

UNITED STATES PATENT AND TRADEMARK OFFICE

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BEFORE THE PATENT TRIAL AND APPEAL BOARD

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SDI Technologies, Inc.  
Petitioner

v.

Bose Corporation  
Patent Owner

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Case IPR2014-00346  
Patent 8,364,295

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**PATENT OWNER BOSE CORPORATION'S  
BRIEF ON THE APPLICABILITY AND SCOPE OF  
PATENT OWNER ESTOPPEL UNDER 37 C.F.R. § 42.73(d)(3)**

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At the hearing on February 24, 2015, SDI began its argument by asserting for the very first time that Bose is estopped under 37 C.F.R. § 42.73(d)(3) from pursuing certain issues based on the Board's Final Written Decision in IPR2013-00465 ("the FWD"). The FWD issued months ago, on November 7, 2014. Subsequently, in this proceeding, SDI submitted substantive filings attempting to address every argument it now contends Bose is estopped from making. *See* Paper 17 (SDI's Reply, filed Nov. 25, 2015); Paper 21 (SDI's Opp. to Mot. to Exclude, filed Jan. 27, 2015); Ex. 1019 (SDI's Demonstratives for use at oral hearing, filed Feb. 20, 2015). None mentions § 42.73(d)(3). If it contended any § 42.73(d)(3) estoppel applied, SDI was required to raise that issue at the first reasonable opportunity it had, rather than conceal the argument until the hearing.

As discussed below, SDI has incorrectly interpreted § 42.73(d)(3). Any patent owner estoppel under § 42.73(d)(3) does not apply until all rights of appeal are exhausted. Because the FWD is pending appeal to the Federal Circuit, estoppel does not apply. Even if the Board were to erroneously interpret § 42.73(d)(3) as SDI suggests, it would not apply to issues here that were either not previously decided or that Bose did not have a full and fair opportunity to address in the prior proceeding. Bose also respectfully submits that the Board should waive or suspend any application of the rule, in view of SDI's concealment of the issue. Finally, in the alternative, Bose submits that § 42.73(d)(3) cannot be applied here, because the

regulation exceeds the Patent Office's rulemaking authority and is unconstitutionally vague under the Due Process Clause of the Fifth Amendment.

**I. Section 42.73(d)(3) Does Not Apply Until All Appeals Are Exhausted**

In relevant part, § 42.73(d)(3) states:

(3) ***Patent applicant or owner.*** A patent applicant or owner is precluded from taking action inconsistent with the adverse judgment, including obtaining in any patent:

- (i) A claim that is not patentably distinct from a finally refused or canceled claim; . . .

In its discussion of the final rules in new Part 42 of Title 37 of the Code of Federal Regulations, the Patent Office construed § 42.73(d)(3) as applying only against a party whose claim was cancelled or who requested an amendment that was denied:

***Section 42.73(d)(3) applies estoppel against a party whose claim was cancelled or who requested an amendment to the specification or drawings that was denied.*** The rule is consistent with 35 U.S.C. 316(a)(4), as amended, and 326(a)(4), which require that the Office prescribe regulations establishing and governing the reviews and the relationship of such reviews to other proceedings under title 35.

77 Fed. Reg. 48,612, 48,649 (emphasis added). A claim is not canceled until the Patent Office issues a certificate, which occurs ***after*** appeal rights are exhausted:

If the Patent Trial and Appeal Board issues a final written decision. . . ***and the time for appeal has expired or any appeal has terminated,*** the Director will issue and publish a certificate canceling any claim of the patent ***finally determined*** to be unpatentable . . .

35 U.S.C. § 318(b) (2015) (emphases added). Accordingly, until Bose's appeal of the FWD is exhausted, § 42.73(d)(3) does not apply. *See* IPR2013-00465 Paper 44 (Notice of Appeal, filed Jan. 8, 2015).

Indeed, the PTAB recently confirmed the Office's interpretation of § 42.73(d)(3). In IPR2014-00511, the petitioner sought to stay prosecution of a continuation application, arguing that the claims in that application were not "patentably distinct" from those under review in the IPR. IPR2014-00511 Paper 18, at 2 (citing 42.73(d)(3)(i)). The PTAB concluded that it was premature to stay prosecution of the continuation application, because "whether any of the claims in the '497 patent will be canceled is an issue that is not yet decided and will not necessarily be decided until a final written decision is entered in this case ***and appeals from it are exhausted.***" *Id.* (emphasis added). Thus, as interpreted by the PTAB, the plain language of § 42.73(d)(3) permits a patent owner to take actions inconsistent with an FWD, including pursuing claims that are not patentably distinct from the claims found unpatentable, until all appeal rights are exhausted.

