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## (In)valid Patents

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## (IN)VALID PATENTS

*Paul R. Gugliuzza\**

### ABSTRACT

*Increasingly, accused infringers challenge a patent's validity in two different forums: in litigation in federal court and in post-issuance review at the Patent and Trademark Office (PTO). These parallel proceedings have produced conflicting and controversial results. For example, in one recent case, a district court rejected a challenge to a patent's validity and awarded millions of dollars in damages for infringement. The Federal Circuit initially affirmed those rulings, ending the litigation over the patent's validity. In a subsequent appeal about royalties owed by the infringer, however, the Federal Circuit vacated the entire judgment—including the validity ruling and damages award it had previously affirmed—because the PTO had since decided that the patent was invalid. The Federal Circuit reasoned that only “final” court judgments are immune from the effects of PTO review and, because of the open issue about royalties, no final judgment existed when the PTO rendered its conflicting decision on patent validity.*

*The Federal Circuit's stringent conception of finality, which this Article terms the “absolute finality rule,” raises serious questions of judicial economy, fairness, and separation of powers. Among other things, it allows accused infringers multiple opportunities to defeat liability, permits an administrative agency to effectively nullify decisions of Article III courts, and incentivizes courts to abstain from hearing patent cases altogether, at least until the PTO reconsiders the patent's validity. That said, some inefficiency or unfairness is inevitable when two different government bodies can evaluate the validity of the same patent, and the absolute finality rule, if nothing else, provides a relatively bright-line test. But it is not the only way to mediate disagree-*

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ments between the courts and the PTO. This Article, in addition to identifying, describing, and critiquing the absolute finality rule, explores several other options for providing greater certainty about patent validity.

## INTRODUCTION

In 1935, the physicist Erwin Schrödinger illustrated a paradox in quantum theory with a thought experiment.<sup>1</sup> Imagine, Schrödinger suggested, a closed box containing radioactive material, poison in a glass bottle, and a live cat. If an atom of the radioactive material decays while the cat is in the box, a mechanism breaks the bottle, releasing the poison and killing the cat. In our everyday world, the cat, while in the box, exists in one of two states: it is either alive or dead, depending on whether or not atomic decay has occurred. According to quantum theory, however, one cannot know for certain whether decay has occurred without observing it. Thus, until the box is opened, the cat seems to exist in an indeterminate state, both alive and dead. Yet, in reality, it must be one or the other.

Like Schrödinger's cat, some U.S. patents seem to exist in an indeterminate state because of conflicting decisions about their validity. The PTO may issue a patent only if, in its view, the patent satisfies the requirements of the federal Patent Act.<sup>2</sup> In a subsequent lawsuit involving that patent, however, a court can declare the patent to be invalid, which happens in nearly half of all patent cases litigated to a final judgment on the issue of validity.<sup>3</sup> When a court finds a patent to be invalid, there is no indeterminacy about the patent's legal status. The Supreme Court has held that a court ruling of invalidity precludes the patent holder from ever again enforcing the patent.<sup>4</sup>

Litigation, however, is not the only way the validity of an issued patent can be reviewed. The PTO offers several proceedings through which an accused infringer can ask the agency to reconsider a patent's validity. These post-issuance proceedings have become very popular in the past few years, due largely to the America Invents Act (AIA), which Congress passed in

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1 See Erwin Schrödinger, *Die gegenwärtige Situation in der Quantenmechanik*, 23 *DIE NATURWISSENSCHAFTEN* 807 (1935), translated in John D. Trimmer, *The Present Situation in Quantum Mechanics: A Translation of Schrödinger's "Cat Paradox"*, 124 *PROCEEDINGS AM. PHIL. SOC'Y* 323 (1980).

2 In recent years, many scholars have questioned whether the PTO has adequately enforced those requirements. See, e.g., JAMES BESSEN & MICHAEL J. MEURER, *PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK* 161–63 (2008); Michael D. Frakes & Melissa F. Wasserman, *Does the U.S. Patent and Trademark Office Grant Too Many Bad Patents?: Evidence from a Quasi-Experiment*, 67 *STAN. L. REV.* 613, 615–17 (2015).

3 John R. Allison et al., *Our Divided Patent System*, 82 *U. CHI. L. REV.* 1073, 1100 (2015) (reporting an invalidity rate of 42.6% in cases filed in 2008 and 2009). On the indeterminate nature of patent rights, see generally Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, 19 *J. ECON. PERSP.* 75, 75 (2005) (“[A] patent does not confer upon its owner the right to exclude but rather a right to *try* to exclude by asserting the patent in court.”).

4 *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971).

2011.<sup>5</sup> Consequently, in several recent cases, a court has ruled in the patent holder's favor on the issue of validity, found the patent to be infringed, and awarded damages, but the PTO, in a concurrent proceeding, ruled that the patent was invalid. Like Schrödinger's cat, which seemed to be both alive and dead, these patents appear to be both valid (according to the court) and invalid (according to the PTO).

Resolving the legal status of these patents is critically important. Most patents in post-issuance review at the PTO are also involved in litigation between the same parties.<sup>6</sup> Courts often stay litigation pending PTO review, but a stay is not automatic.<sup>7</sup> And the PTO is not allowed to stay its proceedings—it must move forward with post-issuance review regardless of any pending litigation.<sup>8</sup>

Parallel proceedings and conflicting decisions are therefore increasingly common.<sup>9</sup> Indeed, even the Supreme Court, in a recent case involving one of the new proceedings created by the AIA, “recognize[d] . . . that the possibility of inconsistent results is inherent to Congress' regulatory design.”<sup>10</sup> Before 2013, however, there were precisely zero precedential appellate opinions considering how the PTO's invalidation of a patent affects concurrent infringement litigation. But in the past three years, the U.S. Court of Appeals for the Federal Circuit, which has exclusive jurisdiction over patent appeals,<sup>11</sup> has decided several cases presenting that issue. In two decisions, the Federal Circuit nullified district court awards of infringement damages to patent holders because the PTO invalidated the patent before the court proceedings concluded.<sup>12</sup> In both cases, however, the issues of patent validity

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5 America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

6 Brian J. Love & Shawn Ambwani, *Inter Partes Review: An Early Look at the Numbers*, 81 U. CHI. L. REV. DIALOGUE 93, 103 (2014) (reporting that eighty percent of patents involved in inter partes review, the most popular new proceeding created by the America Invents Act, were also involved in litigation); Saurabh Vishnubhakat et al., *Strategic Decision Making in Dual PTAB and District Court Proceedings*, 31 BERKELEY TECH. L.J. 45, 69 (2016) (reporting that 86.8% of patents involved in inter partes review and covered business method review, another new proceeding, were also involved in litigation).

7 *Success Rates for Motions to Stay Pending Reexamination*, DOCKET NAVIGATOR (2016), <https://www.docketnavigator.com/stats/reexam> (reporting that motions to stay litigation are granted roughly sixty percent of the time).

8 *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1426–27 (Fed. Cir. 1988).

9 See PETER S. MENELL ET AL., *PATENT CASE MANAGEMENT JUDICIAL GUIDE* 2–53 (3d ed. 2016).

10 *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2146 (2016).

11 See Paul R. Gugliuzza, *Rethinking Federal Circuit Jurisdiction*, 100 GEO. L.J. 1437, 1461 & n.130 (2012) (describing the Federal Circuit's exclusive jurisdiction and noting the rare patent disputes falling outside that jurisdiction).

12 *ePlus, Inc. v. Lawson Software, Inc.*, 789 F.3d 1349, 1361 (Fed. Cir. 2015); *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1347 (Fed. Cir. 2013). As discussed in more detail below, the monetary award in *ePlus* was actually a contempt sanction for the infringer's violation of a permanent injunction against infringement, but, in the cases discussed in this Article, the Federal Circuit has treated contempt sanctions and damages for infringement synonymously. See *infra* Section II.B.

and infringement had been fully litigated in court and resolved in the patent holder's favor; at the time the PTO invalidated the patent, the only issues that remained in the court cases related to the patent holders' remedies, such as determining the precise scope of an injunction. The Federal Circuit ruled, in essence, that court proceedings must be *absolutely final* for the court's ruling to survive the PTO's invalidation of the asserted patent.

On first glance, this absolute finality rule seems problematic. As a doctrinal matter, it is inconsistent with the flexible and pragmatic definition of finality found in the law of issue preclusion, which generally considers a decision on liability to be entitled to preclusive effect even if the court has not yet determined the remedy. As a structural matter, the absolute finality rule raises separation of powers concerns because it allows the PTO to override decisions of Article III courts. As a practical matter, it deters settlement and encourages losing parties to prolong litigation while seeking a favorable decision from the PTO. And, by giving an accused infringer two chances to defeat liability, the absolute finality rule is inconsistent with the notion, well-established in the Supreme Court's caselaw on preclusion, that a party should receive one "full and fair opportunity" to litigate its claims.<sup>13</sup>

Yet the absolute finality rule has some redeeming qualities. For example, by giving precedence to the PTO's decision, the rule permits a supposedly expert agency, rather than a court, to make the final decision on patent validity. Moreover, the rule helps protect accused infringers from paying damages for infringing a patent the PTO has determined it never should have issued.<sup>14</sup> The Federal Circuit, however, undermined the potential benefits of the absolute finality rule in another recent decision. In that case, the Federal Circuit affirmed a district court's refusal to vacate a judgment awarding nearly \$400 million in infringement damages even though the PTO had determined—in a ruling the Federal Circuit later affirmed—that the infringed patent was invalid.<sup>15</sup> The Federal Circuit did not offer any reasoning in its opinion, but the rationale seems to be that the courts had resolved all issues of liability and damages—and a final judgment had been entered—before the Federal Circuit reviewed the PTO's invalidity ruling.

