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Federal Circuit: Pre-IPR Institution Disclaimer of Claims Insufficient to Avoid Adverse Judgment

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At this point, several cases have examined the appealability of the Board's institution decisions in *inter partes* review ("IPR") proceedings. See, e.g., *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2142 (2015) (holding that 35 U.S.C. §314 barred judicial review of the Board's determinations . . . to initiate an inter partes review under this section."); *Husky Injection Molding v. Athena Automation Ltd.*, 838 F. 3d 1236 (Fed. Cir. 2016) (identifying a two-part test for determining whether the Federal Circuit could review an institution decision, and holding that the Board's decision that assignor estoppel did not apply to IPR proceedings, thereby allowing institution, was not reviewable.); see also *Credit Acceptance Corp. v. Westlake Services*, 859 F. 3d 1044 (Fed. Cir. 2017) (in a covered business method review proceeding, holding that the Board's application of Section 325(e)(1) estoppel - which prevents institution on ground that the petitioner raised or, reasonably could have raised in an earlier review - was not reviewable).

These institution-focused decisions have also touched on the Board's pre-institution rulings. See, e.g., *Achates Reference Publishing, Inc. v. Apple Inc.*, 803 F. 3d 652 (Fed. Cir. 2015) (holding that 35 U.S.C. § 314 prevented appellate review of the Board's decision declining to authorize pre-institution discovery, regarding whether the IPR petition was time barred under § 315). However, there are fewer instances where the Federal Circuit has directly addressed the appealability of the Board's pre-institution administration of IPRs.

In *Arthrex, Inc. v. Smith & Nephew, Inc., et al.*, No. 2017-1239 (Fed. Cir. Jan. 24, 2018), the Federal Circuit recently provided additional guidance on the types of rulings that are appealable during the pre-institution stage. The Federal Circuit also examined whether the Board has the power to enter an adverse judgment against a patent owner who disclaims patent claims prior to IPR institution. The court's decision has implications for patent owners looking for avenues to avoid IPR institution altogether and the subsequent estoppel effects that may result from of adverse rulings during IPR proceedings.

Proceedings before the Board

Before the Board, the IPR petitioner, Smith & Nephew, filed a petition challenging claims 1-9 of Arthrex' U.S. Patent No. 8,821,541 (the "'541 Patent"). Before the IPR was instituted, however, Arthrex filed a patent owner preliminary response, disclaiming claims 1-9. Arthrex likely intended to invoke the general proposition that "[n]o *inter partes* review will be instituted based on disclaimed claims." 37 C.F.R. § 42.107(e).

In the preliminary response, Arthrex sought to avoid application of 37 C.F.R. § 42.73(b), which provides that "[a] party may request judgment against itself at any time during the proceeding. Actions construed to be a request for adverse judgment include: . . . Cancellation or disclaimer of a claim such that the party has no remaining claim in the trial." So, Arthrex stated that "[b]y filing the statutory disclaimer, Arthrex, Inc. is not requesting adverse judgment."

In reply, Smith & Nephew argued that the disclaimer should be interpreted as a request for entry of an adverse judgment. Persuaded by the petitioner, the Board entered an adverse judgment against Arthrex pursuant to §



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42.73(b), stating that “our rules permit the Board to construe a statutory disclaimer of all challenged claims as a request for adverse judgment, even when the disclaimer occurs before the Board has entered a decision on institution.”

Importantly, the Board’s adverse judgment triggered the estoppel effect of 37 C.F.R. § 42.73(d)(3)(i), which prevents a patent owner “from taking action inconsistent with the adverse judgment including obtaining in any patent . . . [a] claim that is not patentably distinct from a finally refused or canceled claim.” At the time, Arthrex was prosecuting continuation applications that claimed priority its ’541 Patent. Therefore, Arthrex appealed to the Federal Circuit.

Whether the Board’s Entry of an Adverse Judgment Is Appealable

On appeal, the Federal Circuit first examined whether the Board’s entry of an adverse judgment against Arthrex was appealable. Again, past cases have examined the appealability of the Board’s institution decisions, which are generally not subject to Federal Circuit review. Here, however, the Board’s adverse judgment was entered *prior* to institution.

Smith & Nephew argued that the 35 U.S.C. § 319 should be read to limit appellate rights to situations where the Board has issued a final written decision. Section 319 states that “[a] party dissatisfied with the final written decision of the [Board] . . . may appeal the decision . . .” The Federal Circuit disagreed, however, noting that 28 U.S.C. § 1295(a)(4)(A) provides for a right of appeal from a decision from the Board “with respect to” IPRs.

The Federal Circuit, therefore, held that “[b]ecause § 319 does not on its face provide the exclusive means for appeal over IPR decisions not subject to the appeal bar [under § 314], and § 1295(a)(4)(A) on its face provides a right to appeal, we conclude that a final decision that disposes of an IPR proceeding in the form of an adverse judgment is a ‘decision’ from the Board with respect to IPRs under title 35 and that § 1295 provides a right to appeal a final adverse judgment.”

