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### PATENTS

The author details three litigation changes resulting from enactment of the AIA, related to false marking claims, joinder, and the effects of inter partes review proceedings.

## The America Invents Act and Two Years of Changes to Patent Litigation



By JOHN T. GALLAGHER

The Leahy-Smith America Invents Act<sup>1</sup> marked the most comprehensive series of reforms to the U.S. Patent Laws in more than 50 years. Enacted on Sept. 16, 2011, the AIA transformed practice before the U.S. Patent and Trademark Office in major ways. For example, the AIA replaced the “first to invent” priority system with the “first inventor to file” system,<sup>2</sup> and also provided third parties with three new adjudicative procedures to challenge the validity of issued patents: inter

partes review (IPR);<sup>3</sup> post-grant review (PGR);<sup>4</sup> and covered business method (CBM) review.<sup>5</sup>

The enactment of the AIA also resulted in significant changes to the landscape of patent litigation in federal district court.<sup>6</sup> Drafted, in large part, to address the proliferation of patent infringement lawsuits filed by entities that did not actually practice the patents being asserted, the AIA's impact on patent litigation has played to mixed reviews. Some of the AIA's litigation reforms quickly achieved their intended purpose and have received almost universal praise.

Others, however, have unleashed a host of case management issues reminiscent of those that plagued “pre-AIA” patent litigation. Still others have left district courts, patent holders and accused infringers scrambling to address a number of unresolved issues regarding how inter partes review of a patent will impact a concurrent district court infringement action involving the same challenged patent.

The new patent litigation terrain that both courts and litigants must now traverse in the “post-AIA world” includes:

1. the virtual elimination of false marking lawsuits;
2. a developing conflict between new restrictions regarding the joinder of multiple accused infringers in a single lawsuit and consolidation under Rule 42 of the Federal Rules of Civil Procedure; and
3. the procedural issues that arise when the validity of a patent is challenged both in an IPR proceeding and a district court action, as well as the scope

<sup>1</sup> Pub. L. No. 112-29, Sept. 16, 2011, 125 Stat. 284.

<sup>2</sup> 35 U.S.C. § 102(a) (2011).

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<sup>3</sup> 37 C.F.R. § 42.100-23; 35 U.S.C. §§ 311-319 (2011).

<sup>4</sup> 37 C.F.R. § 42.200-24; 35 U.S.C. §§ 321-329 (2011).

<sup>5</sup> 37 C.F.R. § 42.300-04 (2011).

<sup>6</sup> For example, Section 282(b)(3) eliminates the best mode defense, while Section 298 provides that the failure to rely upon advice of counsel may not be used to prove willful or induced infringement. 35 U.S.C. §§ 282(b)(3), 298 (2011).

of any litigation estoppel resulting from the invalidity arguments advanced during the IPR proceeding.

## I. The AIA's Amendment to the False Marking Statute

One of the most striking elements of the AIA, in terms of the immediacy of its impact, was in the amendments to the false marking statute, and the virtual elimination of false marking lawsuits.

“Patent marking,” or listing specific U.S. patent numbers on the packaging and labels of products covered by the identified patents, puts potential infringers on notice of those patents. This “constructive notice” is one way a patent holder can trigger the accrual of damages prior to the actual filing of a complaint alleging patent infringement.<sup>7</sup>

The false marking statute prohibited improperly referencing a U.S. patent on a product or article, and was designed to protect the public from patent holders attempting to mislead the public into believing that an article or product was patent protected, or protected by a patent that was invalid or had expired.<sup>8</sup> The false marking statute allowed a private party to file a false marking lawsuit on behalf of the federal government (“qui tam”). If successful, the private party and the government would share equally in any award which was statutorily limited to “not more than \$500 for every [false marking] offense.”<sup>9</sup> The nominal financial recovery for violation of the false marking statute offered private parties little incentive to initiate qui tam actions.

The financial calculus underlying false marking lawsuits changed dramatically in 2009 when the U.S. Court of Appeals for the Federal Circuit interpreted the “every offense” language of the false marking statute to refer to each specific product or article bearing an incorrect patent number.<sup>10</sup> The Federal Circuit’s decision immediately breathed new economic vitality into the false marking statute. Overnight, some of the largest manufacturers in the country faced significant financial exposure, easily in excess of several million dollars, for failing to keep track of the patents listed on the labels of their products.

Seizing on the opportunity for a lucrative monetary recovery, a cottage industry quickly developed, composed of private parties who scoured the marketplace in search of products, articles and commodities that were labeled with the numbers of patents that had expired. False marking lawsuits quickly began to inundate the dockets of district courts throughout the country. Although a private party plaintiff had the burden of demonstrating that the party accused of false marking had intent to deceive the public, the pendency of many qui tam lawsuits was short-lived as most quickly settled in exchange for a modest financial payment.

In response to a growing outcry from the business community regarding the emergence of false marking lawsuits, which many viewed as harassment, the AIA

included amendments to the false marking statute that removed the financial incentive fueling the growth of private qui tam actions. For example, the AIA limited potential financial recovery from a successful false marking lawsuit to the amount necessary to compensate the private party for any resulting “competitive injury.”<sup>11</sup> Perhaps more important, the listing of expired patent numbers on a product’s packaging or label no longer could form the basis for a violation of the false marking statute.<sup>12</sup>

The impact of the AIA’s amendments to the false marking statute was striking. Once these amendments took effect, the opportunity for a financial windfall due to a patent holder’s failure to keep track of patent numbers included on packaging and labels was eliminated and the filing of false marking lawsuits declined precipitously. Tellingly, in the 18-month period prior to Sept. 15, 2011, slightly more than 900 false marking lawsuits were filed. In contrast, during the 18 months since the enactment of AIA’s amendments to Section 292, less than 20 false marking lawsuits have been.<sup>13</sup> As designed, the AIA’s amendments to the false marking statute effectively eliminated private qui tam false marking lawsuits.

## II. The Developing Conflict Between the AIA's New Joinder Rule and Consolidation Under the Federal Rules of Civil Procedure

Beginning in the early 2000s, individuals and companies began to perfect a business model that would have a profound impact on the patent system, the courts and many industries. Individual patents and entire patent portfolios were systematically purchased from independent inventors, bankrupt companies, universities and even some Fortune 500 companies. The individuals and companies purchasing these patents had no intention of developing new technology, improving existing technology or bringing new products to market. Instead, the sole purpose behind these purchases was to monetize the acquired patents by granting licenses and settling litigations. This was accomplished by threatening, and if necessary suing, individual companies or entire industries that were arguably using some aspect of the acquired patented technology. The patent-acquiring individuals and companies became known as “non-practicing entities” (NPEs), or a more pejorative term, “patent trolls.”

Because NPEs did not commercialize the purchased patented technology, they had little risk of being the recipient of a counterclaim for patent infringement once they filed their infringement complaint. Consequently, they could threaten companies with the prospect of protracted and costly patent litigation with impunity. Additionally, once embroiled in the threatened patent infringement litigation, NPEs had only a handful of employees who could be deposed.

Perhaps more relevant to the licensing and litigation strategy of NPEs, they had relatively few documents to produce because they played no role in the development of the acquired patented technology, did not manufacture goods, sell products or provide services.

<sup>7</sup> 35 U.S.C. § 287(a).

<sup>8</sup> 35 U.S.C. § 292(a).

<sup>9</sup> 35 U.S.C. § 292(b).

<sup>10</sup> *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304, 2013 BL 175930, 93 U.S.P.Q.2d 1097 (Fed. Cir. 2009) (79 PTCJ 247, 1/8/10).

<sup>11</sup> 35 U.S.C. § 292(b) (2011).

<sup>12</sup> 35 U.S.C. § 292(c) (2011).

<sup>13</sup> See, e.g., <http://www.docketnavigator.com>.

This was in sharp contrast to the companies targeted. Upon commencement of a NPE's infringement action, these companies incurred significant expense during the initial stage of the litigation searching through voluminous quantities of documents to respond to even the most rudimentary discovery requests. When electronically stored information was factored in, the potential costs to accused infringers, from document production alone, often made settlement an economically viable alternative, even when faced with dubious infringement allegations.