To be sure, it is not an easy task for the Federal Circuit to balance the authority of two different government bodies that possess independent power to invalidate the same patent. Yet the Federal Circuit has not even acknowledged the numerous difficult questions raised by inconsistent court and PTO decisions in concurrent proceedings, instead claiming that binding

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13 See, e.g., *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 332–33 (1979).

14 As explained below, separation of powers doctrine likely prohibits a PTO decision from serving as the basis for reopening a *litigation-ending* court judgment awarding damages. See *infra* Section III.A (discussing *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211 (1995)). But, if the PTO proceedings conclude before the district court proceedings, the absolute finality rule will relieve the defendant from paying damages.

15 *Versata Comput. Indus. Sols., Inc. v. SAP AG*, 564 F. App'x 600, 601 (Fed. Cir. 2014) (per curiam); see also *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1336 (Fed. Cir. 2015) (affirming the PTO's decision of invalidity).

precedent mandates the absolute finality rule. The cases on which the Federal Circuit has relied, however, do not squarely address the matter at hand.<sup>16</sup> For example, the Federal Circuit has analogized to cases holding that one court's decision of patent invalidity requires dismissal of a claim for infringement of the same patent that is pending in another court.<sup>17</sup> But those cases involve the doctrine of issue preclusion as between two courts; they do not answer the question of how a *PTO* decision of invalidity affects court proceedings. Although the Supreme Court has recognized that agency decisions can be preclusive in later court proceedings,<sup>18</sup> a key element of issue preclusion is not satisfied in parallel court and *PTO* proceedings on patent validity because the two bodies use different legal standards to resolve the dispute. Most significantly, in court, the accused infringer bears the burden of proving invalidity by clear and convincing evidence,<sup>19</sup> but at the *PTO* the standard of proof is merely a preponderance of the evidence.<sup>20</sup>

This Article critiques the Federal Circuit's absolute finality rule from a doctrinal perspective and engages the normative questions the Federal Circuit has ignored. In so doing, the Article contributes to a nascent literature exploring the interplay between district court litigation and the increasingly popular post-issuance review mechanisms at the *PTO*.<sup>21</sup> Doctrinally, the Federal Circuit should resolve conflicts between the courts and the *PTO* by looking to law of the case principles. Unlike the precedent on which the court has relied, law of the case addresses the precise question of whether an intervening event, such as the *PTO*'s invalidation of a patent, warrants altering a prior court ruling in the same case.<sup>22</sup> Law of the case is a discretionary, common law doctrine that counsels the court to follow its prior decision on a particular issue in all subsequent proceedings in the same case unless, among other things, the decision was clearly erroneous and continued adherence would be a manifest injustice.<sup>23</sup> If the Federal Circuit viewed conflicts between the courts and the *PTO* under this flexible standard, instead of the

16 See *infra* subsection III.B.1.

17 See, e.g., *Fresenius*, 721 F.3d at 1342–43 (citing *Mendenhall v. Barber-Greene Co.*, 26 F.3d 1573, 1576–77 (Fed. Cir. 1994)).

18 See *B&B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293, 1299 (2015).

19 *Microsoft Corp. v. i4i Ltd. P'ship*, 564 U.S. 91, 95 (2011).

20 *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427 (Fed. Cir. 1988); see also 18 CHARLES ALAN WRIGHT ET AL., *FEDERAL PRACTICE AND PROCEDURE* § 4422 (2d ed.), Westlaw (database updated Apr. 2016) (“Issue preclusion . . . may be defeated . . . by changes in the degree of persuasion required.”).

21 See, e.g., Rochelle Cooper Dreyfuss, *Giving the Federal Circuit a Run for Its Money: Challenging Patents in the PTAB*, 91 NOTRE DAME L. REV. 235 (2015); Jacob S. Sherkow, *Administrative Patent Litigation*, 90 WASH. L. REV. 205 (2015); Vishnubhakat et al., *supra* note 6; see also Stuart Minor Benjamin & Arti K. Rai, *Administrative Power in the Era of Patent Stare Decisis*, 65 DUKE L.J. 1563, 1565 (2016) (exploring the *PTO*'s assertions of administrative power under the America Invents Act and considering the *PTO*'s competition with the Federal Circuit and district courts for “preeminence in patent law”).

22 See ROBERT C. CASAD & KEVIN M. CLERMONT, *RES JUDICATA: A HANDBOOK ON ITS THEORY, DOCTRINE, AND PRACTICE* 16–17 (2001); see also *infra* subsection III.B.3.

23 *Ormco Corp. v. Align Tech., Inc.*, 498 F.3d 1307, 1319 (Fed. Cir. 2007).

rigid absolute finality rule, the court would be forced to engage the underlying concerns about judicial economy, fairness, and constitutional structure it has thus far avoided.

An analysis of those concerns cuts both ways. On one hand, it seems unfair and inefficient to give someone a court has held to be a patent infringer a second chance to avoid liability, as is possible under the absolute finality rule. Moreover, the absolute finality rule is in tension with Supreme Court caselaw on separation of powers, which forbids administrative agencies from altering definitive court decisions.<sup>24</sup> On the other hand, it seems wrong to allow a patent holder to collect damages for the infringement of a now-invalidated patent. Indeed, those who think that the PTO does a poor job examining patents<sup>25</sup> likely have no problem with allowing patent challengers two chances to invalidate a single patent.

Even under a flexible, policy-sensitive law of the case analysis, then, there may be no perfect solution to the problem of inconsistent court and PTO rulings on patent validity.<sup>26</sup> And the absolute finality rule, despite its flaws, provides a relatively clear, bright-line test. It also incentivizes district courts to stay litigation pending PTO review to avoid having their work negated by a PTO decision of invalidity.<sup>27</sup> Judicious use of the discretionary power to stay litigation may, in fact, be the most effective way under existing law for courts to avoid conflicts with the PTO. The courts should stay litigation when duplicative proceedings would likely be inefficient, but deny stays when an accused infringer is merely seeking a second chance at avoiding liability.

Of course, that principle is easier to state than it is for district courts to consistently apply. And staying litigation is not the only option for mediating conflicting decisions on patent validity. This Article evaluates several possible legislative reforms, including requiring patent validity challenges to take place exclusively at the PTO and repealing the statutory presumption of patent validity, which is the reason the courts and the PTO apply different standards of proof.<sup>28</sup> Ultimately, the problem of conflicting court and PTO decisions—although serious when it occurs—may be too episodic to justify such dramatic changes to the patent system. The aim of reducing conflicting decisions does, however, lend support to more modest and otherwise sensible legislative reforms, such as requiring district courts to stay litigation pending

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24 See *Chi. & S. Air Lines v. Waterman S.S. Corp.*, 333 U.S. 103, 113–14 (1948); see also *infra* Section III.A.

25 E.g., ADAM B. JAFFE & JOSH LERNER, *INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT* 11–13 (2004).

26 Cf. Stuart Minor Benjamin, *Stepping into the Same River Twice: Rapidly Changing Facts and the Appellate Process*, 78 TEX. L. REV. 269, 369 (1999) (studying the analogous question of what an appellate court should do when “confronted with facts that have changed since the trial court made its findings” and concluding that there is “no ideal approach” for resolving the issue).

27 See Arti K. Rai, *Improving (Software) Patent Quality Through the Administrative Process*, 51 HOUS. L. REV. 503, 536 (2013).

28 See *infra* Section IV.B.

PTO review in all but exceptional circumstances and placing additional limits on the ability of accused infringers to pursue the same arguments both in court and at the PTO.<sup>29</sup>

Before proceeding to the body of the Article, a note on terminology is in order. When a court rejects a challenge to patent validity but the PTO invalidates the same patent, the Article often characterizes the court and PTO decisions as “conflicting.” Yet it is possible that both decisions are actually correct based on the governing law and the factual record. For instance, the record in a given case might be insufficient to show that a patent is invalid by clear and convincing evidence, which means that a validity challenge in court will fail, but the same record might be strong enough to show that the same patent is invalid by a preponderance of the evidence, which will be sufficient to obtain a ruling of invalidity from the PTO.<sup>30</sup> Alternatively, the records before the court and the PTO might be different, with the parties presenting different invalidity arguments, which might also explain why a court rejected a validity challenge but the PTO found the same patent to be invalid.<sup>31</sup> Recognizing that the courts and the PTO are not necessarily deciding the same legal question on the same factual record, the Article uses the term “conflicting” (or synonyms such as “contrary” or “inconsistent”) as shorthand for the more precise statement that a court has conclusively rejected a challenge to patent validity while the PTO, in a contemporaneous post-issuance proceeding, ruled that the same patent is invalid. This Article’s objective is to determine which of those two decisions—which might both be correct—should take precedence.<sup>32</sup>

The remainder of the Article proceeds as follows. Part I provides background on the various proceedings through which the courts and the PTO evaluate patent validity. Part II analyzes, in detail, several recent cases in which the Federal Circuit has struggled to reconcile inconsistent court and PTO rulings on patent validity. Part III, the heart of the Article, critiques the Federal Circuit’s absolute finality rule from a doctrinal perspective and considers alternative approaches for resolving conflicting decisions. Finally, Part

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29 See *infra* Section IV.B.

