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PATENTS

## The Evolving Scope of Estoppels Arising from Inter Partes Reviews



BY ELDORA L. ELLISON, PH.D., BRENDA G. CRABTREE, AND R. WILSON POWERS III, PH.D.

In deciding whether to pursue inter partes review (IPR), a petitioner should consider whether, and to what extent, the petitioner may later be estopped from bringing challenges in other forums. In the last year, the law of estoppel arising from IPRs has evolved considerably—and it seems likely that the metes and bounds of the law will continue to be tested for years to come. The estoppel provision in 35 U.S.C. § 315(e)(2) provides:

*Eldora Ellison is a director in the Biotech/Chemical and Litigation Practice groups of Sterne, Kessler, Goldstein & Fox PLLC. She has represented clients in over 60 inter partes review proceedings and in various interferences, patent reexaminations, and district court litigations.*

*Brenda Crabtree is an associate in the firm's Biotech/Chemical Group, who assists with U.S. and foreign patent applications, with expertise in virology, immunology, and bacteriology.*

*Wilson Powers is an associate in the firm's Litigation Group. He has served as counsel on over 40 IPR and post grant review proceedings.*

The petitioner in an inter partes review of a claim in a patent . . . that results in a final written decision . . . , or the real party in interest or privy of the petitioner, may not assert either in a civil action . . . or in a proceeding before the International Trade Commission under section 337 . . . that the claim is invalid on any ground that the petitioner raised or *reasonably* could have raised *during* that inter partes review. (emphasis added).

Many patent owners posit that IPRs were intended to provide a lower-cost alternative to district court litigation. And IPR estoppel was created to extract a non-monetary cost to petitioners by limiting their ability to bring certain arguments in different forums after the Patent Trial and Appeal Board's final written decision.

However, recent U.S. Court of Appeals for the Federal Circuit and district court decisions call into question the strength of IPR estoppel's bite. The cases below provide insight into this changing landscape and highlight some of the competing interests that arise when courts consider applying this estoppel provision.

### A District Court's Understanding of "Reasonably"

In *Clearlamp, LLC v. LKQ Corp.*, the U.S. District Court for the Northern District of Illinois was asked to decide whether alleged infringer LKQ was estopped under Section 315(e)(2) from relying on a prior art product data sheet in an obviousness challenge. No. 12-C-2533, Dkt. 193, slip op. at \*8-19 (N.D. Ill. Mar. 18, 2016). This district court litigation followed an IPR proceed-

ing. The patent owner argued that estoppel should apply to LKQ's use of a prior art product in its obviousness argument because LKQ had been aware of this product before filing its petition for IPR and had failed to include the product in its petition. *Id.* at 13. The district court rejected this argument, noting that products are not permitted as prior art in IPR proceedings. *Id.* at 17. However, the court also found that LKQ was relying on the prior art product data sheet, rather than the product itself, in its obviousness challenge.

To determine whether estoppel should apply to LKQ's use of the product data sheet, the court first evaluated how the word "reasonably," as used in Section 315(e)(2), should be interpreted. The court noted that "Section 315(e)(2) estoppel is fairly new and the Federal Circuit has yet to define its scope." *Id.* at \*13-14. Therefore, the court relied heavily on legislative history of the America Invents Act to determine that an IPR petitioner could "reasonably" have raised a ground when the prior art "could have been found by a skilled searcher's diligent search." *Id.* at \*15. *See also* 157 Cong. Rec. S1375 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) ("Adding the modifier 'reasonably' ensures that could-have-raised estoppel extends only to that prior art which a skilled searcher conducting a diligent search reasonably could have been expected to discover."). One approach to demonstrate what a skilled search would have found is "(1) to identify the search string and search source that would identify the allegedly unavailable prior art and (2) present evidence, likely expert testimony, why such a criterion would be part of a skilled searcher's diligent search." *Clearlamp*, Dkt. 193, slip op. at \*18.

Applying this understanding of "reasonably," the court then found that the prior art data sheet could not have reasonably been found, and LKQ was not estopped from using the data sheet in its obviousness challenge. *Id.* at \*19.

### The Federal Circuit's Definition of "During . . . Inter Partes Review"

After the district court's decision in *Clearlamp*, the Federal Circuit issued its decision in *Shaw Industries Group, Inc. v. Automated Creel Systems, Inc.*, 817 F.3d 1293, 118 U.S.P.Q.2d 1316 (Fed. Cir. 2016), that seemed to significantly limit the bite of petitioner estoppel arising from IPRs by defining "during . . . inter partes review" as only what occurs *after* institution, i.e., during the trial phase of an IPR.