This interpretation is also consistent with the rule's reference to precluding "action inconsistent with the adverse judgment." Although § 42.73(b) says a party "may request adverse judgment against itself" (which is not applicable here), it does not define the term "adverse judgment." This term, however, is defined in 37 C.F.R. § 41.127 relating to the effect of judgments in interference practice (on

which § 42.73 was likely based). Under § 41.127(a)(2), an “[a]dverse judgment against a claim is a final action of the Office requiring no further action by the Office to dispose of the claim permanently.” Because 37 C.F.R. § 42.80 states that the Office cannot dispose of a claim permanently in an IPR until all appeal rights are exhausted, the reference to “adverse judgment” in § 42.73(d)(3) also confirms that the rule does not apply while Bose’s appeal of the FWD is pending.

In addition, in adopting the rule, the Office explained that patent owner estoppel is “similar to a ground of rejection based on res judicata (*see, e.g.*, MPEP Sec. 706.03(w)).” 77 Fed. Reg. 48,612, 48,649 (Response to Comment 215). In turn, MPEP § 706.03(w) states that res judicata rejections “should be applied only . . . ***when there is no opportunity for further court review of the earlier decision.***” (emphasis added). The Office also indicated that § 42.73(d)(3) is consistent with interference estoppel, *see* 77 Fed. Reg. 48,612, 48,649 (Response to Comment 213, citing *In re Deckler*, 977 F.2d 1449, 1452 (Fed. Cir. 1992)), which likewise does not take effect until appeal rights are exhausted, *see In re Baxter*, 656 F.2d 679, 685 n.16 (C.C.P.A. 1981). Thus, the regulatory history also confirms that § 42.73(d)(3) estoppel does not apply until Bose’s appeal rights are exhausted.<sup>1</sup>

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<sup>1</sup> This interpretation is also consistent with the longstanding practice in *ex parte* reexaminations. Under MPEP § 2286, the Office does not consider a court’s holding of invalidity or unenforceability controlling until “after all appeals.”



Accordingly, because Bose's appeal of the FWD is pending, that decision has no preclusive effect on any issue in this proceeding.

**II. Even If The Board Adopted SDI's Position, § 42.73(d)(3) Would Not Apply To Several Issues In This Proceeding**

Even if the Board (erroneously) interprets § 42.73(d)(3) as SDI suggests, estoppel would not apply to several issues in this proceeding, including: (1) construction of the claim term "configured to respond . . ." and all patentability determinations related thereto (Paper 16, at 5-18, 33-35); (2) Bose's arguments that Dr. Lippman's alleged motivation to combine references lacks the "rational underpinning" the Board first mentioned in the FWD, because it is based on a factual premise Dr. Lippman admits is incorrect (Paper 22, at 5); (3) Bose's hearsay objections to Ex. 1010 (IRMan Web Pages) (Paper 20, at 7-8); and (4) issues concerning the authenticity of Ex. 1010 that Bose did not previously have a full and fair opportunity to address (Paper 20, at 3-7).

At the hearing, SDI admitted that estoppel would not reach the first two issues, because the Board's FWD did not previously address those issues and, thus, Bose's arguments would not be "inconsistent" with that decision.

Nor would estoppel preclude the Board from reaching Bose's objections to Ex. 1010. In adopting § 42.73(d)(3), the Office explained that the rule was intended to be "consistent with . . . the common law related to estoppel," *see* 77 Fed. Reg. 48,612, 48,649 (Response to Comment 213), which does not apply

unless: “(1) the issue to be decided is identical to one ***decided in the first action***; (2) the issue was actually litigated in the first action; (3) resolution of the issue was essential to a final judgment in the first action; and (4) the parties had a ***full and fair opportunity to litigate*** the issue in the first action.” *Applied Med. Res. Corp. v. U.S. Surgical Corp.*, 435 F.3d 1356, 1361 (Fed. Cir. 2006) (emphases added, quotation omitted). Here, estoppel would not preclude Bose from arguing that Ex. 1010 is hearsay, because that issue was not “decided in the first action.” *Id.*

Although the Board twice mentioned “hearsay” in the FWD, the Board never actually ***decided*** the issue. *See* FWD at 13-16. And although the FWD addressed the alleged authenticity of Ex. 1010, the Board raised new issues, and Bose therefore did not have a full and fair opportunity to address them. For example, the Board *sua sponte* cited new evidence—an unsigned “standard affidavit” from the Internet Archive—and incorrectly concluded that Bose had made admissions about whether that affidavit would have provided sufficient authentication. *Id.* at 15 (introducing Ex. 3004). Bose objected and attempted to introduce supplemental evidence putting the “standard affidavit” in context and showing why the Board’s reliance on it was incorrect. But the Board expunged Bose’s objections and evidence. IPR2014-00465 Paper 43, at 2. Because this proceeding is the first time Bose has had a “full and fair opportunity” to address these new issues, collateral estoppel would not apply. *Applied Med.*, 435 F.3d at 1361.