Finally, the initial litigation expense incurred by the NPEs in connection with their licensing and litigation efforts was usually offset by the overabundance of attorneys willing to represent NPEs on a contingency basis or some type of alternative fee agreement. Consequently, compared to the targeted companies, NPEs faced relatively meager litigation expense and minimal business disruption once a threatened patent infringement action was initiated.

The litigation strategy adopted by many NPEs was also predicated on volume, and leveraging the economies of scale achieved when more than a single accused infringer was named in a given patent infringement complaint. To capitalize on this strategy, NPEs often named dozens of unrelated, geographically diverse companies from different industries as defendants in a single omnibus complaint for patent infringement. Peripheral parties, such as retailers and companies downstream in the supply chain who often lacked any technical information underlying the accused products, and companies with limited financial exposure, were also typically included as defendants in these omnibus infringement actions.

To avoid the expense and disruption associated with a lengthy litigation, many of these "marginal" infringers settled relatively quickly, often for less than their projected defense costs. Those settlements would then be used by the NPE to fund the continued litigation against accused infringers having significantly greater financial exposure and deeper pockets. By increasing the number of accused infringers in a single lawsuit, NPEs increased their potential revenue stream from a single patent infringement action for a relatively minor incremental increase in cost.

NPEs also achieved a strategic litigation advantage by increasing the number of accused infringers included in a single infringement action. As more accused infringers were named in a single complaint, it became increasingly more difficult for an individual defendant to successfully transfer the specific allegations of infringement from the patent holder's chosen forum to one that was either jurisdictionally appropriate or more convenient. This minimized the likelihood that the NPEs would have to litigate multiple infringement actions in different jurisdictions across the country. Further with little hope of transfer, NPEs relied on the fact that a number of the accused infringers would simply settle, albeit begrudgingly, rather than expend the resources necessary to contest even suspect infringement allegations in an inconvenient and "patent-friendly" jurisdiction.

The grouping of multiple defendants in a single infringement action provided additional benefits to NPEs. For example, the respective interests of many of the accused infringers often did not align because of their vastly different financial exposure and the diversity of

the products accused of infringement. As a result, individual defendants often had competing interests and different opinions regarding litigation strategy, the most pertinent prior art, invalidity contentions and the construction of the asserted patent claims. Additionally, as the number of accused infringers in a single infringement action grew, individual defendants lost their autonomy, had limited opportunities to present their respective defenses to the judge or jury and were often precluded from raising any individualized defenses that diverged from defenses applicable to the rest of the defendants.<sup>14</sup> Further, while it made sense to present a united front when fighting the infringement allegations, many accused infringers were reluctant to work collaboratively with co-defendants because their respective market interests diverged significantly outside the courtroom. This was often compounded by the possibility that staunch market competitors accused of infringement in these omnibus infringement actions would be required to share proprietary technical and business information as the litigation progressed.

### A. Joinder Under the Federal Rules of Civil Procedure

Fed. R. Civ. P. 20 governs joinder of multiple defendants in a single lawsuit, and was often the only procedural obstacle standing in the way of the successful implementation of the licensing and litigation strategy adopted by many NPEs. In particular, Rule 20 provides that multiple defendants can only be joined in a single action when the following independent requirements are satisfied:

1. the claims against the accused infringers must be asserted "with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences"; and
2. a "question of law or fact common to all defendants" must exist.<sup>15</sup>

When the issue of severance or misjoinder was raised in a multi-defendant patent infringement litigation, courts typically found the second element of Rule 20(a)(2) easily satisfied since issues such as claim construction and validity were, for the most part, common to all accused infringers. Further, when addressing the first element of Rule 20(a)(2), a majority of jurisdictions found misjoinder of defendants where the only common claim shared by each defendant was the patent allegedly infringed.

However, a minority of jurisdictions, in particular the U.S. District Court for the Eastern District of Texas, conflated the "same transaction or occurrence" and "common question of law or fact" elements of Rule 20, and found that unrelated defendants accused of infringe-

<sup>14</sup> See, e.g., *WiAV Networks, LLC v. 3Com Corp.*, No. 10-03448, slip op. at 3 (N.D. Cal. Oct. 1, 2010) ("Each defendant has simply been thrown into a mass pit with others to suit plaintiff's convenience. In this connection, the accused defendants—who will surely have competing interests and strategies—are also entitled to present individualized assaults on questions of non-infringement, invalidity and claim construction.")

<sup>15</sup> Fed. R. Civ. P. 20(a)(2).

ing a common patent could be joined in a single action.<sup>16</sup>

In fact, ruling on a petition for a writ of mandamus from an order from the Eastern District of Texas denying a motion to sever and transfer a subset of 22 accused infringers, a three-judge panel of the Federal Circuit held:

Courts have consistently held that judicial economy plays a paramount role in trying to maintain an orderly, effective, administration of justice and having one trial court decide all of these claims clearly further that objective. . . . Further, the district court noted that, in the case ‘adjudicating infringement . . . will involve substantially overlapping questions of law or fact.’ . . . This determination does not amount to an abuse of discretion.<sup>17</sup>

The Federal Circuit’s implicit affirmation of the relaxed joinder standard used by the Eastern District of Texas and a minority of other jurisdictions, helped propagate growth of patent infringement actions that included dozens of defendants in a single action. This also emboldened many NPEs to expand upon their licensing and litigation strategy that was premised on filing of a single complaint for patent infringement against multiple geographically diverse defendants spanning different industries.

As the multi-defendant infringement actions filed by NPEs began to touch a wider swath of industries, the ire of many in the business community grew. Many viewed these lawsuits as frivolous, a scourge on business, and a tax on innovation. In response to the surge of multi-defendant patent infringement actions, Congress sought to address some of the perceived problems posed by NPEs and their litigation tactics.

## B. The New Joinder Requirements Under the AIA

The AIA’s new joinder rule was intended to it make more difficult for patent holders to group multiple accused infringers in a single action, and to resolve the split of authority that had developed regarding joinder in patent infringement actions.<sup>18</sup> The new standard, more rigorous than existing Rule 20(a), requires that the predicate “same transaction or occurrence” element actually relate to the manufacture, use or sale of the same accused product or process. In particular, the new joinder rule, entitled “Joinder of accused infringers,” provides that multiple defendants can only be joined in a single patent infringement action or consolidated for trial if:

1. the claims against each accused infringer arose out of “the same transaction or occurrence” relating to the manufacture, use, sale, offers for sale, or importation of “the same accused product or process”; and

2. “questions of fact common” to all accused infringers will arise in the action.<sup>19</sup>

Additionally, the new joinder rule expressly prohibits the inclusion of multiple accused infringers in a single action, or the consolidation of individual infringement actions for trial, simply because all defendants are accused of infringing a common patent.<sup>20</sup> However, individual accused infringers can waive the new prohibition against joinder should they wish to collectively fight a patent holder’s infringement allegations.<sup>21</sup>

Even when the heightened post-AIA joinder requirements are satisfied, the Federal Circuit has recognized that “joinder may still be refused ‘in the interest of avoiding prejudice and delay, ensuring judicial economy or safeguarding principles of fundamental fairness.’ ”<sup>22</sup> The Federal Circuit has also cautioned trial courts that, when evaluating whether individual accused infringers may be joined in a single action, “the failure to conduct a thorough assessment of whether . . . claims and defendants should *remain* joined is not a mere technicality,” and reiterated that “the joinder of a large number of claims . . . could deprive defendants of a ‘meaningful opportunity to present individualized defenses on issues such as infringement, willfulness and damages because each defendant will have limited opportunity to present its own defense . . . .’ ”<sup>23</sup>

The primary goal of the new joinder requirements of the AIA was to eliminate the economies of scale achieved when NPEs bundled individual accused infringers together in a single infringement action. It was believed that by making joinder requirements more stringent, the omnibus patent infringement lawsuits that were becoming the “new normal” and clogging the dockets of many district courts would soon disappear. In particular, the constraints imposed by the new joinder rule would force NPEs to become more selective when targeting possible accused infringers to avoid the risk of litigating multiple infringement actions, against different defendants, before different judges, in different jurisdictions at the same time. Similarly, if fewer accused infringers were named in a single action, individual defendants would have a better chance of successfully transferring to a more appropriate or convenient forum. Finally, if separate complaints needed to be filed against each defendant, the marginal infringers that typically rounded out many multi-defendant infringement actions would no longer be targets for NPEs. So concerned were NPEs about the impact the new joinder rule would have on the future of their licensing and litigation strategy, over 50 separate patent infringement actions, naming over 800 defendants, were filed the day before the AIA was signed into law.<sup>24</sup>

<sup>16</sup> See, e.g., *Oasis Research LLC v. Adrive LLC*, No. 4:10-CV-435 (E.D. Tex. July 25, 2011); *Eolas Techs., Inc. v. Adobe Sys., Inc.*, No. 6:09-CV-446 (E.D. Tex. Sept. 28, 2010); *Adrain v. Genetec, Inc.*, No. 2:08-CV-423, (E.D. Tex. Sept. 22, 2009); *MyMail, Ltd. v. Am. Online, Inc.*, 223 F.R.D. 455 (E.D. Tex. 2004), *aff’d on other grounds*, 476 F.3d 1372, 81 U.S.P.Q.2d 1832 (Fed. Cir. 2007) (73 PTCJ 467, 2/23/07).