30 Cf. *In re Swanson*, 540 F.3d 1368, 1376 (Fed. Cir. 2008) (holding that the PTO could find that a particular prior art reference raised the “substantial new question of patentability” required to institute reexamination even though the courts had previously held that the same prior art reference did not anticipate (and therefore did not invalidate) the challenged patent).

31 See, e.g., *Ivera Med. Corp. v. Hospira, Inc.*, 801 F.3d 1336, 1344 (Fed. Cir. 2015) (reversing a district court’s grant of summary judgment of invalidity even though the PTO, in the first stage of a reexamination proceeding, had held the patent to be invalid, noting that the examiner did not consider the declarations that, in the Federal Circuit’s view, raised a factual dispute in the court case regarding the patent’s validity).

32 The differing legal standards and factual records in the two proceedings also explain why, even though the Federal Circuit hears all appeals from both patent litigation in district court and post-issuance review at the PTO, see 28 U.S.C. § 1295(a)(1) (2012); 35 U.S.C. § 141(b)–(c) (2012), the Federal Circuit itself will not necessarily harmonize conflicting decisions when it reviews them on appeal.

IV assesses the future of the absolute finality rule with an eye toward legislative reforms that could better harmonize proceedings in court and at the PTO.

## I. PARALLEL SYSTEMS OF PATENT ADJUDICATION

In the United States, both the federal courts and the PTO may review the validity of an issued patent. In those proceedings, the courts and the PTO are ostensibly deciding the same question: Does the patent satisfy the requirements of the federal Patent Act? Yet on legal issues critical to determining patent validity, the substantive law differs depending on the forum, which complicates the relationship between the two proceedings.

### A. *Litigation and Post-Issuance Review*

Before examining that relationship, it is helpful to first provide some background on the process of patent litigation in court and post-issuance review at the PTO. If a patent holder thinks someone is infringing its patent, the patent holder may file an infringement suit in federal court.<sup>33</sup> In response to an infringement suit, accused infringers commonly raise three defenses. First, the accused infringer will argue that it does not, in fact, infringe the patent.<sup>34</sup> Second, the accused infringer will assert that the patent is unenforceable because, for instance, the patent holder obtained the patent through misrepresentations to the PTO.<sup>35</sup> Finally, and most importantly for the purpose of this Article, the accused infringer will claim that the patent is invalid because it does not satisfy one or more requirements of the

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33 See 35 U.S.C. § 281 (creating the claim for patent infringement); see also 28 U.S.C. § 1338(a) (granting the federal district courts exclusive jurisdiction over cases “arising under” the patent laws); Paul R. Gugliuzza, *Patent Law Federalism*, 2014 Wis. L. Rev. 11, 29–34 (providing an overview of the law of subject matter jurisdiction in patent cases and noting instances in which state courts may decide issues of patent law). If the infringing product is imported into the United States, the patent holder may also seek an exclusion order from the U.S. International Trade Commission (ITC) under section 337 of the Tariff Act. See 19 U.S.C. § 1337 (2012). The ITC has become a more popular venue for patent disputes in recent years as the courts have made it more difficult to obtain injunctive relief, see Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1, 2–3 (2012), but the ITC still hears fewer than one hundred cases per year, *Number of Section 337 Investigations Instituted by Calendar Year*, U.S. INT’L TRADE COMM’N, [http://www.usitc.gov/intellectual\\_property/documents/cy\\_337\\_institutions.pdf](http://www.usitc.gov/intellectual_property/documents/cy_337_institutions.pdf), a mere fraction of the nearly 6000 cases commenced annually in the federal district courts, see DOCKET NAVIGATOR, YEAR IN REVIEW 6 (2015), <http://home.docketnavigator.com/year-review>. For a general description of patent litigation at the ITC, see Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529, 534–38 (2009).

34 See 35 U.S.C. § 282(b)(1) (stating that noninfringement is a defense to a claim of patent infringement).

35 See *id.* (stating that unenforceability is a defense to a claim of patent infringement); see also *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1287 (Fed. Cir. 2011) (en banc) (describing the doctrine of inequitable conduct).

Patent Act.<sup>36</sup> The Patent Act requires, among other things, that a patent claim patentable subject matter;<sup>37</sup> that the claimed invention be useful,<sup>38</sup> novel,<sup>39</sup> and nonobvious;<sup>40</sup> and that the patent adequately describe the invention so others may practice it in the future.<sup>41</sup>

To obtain a court decision on patent validity, a potential infringer need not wait for the patent holder to sue for infringement. The Declaratory Judgment Act allows a potential infringer to file its own lawsuit and seek a declaration that the patent is invalid, unenforceable, or not infringed, provided there is an “actual controversy” between the parties.<sup>42</sup>

If a court decides that a patent is invalid, future defendants accused of infringing that patent may, under the doctrine of issue preclusion, rely on the previous judgment of invalidity as a complete defense.<sup>43</sup> By contrast, if a court rejects a challenge to the patent’s validity in one case, the patent holder may not, in most circumstances, use that finding offensively against another accused infringer in a later case<sup>44</sup> because due process strictly limits the use of preclusion against nonparties to a previous case.<sup>45</sup> Hence the adage: “Courts do not find patents ‘valid,’ only that the patent challenger did not carry the ‘burden of establishing invalidity in the particular case before the court.’”<sup>46</sup>

The PTO can also review the validity of an issued patent. These PTO proceedings are usually instigated by defendants in patent infringement litigation or by those who are worried about becoming defendants in infringe-

36 See 35 U.S.C. § 282(b)(2)–(3) (stating that invalidity is a defense to a claim of patent infringement).

37 Under the statute, patentable subject matter includes processes, machines, manufactures, and compositions of matter. *Id.* § 101.

38 *Id.*

39 *Id.* § 102.

40 *Id.* § 103.

41 *Id.* § 112(a).

42 28 U.S.C. § 2201(a) (2012); see also *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007) (applying the “actual controversy” requirement to a patent dispute).

43 *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971). A court decision of invalidity also binds the ITC in section 337 proceedings, see *supra* note 33, although ITC decisions do not bind the courts in subsequent litigation. See Kumar, *supra* note 33, at 558, 561–63 (citing cases). Accordingly, just as the courts and the PTO can disagree about the validity of a particular patent, the courts and the ITC can also reach conflicting decisions. See Robert W. Hahn & Hal J. Singer, *Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions*, 21 HARV. J.L. & TECH. 457, 491–98 (2008) (citing examples). For an argument that Congress should mandate that ITC decisions receive preclusive effect in court, see Kumar, *supra* note 33, at 533.

44 See *In re Constr. Equip. Co.*, 665 F.3d 1254, 1256 n.3 (Fed. Cir. 2011).

45 See *Taylor v. Sturgell*, 553 U.S. 880, 893 (2008). For a critique of limits on nonparty preclusion, see Robert G. Bone, *Rethinking the “Day in Court” Ideal and Nonparty Preclusion*, 67 N.Y.U. L. REV. 193, 196–97 (1992).

46 *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1429 n.3 (Fed. Cir. 1988) (emphasis omitted) (citation omitted) (first quoting *Envtl. Designs, Ltd. v. Union Oil Co. of Cal.*, 713 F.2d 693, 699 n.9 (Fed. Cir. 1983); then quoting *Panduit Corp. v. Dennison Mfg. Co.*, 810 F.2d 1561, 1569 (Fed. Cir. 1987)).

ment litigation. Like a court ruling that a patent is invalid, a PTO ruling of invalidity nullifies the patent as against the entire world.<sup>47</sup> As described in more detail below, things are more complicated when the PTO ruling *confirms* a patent's validity, but, in general, a PTO ruling of validity does not prevent subsequent challenges to that patent's validity.<sup>48</sup> Conflicting court and PTO decisions—the focus of this Article—can arise from several different PTO proceedings, so an overview of those proceedings, and the differences among them, will prove helpful later on.

Congress created the first post-issuance proceeding to review patent validity, *ex parte* reexamination, in 1980.<sup>49</sup> In *ex parte* reexamination, any person can challenge the validity of an issued patent based on other patents or on printed publications in the prior art.<sup>50</sup> In creating *ex parte* reexamination, the House Judiciary Committee suggested that the proceeding would be an alternative to “expensive and lengthy infringement litigation” and that it would permit a patent owner “to have the validity of his patent tested in the Patent Office where the most expert opinions exist.”<sup>51</sup>

Under the statute, the PTO must institute reexamination if a request raises “a substantial new question of patentability.”<sup>52</sup> This standard is, in practice, relatively lax, as the PTO initiates reexamination about ninety-two percent of the time.<sup>53</sup> (In the past two years, the PTO has received between 300 and 350 petitions for *ex parte* reexamination per year.<sup>54</sup>) In a clear

47 See 35 U.S.C. § 307(a) (2012).

48 See *infra* Section I.B.

49 The PTO has long had the authority to reissue patents to cure errors in the original, see *Grant v. Raymond*, 31 U.S. 218, 244 (1832); see also 35 U.S.C. § 251 (current reissue statute) However, reissue proceedings can be initiated only at the request of the patentee, so they are not particularly useful to potential infringers. See Russell E. Levine et. al., *Ex Parte Patent Practice and the Rights of Third Parties*, 45 AM. U. L. REV. 1987, 2008 (1996).