Review of Whether the Board’s Adverse Judgment Was Proper

The Federal Circuit next examined Arthrex’ challenge of the Board’s entry of an adverse judgment pursuant to 37 C.F.R. § 42.73(b).

Arthrex first argued that its statement in its patent owner preliminary response that it was specifically *not* requesting an adverse judgment meant that § 42.73(b) was inapplicable – thus, the Board was not authorized to enter an adverse judgment. The Federal Circuit, however, was unpersuaded that a party could dictate the Board’s authority in this way.

Arthrex next argued that the phrase “no remaining claim in the trial” in § 42.73(b) indicates that the Board’s power to enter an adverse judgment depends on there being an instituted IPR proceeding. Here, because no IPR was instituted, Arthrex’s disclaimer of its patent claims could not be construed as a request for adverse judgment under § 42.73(b).

Evaluating the parties’ arguments, the Federal Circuit acknowledged that a “trial” is defined in 37 C.F.R. § 42.2 as “a contested case instituted by the Board based upon a petition.” But, the court instead noted that § 42.2 defines “proceeding” as “a trial or preliminary proceeding” and § 42.73(b) provides that “[a] party may request judgment against itself at any time during a proceeding.” In the Federal Circuit’s view, the subsections of 42.73(b) should be applied consistently as to trials and proceedings, and there is no temporal limitation in the regulation to suggest otherwise.

Ultimately, the Federal Circuit held that “37 C.F.R. § 42.73(b) permits the Board to enter an adverse judgment when a patent owner cancels all claims at issue after an IPR petition has been filed, but before an institution decision.”

Concurring and Dissenting Opinions

Judge Dyk authored the court’s opinion. Judge O’Malley authored a concurring opinion, and the third member of the panel, Judge Newman, authored a dissent.

Although not disagreeing with Judge Dyk’s reading of the regulations, Judge O’Malley questioned the Board’s authority to enter an adverse judgment on disclaimed claims prior to institution of an IPR. First, Judge O’Malley noted that, in a covered business method review (“CBM”), the Board held that a CBM could not be instituted on disclaimed claims, which must be treated as if they never existed. Judge O’Malley believed the same logic should apply to IPRs, and it was unclear to her “why the Board would have the authority to take any other action—particularly prior to institution—with respect to disclaimed claims.” Second, Judge O’Malley noted that in another

case, *Shaw Industries Group, Inc. v. Automated Creel Sys., Inc.*, 817 F.3d 1293 (Fed. Cir. 2016), the Federal Circuit had held that “[t]he IPR does not begin until instituted” and that the PTO’s expansive definition of “proceeding” seems to conflict with *Shaw*. Third, Judge O’Malley was skeptical that the framework of the America Invents Act (“AIA”), as reflected in the U.S.C. provisions that govern IPRs, grants the Director with the authority to promulgate C.F.R. regulations that enable the Board to issue adverse judgments prior to institution. Judge O’Malley left open her questions, however, because Arthrex never made such arguments based on statutory construction or an administrative law challenge.

Dissenting, Judge Newman viewed the directive of 37 C.F.R. § 42.107(e) as clear, namely that “[n]o *inter partes* review will be instituted based on disclaimed claims.” Judge Newman also found § 42.73(b)’s mention of “no remaining claim in the trial” to unambiguously apply to a situation where there is a trial, but “[h]ere, there was no trial, and no trial was possible.” In Judge Newman’s view, “in a trial” does not include “non-institution where no trial is possible,” and therefore the Board lacked the authority to enter adverse judgment against Arthrex.

* * * *

Because IPR proceedings can trigger patent owner estoppel, it remains important to consider how continuation applications that may be adversely affected by IPR outcomes. Patent Owners who seek to avoid IPR institution by disclaiming claims may become apprehensive in view the Federal Circuit’s *Arthrex* decision. In this case, disclaiming claims prior to institution was not sufficient to avoid entry of an adverse judgment, and its estoppel effects, even though there was no IPR proceeding or ruling on the merits.

Judge O’Malley’s concurrence and Judge Newman’s dissent, however, suggest that arguments based on a statutory or administrative law challenge would have been more viable, and thus it remains an open issue whether the Board may enter an adverse judgment prior to institution of an IPR, although that will not be clear until and a challenge is made by party in another case or if the Federal Circuit is inclined to consider those issues in a rehearing.¹

¹ In October 2017, in a separate IPR proceeding, the Board issued a final written decision that claims 10 and 11 of the ’541 are unpatentable. In December 2016, a jury found that claims 10 and 11 of the ’541 Patent were valid and infringed, awarding Arthrex \$12,250,000 for infringement of the ’541 Patent. *Arthrex Inc. v. Smith & Nephew, Inc., et al.*, No. 2:15-cv-1047-RSP (E.D. Tex.).

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