<sup>17</sup> *In re Google*, Misc. Doc. No. 968, slip op. at 4 (Fed. Cir. Mar. 4, 2011) (citation omitted).

<sup>18</sup> H. Rep. No. 112-98, Part 1, at 55 n.61 (“legislatively abrogates the construction of Rule 20(a)” adopted by a minority of jurisdictions).

<sup>19</sup> 35 U.S.C. § 299(a) (2011).

<sup>20</sup> 35 U.S.C. § 299(b) (2011).

<sup>21</sup> 35 U.S.C. § 299(c) (2011).

<sup>22</sup> *In re Nintendo Co.*, Misc. Doc. No. 151, slip op. at 9, 2013 BL 260978 (Fed. Cir. Sept. 25, 2013) (86 PTCJ 1126, 10/4/13) (citation omitted).

<sup>23</sup> *Id.* at 10 (emphasis in original) (citation omitted).

<sup>24</sup> Dennis Crouch, “Rush to Judgment, New Dis-Joinder Rules and NPEs,” *Patently-O* (Sept. 20, 2011), <http://patent.com/patent/2011/09/rush-to-judgment-new-dis-joinder-rules-and-non-practicing-entities> (noting that this was the largest number of patent infringement actions filed in a single day since this statistic has been tracked).

After the new joinder rule took effect, there was a noticeable decline in the filing of omnibus complaints naming multiple, unrelated accused infringers. In that small measure, the AIA achieved its intended purpose and caused some to quickly proclaim that the new joinder rule was a success. But what would be the price of this perceived success, and would this success prove fleeting? The answer quickly became apparent.

In the place of patent infringement actions naming multiple defendants that were the impetus behind the new joinder rule, NPEs began to file separate infringement actions against individual accused infringers. Undeterred by the additional filing fees required for each separate infringement action, it is now common practice for NPEs to file separate patent infringement complaints against 20-25 different defendants, in the same jurisdiction, on the same day, alleging infringement of the same patent.<sup>25</sup>

As a result of the plethora of serial-filed complaints, each naming a separate defendant and alleging infringement of a common patent, courts, patent holders and accused infringers must contend with a host of case management issues and inefficiencies that include:

- the added administrative burden and substantial time courts must now devote to each individual lawsuit, including duplicative scheduling conferences, scheduling orders and discovery orders;
- the possibility that individual litigations will proceed on different tracks based on the particular schedules proposed in each separate lawsuit by the parties;
- duplicative motion practice addressing protective orders, privilege issues and the scope of discovery;
- the need for the court to resolve duplicative motions regarding issues common to each litigation, including validity, claim construction and enforceability;
- the possibility of inconsistent judicial rulings on issues common to each action based upon the different arguments and positions advanced by the parties;
- the possibility that courts will have to decide multiple motions to dismiss for lack of jurisdiction and/or to transfer to a more convenient forum, as well as supervise any necessary jurisdictional discovery;
- the likelihood of conflicting claim construction, validity and enforceability rulings when actions are assigned to different judges within the same jurisdiction or transferred to different jurisdictions;
- the need for each accused infringer to monitor the activities in all other pending actions involving allegations of infringement of a common patent; and
- the increased costs incurred by NPEs from having to simultaneously prosecute multiple independent infringement actions in the same or different jurisdictions.

### C. The Tension Between the AIA's New Joinder Rule and Consolidation Under Rule 42

Fed. R. Civ. P. 42 allows courts to consolidate individual cases that "involve a common question of law or fact." In particular, Rule 42(a) provides:

If actions before the court involve a common question of law or fact, the court may:

1. join for hearing or trial any or all matters at issue in the actions;
2. consolidate the actions; or
3. issue any orders to avoid unnecessary cost or delay.<sup>26</sup>

Consolidation, however, does not merge individual lawsuits into a single action, change the rights of the individual consolidated parties, or make those who are parties in one action parties in any of the other actions. However, a court can sua sponte consolidate individual actions for discovery purposes even when joinder would impermissible under Rule 20.<sup>27</sup>

The AIA's new joinder rule expressly prohibits individual accused infringers from being included in a single action when the only issue shared by each defendant is the allegation that a common patent is infringed.<sup>28</sup> Nevertheless, as more serial-filed actions have begun to crowd the dockets of many courts, judges have become receptive to consolidating the individual actions for discovery and other pre-trial activities. Consequently, it is now common practice for many NPEs to file separate lawsuits against multiple accused infringers, and then promptly move to consolidate the serial-filed actions under Rule 42. Even when opposed by one or more of the accused infringers, courts have typically consolidated the actions in the name of judicial economy.

When all accused infringers are not subject to jurisdiction in a common forum, some NPEs have resorted to multidistrict litigation as a procedural mechanism to avoid the restrictions imposed by the new joinder rule.<sup>29</sup> As a result, after filing complaints alleging infringement of a common patent against individual defendants in jurisdictionally proper forums across the country, NPEs then move for transfer and centralization of the individual actions under the multidistrict litigation statute. Seemingly in contravention of the new joinder rule, the Judicial Panel on Multidistrict Litigation has held that the AIA's new rule does not prevent consolidation and centralization of separately filed patent infringement actions.<sup>30</sup>

Consolidation of serial-filed infringement actions, even for pre-trial purposes, seemingly violates the

<sup>26</sup> Fed. R. Civ. P. 42(a).

<sup>27</sup> See, e.g., *In re EMC Corp.*, 677 F.3d 1351, 1360, 102 U.S.P.Q.2d 1539 (Fed. Cir. 2012) (84 PTCJ 54, 5/11/12).

<sup>28</sup> 35 U.S.C. § 299(b) (2011).

<sup>29</sup> 28 U.S.C. § 1407(a) ("When civil actions involving one or more common questions of fact are pending in different districts, such actions may be transferred to any district for coordinated or consolidated pretrial proceedings.").

<sup>30</sup> See, e.g., *In re Maxim Integrated Prods., Inc., Patent Litig.*, 867 F. Supp. 2d 1333, 1334, 2012 BL 145238 (J.P.M.L. 2012) ("While the AIA changed the landscape of patent litigation . . . it does not follow that the mere possibility of factual disputes regarding a particular invalidity defense or the infringement of a particular product . . . is sufficient to deny centralization of actions otherwise involving common factual questions. Nor should such a determination trump the pretrial efficiencies (notably in having a single judge construe the patent claims, as opposed to five judges in various districts) that can be gained from centralizing this litigation."); *In re Bear Creek Techs., Patent Litig.*, 858 F. Supp. 2d 1375, 1377-78, 2012 BL 124208 (J.P.M.L. 2012) (the AIA "does not alter our authority to order pretrial centralization").

<sup>25</sup> See, e.g., *Beacon Navigation GmbH v. Chrysler Group LLC*, Nos. 1:11-00921 - 1:11-0960 (GMS) (D. Del. Oct. 11, 2011).

spirit, if not the letter, of the new joinder rule, avoids the constraints imposed by the new rule and provides NPEs the same economies of scale that the AIA promised to eliminate.<sup>31</sup> This, however, has not stopped NPEs from seeking consolidation of serial-filed infringement actions or deterred district courts from consolidating these actions for discovery and other pre-trial activities in the name of judicial economy. Nevertheless, it cannot be disputed that consolidation of serial-filed infringement actions eases the administrative burden placed on district courts and avoids the risk of inconsistent rulings on issues common to each separately filed action.