50 See 35 U.S.C. § 302. The prior art is all the information relevant to a patent's claim of originality. It includes not only the patents and printed publications that can provide the basis for *ex parte* reexamination, but other forms of public knowledge, including prior sales and public uses of the invention. See *id.* §§ 102(a), 103. Because *ex parte* reexamination is based on prior art, the only invalidity grounds that can be raised are anticipation under section 102 of the Patent Act and obviousness under section 103; many other important requirements for patent validity, such as patentable subject matter under section 101 and adequate disclosure under section 112, cannot be challenged.

51 H.R. REP. NO. 96-1307, at 4 (1980), reprinted in 1980 U.S.C.C.A.N. 6460, 6462.

52 35 U.S.C. § 303(a).

53 See U.S. PAT. & TRADEMARK OFF., EX PARTE REEXAMINATION FILING DATA 12 (Sept. 30, 2014) [hereinafter EX PARTE REEXAMINATION FILING DATA], [http://www.uspto.gov/sites/default/files/documents/ex\\_parte\\_historical\\_stats\\_roll\\_up\\_FOY2014.pdf](http://www.uspto.gov/sites/default/files/documents/ex_parte_historical_stats_roll_up_FOY2014.pdf). For criticism of the PTO's lax application of the “substantial new question of patentability” standard, see Mark D. Janis, *Rethinking Reexamination: Toward a Viable Administrative Revocation System for U.S. Patent Law*, 11 HARV. J.L. & TECH. 1, 48–50 (1997).

54 EX PARTE REEXAMINATION FILING DATA, *supra* note 53. This is down from a pre-AIA high of 787 in 2012. *Id.* at 1. The decrease is likely due not only to the availability of the new *inter partes* review proceeding, but also to an increase in filing fees for *ex parte* reexamination from \$2520 before the America Invents Act, Dennis Crouch, *A Rush to File Ex Parte Reexaminations and Now a Lull*, PATENTLYO (Nov. 4, 2012), <http://patentlyo.com/>

majority of initiated proceedings (sixty-six percent), the patent holder amends the challenged claims to preserve their validity.<sup>55</sup> In about a quarter of initiated proceedings (twenty-two percent), the PTO confirms that all of the claims are patentable without amendment.<sup>56</sup> Outright invalidation is rare in *ex parte* reexamination. The PTO cancels all of the challenged claims in only twelve percent of initiated proceedings.<sup>57</sup> Once the PTO decides to institute *ex parte* reexamination, the requester is excluded from the process and reexamination proceeds in the same manner as prosecution of the original application.<sup>58</sup> *Ex parte* reexamination is perceived to be relatively slow, but the process has sped up noticeably in the past few years as the number of *ex parte* reexamination filings has tapered off in the wake of the new proceedings created by the America Invents Act (and discussed below).<sup>59</sup>

To give requesting parties the ability to play a more significant role, Congress has created several post-issuance proceedings in addition to *ex parte* reexamination. In 1999, Congress created *inter partes* reexamination, which has since evolved into the *inter partes* review proceeding created by the AIA.<sup>60</sup> As with *ex parte* reexamination, Congress appeared to view *inter partes* reexamination as an alternative to litigation, with the House Conference Committee report claiming it that would “reduce[ ]” “the volume of lawsuits in district courts.”<sup>61</sup> In *inter partes* reexamination, the requester was allowed to file written submissions each time the patent owner responded to a PTO office action.<sup>62</sup>

Most participants in the patent system initially ignored *inter partes* reexamination, due to the limited nature of the patent challenger’s right to participate, the long duration of the proceedings, and estoppel provisions that required challengers to, essentially, choose to litigate validity either through *inter partes* reexamination or in infringement litigation in court.<sup>63</sup> (By con-

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patent/2012/11/a-rush-to-file-ex-parte-reexaminations-and-now-a-lull.html, to \$12,000 today, Dennis Crouch, *USPTO Fee Change on March 19*, PATENTLYO (Mar. 18, 2013), <http://patentlyo.com/patent/2013/03/uspto-fee-change-on-march-19.html>.

55 See EX PARTE REEXAMINATION FILING DATA, *supra* note 53, at 2.

56 *Id.*

57 *Id.*

58 35 U.S.C. § 305 (2012).

59 See EX PARTE REEXAMINATION FILING DATA, *supra* note 53, at 1 (reporting, as of September 2014, an average pendency of 22.3 months and a median pendency of 15.9 months, as compared to an average pendency of 27.8 months and a median pendency of 20.1 months only a year earlier).

60 Optional *Inter Partes* Reexamination Procedure Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501, *repealed by* America Invents Act, Pub. L. No. 112-29, § 6, 125 Stat. 284, 299–313 (2011); *see also infra* text accompanying notes 79–88.

61 H.R. REP. NO. 106-464, at 133 (1999).

62 35 U.S.C. § 314(b)(2) (2006), *repealed by* America Invents Act § 6.

63 See KIMBERLY A. MOORE, TIMOTHY R. HOLBROOK & JOHN F. MURPHY, *PATENT LITIGATION AND STRATEGY* 1132–33 (4th ed. 2013); Vishnubhakat et al., *supra* note 6, at 57 (reporting that *inter partes* reexamination took, on average, about three years, not including time for appeals from the examiner’s decision); *see also* 35 U.S.C. § 315(c) (providing

trast, *ex parte* reexamination decisions have no estoppel effects on the requester, which allows the requester to raise similar arguments both in its reexamination petition and in litigation.<sup>64</sup> Although initially ignored, *inter partes* reexamination was gaining popularity until 2011,<sup>65</sup> when Congress passed the AIA. The AIA replaced *inter partes* reexamination with *inter partes* review and created two new post-issuance proceedings, post-grant review and a transitional review program for business method patents.<sup>66</sup>

Similar to reexamination, each of the new AIA proceedings begins when a petitioner (usually a defendant in a patent infringement lawsuit) asks the PTO to invalidate one or more patent claims.<sup>67</sup> Rather than being considered by a single examiner, as is the case with a reexamination request, AIA proceedings are conducted by a panel of three administrative patent judges on the Patent Trial and Appeal Board (PTAB), which the AIA also created.<sup>68</sup> The new AIA proceedings are more litigation-like than reexamination. Not only is the patent challenger allowed to make written submissions throughout the process, but, once the PTAB grants a petition for review, the parties are entitled to discovery and an oral hearing.<sup>69</sup> The proceedings are designed to conclude relatively quickly, in most cases within one year of the PTAB's decision to institute.<sup>70</sup>

Although the three new proceedings created by the AIA are similar in many ways, there are distinctions. The first proceeding, post-grant review, is available only for patents with a filing date on or after March 16, 2013.<sup>71</sup> A petition for post-grant review must be filed within nine months after the patent issues.<sup>72</sup> Unlike in *ex parte* reexamination, where invalidity arguments can be based only on prior patents and printed publications, a challenger in post-grant review can raise any invalidity argument it could raise as a defense in an infringement suit.<sup>73</sup> The AIA, however, sets a relatively high bar for initiating post-grant review, providing that the PTAB may institute proceedings only if, based on the materials presented in the petition and in the pat-

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that, if the PTO initiated *inter partes* reexamination and confirmed the patent's validity, the requester was precluded in litigation from raising any ground for invalidity that the requester "raised or could have raised" during reexamination), *repealed by America Invents Act* § 6.

64 *But see infra* text accompanying notes 136–38 (discussing the deference courts sometimes give to *ex parte* reexamination decisions).

65 U.S. PAT. & TRADEMARK OFF., INTER PARTES REEXAMINATION FILING DATA 1 (Sept. 30, 2013) [hereinafter INTER PARTES REEXAMINATION FILING DATA], [http://www.uspto.gov/patents/stats/inter\\_parte\\_historical\\_stats\\_roll\\_up\\_EOY2013.pdf](http://www.uspto.gov/patents/stats/inter_parte_historical_stats_roll_up_EOY2013.pdf).

66 *See* America Invents Act §§ 6, 18.

67 35 U.S.C. §§ 311(a), 321(a) (2012); 37 C.F.R. § 42.300(a) (2015). For a succinct overview of the three new proceedings, see Thomas King & Jeffrey A. Wolfson, *PTAB Rearranging the Face of Patent Litigation*, 6 LANDSLIDE 18, 19 (2013).

68 *See* 35 U.S.C. § 6(b)–(c).

69 *See id.* §§ 316(a), 326(a).

70 *See infra* Section IV.A.

71 America Invents Act § 6(f)(2)(A).

72 35 U.S.C. § 321(c).

