

PTAB Appeals Face Tough Road After Latest Fed. Circ. Ruling

By Ryan Davis

Law360, New York (September 27, 2016, 6:34 PM EDT) -- By throwing out an appeal arguing that the Patent Trial and Appeal Board wrongly allowed an inter partes review of a patent, the Federal Circuit has emphasized again that it will rarely hear such appeals while opening the door to validity challenges that are barred in district court.

The U.S. Supreme Court held earlier this year in a decision known as *Cuozzo* that while most PTAB decisions instituting reviews of patents under the America Invents Act can't be appealed, there may be exceptions in rare cases. In a decision Friday, the Federal Circuit sought to delineate when such appeals are allowed and made clear that they will be few and far between.

The court said that it can review issues that hinge on the PTAB's "ultimate invalidation authority," which it said is "purely tied to the patent challenged and the nature of the review requested; it is not a question of who petitions for review."

The court therefore dismissed an appeal by Husky Injection Molding Systems Ltd. arguing that the PTAB should not have allowed an inter partes review challenging its molding machine patent because the challenger previously owned the patent. While that would have barred a validity challenge in district court, the board held that there is no such restriction in inter partes reviews.

The Federal Circuit's decision that it cannot even consider if that holding was correct will cut off many possible appellate arguments for anyone displeased with a PTAB decision, attorneys say.

"People will still pick away around the edges," since *Cuozzo* held that appeals from decisions to institute are not completely barred, said John Dragseth of Fish & Richardson PC. "But the Husky decision laid down some lines that mean there's much less room at the Federal Circuit to do that."

The Federal Circuit's reasoning draws on a statement in the AIA that the board's decisions to institute reviews are "final and nonappealable." In several other rulings, the appeals court has cited that language to hold that it cannot review other aspects of the PTAB's institution decisions, such as a finding that a petition is not time-barred.

"Over the last few years, the Federal Circuit seems to be giving quite a bit of deference to the PTAB, and this is another case in that line of reasoning," said Amol Parikh of McDermott Will & Emery LLP.

Nevertheless, the door is not completely closed as the Supreme Court said in *Cuozzo* that if the board

exceeds its statutory authority in an institution decision, or violates due process or raises other constitutional concerns, "such 'shenanigans' may be properly reviewable." What exactly constitutes "shenanigans" by the board that allow an appeal will continue to be a focus of litigation, attorneys say.

"It does raise an interesting question and allows a toehold here and there for other types of appeals. I don't think we've heard the last of this issue," said William Rowland of Buchanan Ingersoll & Rooney PC.

However, the few examples the Supreme Court gave for possible grounds for appeal are unlikely to occur in real life, Dragseth said. For instance, the justices said it would be appealable if the board instituted review on the ground that a patent is indefinite, an issue the AIA specifically says it has no authority to review.

"I haven't seen a hypothetical flagrant act by the board that is something anyone believes the board would ever do," Dragseth said. "If you anticipate the board doing those things, you're not giving the board much credit."

Friday's decision tossing Husky's appeal means that doctrine of assignor estoppel, which holds that someone who sells a patent cannot later attack its validity in litigation, likely cannot be used to shut down AIA reviews, clearing a path for some companies to use the PTAB to attack patents they would not be allowed to target in district court.

Husky argued that the inter partes review petition by rival Athena Automation Ltd. should have been barred by assignor estoppel, but the PTAB held that the doctrine does not apply in inter partes reviews because the AIA states that anyone who is not the owner of a patent can challenge it.

The Federal Circuit's ruling that it cannot review that decision likely means assignor estoppel is off the table for patent owners seeking to shut down an AIA petition, attorneys say.

"If you're a defendant at the PTAB, the decision just created a way you can get around assignor estoppel," said Edward Kwok of VLP Law Group LLP, adding that the decision weakens assignor estoppel and creates a "back door" for some validity challenges that could otherwise not be brought.

The board's decision is an example of its expansive view of what types of patent challenges it can hear, according to Darren Donnelly of Fenwick & West LLP.

"The patent office had the option to apply this doctrine or not, and it chose to have a broader reach of what it can invalidate," he said.

The impact of the decision in terms of the overall number of cases will be small since assignor estoppel is not often an issue, but "it does make a very big difference in cases where it does come up," said Wayne Stacy of Baker Botts LLP.

The situation usually arises when a person devises an invention, assigns the patent to the company they work for, then leaves to start a competing company and wants to ensure that their old patents won't interfere with their business.

"Often, the person with the most motivation to challenge a patent is the inventor," Dragseth said.

That is what happened in the case at the Federal Circuit, where the founder of Husky co-invented the

patent at issue, assigned it to the company and then left to start Athena, which challenged the patent at the PTAB.

For a new business in this situation, getting off the ground with no revenue, the decision offers a way to challenge the validity of potentially problematic patents in an inter partes review that they could not challenge in court, Dragseth noted. If the challenge is successful, the company can move forward without fear of a lawsuit, and if it is not, it can plan accordingly to avoid the patent.

"In that situation, it's very important. Those companies often don't have a lot of money, so IPR is a superior route for them compared to getting sued," he said.

The ruling also serves as a warning to any potential purchasers of patents, said Jeremiah Frueauf of Sterne Kessler Goldstein & Fox PLLC. Since the PTAB has made clear that assignor estoppel will not prevent them from reviewing patents in this scenario, companies should write purchase agreements to bar the former owner from filing PTAB challenges to the patent, making it a breach of contract to do so, he said.

"This decision by the Federal Circuit would say, without a doubt, that the patent office would go forward with the IPR proceeding, but there's a potential reason to have another battle in state court or district court," he said.

While there will continue to be litigation over what can be appealed from the PTAB, the Federal Circuit has now set fairly clear guidelines on this issue, Frueauf said.

"There are a lot of uncertainties left to be addressed, but this decision makes it somewhat more predictable. We have a pretty clear answer going forward on the issue of assignor estoppel," he said.

The case is Husky Injection Molding Systems Ltd. v. Athena Automation Ltd., case number 2015-1726, in the U.S. Court of Appeals for the Federal Circuit.

--Editing by Christine Chun and Emily Kokoll.