

ARTHREX, INC. v. SMITH & NEPHEW, INC., Appeal No. 2017-1239

(Fed. Cir. January 24, 2018). Before Newman, Dyk, and O'Malley. On appeal from Patent Trial and Appeal Board. (Rule Interpretation in IPR Proceedings)

Background:

Smith & Nephew filed an Inter Partes Review (IPR) petition challenging the validity of claims 1-9 of Arthrex's patent. Before the PTAB (Board) issued an institution decision, Arthrex disclaimed all the challenged claims and then filed a Preliminary Response as permitted by 37 CFR 42.107(e), which states that "[n]o *inter partes* review will be instituted based on disclaimed claims."

37 CFR 42.73(b) reads as follows (emphasis added):

*Request for adverse judgment.* A party may request judgment against itself at any time during a proceeding. Actions construed to be a request for adverse judgment include:

- (1) Disclaimer of the involved application or patent;
- (2) Cancellation or disclaimer of a claim such that the party has no remaining claim **in the trial**;
- (3) Concession of unpatentability or derivation of the contested subject matter; and
- (4) Abandonment of the contest.

In its Preliminary Response, Arthrex explicitly stated that it was not requesting an adverse judgment. Nevertheless, the Board entered an adverse judgment, finding that the rules permit construing a disclaimer made before institution of the IPR such as Arthrex's as a request for adverse judgment.

An adverse judgment has an estoppel effect that according to rule would have precluded Arthrex from obtaining patentably indistinct claims in two then copending continuation applications.

Arthrex appealed to the Federal Circuit, arguing that § 42.73(b) was inapplicable (1) because it relates by its terms to a party requesting judgment against itself, and (2) because the above-emphasized term *in the trial*, § 42.73(b)(2) applies only to an IPR proceeding that has been instituted. Smith & Nephew moved to dismiss the appeal for lack of subject matter jurisdiction, arguing that an appeal lies only from a "final written decision" as prescribed by 35 USC 319. The Court denied the motion but directed the parties to address the issue of jurisdiction in their briefs.

Issue/Holding:

Was the Board's decision appealable? Yes. Did the Board err in entering the adverse judgment? No.

Discussion:

In a 2-1 decision, the Court held that the adverse judgment is a final decision that disposes of the IPR proceeding and is thus appealable pursuant to 28 USC 1295(a)(4)(A).

The Court further held that the application of § 42.73(b) "on its face does not turn on the patentee's characterization of its own request" and that the rule "gives the Board authority to construe a patent owner's actions as a request for an adverse judgment" and that the above-emphasized term in § 42.73(b)(2) did not limit the rule's applicability to only when an IPR had been instituted. The Court found that a "proceeding" begins with filing of the petition and construed "in the trial" to mean "for trial."

Judge O'Malley questioned the USPTO's authority to issue § 42.73(b) and if so, whether it was properly promulgated, but concurred with the result because Arthrex did not challenge this authority.

Judge Newman dissented, finding that "in the trial" pursuant to § 42.73(b)(2) means a proceeding that has been instituted and thus § 42.73(b) did not apply at all.