To coordinate the logistics associated with serial-filed infringement actions, some courts do not wait for the issue of consolidation to be raised by the parties. Instead, even before the accused infringers have even responded to the respective complaints, the serial-filed cases are consolidated sua sponte for discovery and pre-trial purposes. In fact, one court consolidated 58 separate lawsuits involving infringement allegations of a common patent before any of the accused infringers filed their respective answers.<sup>32</sup>

Consolidation of pre-trial activities and phased discovery of common issues can often facilitate fair and efficient discovery, minimize the potential for unnecessary or duplicative motion practice and discovery, and allow the court and the parties to address issues common to all accused infringers in a consistent and timely fashion. Yet consolidation, even for only discovery and other pre-trial activities, raises administrative challenges that are strikingly similar to those associated with pre-AIA omnibus patent infringement actions. As a result, a number of courts have turned to phased discovery as a mechanism to manage these challenges in a coordinated fashion.

In one particular adaptation of phased discovery, discovery is initially limited to issues common to all accused infringers (e.g., claim construction, validity and enforceability).<sup>33</sup> At the conclusion of this first phase, the court construes the asserted patent claims and rules on any dispositive motions directed to defendants' invalidity or unenforceability defenses. If the asserted patent survives any dispositive invalidity challenges, the accused infringers whose actions have not been dismissed or settled proceed to the next phase during which includes discovery specific to individual accused infringers takes place (e.g., infringement, willfulness, damages and any equitable defenses).

At the conclusion of this second phase of discovery, the court considers any remaining dispositive motions. At this point, although each remaining accused infringer is theoretically entitled to a separate trial, the court, patent holder and accused infringers have an opportunity to address the procedural mechanism that

<sup>31</sup> See, e.g., *C.R. Bard, Inc. v. Med. Components, Inc.*, No. 12-cv-0032, slip op. at 2 (D. Utah July 25, 2012) (the AIA "remains silent on pre-trial consolidation" and "does not affect the authority of a court to order pretrial consolidation of related cases" pursuant to Rule 42).

<sup>32</sup> *Tawnsaura Grp., LLC v. Maximum Human Performance, LLC*, No. 12-07189, D.I. 12 (C.D. Cal. Sept. 25, 2012) (designated lead case).

<sup>33</sup> See, e.g., *ThermoLife Int'l, LLC v. Myogenix Corp.*, No. 13-00833, D.I. 14, (S.D. Cal. Aug. 30, 2013) (lead case ordering phased discovery in 20 consolidated serial-filed infringement actions).

will govern trial of any remaining accused infringers and disputed issues. This includes consideration of whether any of the remaining defendants will be consolidated for trial, whether any remaining defendants will agree and stipulate to consolidation of specific issues for trial, whether certain issues or defendants will be tried first and the appropriate sequencing of trials.

The AIA's new joinder rule was designed to reign in the litigation tactics of NPEs. In reality, this has not occurred. Instead, NPEs have simply broken their pre-AIA omnibus litigations into separate serial-filed infringement actions against individual defendants. Exploiting Rule 42 to effectively avoid the constraints of the AIA's new joinder rule, serial-filed infringement actions are now pieced back together and routinely consolidated. While consolidation of these serial-filed actions appears to be in conflict with the AIA's new joinder rule, consolidation for discovery and pre-trial purposes, whether on a court's own initiative or in response to a motion, will remain an attractive option to manage the logistical challenges associated with multiple actions having nearly identical infringement claims involving a common patent. The competing interests of the AIA's new joinder rule, 35 U.S.C. § 292, and consolidation pursuant to Fed. R. Civ. P. 42 will become more pronounced as NPEs resort to more serial-filed infringement actions to further their licensing and litigation strategy.

### III. IPR Proceedings and Concurrent District Court Litigation

IPR proceedings became available on Sept. 16, 2012. This new adjudicative procedure allows third parties to challenge the validity of issued patents on limited grounds before a three member panel of administrative law judges from the newly formed Patent Trial and Appeal Board (PTAB).

As originally contemplated, inter partes review of a patent before the PTAB would be an expeditious and economically attractive alternative to district court litigation. In fact, the PTO's published notice regarding the new IPR proceeding stated:

The purpose of the Leahy-Smith America Invents Act and these proposed regulations is to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs . . . . The USPTO is engaged in a transparent process to create a timely, cost-effective alternative to litigation.<sup>34</sup>

\* \* \*

[I]t is anticipated that the proposed rules will minimize duplication of efforts. In particular, the Leahy-Smith America Invents Act provides more coordination between district court infringement litigation and inter partes review to reduce duplication of efforts and costs . . . . There may be a significant reduction in overall burden if, as intended, the Leahy-Smith America Invents Act and the proposed rules reduce the overlap between review at the USPTO of issued patents and validity determination during patent infringement actions.<sup>35</sup>

Statistics from the PTO illustrate the popularity of IPR proceedings. In a little more than one year, through

<sup>34</sup> 77 Fed. Reg. 7,041 (Feb. 10, 2012) (83 PTCJ 518, 2/17/12).

<sup>35</sup> *Id.* at 7,055.

Oct. 31, 2013, 608 IPR petitions were filed.<sup>36</sup> While the popularity of this new procedure to challenge the validity of patents was expected, the fact that the majority of IPR proceedings are being used in conjunction with traditional patent litigation infringement actions was unforeseen.

Many accused infringers facing infringement allegations in district court are not resorting to inter partes review of the asserted patent as an additional avenue to attack the patent's validity. In fact, over 80 percent of all IPR petitions filed over the last year indicate that the challenged patent is also involved in a concurrent litigation.<sup>37</sup> This has caused one court to remark:

Patent disputes are unique in some ways, not so unique in others. One unique and frankly, often puzzling aspect of patent cases is that they can proceed in any number of different venues, often at the same time. Even ignoring the possibility of multiple cases against multiple defendants proceeding in multiple districts, a lone case in a single district case can proceed in parallel with a case before the International Trade Commission even as the Patent and Trademark Office reconsiders the scope and validity of the patent at issue. The result is that multiple arms (and resources) of the United States government can be called upon, in parallel, and asked to apply multiple standards, even in a dispute involving the same plaintiff, the same defendant, the same patent, and the same accused product. The court is hard-pressed to identify even a single circumstance outside the patent world where such redundancies are not only permitted, but invited.<sup>38</sup>

As IPR proceedings become more prevalent, courts, patent holders and accused infringers will have to navigate the case management issues that lie at the intersection of an IPR proceeding before the PTAB and traditional patent infringement litigation in federal district court. Since the PTAB's first final IPR decision issued on Nov. 13, 2013,<sup>39</sup> courts have only had to address whether a concurrent litigation should be stayed pending resolution of the IPR proceeding.

Yet, as more final decisions on the merits are issued by the PTAB, courts will be called upon to resolve complex issues surrounding whether, and to what extent, estoppel will attach to invalidity arguments advanced during an IPR proceeding, and which parties, other than the IPR petitioner, will be estopped from making those arguments in a parallel district court action.