73 *Id.* § 321(b).

ent holder's response, the PTAB believes it is "more likely than not" that a challenged claim is unpatentable.<sup>74</sup> The PTO has yet to issue many patents with filing dates on or after March 16, 2013, so few post-grant review petitions have been filed to date.<sup>75</sup>

But even when patents eligible for post-grant review begin to issue in larger numbers, the proceeding's popularity may be stymied by stringent estoppel provisions that bar a petitioner from raising, in later litigation, any argument it raised or could have raised at the PTO.<sup>76</sup> Because a petitioner in post-grant review can challenge validity on practically any ground<sup>77</sup> (unlike *ex parte* reexamination and *inter partes* review, where the patent can be challenged only on the grounds of anticipation and obviousness),<sup>78</sup> the estoppel that flows from post-grant review could be extremely broad.

The second new proceeding, *inter partes* review, is the successor to *inter partes* reexamination and is currently the most popular post-issuance proceeding at the PTO.<sup>79</sup> *Inter partes* review can be sought for any patent for which post-grant review is not available, meaning patents that either have a filing date before March 16, 2013, or have a filing date on or after March 16, 2013, but for which the nine-month window for post-grant review has expired.<sup>80</sup> The prior art in *inter partes* review is, as in *ex parte* reexamination, limited to prior patents and printed publications.<sup>81</sup> Although a petitioner in *inter partes* review is estopped from asserting in later litigation any ground for invalidity it could have raised at the PTO,<sup>82</sup> the only invalidity arguments the petitioner may assert in *inter partes* review are anticipation and obviousness,<sup>83</sup> meaning that estoppel is less of a deterrent than it is in

74 *Id.* § 324(a).

75 See U.S. PAT. & TRADEMARK OFF., PATENT TRIAL AND APPEAL BOARD STATISTICS I (July 31, 2016) [hereinafter PTAB STATISTICS], <http://www.uspto.gov/sites/default/files/documents/2016-07-31%20PTAB.pdf> (reporting that thirty petitions have been filed).

76 35 U.S.C. § 325(e)(2).

77 *Id.* § 321(b).

78 *Id.* §§ 301(a)(1), 302, 311(b).

79 In 2014, the PTO received 1310 petitions for *inter partes* review, 343 requests for *ex parte* reexamination, 177 petitions for covered business method review (another new AIA proceeding discussed below), and two petitions for post-grant review, for a total of 1832. See PTAB STATISTICS, *supra* note 75, at 1; EX PARTE REEXAMINATION FILING DATA, *supra* note 53, at 1. By comparison, in 2011 (the final year before the America Invents Act took effect), the PTO received 759 petitions for *ex parte* reexamination and 374 petitions for *inter partes* reexamination, for a total of 1133. See EX PARTE REEXAMINATION FILING DATA, *supra* note 53, at 1; INTER PARTES REEXAMINATION FILING DATA, *supra* note 65, at 1.

80 35 U.S.C. § 311(c).

81 *Id.* § 311(b).

82 *Id.* § 315(e)(2).

83 See *id.* § 311(b). A finding that a patent is anticipated means that the patent lacks the novelty required by section 102 of the Patent Act. Although aspects of the analysis under section 102 can be complicated, see Mark A. Lemley, *Does "Public Use" Mean the Same Thing It Did Last Year?*, 93 TEX. L. REV. 1119, 1119–20 (2015), a finding of anticipation basically means that the claimed invention is identically disclosed in the prior art. A finding of obviousness, by contrast, is a finding that the invention, although not identically

post-grant review. If the petitioner is a defendant in a patent infringement lawsuit, the petitioner must seek review of the allegedly infringed patent within one year of service of the complaint.<sup>84</sup>

The standard for instituting inter partes review is higher than the “substantial new question of patentability” standard of ex parte reexamination, but lower than the “more likely than not” unpatentable standard of post-grant review. Specifically, the PTAB will institute inter partes review if it determines “there is a reasonable likelihood that the petitioner would prevail” on at least one of the challenged patent claims.<sup>85</sup> Unlike ex parte reexamination, which is instituted over ninety percent of the time, the PTAB has, as of July 31, 2016, granted just over half of all requests to institute inter partes review (1738 of 3410), with another eighteen percent of petitions (599 of 3410) settling before the PTAB decided whether to institute proceedings.<sup>86</sup> Inter partes review is, however, far more likely than ex parte reexamination to conclude with a ruling of invalidity, in part because the right to amend the patent claims is quite limited in AIA proceedings.<sup>87</sup> The PTAB has held all of the instituted claims unpatentable in over seventy percent of proceedings that have reached a final decision (764 of 1086).<sup>88</sup>

The third and final proceeding created by the America Invents Act is covered business method review, which is available for patents that claim “a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service.”<sup>89</sup> According to the House Judiciary Committee report on the AIA, the program was enacted in response to an abundance of “poor business-method patents” issued during the late 1990s and early 2000s that fueled a rise in “patent ‘troll’ lawsuits.”<sup>90</sup>

For eligible business method patents with a filing date before March 16, 2013, a petition for covered business method review can be filed at any time.<sup>91</sup> For patents with filing dates on or after March 16, 2013, a petition for covered business method review can be filed only after the nine-month window for seeking post-grant review expires or after any post-grant review proceeding concludes, whichever is later.<sup>92</sup> A petition for covered business

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disclosed, would have been obvious based on the prior art and as judged from the perspective of a person with ordinary skill in the art. *See* 35 U.S.C. § 103.

84 35 U.S.C. § 315(b).

85 *Id.* § 314(a).

86 PTAB STATISTICS, *supra* note 75, at 8–9.

87 *See, e.g.*, 35 U.S.C. § 316(d)(1) (allowing the patent owner to file only one motion to amend); *see also* U.S. PAT. & TRADEMARK OFF., MOTION TO AMEND STUDY 6 (2016), <http://www.uspto.gov/sites/default/files/documents/2016-04-30%20PTAB%20MTA%20study.pdf> (reporting that the PTAB granted only six motions to amend in the first three-and-a-half years of AIA proceedings).

88 PTAB STATISTICS, *supra* note 75, at 9.

89 America Invents Act, Pub. L. No. 112-29, § 18(d)(1), 125 Stat. 284, 331 (2011).

90 H.R. REP. NO. 112-98, at 54 (2011), *reprinted in* 2011 U.S.C.C.A.N. 67, 84.

91 America Invents Act § 18(a)(2).

92 *Id.*

method review, like a petition for post-grant review, can raise any ground for invalidity,<sup>93</sup> but, unlike in post-grant review or inter partes review, estoppel is limited to the grounds *actually raised* by the petitioner at the PTO.<sup>94</sup> A petitioner seeking covered business method review must, however, either (1) be the defendant in a lawsuit for infringement or (2) have been accused of infringement by the patent holder to the extent that the petitioner would have standing to file a declaratory judgment suit in federal court.<sup>95</sup> As with post-grant review, the PTAB may institute covered business method review if it is more likely than not that a claim is unpatentable.<sup>96</sup> Covered business method review is a temporary program that, as it currently stands, will be available only until September 15, 2020.<sup>97</sup> As of July 31, 2016, the PTAB has granted just over half of all requests to institute covered business method review (206 of 372), with another thirteen percent of petitions (49 of 372) settling before the PTAB decided whether to institute review.<sup>98</sup> An instituted covered business method review is even more likely to end with a ruling of invalidity than inter partes review. The PTAB has held all of the instituted claims unpatentable in over eighty percent of covered business method review proceedings that have reached a final decision (108 of 134).<sup>99</sup>

Parties who seek post-issuance review at the PTO are, as noted, frequently defendants in patent infringement litigation. Those defendants often ask the district court to stay the infringement case pending the outcome of PTO proceedings. The Patent Act offers little guidance to courts in making this decision, so courts have developed a three-factor test to determine whether a stay is warranted, considering: “(1) whether discovery is complete and whether a trial date has been set; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether a stay would unduly prejudice or present a clear tactical disadvantage to the nonmoving party.”<sup>100</sup> The covered business method review statute is an exception to the legislative silence on litigation stays. It adopts a test that repeats the three factors noted above and adds a fourth factor of “whether a stay . . . will reduce the burden of litigation on the parties and on the court,”<sup>101</sup> which

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93 *Id.* § 18(a)(1)(B).

94 *Id.* § 18(a)(1)(D).

95 *Id.* § 18(a)(1)(B); *see* 37 C.F.R. § 42.302(a) (2015). By contrast, *anyone* (besides the patent owner) can file a petition for inter partes review or post-grant review. 35 U.S.C. §§ 311(a), 321(a) (2012).

96 *See* America Invents Act § 18(a)(1).

97 *Id.* § 18(a)(3).

98 PTAB STATISTICS, *supra* note 75, at 8, 10.

99 *Id.* at 10.

100 *E.g.*, Universal Elecs., Inc. v. Universal Remote Control, Inc., 943 F. Supp. 2d 1028, 1030–31 (C.D. Cal. 2013) (quoting Aten Int’l Co. v. Emine Tech. Co., No. 09-0843, 2010 WL 1462110, at \*6 (C.D. Cal. Apr. 12, 2010)).