Petitioner Shaw appealed from the PTAB's final written decision, in which the PTAB had instituted review of certain claims on two of three grounds put forth in Shaw's petition. *Id.* at 1295-99. The PTAB denied institution of a third ground based on the "Payne" reference as redundant. *Id.* at 1298-99. In its appeal to the Federal Circuit, Shaw sought review of the PTAB's decision to institute on two of the three grounds, and alternatively, Shaw sought a writ of mandamus, arguing that because the PTAB denied the Payne-based ground, Shaw may be estopped under Section 315(e)(2) from bringing that ground in any future proceedings. *Id.* at 1299.

The Federal Circuit denied Shaw's petition for writ of mandamus, finding that the denied Payne-based ground "never became part of the IPR." *Id.* at 1300. Therefore, estoppel would not apply to Shaw's Payne-

based grounds in future proceedings. *Id.* In doing so, the Federal Circuit explained that "during" IPR means *after IPR is instituted*: "The IPR does not begin until it is instituted . . . The plain language of the statute prohibits the application of estoppel under these circumstances." *Id.* The Federal Circuit's relatively narrow view of estoppel expressed in *Shaw* came as a surprise to many practitioners who had assumed, based on *Clearlamp*, that the estoppel would extend to all art that reasonably could have been raised *in the petition*.

### How Courts Have Reconciled *Shaw* With § 315(e)(2)'s "Reasonably Could Have Raised"

There seems to be little dispute that Section 315(e)(2) estoppel will not apply to grounds asserted in an IPR petition if the petition is denied, and that it will apply to grounds resulting in a final written decision. But as the cases below show, parties have debated whether estoppel applies in other situations. For example, while the *Shaw* court found estoppel would not apply to the Payne-based ground included in an IPR petition but not instituted upon, at least two courts have applied estoppel in similar situations. And district courts appear to be split on whether to apply estoppel to grounds that were completely absent from an earlier IPR petition.

Two weeks after *Shaw*, the Federal Circuit again addressed a situation in which a petition for IPR included certain grounds upon which the PTAB did not institute. *See HP Inc. v. MPHJ Tech. Inv., LLC*, 817 F.3d 1339, 118 U.S.P.Q.2d 1438 (Fed. Cir. 2016). In *HP*, the statutory language at issue came from 35 U.S.C. § 315(e)(1), which contains the same phrase "during . . . inter partes review" as Section 315(e)(2). The Federal Circuit reiterated that "the noninstituted grounds do not become a part of the IPR . . . Therefore, the estoppel provisions of § 315(e)(1) do not apply." *Id.* at 1347. Several months later, the U.S. District Court for the Northern District of California was asked to determine whether alleged infringer Qiagen was estopped under Section 315(e)(2) from asserting certain obviousness grounds. *Illumina, Inc. v. Qiagen, N.V.*, 207 F. Supp. 3d 1081, 1088-89, 2016 BL 295532 (N.D. Cal. 2016). The patent owner argued that Qiagen should be estopped from asserting grounds previously included in an IPR petition, but on which the PTAB did not institute. The district court followed the reasoning in *Shaw* and found that estoppel did not apply: "The Federal Circuit recently held that statutory estoppel does not apply to grounds raised in a petition but not instituted." *Id.* at 1089.

In December 2016, the U.S. District Court for the District of Delaware was asked to address a new fact pattern not considered in *Shaw*: whether estoppel applied to invalidity grounds that alleged infringer Toshiba could have raised, but did not raise, in an IPR petition. *Intellectual Ventures I LLC v. Toshiba Corp.*, No. CV 13-453-SLR, 2016 BL 420556 (D. Del. Dec. 19, 2016). The court found that estoppel did not apply to the grounds that were never raised in the petition, though the court acknowledged that "Toshiba certainly could have" raised these grounds. *Id.* at \*16. The court's discomfort with *Shaw* seemed apparent. Judge Robinson wrote, "Although extending [this] logic to prior art references that were never presented to the [PTAB] at all (despite their public nature) confounds the very purpose of this

parallel administrative proceeding, the court cannot divine a reasoned way around the Federal Circuit's interpretation in *Shaw*." *Id.* In a Memorandum Order elaborating on the court's December 2016 opinion, Judge Robinson explained that "since it is not my place to make policy decisions, I am not inclined to change my original decision, with the hopes that an appeal may clarify the issue for future judges in future cases." *Intellectual Ventures I LLC v. Toshiba Corp.*, No. CV 13-453-SLR, 2017 BL 7554, at \*2 (D. Del. Jan. 11, 2017).

