

Patent Owners Should Think Hard Before Giving Up At PTAB

By **Matthew Bultman**

Law360 (January 31, 2018, 8:04 PM EST) -- The Federal Circuit's decision to uphold a Patent Trial and Appeal Board judgment against Arthrex Inc. in a case over a suture anchor patent highlights the often overlooked patent owner estoppel — and shows voluntarily giving up patent claims may not be the end-run around this rule for which some had hoped.

The appeals court on Jan. 24 affirmed the PTAB's decision to enter adverse judgment against Arthrex after it disclaimed and gave up rights to all the patent claims that Smith & Nephew Inc. challenged in a 2016 petition for inter partes review. Arthrex did so before the institution stage.

The board's decision to enter adverse judgment rather than just end the proceeding was significant because it triggered patent owner estoppel, a rule that prevents patent owners from getting new patent claims that aren't "distinct" from those it lost during review at the PTAB.

Attorneys said the Federal Circuit's ruling should cause patent owners with applications for related inventions pending at the U.S. Patent and Trademark Office to think twice before cancelling their claims during review.

"There's no free passes," Mark Kachner of Knobbe Martens Olson & Bear LLP said. "If someone has petitioned for IPR you can't sweep it under the rug by disclaiming the claims. There can be real consequences to disclaiming after a petition for IPR is pending before the board."

Patent owner estoppel is the least discussed of the estoppels that stem from PTAB review.

Usually when estoppel is mentioned, it is in the context of petitioners, who can be limited in the arguments that they can make at the PTAB or in district court litigation after they have challenged a patent in IPR.

But USPTO rules preclude a patent owner from "obtaining in any patent ... [a] claim that is not patentably distinct from a finally refused or canceled claim." The idea is that a patent owner shouldn't be able to lose patent claims at the PTAB, then return to the USPTO and present those same claims again.

While this doesn't come up often, it does happen. In a September report, attorneys at Sterne Kessler Goldstein & Fox PLLC found a few dozen instances in recent years where a USPTO patent examiner

rejected patent claims based, at least in part, on patent owner estoppel.

"It definitely can present a hurdle to patent owners who are using related applications to go after similar subject matter," said Eldora Ellison, a director at Sterne Kessler and one of the report's authors. "I think it can be quite challenging at times for patent owners to get around a rejection based on patent owner estoppel."

Arthrex, which had pending applications for suture anchor patents, argued it shouldn't be subject to this estoppel because gave up its patent claims — by filing what is known as a disclaimer — before the PTAB had a chance to decide whether to institute review based on Smith & Nephew's petition.

It said the PTAB should simply terminate the proceeding, which the board has done in other cases.

But instead, the board entered adverse judgement, causing estoppel to attach. The board held this was appropriate under a regulation that states that the disclaimer of patent claims "such that the party has no remaining claim in the trial" can be construed as a request for adverse judgment.

On appeal, Arthrex argued that it specifically told the PTAB it was not requesting adverse judgment. It also said "trial" only begins once the board decides it will review the patent, meaning a cancellation of patent claims before institution shouldn't result in such a judgment.

The Federal Circuit, in a 2-1 decision, rejected those arguments and said the PTAB's interpretation of the regulation was reasonable.

It's not all that uncommon for patent owners to file disclaimers after one of their patents has been challenged at the board. Some have used it as a strategic maneuver. Others simply don't like their chances and prefer not to spend the money defending the claims.

Matthew Cutler of Harness Dickey & Pierce PLC said patent owners need to have their eyes open before disclaiming patent claims at the PTAB. And they should know that giving up questionable claims early on might not be a way around patent owner estoppel.

"Patent owner estoppel could get you whether your patents are canceled in a final written decision or are disclaimed voluntarily earlier in the proceeding," Cutler said.

U.S. Circuit Judge Pauline Newman said in her dissent from the ruling that she agreed with Arthrex that adverse judgment against disclaimed claims without institution of review should not be allowed. She called the majority's analysis a "distortion of a carefully worded regulation."

And it's not just the Federal Circuit that has split over this particular issue. Even the PTAB has at times appeared to be conflicted.

In a March decision, for example, a panel of PTAB judges declined to enter adverse judgment when the U.S. Department of Health and Human Services disclaimed part of its patent for a tumor treatment following a challenge from Corvus Pharmaceuticals Inc.

The judges overseeing that case, who were made aware of the board's Arthrex decision, concluded the regulation "on its face ... does not indicate that we can construe [the disclaimer of challenged claims] as a request for adverse judgement before institution of trial."

Ellison, who helped represent Corvus in that case, said it was possible the ruling from the Federal Circuit's majority would lead to more consistency.

"Perhaps after this recent Fed. Circ. decision the pendulum will swing back to [entering adverse judgment]," Ellison said. "It remains to be seen."

But this might not be the final word on the issue.

In a concurring opinion, U.S. Circuit Judge Kathleen O'Malley questioned whether the USPTO had the authority to issue the regulation in the first place and, if so, whether it followed the proper procedures. Arthrex hadn't raised this challenge, so the court didn't directly rule on it.

But others who face an adverse judgment will be more inclined now to question the USPTO's authority to promulgate the regulation, attorneys said.

"I think Judge O'Malley is foreshadowing a challenge that a patent owner might make in the future," Kachner said.

The Federal Circuit in this case also had to address debate over whether adverse judgments could even be appealed. The court concluded they could, rejecting Smith & Nephew's argument that the court lacked jurisdiction because the order was not a "final written decision."

This holding comes on the heels of a ruling earlier this month in which the full Federal Circuit held that decisions from the PTAB finding an IPR petition is timely can be appealed.

"We're seeing more and more examples of issues that the Federal Circuit is willing to consider, even if at first blush they may seem like they are barred under the statute's language about decisions on institution being final and non-appealable," Ellison said.

--Editing by Pamela Wilkinson and Catherine Sum.