### A. Inter Partes Review—the Relevant Basics

An IPR proceeding allows a third party to challenge the validity of one or more claims of an unexpired patent on anticipation and/or obviousness grounds based upon prior art patents or printed publications.<sup>40</sup> However, to take advantage of this new patent review proceeding, a third party must file a petition seeking inter partes review:

1. before the petitioner or the petitioner's real party in interest files a declaratory judgment action seeking to invalidate the challenged patent;<sup>41</sup>
2. within one year of the petitioner or its privy being served with a complaint for infringement of the challenged patent;<sup>42</sup> and
3. nine months after the issue date of the challenged patent.<sup>43</sup>

After the petition is filed, the PTAB has six months to decide whether to institute an IPR proceeding of the challenged patent.<sup>44</sup> On average, it has taken the PTAB slightly longer than five months to rule on these petitions.<sup>45</sup> Should the PTAB determine that the petitioner has established a "reasonable likelihood" of prevailing as to at least one of the challenged patent claims, an IPR proceeding will be instituted. Once instituted, the PTAB must issue a final IPR decision within 12 months.<sup>46</sup> This statutory mandate, however, may be extended for an additional six months for "good cause."<sup>47</sup>

Accordingly, it can take almost two years from the filing of an IPR petition for the PTAB to issue a final decision on the merits regarding validity of the challenged patent claims. The petitioner or patent holder may appeal the PTAB's final decision directly to the Federal Circuit.<sup>48</sup>

### B. Evaluation of Whether a District Court Action Should Be Stayed Pending Resolution of an IPR Proceeding

One of the primary factors contributing to the fact that over 80 percent of IPR petitions involve patents that are also involved in a litigation is the possibility that the concurrent district court infringement action will be stayed. Staying a district court action during the pendency of an IPR proceeding offers an accused infringer several advantages. For example, if the district court action is stayed, an accused infringer can delay, if not avoid, the substantial litigation expense while the PTAB decides the petitioner's invalidity challenges. Additionally, the challenged patent in an IPR proceeding is not entitled to the presumption of validity afforded a patent in a district court action.<sup>49</sup> As a result, the IPR petitioner must simply demonstrate that the challenged patent is anticipated and/or obvious by a preponderance of the evidence, instead of with the clear and convincing standard that must be satisfied to invalidate a patent in the parallel district court action.

Although some courts readily acknowledge there is a "liberal policy" of granting a stay of a parallel district court action pending proceedings in the PTO,<sup>50</sup> others are reluctant to disrupt the patent holder's ability "to

<sup>36</sup> "AIA Progress Statistics," [http://www.uspto.gov/ip/boards/bpai/stats/aia\\_trial\\_statistics.jsp](http://www.uspto.gov/ip/boards/bpai/stats/aia_trial_statistics.jsp).

<sup>37</sup> See *TPK Touch Solutions, Inc. v. Wintek Electro-Optics Corp.*, No. 13-cv-02218, slip op. at 4 (N.D. Cal. Nov. 13, 2013); see generally [http://www.uspto.gov/ip/boards/bpai/stats/aia\\_trial\\_statistics.jsp](http://www.uspto.gov/ip/boards/bpai/stats/aia_trial_statistics.jsp).

<sup>38</sup> *Pi-Net Int'l v. Focus Business Bank*, No. C-12-4959, slip op. at 2 (N.D. Cal. Aug. 16, 2013).

<sup>39</sup> *Garmin Int'l, Inc. v. Cuozzo Speed Techs. LLC*, IPR2012-00001, 108 U.S.P.Q.2d 1852 (P.T.A.B. Nov. 13, 2013) (87 PTCJ 112, 11/15/13).

<sup>40</sup> 37 C.F.R. § 42.104(b)(1); 35 U.S.C. § 311(b) (2011); see 35 U.S.C. §§ 102, 103.

<sup>41</sup> 37 C.F.R. § 42.101(a); 35 U.S.C. § 315(a)(1) (2011).

<sup>42</sup> 37 C.F.R. § 42.101(b); 35 U.S.C. § 315(b) (2011).

<sup>43</sup> 37 C.F.R. § 42.102; 35 U.S.C. § 311(c)(1) (2011).

<sup>44</sup> 35 U.S.C. § 314(b) (2011).

<sup>45</sup> [http://www.uspto.gov/ip/boards/bpai/stats/aia\\_trial\\_proceedings.pdf](http://www.uspto.gov/ip/boards/bpai/stats/aia_trial_proceedings.pdf).

<sup>46</sup> 35 U.S.C. § 314(b) (2011).

<sup>47</sup> 37 C.F.R. § 42.100(c); 35 U.S.C. §§ 316(a)(11), 326(a)(11) (2011).

<sup>48</sup> 35 U.S.C. § 319 (2011).

<sup>49</sup> See generally 35 U.S.C. § 282.

<sup>50</sup> *Star Envirotech, Inc. v. Redline Detection, LLC*, No. 12-01861, slip op. at 2 (C.D. Cal. Apr. 3, 2013).

prosecute its claims, to take discovery, and to set its legal positions.”<sup>51</sup> The decision to stay a district court action during the pendency of an IPR proceeding is within the sound discretion of the court, and is based upon the exercise of the court’s inherent power to manage its docket and conserve judicial resources.<sup>52</sup> However, the party requesting a stay of a district court action “bears the burden of showing that the circumstances justify the exercise of that discretion.”<sup>53</sup>

When considering whether a patent infringement action should be stayed where one or more of the asserted patents is also subject to inter partes review, courts typically weigh the following three factors:

1. whether a stay would unduly prejudice or present a distinct tactical disadvantage to the non-moving party;
2. whether a stay pending resolution of the inter partes review would simplify issues in dispute; and
3. whether discovery in the district court action has been completed and whether a trial date has been set.<sup>54</sup>

While these general considerations help guide a court’s analysis, the ultimate decision regarding whether to stay a district court action requires the balancing the competing interests of the parties on a case-by-case basis.<sup>55</sup>

### 1. Prejudice to the Parties if the District Court Action Is Stayed.

When evaluating if a stay of a district court action is appropriate, a key factor considered by courts is whether the party opposing the stay, usually the patent holder, would be placed at a clear tactical disadvantage or suffer undue prejudice from delaying resolution of any infringement allegations pending the PTAB’s evaluation of the validity of the challenged patent claims.<sup>56</sup> The fact that it can take up to two years from the filing of the IPR petition for the PTAB to issue a final written decision regarding the validity of the challenged patent does not militate against a stay.

<sup>51</sup> *Dane Techs., Inc. v. Gatekeeper Sys., Inc.*, No. 12-2730, slip op. at 6 (D. Minn. Aug. 20, 2013).

<sup>52</sup> *See, e.g., Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427-28, 7 U.S.P.Q.2d 1152 (Fed. Cir. 1988).

<sup>53</sup> *Nken v. Holder*, 556 U.S. 418, 433-34 (2009).

<sup>54</sup> *See, e.g., Neste Oil Oyj v. Dynamic Fuels, LLC*, No. 12-1744, slip op. at 2 (D. Del. July 2, 2013); *General Power Sys. Inc. v. Kohler Co.*, 807 F. Supp. 2d 791, 796, 2011 BL 282196 (E.D. Wis. 2011); *Telemac Corp. v. Teledigital, Inc.*, 450 F. Supp. 2d 1107, 1111 (N.D. Cal. 2006).

<sup>55</sup> *See, e.g., Automatic Mfg. Sys., Inc. v. Primera Tech., Inc.*, No. 6:12-cv-1727, slip op. at 3 (M.D. Fla. Nov. 21, 2013) (stay “must be based upon the circumstances of each individual case”); *Universal Elecs., Inc. v. Universal Remote Control, Inc.*, No. 12-00329, slip op. at 4-5 (C.D. Cal. May 2, 2013) (stay based on the totality of the circumstances); *see Sovereign Software LLC v. Amazon.com Inc.*, 356 F. Supp. 2d 660, 662 (E.D. Tex. 2005) (a “per se rule” regarding a stay “would invite parties to unilaterally derail litigation”).

<sup>56</sup> *See Landis v. N. Am. Co.*, 299 U.S. 248, 255 (1936) (“the suppliant for a stay must make out a clear case of hardship or inequity in being required to go forward, if there is even a fair possibility that the stay for which he prays will work damage to someone else”).