Following the *Intellectual Ventures* decisions, the U.S. District Court for the Northern District of California addressed a situation containing some facts similar to those in *Shaw*, but subtle variations led to a different outcome. See *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*, No. 12-CV-05501-SI, 2017 BL 16042 (N.D. Cal. Jan. 19, 2017). In both *Verinata* and *Shaw*, the alleged infringer included a ground in an IPR petition, and the PTAB did not institute on this ground, finding it redundant. *Id.* at \*4. See also *Shaw*, 817 F.3d at 1296-97. But in *Shaw*, the PTAB labeled the noninstituted Payne-based ground as "redundant," when in fact this "redundant" ground was based upon anticipation, while the two instituted grounds were based upon obviousness. *Shaw*, 817 F.3d at 1296-97. The Federal Circuit noted that "[t]here were no substantive determinations of the Payne-based ground in the Board decision." *Id.* at 1297. In contrast, in *Verinata*, the PTAB found that one of the grounds at issue was based upon an obviousness combination of Dhallan and Binladen, which was "redundant in light of the instituted grounds of Shoemaker, Dhallan, and Binladen." *Verinata*, 2017 BL 16042 at \*5. Because the Dhallan and Binladen ground was merely a subset of Shoemaker, Dhallan, and Binladen, Ariosa was estopped from raising this ground. *Id.* In making this determination, the *Verinata* court rationalized its decision under the framework of *Shaw*:

Ariosa is estopped, however, from raising the obviousness combination of Dhallan and Binladen. Because the PTAB did not institute on this exact ground, instead finding it redundant in light of the instituted grounds of Shoemaker, Dhallan, and Binladen, the question is whether defendants "raised or reasonably could have raised" obviousness over Dhallan and Binladen during the IPR proceedings. *The Court finds that defendants raised, or could have raised, these grounds in the IPR proceedings, as the combination of Dhallan and Binladen is simply a subset of the instituted grounds.*

*Id.* (emphasis added).

Following the district court's decision, patent owner *Verinata* petitioned the Federal Circuit for a writ of mandamus, seeking to limit the impact of *Shaw*. Arguably kicking the can down the road, the Federal Circuit denied *Verinata*'s motion, stating "the current state of the binding precedent does not compel a finding that the district court clearly abused its discretion or usurped judicial power," and "Petitioners have failed to show why they cannot raise their arguments regarding § 315(e)(2) with an appeal from the district court's final judgment or why that alternative would be inadequate in this case." See *In re Verinata Health, Inc.*, No. 2017-109, Dkt. 37, slip op. (Fed. Cir. Mar. 9, 2017).

More recently, the U.S. District Court for the Western District of Wisconsin in *Douglas Dynamics, LLC v. Meyer Prods. LLC*, pushed back on *Shaw*'s principles when assessing estoppel. No. 14-CV-886-JDP, 2017 BL 126421 (W.D. Wis. Apr. 18, 2017). Patent owner Doug-

las asked the court to find that alleged infringer Meyer was estopped from raising grounds that had been asserted in the IPR petition but were not instituted upon, and grounds that were not raised in the IPR petition. *Id.* at \*1-2.

Meyer was estopped from asserting grounds not raised in its IPR petition, but it was not estopped from raising grounds asserted in the petition but not instituted. *Id.* at \*7. In partially rejecting *Shaw*'s framework, the district court stated that *Shaw* appears to ignore Section 315(e)(2)'s phrase "reasonably could have raised": "The Federal Circuit interpreted the phrase 'during [] inter partes review' narrowly to refer only to the proceeding as instituted and decided by the PTAB. . . . Since then, several district courts have followed *Shaw*'s narrow interpretation of 'during [] inter partes review' to hold that the § 315(e) estoppel does not apply to non-instituted grounds," including those not raised in the petition. *Id.* at \*4 (citing *Verinata v. Ariosa*, 2017 BL 16042).