101 America Invents Act § 18(b)(1)(D).

supporters of the AIA believed to place a “heavy thumb on the scale in favor of a stay.”<sup>102</sup>

By staying litigation, a court can avoid issuing a ruling on patent validity that conflicts with the PTO’s assessment. Across all post-issuance proceedings, district courts grant motions seeking stays of litigation roughly sixty percent of the time.<sup>103</sup> The grant rate for stays pending an instituted inter partes review is higher, with commentators reporting grant rates of roughly eighty percent.<sup>104</sup> In that vein, one Federal Circuit judge, sitting by designation in a district court, suggested that “after the PTAB has instituted review proceedings, the parallel district court litigation ordinarily should be stayed.”<sup>105</sup>

That said, it is not uncommon for a court to deny a stay pending inter partes review if the accused infringer delays in seeking PTO review,<sup>106</sup> if there are patent claims in the case on which the PTO has not instituted review,<sup>107</sup> or if the parties are direct competitors in the market.<sup>108</sup> Moreover, courts are generally perceived to be reluctant to grant stays pending ex parte reexamination because outright invalidation of the patent is rare in that proceeding.<sup>109</sup> Individual courts and judges also vary widely in their proclivity to grant stays. Importantly, the Eastern District of Texas—the federal judicial district that handles the most patent cases, over forty percent of all patent cases filed nationwide<sup>110</sup>—seems reluctant to stay litigation pend-

102 157 CONG. REC. 3416 (2011) (statement of Sen. Schumer). Also, in an exception to the usual rule that only final judgments are appealable, see 28 U.S.C. §§ 1291, 1295(a)(1) (2012), the covered business method review statute permits immediate appeal of a stay decision to the Federal Circuit, America Invents Act § 18(b)(2), provided that the PTAB has decided to institute covered business method review, *Intellectual Ventures II LLC v. JPMorgan Chase & Co.*, 781 F.3d 1372, 1379 (Fed. Cir. 2015).

103 See *supra* note 7.

104 See *Love & Ambwani*, *supra* note 6. The eighty percent figure covers 171 motions to stay filed between September 2012 and March 2014 and includes stay motions that were granted only in part. See *id.* at 96, 104 n.39.

105 *NFC Tech. LLC v. HTC Am., Inc.*, No. 2:13-CV-1058, 2015 WL 1069111, at \*7 (E.D. Tex. Mar. 11, 2015) (Bryson, J., sitting by designation).

106 See, e.g., *Universal Elecs., Inc. v. Universal Remote Control, Inc.*, 943 F. Supp. 2d 1028, 1031 (C.D. Cal. 2013) (denying a stay when the accused infringer “did not file its *inter partes* review petitions until almost a year after being served with the complaint”).

107 See, e.g., *Tire Hanger Corp. v. My Car Guy Concierge Servs. Inc.*, No. 5:14-CV-00549-ODW(MANx), slip op. at 2 (C.D. Cal. June 16, 2015).

108 See, e.g., *Courtesy Prods., LLC v. Hamilton Beach Brands, Inc.*, Civ. No. 13-2012-SLR/SRF, slip op. at 2 (D. Del. Sept. 1, 2015).

109 See Robert Greene Sterne et al., *Reexamination Practice with Concurrent District Court Patent Litigation*, 9 SEDONA CONF. J. 53, 61 (2008). Some data suggests, however, that courts grant motions to stay pending ex parte reexamination and motions to stay pending inter partes review at similar rates. See *Success Rates for Motions to Stay Pending Reexamination*, *supra* note 7.

110 Dennis Crouch, *The Concentrated Market of Patent Jurisdictions*, PATENTLYO (Oct. 8, 2015), <http://patentlyo.com/patent/2015/10/concentrated-patent-jurisdictions.html>. For explorations of the dynamics that have led the Eastern District of Texas, headquartered in the town of Marshall (population 23,523), to become the nation’s leading patent

ing PTO review. Since 2013 (the year that AIA post-issuance proceedings began), the Eastern District has granted only about forty percent of stay motions that were contested (that is, not stipulated). By comparison, the Northern District of California, which is consistently one of the top five districts in number of patent cases filed, has granted nearly seventy percent of contested motions to stay during that same time period.<sup>111</sup>

Because litigation is often stayed pending PTO review, cases in which a court and the PTO issue contrary, contemporaneous rulings on patent validity—the focus of this Article—are exceptional. But, as illustrated by the cases discussed below, conflicting decisions do occur, and, when they occur, the stakes are high. Judgments of tens or hundreds of millions of dollars hang in the balance, as do injunctions against continued infringement that have the potential to reshape competition in a particular industry.

### B. *The Relationship Between the Parallel Systems*

Conflicting decisions between the courts and the PTO occur in part because the two forums apply different law in assessing patent validity. The most significant differences involve the burden of proof on invalidity and the standards used to construe the claims of the patent.

The Patent Act states that issued patents are presumed to be valid.<sup>112</sup> This presumption means that a litigant challenging patent validity in court must prove invalidity by clear and convincing evidence.<sup>113</sup> In post-issuance review at the PTO, by contrast, the presumption of validity does not apply,<sup>114</sup> so the standard of proof is a preponderance of the evidence.<sup>115</sup> Thus, as the Federal Circuit has noted, “the PTO in reexamination proceedings and the court system in patent infringement actions ‘take different approaches in determining validity and on the same evidence could quite correctly come to different conclusions.’”<sup>116</sup>

The courts and the PTO also take different approaches to the critical question of claim construction. Claim construction is the process by which the judge decides what the claims of the patent mean, a ruling that is important to determining both validity and infringement.<sup>117</sup> Under Federal Cir-

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trial court, see J. Jonas Anderson, *Court Competition for Patent Cases*, 163 U. PA. L. REV. 631, 651–54 (2015); Daniel Klerman & Greg Reilly, *Forum Selling*, 89 S. CAL. L. REV. 241, 270–77 (2016).

111 One can verify or update these numbers by using the motion success tool available on DOCKET NAVIGATOR, <http://home.docketnavigator.com>.

112 35 U.S.C. § 282 (2012).

113 *Microsoft Corp. v. i4i Ltd. P’ship*, 564 U.S. 91, 102 (2011).

114 *In re Etter*, 756 F.2d 852, 859 (Fed. Cir. 1985) (en banc).

115 *In re Swanson*, 540 F.3d 1368, 1377 (Fed. Cir. 2008) (quoting *In re Caveney*, 761 F.2d 671, 674 (Fed. Cir. 1985)).

116 *In re Baxter Int’l, Inc.*, 678 F.3d 1357, 1364 (Fed. Cir. 2012) (quoting *Swanson*, 540 F.3d at 1377).

117 See Paul R. Gugliuzza, *The Federal Circuit as a Federal Court*, 54 WM. & MARY L. REV. 1791, 1831–32 (2013).

cuit law, a court construing a term in a patent claim begins by trying to determine “the ordinary and customary meaning” that the term would have to “a person of ordinary skill in the art.”<sup>118</sup> If that meaning is not “immediately apparent,” the court can consider other evidence of the term’s meaning, including: language used elsewhere in the patent’s claims, the detailed description of the invention included in the patent document (called the specification, in patent parlance), the patent’s prosecution history (that is, the record of communication between the patent applicant and the PTO that preceded issuance of the patent), and extrinsic evidence of the term’s meaning, including expert testimony, dictionaries, and treatises.<sup>119</sup> Although various sources can provide evidence of claim meaning, the court’s objective is simple: “to ascertain precisely what it is that is patented.”<sup>120</sup>

The PTO, by contrast, gives patent claims their “broadest reasonable construction” in light of the patent’s specification.<sup>121</sup> As the Federal Circuit has observed: “The broadest reasonable interpretation of a claim term may be the same as or broader than [a court’s] construction of a term . . . . But it cannot be narrower.”<sup>122</sup> A primary justification for the PTO’s broadest reasonable construction standard is that patent claims in proceedings at the PTO can be amended, so a patent applicant or patent owner faced with a broad claim construction that renders the claim anticipated or obvious can revise that claim to avoid the prior art.<sup>123</sup> In regulations implementing the AIA, the PTO adopted the broadest reasonable construction standard for the new proceedings created by the Act, reasoning, among other things, that it would be impractical to apply different claim construction standards in different proceedings.<sup>124</sup>

The broader claim construction at the PTO, like the lower burden of proof, renders patents more vulnerable to invalidation at the PTO than in court.<sup>125</sup> A broader claim is more likely to encompass technology already disclosed in the prior art, making that claim invalid for anticipation or obviousness. Although the opportunity to amend claims in post-issuance proceedings at the PTO mitigates the risk of invalidation, the right to amend is limited in AIA proceedings, and successful motions to amend in inter partes review have been rare.<sup>126</sup>

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118 *Phillips v. AWH Corp.*, 415 F.3d 1303, 1313 (Fed. Cir. 2005) (en banc).

119 *Id.* at 1314.

120 *Id.* at 1312 (quoting *Merrill v. Yeomans*, 94 U.S. 568, 570 (1876)).

121 37 C.F.R. §§ 1.555(b), 42.100(b), 42.200(b), 42.300(b) (2015).

122 *Facebook, Inc. v. Pragmatus AV, LLC*, 582 F. App’x 864, 869 (Fed. Cir. 2014).