Instead, courts recognize that almost any delay in the final adjudication of a district court action risks some inherent prejudice to either the patent holder or accused infringer, and that the possibility of delay does not automatically equate to undue prejudice.<sup>57</sup> Accordingly, rather than focus on the PTAB’s projected timeline for the issuance of a final decision on the merits, courts turn to other factors when evaluating the likelihood of prejudice resulting from a stay. These factors include the timing of the IPR petition, the timing of the stay request, the status of the IPR proceeding and the relationship of the parties.<sup>58</sup>

The risk of undue prejudice from any delay in the consideration of infringement allegations is mitigated by the diligence exhibited by the party seeking inter partes review of the asserted patent and requesting a stay of the parallel district court action.<sup>59</sup> Consequently, if an IPR petition and motion to stay are filed shortly after the patent infringement complaint is filed and served, there is a little reason for the court to infer improper or strategic dilatory motives on behalf of the accused infringer.<sup>60</sup>

Similarly, courts have agreed to stay a district court action while the PTAB decides whether to actually institute an IPR proceeding.<sup>61</sup> However, other courts have effectively penalized parties for being too diligent, denying the stay request as premature because the motion was made before the PTAB had even decided whether

<sup>57</sup> *See, e.g., One Stockduq Holdings, LLC v. Becton, Dickinson & Co.*, No. 2:12-cv-03037, slip op. at 10 (W.D. Tenn. Nov. 12, 2013) (“delay based on the *inter partes* review process alone is not sufficient to demonstrate undue prejudice to the non-moving party”); *e-Watch, Inc. v. Lorex Canada, Inc.*, No. H-12-3314, slip op. at 3 (S.D. Tex. Sept. 26, 2013) (“the mere fact of a delay alone does not constitute prejudice sufficient to deny a request for stay”); *Software Rights Archive, LLC v. Facebook, Inc.*, No. C-12-3970, slip op. at 9 (N.D. Cal. Sept. 17, 2013) (“assertions of prejudice based on delay alone are merely speculative”).

<sup>58</sup> *See, e.g., TPK Touch*, No. 13-cv-02218, slip op. at 7; *Ever Win Int’l Corp. v. Radioshack Corp.*, 902 F. Supp. 2d 503, 508, 2012 BL 263577 (D. Del. 2012); *Boston Scientific Corp. v. Cordis Corp.*, 777 F. Supp. 2d 783, 789, 2011 BL 97975 (D. Del. 2011).

<sup>59</sup> *See TPK Touch*, No. 13-cv-02218, slip op. at 7 (“this Court expects defendants to evaluate whether to file, and then to file, IPR petitions as soon as possible after learning that a patent may be asserted against them”).

<sup>60</sup> *See, e.g., Pi-Net*, No. C-12-4959, slip op. at 9 (“no evidence of any dilatory motives or tactics” because motion to stay filed “immediately” after IPR petition); *Neste*, No. 12-1744 slip op. at 4 (“Given the prompt filing of both the petition for *inter partes* review and the motion to stay [within 3 months of the filing of the complaint], the court cannot discern an improper dilatory motive.”); *Davol, Inc. v. Atrium Med. Corp.*, No. 12-958, slip op. at 4 (D. Del. June 17, 2013) (“little evidence that defendant sought an unfair tactical advantage” because the IPR petitions and request for stay were filed two months after service of the complaint).

<sup>61</sup> *See, e.g., Black & Decker Inc. v. Positech USA, Inc.*, No. 13C3075, slip op. at 2 (N.D. Ill. Oct. 1, 2013) (“should the PTO deny review, the delay in waiting for that decision will be fairly short”); *NUtech Ventures v. Norman Noble, Inc.*, No. 1:12-cv-2326, slip op. at 2 (N.D. Ohio May 30, 2013) (stay granted because if the “Petition is meritless it will be denied in short order resulting in little delay”); *Capriola Corp. v. La Rose Indus., LLC*, No. 8:12-cv-2346, slip op. at 4 (M.D. Fla. Mar. 11, 2013) (“if the PTO declines *inter partes* review, little time is lost”).



to institute an IPR proceeding.<sup>62</sup> In these situations, the motion to stay is often denied, without prejudice, pending a determination of the scope of the inter partes review. At that point, the parties would have the opportunity to revisit the issue of whether the district court action should be stayed.<sup>63</sup>

Courts, however, are generally reluctant to stay an infringement action where the timing of either the IPR petition or motion for a stay suggests dilatory tactics on behalf of the petitioner and/or moving party. In particular, the filing an IPR petition and a motion to stay well after the district court action is instituted, or after significant discovery has taken place, strongly suggests improper motives on behalf of the petitioner/moving party. Accordingly, if after being served with a patent infringement complaint, the accused infringer delays until the one-year period filing an IPR petition has almost expired, there is a reasonable basis for the court to be skeptical of the motives underlying the accused infringer's subsequent request to stay the infringement action.<sup>64</sup>

The competitive relationship of the patent holder and the IPR petitioner is another important factor that must be considered when determining whether delaying adjudication of a cause of action for patent infringement will be prejudicial to the patent holder. Typically, courts are hesitant to stay a concurrent litigation if the parties are direct competitors in a highly segmented market.<sup>65</sup> In such a market, the patent holder could lose significant sales, market share and goodwill during the two year period it could take the PTAB to rule on the validity of the challenged patent.<sup>66</sup> Any prejudice to the patent holder from a delay in a district court action be-

comes somewhat tempered when there are many participants actively competing in the relevant market.<sup>67</sup> In contrast, there is little basis for an NPE to claim prejudice from a stay of an infringement action pending the PTAB's resolution on an IPR proceeding since the accused infringer and NPE are not competitors in any market.<sup>68</sup>

## 2. Inter Partes Review and the Possible Simplification of Issues for the District Court.

The issues in dispute in a parallel district court action will, to some degree, be impacted by the PTAB's IPR decision.<sup>69</sup> In fact, in certain situations, the PTAB's final decision will make the district court action necessary. For example, should the PTAB determine that all of the patent claims asserted in the district court are invalid, the concurrent infringement action will become moot. However, if the degree of overlap between the issues that can be decided by the PTAB and those in dispute in a concurrent litigation is not significant, the PTAB's final decision on the merits will do little to dramatically simplify a district court action.<sup>70</sup>

In considering a motion to stay, many courts note that the standard of proof for invalidating the challenged patent claims in an IPR proceeding will invariably result in some claims being cancelled or amended, thereby simplifying the issues that will have to be addressed by the court and the parties in the district court action.<sup>71</sup> Nevertheless, inter partes review offers a peti-

<sup>62</sup> See, e.g., *Ultratec, Inc. v. Captel, Inc.*, No. 13-cv-346, slip op. 6-7 (W.D. Wis. Nov. 14, 2013) (stay pending the PTAB's decision on the petition "adds an additional layer of doubt whether the *inter partes* review will even occur, let alone whether it will simplify the issues or reduce the burden of litigation for the parties or the court"); *One Stockduq Holdings, LLC v. Becton, Dickinson & Co.*, No. 2:12-cv-03037, slip op. at 3 (W. D. Tenn. May 6, 2013) ("staying the case at this juncture could result in an unnecessary delay of six [sic] months"); *Dane*, No. 12-2730, slip op. at 4 ("the Court can only speculate as to whether the PTO will review a patent and to what extent").

<sup>63</sup> See, e.g., *Kowalski v. Anova Food, LLC*, No. 11-00795, slip op. at 5 (D. Haw. June 14, 2013) (motion to stay "premature" because the PTAB has not decided petition).

<sup>64</sup> See, e.g., *Personalized Media Commc's, LLC v. Zynga, Inc.*, No. 2:12-CV-00068, slip op. at 3 (E.D. Tex. Nov. 8, 2013) (motion to stay pending IPR decision filed "7 business hours before the start of jury selection" denied); *Universal*, No. 12-00329, slip op. at 10 (defendant attempted to get a tactical advantage by waiting to file the IPR petition almost one year after complaint served so that defendant could wait to see how the court construed the asserted claims); *Semiconductor Energy Lab. Co. v. Chimei Innolux Corp.*, No. 12-21, slip op. 4-5 (C.D. Cal. Dec. 19, 2012) (delay of 10 months to file IPR was "tactical").

<sup>65</sup> *TPK Touch*, No. 13-cv-02218, slip op. at 9 (stay denied, in part, because the parties competed in a "highly segmented," "dynamic and rapidly evolving" market).

<sup>66</sup> *Ultratec*, No. 13-cv-346, slip op. at 8 (with "direct competitors in a small market" "there is a greater likelihood that plaintiff will lose significant market share"); *SenoRx, Inc. v. Hologic, Inc.*, No. 12-173, slip op. at 16 (D. Del. Jan. 11, 2013) ("when the parties are direct competitors, there is a reasonable chance that delay will have outsized consequences to the party asserting infringement has occurred").

