaw*, some of the early petitions asserted numerous grounds in one petition, such as in the *Liberty Mutual* petition that asserted over four-hundred grounds.

With the PTAB's practice of denying grounds based on redundancy, just as in *Shaw*, there was trend for petitioners to include only one ground in one petition and then file multiple petitions on a single patent in order to get the PTAB to decide each ground.

This approach increased the costs for petitioners, but did provide a mechanism for almost ensuring that each ground would be substantively reviewed by the PTAB.

Again, these actions were done to balance out the risk provided by the estoppel provision in Section 315(e). However, given the narrow scope of the estoppel provision, petitioners may want to have multiple grounds in a single petition.

If all grounds are instituted, then the petitioner increases the chances that the challenged claims will be found unpatentable.

If some grounds are denied at institution, the petitioner will still be able to assert those grounds at trial. The petitioner now may not have to incur the additional expense of filing several petitions against a single patent.

Factors for the Patent Owner

For the patent owner, the Federal Circuit's decision appears to create more hurdles.

One argument that has become a staple for patent owners to raise in the preliminary patent owner response is that the grounds asserted by petitioner are vertically or horizontally redundant, or both.

As seen in *Shaw*, this argument had gained significant traction with the PTAB such that the PTAB, in somewhat fairly routine course, would deny grounds in the institution decision because of redundancy.

In light of this decision, though, patent owners may not want to actively push this argument. Indeed, it would provide greater estoppel scope if all asserted grounds were instituted, and then the patent owner demonstrated that its claims were patentable over all of the grounds.

However, one should be careful for what one wishes for as having more grounds instituted provides additional hurdles to overcome in post grant proceeding.

Given the petitioners' continued success rate before the PTAB, a patent owner may not be overly inclined to request institution on additional grounds simply to expand the estoppel protection.

Patent owners will also have to consider the impact on district court litigation.

Given that accused infringers will only be narrowly estopped as to printed publication invalidity defenses, patent owners will have to factor this increased risk in continuing to pursue the litigation after successfully defending the patent before the PTAB.

Impact on Stays in District Court

Courts across the country have been dealing with the issue of staying pending litigation while the validity of the patent is determined in the PTAB.

With stays being granted more than 50 percent of the time when contested, patent owners have faced an uphill battle in convincing courts to continue the litigation while the PTAB proceeding progresses.

This decision may give patent owners more ammunition to persuade a district court that a stay should not be granted.

One element a court must consider when ruling on a motion to stay is whether the stay will simplify the issues before the court.

Accused infringers, and courts, have routinely cited the Section 315(e) as simplifying the invalidity grounds that may be asserted at trial.

Indeed, courts routinely rely on this in staying a case based on the idea that it will simplify the issues by removing prior art references from the case. *Ericsson Inc. v. TCL Communication Technology Holdings, Ltd.*, No. 15-00011, (E.D. Tex. March 23, 2016); *IXI Mobile (R&D), Ltd. v. Samsung Elecs. Co. Ltd.*, 15-03754, (N.D. Cal. Nov. 12, 2015).

However, such rationale is now on shaky ground given that estoppel will only apply to grounds that were instituted.

Indeed, patent owners are likely to argue that almost no simplification will occur because the accused infringers will still be able to raise numerous invalidity arguments at trial based on references not instituted on by the PTAB.

Courts will likely have to give more consideration as to whether the stay will actually simplify the issues.

While the true scope of the estoppel provision in Section 315(e) will be worked out as more patents survive IPR challenges and the pending district court litigation are re-opened, the Federal Circuit's narrow interpretation of when the estoppel applies will likely result in a lack of simplification of issues at the district court and continued bites at the apple by accused infringers to attempt to invalidate the patent.