

PTAB Refuses to Honor “No-Challenge” Clauses

By Bryan P. Collins and Patrick A. Doody

Thankfully, that patent case you litigated a few years back is long gone in the rear-view mirror. As the plaintiff, you received a nice lump sum payment and a going forward royalty. Even better, the defendant agreed to never challenge the validity of your patent again. Now you can sit back, collect those royalties, and the worst case scenario is a squabble over what products are subject to the royalty. Life is good, right?

Think again.

On September 17th, the Patent Trial and Appeal Board (PTAB) issued a Decision to Institute in *Dot Hill Systems Corp. v. Crossroads Systems, IPR2015-00822*, and in *Dot Hill Systems and Oracle Corporation v. Crossroads Systems, IPR2015-00825*, holding that such no-challenge clauses cannot prevent institution of an inter partes review.

The clause itself was well-drafted, pretty clear, and its meaning was not disputed:

4.4 No Challenges. For as long as the License remains in effect, Dot Hill agrees that it will not challenge, participate in any challenge to, or aid any Third Party in challenging the validity or enforceability of any patent in the '972 Patent Family, except as required by subpoena, by law, or by any governmental or regulatory authority. If this license is terminated for any reason, including, but not limited to those reasons set forth in paragraph 8.2 below, Dot Hill expressly reserves the right to challenge the validity and enforceability of any of the patents in the '972 Patent Family.

This clause is typical of many patent settlements with a licensing component. The intent is straightforward: the litigation ends, the accused infringer will pay for royalty-bearing sales, and the only future issue remaining is (or should be) whether new products fall within the scope of the license and are subject to a royalty. The value to the patent owner is two-fold: monetary compensation for the alleged infringement, plus assurance that the accused infringer will leave the disputed patent intact.

But the PTAB refused to force adherence to this often very important (and bargained for) clause. The PTAB referred to this clause as giving rise to “contractual estoppel,” and analogized it to “assignor estoppel”—which the Board previously found could not prevent institution of an inter partes review in *Esselte Corp. v. Dymo*, Case IPR 2015-00779 (PTAB Aug. 28, 2015). Applying the logic of that case, the PTAB found it lacked “an explicit statutory basis” for considering the no-challenge clause.

At the outset, the very usage of the term “estoppel” in reference to a contractual no-challenge clause seems misplaced. Assignor estoppel is truly an estoppel, because it arises from the notion that the party who assigned the patent in the first place should be estopped from denying the patent had value and be allowed to turn around and challenge its validity. An express contract clause is different and not a true estoppel, because the parties expressly bargained and agreed to not challenge validity. Notwithstanding that difference, the PTAB viewed them as close enough that its logic in *Esselte* applied. The key point according to the PTAB was that it lacked statutory authority to consider the “contractual estoppel” issue, notwithstanding the clear language of the agreement and the case law upholding such clauses as beneficial to promoting settlements.

On a potential bright side, the PTAB did seem inclined to at least entertain the effect of the clause in exercising its discretion to grant a motion for joinder.¹ The Patent Owner asked the PTAB to exercise its discretion and deny the motion for joinder due to the clause in the contract. But that was for naught, because the Petition advanced grounds identical to those instituted in other proceedings, so there was no real prejudice to the patent owner. That is, the patent owner was facing the same proposed rejections anyway, and *Dot Hill* was merely backstage in an “understudy” role as a party. Thus, the PTAB joined *Dot Hill*'s Petitions with the others, and instituted the proceedings.

Key Take-Aways and Thoughts

As a practical matter, this decision may have the unfortunate ripple effect of encouraging existing settlement licensees to challenge a patent despite the existence of a no-challenge clause in its agreement. However, this decision is limited to the PTAB's view of its own authority, and does not confer a free right to ignore such a clause wholesale. The Petitioner could still be subject to termination or breach of contract claims for violating the clause.

Here are some thoughts for avoiding this situation in future settlement agreements:

- Tie the royalty rate expressly to the products accused of infringement and products with the same features, to avoid needing the patent to define the scope of the royalty. As an example, the royalty can be for any product that includes features A, B, C and D (closely tracking a patent claim's features) instead of for any product covered by that claim. That may make a licensee less inclined to challenge a patent because the royalty is tied to requirements defined in the agreement, rather than in a patent claim that might be cancelled.
- Include a liquidated damages clause for violation of the no-challenge clause.
- Include a clause that dramatically multiplies the royalty, so the licensee has to accept a significant amount of risk if it decides to challenge the patent.

¹ Recall that you settled that case years ago. Absent joinder, the then-defendant/now-licensee could not file an inter partes review because of the one-year bar from service, irrespective of whether this clause was in the settlement agreement.

And if all else fails and you're the patent owner stuck in this situation, consider seeking court relief to enforce the no-challenge clause and enjoin the licensee from pursuing the PTAB proceeding. Unless something changes, the PTAB will not be helping you obtain the no-challenge benefits of your settlement agreement.

If you have any questions about the content of this alert, please contact the Pillsbury attorney with whom you regularly work, or the authors below.

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