123 *See In re Yamamoto*, 740 F.2d 1569, 1572 (Fed. Cir. 1984).

124 Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents, 77 Fed. Reg. 48,680, 48,697–98 (Aug. 14, 2012). The Supreme Court recently upheld the PTO’s use of the broadest reasonable construction standard in AIA proceedings. *Cuozzo Speed Techs. v. Lee*, 136 S. Ct. 2131, 2142 (2016).

125 *See Cuozzo*, 136 S. Ct. at 2145.

126 *See supra* note 87.

The differences in the legal doctrines applied by the courts and the PTO complicate the relationship between the two forums. Recently, in *B&B Hardware, Inc. v. Hargis Industries, Inc.*, the Supreme Court held—in a case involving the trademark side of the PTO, no less—that decisions of administrative agencies can preclude relitigation in court, and vice versa, so long as the ordinary requirements of issue preclusion are satisfied.<sup>127</sup> One of those requirements is that both tribunals are deciding the same issue.<sup>128</sup> In *B&B Hardware*, the Court ruled that the PTO’s finding during trademark registration that a mark was likely to cause confusion with a previously registered mark could preclude the parties from relitigating likelihood of confusion in later trademark infringement litigation.<sup>129</sup> But, cognizant of the “same issue” requirement, the Court added, somewhat ambiguously, that for issue preclusion to apply, the trademark owner must have been using its mark in ways that were “materially the same” as the uses described in its registration application.<sup>130</sup> In parallel patent disputes, however, there is no ambiguity about whether issue preclusion exists. The differing burdens of proof and standards of claim construction applied by the courts and the PTO unequivocally mean that the “same issue” requirement is not met.<sup>131</sup> Thus, an infringer who has unsuccessfully tried to invalidate a patent in court is not precluded from asking the PTO to reassess the validity of the same patent.<sup>132</sup>

Things are more complicated when it is the PTO, rather than a court, that first rejects a challenge to patent validity. In that circumstance, it might seem that an accused infringer who cannot satisfy the lower burden of proof at the PTO should not be permitted to reassert the same invalidity arguments in court, where the burden of proof is higher, even if the issues are not technically “the same” for the purpose of agency-court issue preclusion under *B&B Hardware*. Indeed, the AIA explicitly prohibits an accused infringer who has pursued a PTAB proceeding to a final decision from raising in litiga-

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127 135 S. Ct. 1293, 1299 (2015).

128 See RESTATEMENT (SECOND) OF JUDGMENTS § 27 cmt. c, § 28 cmt. f (AM. LAW INST. 1982). Other requirements are that the issue was actually litigated and necessary to the judgment and that the party opposing preclusion had a full and fair opportunity to litigate the issue. See *infra* note 299.

129 135 S. Ct. at 1299.

130 *Id.* at 1308. This caveat places a potentially significant limit on the availability of court-agency preclusion in trademark proceedings. In trademark infringement suits, the likelihood-of-confusion analysis considers the mark’s use “in the ‘entire marketplace context,’” but marketplace uses “are often not fully disclosed in the . . . registrations considered by the [PTO].” Brendan J. Ketchum, *Keeping Tabs: When Will T.T.A.B. Decisions Have Preclusive Effect? Preclusive Effect of T.T.A.B. Likelihood of Confusion Decisions After B&B v. Hargis Industries*, 15 CHI.-KENT J. INTEL. PROP. 141, 157–58 (2015).

131 For further discussion of why court and PTO decisions on patent validity do not satisfy the ordinary elements of issue preclusion, see *infra* subsection III.B.2.

132 *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1428–29, 1429 n.3 (Fed. Cir. 1988).

tion any argument it raised or, in the case of inter partes review and post-grant review, could have raised before the PTAB.<sup>133</sup>

The ex parte reexamination statute, however, does not address the issue of repetitive arguments for invalidity. Moreover, an accused infringer who merely asks the PTO to institute an ex parte reexamination is not technically a party to the reexamination proceeding, defeating another prerequisite for issue preclusion (in addition to the “same issue” requirement).<sup>134</sup> Accordingly, a PTO decision confirming patentability in ex parte reexamination does not (and, as a matter of constitutional due process, probably could not) preclude the accused infringer from attempting to establish invalidity in subsequent litigation.<sup>135</sup> That said, the Federal Circuit has suggested that confirmation in ex parte reexamination can make an accused infringer’s burden of proving invalidity in litigation “more difficult to sustain.”<sup>136</sup> The Federal Circuit has also stated that a court “must consider” the examiner’s decision in deciding whether the infringer has proved invalidity in subsequent litigation.<sup>137</sup> Thus, although the PTO’s confirmation of a patent’s validity in ex parte reexamination does not preclude a future challenge to that patent’s validity in court, the PTO’s decision does receive some ill-defined form of deference.<sup>138</sup>

Although the AIA, unlike the ex parte reexamination statute, explicitly prohibits certain types of repetitive litigation, it also leaves several important questions unanswered. For instance, the statutory prohibition on reasserting arguments that were rejected by or could have been raised before the PTAB does not arise unless and until the PTAB issues a “final written decision.”<sup>139</sup> A decision instituting or declining to institute review is therefore outside the statute’s scope, and courts have reached divergent results about how those PTAB decisions should affect litigation, if at all. Some district courts have allowed patent holders to inform the jury that the PTAB denied the accused

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133 35 U.S.C. §§ 315(e)(2), 325(e)(2) (2012); America Invents Act, Pub. L. No. 112-29, § 18(a)(1)(D), 125 Stat. 284, 330 (2011). The AIA estoppel provisions also apply in any future proceedings in the International Trade Commission. See *supra* notes 33, 43.

134 See *supra* note 45 and accompanying text.

135 See, e.g., *Edizone, LC v. Cloud Nine, LLC*, 505 F. Supp. 2d 1226, 1230 (D. Utah 2007) (refusing to grant summary judgment of validity in favor of the patent holder even though the PTO had, in reexamination, recently confirmed the validity of the asserted patents).

136 *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1364 (Fed. Cir. 1984), *abrogated on other grounds by Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (en banc).

137 *Interconnect Planning Corp. v. Feil*, 774 F.2d 1132, 1139 (Fed. Cir. 1985) (quoting *Fromson v. Advance Offset Plate, Inc.*, 755 F.2d 1549, 1555 (Fed. Cir. 1985)).

138 See generally Tun-Jen Chiang, *The Advantages of Inter Partes Reexamination*, 90 J. PAT. & TRADEMARK OFF. SOC’Y 579, 586 (2008) (“While *ex parte* reexamination does not create litigation estoppel *de facto*, it comes fairly close to doing so.”); Janis, *supra* note 53, at 82 n.355 (“[T]he presumption of validity, while not technically ‘strengthened’ during reexamination . . . may be harder to overcome as to claims that have been tested by reexamination.”).

139 E.g., 35 U.S.C. § 315(e)(2) (2012).

infringer's petition for review.<sup>140</sup> Other courts, by contrast, have emphasized “the different standards, procedures and presumptions” that apply in court and at the PTAB, and have prohibited litigants from referring to post-issuance proceedings involving the patent-in-suit.<sup>141</sup>

As for claim construction, the Federal Circuit has held that, in an *ex parte* reexamination, the PTO cannot be bound by a district court claim construction because the PTO is not a party to district court litigation.<sup>142</sup> The patent holder, by contrast, is a party to both the litigation and to any post-issuance review proceeding. Accordingly, the Federal Circuit has held—despite the differing claim construction standards that would seem to defeat issue preclusion—that a district court's prior claim construction can bind a patent owner in *ex parte* reexamination.<sup>143</sup> In the new proceedings created by the AIA, however, the PTAB has not applied that principle broadly. Although it is not uncommon for the PTAB to adopt a district court's previous claim construction,<sup>144</sup> particularly when the parties urge it to do so,<sup>145</sup> the PTAB has made clear that, because it applies a different claim construction standard, it construes claims independently.<sup>146</sup>

Similarly, the courts generally acknowledge that they are not bound by the PTO's claim construction because of the PTO's use of the broadest reasonable construction standard.<sup>147</sup> But it is not unusual for courts to acknowledge that PTO claim construction can be “helpful” to the court.<sup>148</sup> Indeed,

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140 See, e.g., *StoneEagle Servs., Inc. v. Pay-Plus Sols., Inc.*, No. 8:13-cv-2240, 2015 WL 3824208, at \*9 (M.D. Fla. June 19, 2015).

141 E.g., *Ultratec, Inc. v. Sorenson Commc'ns, Inc.*, No. 13-cv-346, 2014 WL 5023098, at \*2 (W.D. Wis. Oct. 8, 2014); see also *Wis. Alumni Research Found. v. Apple, Inc.*, 135 F. Supp. 3d 865, 874 (W.D. Wis. 2015) (collecting conflicting decisions).

142 *In re Trans Tex. Holdings Corp.*, 498 F.3d 1290, 1297 (Fed. Cir. 2007).

143 *In re Freeman*, 30 F.3d 1459, 1469 (Fed. Cir. 1994).