In contrast to *Shaw*, the *Douglas Dynamics* court "split the baby" on the estoppel question. In finding no estoppel on petitioned, but non-instituted grounds, the district court noted the Federal Circuit's desire to ensure that a petitioner receives "meaningful judicial review of every invalidity ground presented, if not in the IPR, then in the district court." *Id.* at \*5. Yet the court also perceived that *Shaw*'s narrow view of estoppel "undermines the purported efficiency of IPR, especially if it were applied to allow post-IPR assertion of non-petitioned grounds." *Id.* Moreover, the decision seemed to reflect frustration that the litigation had been stayed based on the "typical promises" that the IPR would simplify invalidity issues given the potential estoppel. But, the court appeared constrained by *Shaw* stating, "until *Shaw* is limited or reconsidered, this court will not apply § 315(e)(2) estoppel to non-instituted grounds, but it will apply Section 315(e)(2) estoppel to grounds not asserted in the IPR petition, so long as they are based on prior art that could have been found by a skilled searcher's diligent search." *Id.* at \*6. And on May 15, 2017, the court issued an order providing clarification on what a "ground for invalidity" is, explaining that

the defendant is not locked into the precise argument made in its IPR petition. But if the new theory relies on different, uncited portions of the prior art, attacks different claim limitations, or relies on substantially different claim constructions, then the new theory is tantamount to a new invalidity ground, and the court will treat it like a non-petitioned ground subject to estoppel.

*Douglas Dynamics, LLC v. Meyer Prods. LLC*, No. 14-CV-886-JDP, 2017 BL 161701, at \*2 (W.D. Wis. May 15, 2017). Thus, the court in *Douglas Dynamics* took an intermediate approach relative to both *Clearlamp* and *Shaw*.

Another example of a district court giving pushback against *Shaw* is *Parallel Networks Licensing, LLC v. Int'l Bus. Machines Corp.*, where the court broadly applied Section 315(e)(2) estoppel to prior-art based arguments that could have been raised in a previous IPR petition but were not. No. CV 13-2072 (KAJ), 2017 BL 62975 (D. Del. Feb. 22, 2017). There, the court was not persuaded by the defendant's arguments that its IPR petition was limited because it was filed with a motion for joinder. Refusing to give the defendant a "second bite at the apple," the decision notably did not cite to *Shaw*: "Allowing IBM to raise arguments here that it elected

not to raise during the IPR would give it a second bite at the apple and allow it to reap the benefits of the IPR without the downside of meaningful estoppel.” *Id.* at \*12. See also *Biscotti Inc. v. Microsoft Corp.*, No. 13-CV-01015 (E.D. Tex. May 11, 2017) (explaining that the court reads *Shaw* and *HP* narrowly “to exempt an IPR petitioner from § 315(e)’s estoppel provision *only if* the PTAB precludes the petitioner from raising a ground during the IPR proceeding for purely procedural reasons, such as redundancy”) (emphasis added).

In view of these cases, practitioners await further guidance from the Federal Circuit as to how courts should apply estoppel in the wake of *Shaw*.

The Supreme Court will also soon be weighing in on an issue closely related to Section 315(e) estoppel: whether the PTAB is required to issue a final written decision as to the patentability of any patent claim challenged in an IPR petition. See Petition for Writ of Certiorari, *SAS Inst., Inc. v. Lee*, No. 16-969 (U.S. 2017) (No. 16-969), at \*i; *SAS Inst., Inc. v. ComplementSoft,*

*LLC*, 825 F.3d 1341, 119 U.S.P.Q.2d 1031 (Fed. Cir. 2016), cert. granted sub nom. *SAS Inst., Inc. v. Lee*, No. 16-969, 2017 BL 169459 (U.S. May 22, 2017).

But in the meantime, *Douglas Dynamics* suggests that petitioners should include more grounds in their petitions in the event that the district court applies estoppel differently to petitioned versus non-petitioned art. And *Verinata* suggests that patent owners should contest the estoppel issue and appeal to the Federal Circuit following district court litigation.

Certainly at this point, the case law evinces a more petitioner-friendly view of estoppel than many practitioners had envisioned at the dawn of the AIA. And it is just a matter of time before *Shaw* will be raised in the context of litigation following a post-grant review proceeding, where estoppel issues may arise in the context of any statutory ground for invalidity. Further appellate review will paint a clearer estoppel picture for litigants.