<sup>67</sup> See, e.g., *NUtech*, No. 13-cv-02218, slip op. at 4 (where parties are not direct competitors "[l]osses that are monetarily uncompensable, such as loss of market share or other market place wrongs are not present"); *Neste Oil Oyj v. Dynamic Fuels, LLC*, No. 12-662, slip op. at 4 (D. Del. Jan. 31, 2013) ("There may be less cause for concern . . . when there are a number of active firms in the relevant market.).

<sup>68</sup> See, e.g., *Software Rights*, No. C-12-3970, slip op. at 10 (stay granted, in part, because patent holder "does not market any products or services covered by the claims of the patents-in-suits"); *Market-Alerts Pty. Ltd. v. Bloomberg Fin. L.P.*, 922 F. Supp. 2d 486, 495, 2013 BL 30330 (D. Del. 2013) (no evidence of direct competition because patent holder concedes that "patent infringement litigation represents its primary business").

<sup>69</sup> *Capriola*, No. 8:12-cv-2346, slip op. at 4 ("if [the] PTO grants *inter partes* review, the promise is greater for an important contribution by the PTO to resolution of the governing issues in the litigation"); see *e-Watch*, No. H-12-3314, slip op. at 4 ("total resolution of the case . . . is not a factor considered by the court when addressing a motion for stay").

<sup>70</sup> See *U.S. Nutraceuticals LLC v. Cyanotech Corp.*, No. 5:12-cv-366, slip op. at 5 (M.D. Fla. Oct. 15, 2013) (stay denied because it is "entirely possible, perhaps even likely, that this case will proceed on numerous claims regardless of the outcome of the USPTO proceeding."); *ImageVision.Net v. Internet Payment Exch., Inc.*, No. 12-054, slip op. at 7 (D. Del. Nov. 15, 2012) (stay denied, in part, because "issues that remain for litigation do exceed those that might be resolved" by the PTO even though "a stay could yield same measure of issue simplification").

<sup>71</sup> *NUtech*, No. 13-cv-02218, slip op. at 5 ("it is more likely than not that at least some of the claims before this Court will be modified" if the IPR petition is granted); *Automatic Mfg.*, No. 6:12-cv-1727, slip op. at 6 (IPR "standard increases the likelihood that the PTO's decision will significantly contribute to the resolution of the case"); *Software Rights*, No. C-12-3970, slip op. at 8 (standard during inter partes review "gives at least some promise that certain challenged claims will be struck down or amended").

tioner only limited bases to attack the validity of a challenged patent (e.g., anticipation and/or obviousness based upon prior art patents or printed publications). As a result, a number of courts have denied requests to stay because there were numerous other invalidity defenses available to accused infringers that are beyond the purview of the PTAB, and which will ultimately have to be resolved in the district court action.<sup>72</sup>

Courts have also found that when there is complete overlap between the patent claims asserted in the district court action and those being challenged in an IPR proceeding, a stay of the district court action pending the PTAB's final decision will simplify issues for the parties and the court. For example, if all asserted claims are invalidated by the PTAB, the infringement allegations in the district court action may be dismissed.<sup>73</sup> However, if the PTAB's final decision will address the validity of only a subset of claims or patents in dispute in the district court action, it will clearly be inefficient for both the court and the parties to have two separate forums evaluate validity of two different groups of claims in a piecemeal fashion.<sup>74</sup>

One overriding factor in the evaluation of whether an IPR proceeding will simplify issues in a parallel district court action is the estoppel effect associated with arguments advanced during an inter partes review.<sup>75</sup> Upon the issuance of the PTAB's final IPR decision, the petitioner will be precluded from advancing any invalidity

challenges in a parallel litigation that were raised or could have been "reasonably" raised during the IPR proceeding (see the next section). This litigation estoppel can significantly simplify any remaining disputed issues in the district court action. For example, even if the PTAB determines that all of the asserted claims are valid, the petitioner will be estopped from asserting the same invalidity arguments in the parallel litigation that were rejected during the IPR proceeding.<sup>76</sup>

The scope of estoppel becomes more complex when the petitioner is not a party to the district court action, or when a co-defendant seeks to rely upon an IPR proceeding filed by a third party as the basis for the requested stay. In these situations, courts have typically conditioned the requested stay on an agreement that the AIA's litigation estoppel provisions apply to both the petitioner and all other co-defendants.<sup>77</sup>

### 3. Stage of the District Court Litigation.

It cannot be seriously disputed that staying litigation at an early juncture will help promote judicial economy, and maximize the likelihood that neither the court nor parties will have to devote resources addressing issues involving patent claims that may ultimately be found to be invalid by the PTAB.<sup>78</sup> Accordingly, when the courts and the parties have not expended significant resources on discovery issues, a stay is favored.<sup>79</sup>

However, when the parties have devoted significant resources to document production, depositions and claim construction issues, the basis for a stay becomes

<sup>72</sup> *Black & Decker*, No. 13C3075, slip op. at 2 ("many issues outside the purview of the [PTO's review] would remain to be tried"); see *ImageVision.Net*, No. 12-054, slip op. at 7, n.4 ("while a stay may simplify some of the issues before the court, many issues remain").

<sup>73</sup> See, e.g., *Softview LLC v. Apple Inc.*, No. 12-989, slip op. at 2 (D. Del. Sept. 4, 2013) ("Should all of the asserted claims be found invalid, this litigation would be 'simplified' because it would be concluded."); *NUtech*, No. 13-cv-02218, slip op. at 5 ("cause of action disappears" if the PTAB invalidates the asserted patent); *Interface, Inc. v. Tandus Flooring, Inc.*, No. 4:13-cv-46, slip op. at 10 (N.D. Ga. Nov. 5, 2013) ("A finding by the PTO that the [single asserted claim] is invalid may resolve this action in its entirety."); see *One Stockduq Holdings*, No. 2:12-cv-03037, slip op. at 15 ("Even if all claims are confirmed by the PTO, the record of the *inter partes* review will assist this Court in reducing the length and complexity of this litigation and will limit what issues are left to be resolved."); *Software Rights*, No. C-12-3970, slip op. at 8 (even if all asserted claims that are subject to inter partes review are not cancelled, the IPR could encourage settlement or lead to amendments to the claims, which could create intervening rights and limit potential damages"); see generally *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 107 U.S.P.Q.2d 1365 (Fed. Cir. 2013) (86 PTCJ 520, 7/12/13) (the possible binding nature of the PTAB's IPR decision on a district court's validity determination); see also *Click-to-Call Techs, L.P. v. Ingenio, Inc.*, No. A-12-CA-465-55, slip op. at 4 (W. D. Tex. Dec. 5, 2013) ("The finality of any judgment rendered by this Court will be dubious so long as the PTAB retains authority to review, and therefor invalidate the asserted claims.").

<sup>74</sup> *Dane*, No. 12-2730, slip op. at 5 (the issues regarding one of three asserted patents not subject to the IPR proceeding and would be left "languishing and unresolved" during a stay); *Davol*, No. 12-958, slip op. at 10 ("allowing litigation to proceed solely with respect to [the patent not subject to inter partes review] while the parties await a PTO decision on the other two patents-in-suit would invite substantial inefficiency").

<sup>75</sup> *Software Rights*, No. C-12-3970, slip op. at 7 (estoppel "heavily tips the scale in favor of granting the stay"); *Automatic Mfg.*, No. 6:12-cv-1727, slip op. at 6 (estoppel "will likely narrow the issues").

<sup>76</sup> See, e.g., *Interface*, No. 4:13-cv-46, slip op. at 10-11 ("Defendants may be precluded from pursuing their validity defenses based on prior art. And the scope of this action likely will be greatly limited."); *e-Watch*, No. H-12-3314, slip op. at 7 ("Estopping [defendant] from advancing the same grounds or arguments made by [petitioner] and relied on by the USPTO . . . will lead to further simplification of the issues and prevent [defendant] from gaining any tactical advantage by reaping the benefit of [petitioner's] IPR arguments."); *Star Envirotech*, No. 12-01861, slip op. at 3 (district court action significantly simplified because defendant would be "barred from seeking this Court's review on any grounds it could have raised" during the IPR proceeding).