### **III. The Board Should Suspend Or Waive Application Of The Rule**

To the extent the Board considers adopting SDI's interpretation of § 42.73(d)(3), it should exercise its authority to "waive or suspend" application of the rule because SDI intentionally concealed the argument until the hearing. *See* 37 C.F.R. § 42.5 (giving Board authority to "waive or suspend a requirement" of Part 42). To permit a party to wait until the very end of an IPR proceeding before raising such an issue would only encourage inefficiency and gamesmanship. *See* 37 C.F.R. §§ 42.1(b), 42.12(a)(7), (b)(3). Further, SDI's contention that estoppel cannot be waived is incorrect. A party seeking to use issue preclusion offensively must raise it at the first reasonable opportunity after the decision having preclusive effect has been rendered. *See Blankenbaker ex rel. Harvey v. United Transp. Union*, 878 F.2d 1235, 1243 (10th Cir.1989) ("We hold that plaintiffs waived this issue preclusion claim by failing to invoke it timely.").

### **IV. Section 42.73(d)(3) Exceeds The Patent Office's Rulemaking Authority**

Alternatively, the Board should decline to apply § 42.73(d)(3) because it exceeds the Patent Office's rulemaking authority under 35 U.S.C. §§ 316(a)(4) and 326(a)(4), which are the only statutory references the Office cited in adopting the rule. *See* 77 Fed. Reg. 48,612, 48,625. These merely authorize the Office to establish and govern IPR and PGR proceedings and their relationship to other proceedings in the Office. Unlike *petitioner* estoppel which is expressly

authorized under 35 U.S.C. §§ 315(e) and 325(e), Congress did not enact legislation authorizing the Office to create rules for *patent owner* estoppel. The rule is thus invalid and should be set aside under the APA, 5 U.S.C. § 706(2)(C).

**V. Section 42.73(d)(3) Is Void Because It Is Unconstitutionally Vague**

Finally, in the alternative, the Board should decline to apply § 42.73(d)(3) because it fails to provide a patent owner with “fair notice of conduct that is forbidden or required” and is thus void under the Due Process Clause. *See F.C.C. v. Fox Television Stations, Inc.*, 132 S.Ct. 2307, 2317 (2012). For example, and without liming the basis for the challenge, on its face § 42.73(d)(3) only precludes actions inconsistent with “the adverse judgment.” The only antecedent basis in the rule for this term is § 42.73(b), which refers to a “[r]equest for adverse judgment” a party may make “against itself.” To the extent § 42.73(d)(3) is interpreted as applying beyond such requests (like the FWD at issue here), the rule fails to give fair notice of actions that are prohibited and is therefore void. “It is a basic principle of due process that an enactment is void for vagueness if its prohibitions are not clearly defined.” *Grayned v. City of Rockford*, 408 U.S. 104, 108 (1972).

**VI. Conclusion**

For all of the foregoing reasons, the Board should not apply patent owner estoppel under 37 C.F.R. § 42.73(d)(3) in this proceeding.

Respectfully submitted,

Date: March 10, 2015

/Mark J. Hebert/

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Mark J. Hebert, Reg. No. 31,766

Dorothy P. Whelan, Reg. No. 33,814

W. Karl Renner, Reg. No. 41,265

Attorneys for Patent Owner, Bose Corp.

Customer Number 26171

Fish & Richardson P.C.

Telephone: (612) 337-2508

Facsimile: (612) 288-9696

### **CERTIFICATE OF SERVICE**

Pursuant to 37 C.F.R. §§ 42.6(e)(4) and 42.205(b), the undersigned certifies that on March 10, 2015, a complete and entire copy of this Patent Owner's Brief on the Applicability and Scope of Patent Owner Estoppel Under 37 C.F.R. § 42.73(d)(3) was provided via email to the Petitioner by serving the correspondence email addresses of record as follows:

Matthew B. Lowrie  
Aaron W. Moore  
James C. De Vellis  
Foley & Lardner LLP  
111 Huntington Avenue  
Boston, MA 02199

Email: [mlowrie-PTAB@foley.com](mailto:mlowrie-PTAB@foley.com)

Email: [amoore-PTAB@foley.com](mailto:amoore-PTAB@foley.com)

/Jessica K. Detko/

Jessica K. Detko

Fish & Richardson P.C.

60 South Sixth Street, Suite 3200

Minneapolis, MN 55402

(612) 337-2516