<sup>77</sup> See, e.g., *Pi-Net*, No. C-12-4959, slip op. at 10 (conditioning stay on co-defendants agreeing to be bound by an "estoppel similar" to the provisions of the AIA so that they may not assert invalidity "on any ground [petitioner] raised or reasonably could have raised"); *Softview*, No. 12-989, slip op. at 2 (co-defendants seeking stay agree to be bound by estoppel applicable to petitioner); *e-Watch, Inc. v. FLIR Sys., Inc.*, No. H-13-0638, slip op. at 2 (S.D. Tex. Aug. 8, 2013) (request for stay conditioned on accused infringer being estopped from advancing any invalidity arguments IPR petitioner raised or reasonably could have raised); *Autoalert, Inc. v. Dominion Dealer Solutions, Inc.*, No. 12-1661, slip op. at 3-4 (C.D. Cal. May 22, 2013) (co-defendants agree to be bound by the estoppel provisions applicable to petitioner).

<sup>78</sup> *Neste Oil*, No. 12-662, slip op. at 10-11.

<sup>79</sup> *Black & Decker*, No. 13C3075, slip op. at 2 ("litigation expenses to date have been limited"); *Davol*, No. 12-958, slip op. at 11 ("action has not yet moved beyond the pleading stage, . . . no discovery has taken place, and no trial date has been scheduled"); *NUtech*, No. 1:12 cv 2326, slip op. at 5 (claim construction has not been scheduled); *Software Rights*, No. C-12-3970, slip op. at 6 (discovery is not near completion, only one witness has been deposed, claim construction briefing has not commenced deadlines for dispositive motions still months away); *Autoalert*, No. 12-1661, slip op. at 3 ("no discovery has been sought" "weighs heavily in favor" of a stay).

less compelling.<sup>80</sup> Likewise, staying the district court action is not favored once the court and parties have devoted substantial time and resources to claim construction issues.<sup>81</sup>

Many courts remain receptive to staying a district court infringement action pending resolution of an IPR proceeding. As a result, parties facing allegations of infringement will continue to seek inter partes review of the asserted patent to postpone litigation expense and to take advantage of the burden of proof that must be satisfied before the PTAB to invalidate a challenged patent.

### C. Litigation Estoppel Based Upon Arguments Advanced During an IPR Proceeding

One of the unique features of IPR proceedings is the possibility that the petitioner will be precluded from raising certain invalidity arguments in a district court infringement action. In particular, estoppel in the district court extends to the invalidity arguments that were raised or that “reasonably could be raised” during the IPR proceeding.<sup>82</sup> Further, litigation estoppel based upon arguments made during an IPR proceeding is not limited to only the petitioner, but also extends to the petitioner’s “real party in interest, or privy of petitioner.”<sup>83</sup> Finally, estoppel based upon the arguments advanced during the IPR proceedings will only be triggered upon the PTAB’s issuance of a “final written decision” regarding the patentability of the challenged patent claims.<sup>84</sup>

Courts have not yet addressed many of issues surrounding the scope of litigation estoppel. Among the issues courts will need to resolve is the extent to which invalidity arguments in the district court “reasonably” could have been raised during an IPR proceeding if the “new” arguments are based upon prior art patents or publications that were:

- in the petitioner’s possession, but not discussed or relied upon during the IPR proceeding;
- assigned to the petitioner, but not relied upon during the IPR proceeding;
- cited during the prosecution of the petitioner’s patents, but not relied upon during the IPR proceeding;
- cited during the prosecution of the challenged patent, but not relied upon by the petitioner during the IPR proceeding; or

<sup>80</sup> See, e.g., *Procter & Gamble Co. v. Team Techs., Inc.*, No. 1:12-cv-552, slip op. at 9 (S.D. Ohio Sept. 10, 2013) (“This Court has already expended a significant amount of judicial resources to move this case along to trial [and a] stay would derail the parties’ efforts to prepare this case for trial and waste much of the effort that has already been expended.”); *Everlight Elecs. Co. v. Nichia*, No. 12-cv-11758, slip op. at 18 (E.D. Mich. Apr. 30, 2013) (stay denied because the PTAB’s final decision was due two weeks before dispositive motion cut-off and four months before start of trial).

<sup>81</sup> See, e.g., *National Oilwell Varco, L.P. v. Omron Oilfield & Marine, Inc.*, No. 1:12-cv-00773, slip op. at 2 (W.D. Tex. June 13, 2013) (“a waste of judicial resources to stay the case now, when the matter is so close to issuance of a *Markman* order”); *Universal*, No. 12-00329, slip op. at 6 (stay denied because “the Court spent substantial effort construing claims”).

<sup>82</sup> 35 U.S.C. § 315(e)(2) (2011).

<sup>83</sup> 35 U.S.C. §§ 315(e)(2), 318 (2011).

<sup>84</sup> 35 U.S.C. § 315(e)(2) (2011).

- in the possession of other members of a joint defense agreement who did not participate in the IPR proceeding.

The court will also need to address questions regarding the scope of estoppel applicable to invalidity arguments that were discussed in the IPR petition but were:

- not specifically addressed by the PTAB in its final decision; or
- expressly disallowed by the PTAB as being redundant in light of the grounds upon which the inter partes review was actually instituted and ultimately decided.

The scope of any litigation estoppel will raise additional questions regarding what, if any, actions a party must take before filing an IPR petition to locate relevant prior art patents and publications. This will implicate issues regarding the necessity of a prior art search before the filing of an IPR petition, as well as the quality of any search conducted.

Even if courts decide that a prior art search is not mandatory, will a petitioner be precluded from subsequently advancing invalidity arguments based upon prior art that was uncovered in an unrelated prior art search, but not actually relied upon during the IPR proceeding? Further, will a petitioner be penalized for failing to conduct a prior art search and prevented from relying upon prior art in the district court litigation that could have been easily located if a search had actually been performed?

The nature of invalidity arguments made during the IPR proceeding could also restrict arguments in a district court action. For example, if the only arguments made before the PTAB are based upon anticipation, will the petitioner be precluded from raising obviousness arguments based combinations of the same anticipatory prior art? Similarly, will the petitioner be prevented from relying upon different combinations of prior art in making obviousness arguments before the district court? Also, will the petitioner be precluded from relying upon prior art that is deemed cumulative of the patents and publication that were relied upon during the IPR proceeding?

The ability of parties, other than the petitioner, to take the proverbial second bite of the invalidity apple could significantly impact the usefulness of an IPR proceeding. For example, the court will have to decide whether estoppel extends to parties that

- contributed to any expenses incurred by the petitioner in connection with the filing and prosecution the IPR proceeding;
- supplied input into the arguments advanced during the IPR proceeding;
- simply reviewed and commented upon the arguments advanced and prior art relied upon by the petitioner; or
- supplied the prior art relied upon in the IPR petition.

Further, will licensees be estopped from challenging a patent in the district court because of arguments made during an IPR proceeding by a licensor of the challenged patent? Similarly, will estoppel resulting

from arguments advanced during IPR proceeding filed by a manufacturer limit the ability of downstream purchasers to challenge the patent on the same grounds in subsequent district court litigation?

The issue of estoppel becomes more complex where, in addition to the petitioner, there are multiple accused infringers in serial-filed infringement actions. Accordingly, courts be asked to resolve whether a petitioner is in privity, for estoppel purposes, with:

- parties that have been joined in the parallel district court infringement action; and
- parties that have been named in a separate infringement action that was subsequently consolidated.

These co-defendants will also need to consider the possible estoppel ramifications if they enter into a joint defense agreement. For example, will accused infringers be considered to be in privity with an IPR petitioner simply because they are members of a joint defense agreement? Further, will members of a joint defense be

estopped based upon the unilateral actions of another member?

Courts have not had the opportunity to address the scope of any applicable estoppel since the PTAB's first final IPR decision issued on Nov. 13, 2013. The standard courts use to determine if particular invalidity arguments reasonably could have been raised during an IPR proceeding so that parties, other than the petitioner, are subsequently estopped from advancing future invalidity arguments will have a significant impact on parallel district court patent infringement actions.

#### **IV. Summary**

The AIA has transformed patent practice before the PTO and litigation in the federal district courts. The AIA's impact on patent prosecution and litigation is still evolving. The one certainty is that the AIA has left the courts and litigants to contend with a number of issues that will take district courts, and ultimately the Federal Circuit, some time to resolve.