144 See, e.g., *Veeam Software Corp. v. Symantec Corp.*, No. IPR2013-00150, 2013 WL 8595506, at \*3 (P.T.A.B. Aug. 7, 2013).

145 See, e.g., *Google Inc. v. SimpleAir, Inc.*, No. IPR2015-00180, 2015 WL 2159342, at \*5–6 (P.T.A.B. May 5, 2015).

146 See, e.g., *SAP Am., Inc. v. Versata Dev. Grp., Inc.*, No. CBM2012-00001, 2013 WL 3167735, at \*13 (P.T.A.B. June 11, 2013). Just because the PTAB construes claims independently, however, does not mean it can simply ignore a court's prior claim construction. See *Power Integrations, Inc. v. Lee*, 797 F.3d 1318, 1326 (Fed. Cir. 2015) (“The fact that the [PTAB] is not generally bound by a previous judicial interpretation of a disputed claim term does not mean . . . that it has no obligation to acknowledge that interpretation or to assess whether it is consistent with the broadest reasonable construction of the term.”).

147 See, e.g., *Va. Innovation Scis., Inc. v. Samsung Elecs. Co.*, 983 F. Supp. 2d 713, 767 (E.D. Va. 2014), *vacated on other grounds*, 614 Fed. App'x 503 (Fed. Cir. 2015); see also *SkyHawke Techs., LLC v. Deca Int'l Corp.*, 828 F.3d 1373, 1376 (Fed. Cir. 2016) (noting that “[b]ecause the [PTAB] applies the broadest reasonable construction of the claims while the district courts apply a different standard . . . the issue of claim construction . . . to be determined by the district court has not been actually litigated” for the purpose of issue preclusion).

148 E.g., *Black Hills Media, LLC v. Pioneer Elecs. (USA) Inc.*, No. 14-00471, 2014 WL 4638170, at \*6 (C.D. Cal. May 8, 2014); see also *SurfCast, Inc. v. Microsoft Corp.*, 6 F. Supp. 3d 136, 142 (D. Me. 2014) (“The PTO's construction is persuasive but not binding on this

it is well-established that the PTO's interpretation of the claims, including during post-issuance proceedings, is important evidence of claim meaning in subsequent litigation.<sup>149</sup>

As this discussion suggests, the relationship between patent litigation in court and post-issuance review at the PTO is complicated, unpredictable, and often defined through ad hoc decisions by federal district judges and the PTAB. This background will help in answering the complex and controversial issue to which the Article now turns: What happens if a court finds a patent to be infringed and rejects a challenge to the patent's validity, but the PTO, at roughly the same time, finds the patent to be invalid?<sup>150</sup>

## II. CONFLICTING DECISIONS IN CONCURRENT PROCEEDINGS

As the popularity of post-issuance review at the PTO has grown, the question of how the PTO's invalidation of a patent affects concurrent infringement litigation has become exceedingly important. Yet, to date, few commentators have tried to answer that question.<sup>151</sup> This Part provides a

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Court.”). *But see, e.g.,* Smartflash, LLC v. Apple, Inc., No. 6:13-cv-447, 2014 WL 3366661, at \*4 (E.D. Tex. July 8, 2014) (“It is . . . unlikely that the claim construction aspect of the [covered business method] review would significantly simplify the issues before the Court because [t]he PTAB and district courts construe claims under different standards.”).

149 *See, e.g.,* Xerox Corp. v. 3Com Corp., 267 F.3d 1361, 1366 (Fed. Cir. 2001); *see also* Alyus Networks, Inc. v. Apple Inc., No. 13-cv-04700, 2016 WL 270387, at \*5 (N.D. Cal. Jan. 21, 2016) (holding the patentee to statements about claim scope made during inter partes review); Timothy R. Holbrook, *The Patent Trial and Appeal Board's Evolving Impact on Claim Construction*, 24 TEX. INTELL. PROP. L.J. (forthcoming 2017) (manuscript at 28), <http://ssrn.com/abstract=2828962> (suggesting that, based on the similarities between PTAB proceedings and district court litigation, PTAB claim constructions could be entitled to preclusive effect in district court litigation and vice versa).

150 To be clear, when the opposite happens—that is, the PTO rejects a challenge to validity but a court invalidates the patent—there is no uncertainty about the patent's legal status. It is invalid against the entire world under *Blonder-Tongue*. *See supra* notes 2–4 and accompanying text. For an interesting and very recent twist on that factual scenario, see *Rembrandt Soc. Media, LP v. Facebook, Inc.*, 640 F. App'x 943 (Fed. Cir. 2016), in which the district court found two patents asserted by Rembrandt to be invalid and not infringed but the PTAB, roughly a year later, found that several claims of those patents were *not* invalid. *Id.* at 947. On appeal from the district court proceeding, the Federal Circuit affirmed the judgment in favor of the accused infringer on the ground of noninfringement, thereby avoiding Rembrandt's argument that the PTAB decision in favor of the patent holder should trump the district court's ruling of invalidity. *Id.* at 949.

151 The few scholarly papers that have explored the issue of conflicting court and PTO decisions on patent validity include an article critiquing the PTO's failure to give deference to the Federal Circuit's resolution of legal (as opposed to factual) questions relevant to patent validity, such as obviousness, Paul M. Janicke, *An Interim Proposal for Fixing Ex Parte Reexamination's Messy Side*, 4 HLR 43, 58–59 (2013), a student note that predates the Federal Circuit's latest decisions on finality, Betsy Johnson, Note, *Plugging the Holes in the Ex Parte Reexamination Statute: Preventing a Second Bite at the Apple for a Patent Infringer*, 55 CATH. U. L. REV. 305 (2005), and a student note focusing on how ex parte reexamination could be better coordinated with litigation, Christopher Iardi, Note, *The Broken System of Parallel Patent Proceedings: How to Create a Unified, One-Judgment System*, 36 CARDOZO L. REV. 2213

descriptive account to fill that gap. To be clear up front: the story is complicated. Cases involving concurrent proceedings in court and at the PTO are inevitably complex, and seemingly minor facts and procedural details can play a crucial role. The story begins with two unpublished Federal Circuit opinions decided nearly fifteen years apart that provided scant reasoning but that likely influenced the Federal Circuit's current approach. And it ends with a deeply divided Federal Circuit, having decided three contentious cases on the issue in three years, denying a petition for rehearing en banc by a tie vote of five to five. In between are several fractured panel decisions of questionable reasoning and numerous dissenting and concurring opinions discussing matters as wide-ranging as preclusion law, the proper interpretation of the Patent Act, separation of powers, and the fundamental fairness of patent proceedings. The question of how to handle conflicting validity decisions between the courts and the PTO has, in short, emerged as one of the most contentious issues in patent law today. A deep dive into the Federal Circuit caselaw governing that issue provides a basis for the normative analysis that follows.

#### A. *Foreshadowing the Absolute Finality Rule*

Until 2013, the Federal Circuit had addressed the question of how the PTO's invalidation of a patent affects ongoing patent infringement proceedings in only two opinions, both of which were unpublished.<sup>152</sup> Although the opinions were not precedential, they foreshadowed the court's current approach, which gives primacy to a PTO decision of invalidity unless court proceedings are absolutely final.

In the first unpublished decision, *Standard Havens Products, Inc. v. Gencor Industries, Inc.*,<sup>153</sup> the U.S. District Court for the Western District of Missouri had ruled that Standard Havens' patent was infringed by Gencor and that

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(2015). Perhaps most on-point is a recent student comment arguing, contrary to the absolute finality rule embraced by the Federal Circuit, that district courts should have discretion to adhere to a prior decision in favor of the patent holder despite an intervening PTO ruling of invalidity. Ben Picozzi, Comment, *Reimagining Finality in Parallel Patent Proceedings*, 125 YALE L.J. 2519, 2520 (2016). The Federal Circuit's latest decisions seem to have finally drawn attention to the issue of parallel court-PTO proceedings, as yet another student note on the topic appeared in print shortly before this Article went to press. See Peggy P. Ni, *Rethinking Finality in the PTAB Age*, 31 BERKELEY TECH. L.J. 557, 586 (2016) (criticizing Federal Circuit law for encouraging "gamesmanship" in parallel proceedings).

152 Several high-profile cases had the potential to involve inconsistent court and PTO rulings on patent validity, but those cases settled before final resolution. See, e.g., *MercExchange, LLC v. eBay, Inc.*, 500 F. Supp. 2d 556, 560 (E.D. Va. 2007) (noting that the PTO had issued non-final reexamination decisions that the patents, which the district court had found to be infringed, were invalid for obviousness), *appeal dismissed as moot*, 273 F. App'x 857 (Fed. Cir. 2008); *E.I. Du Pont De Nemours & Co. v. Phillips Petroleum Co.*, 720 F. Supp. 373, 381 (D. Del. 1989) (similar), *appeal dismissed as moot*, 988 F.2d 129 (Fed. Cir. 1993).

153 996 F.2d 1236 (Fed. Cir. 1993) (per curiam) (unpublished table decision).

Gencor failed to prove that the patent was invalid.<sup>154</sup> The court awarded \$5.9 million in damages and entered an injunction against Gencor's continued infringement.<sup>155</sup> On appeal, the Federal Circuit affirmed the rulings on validity and infringement but remanded for further proceedings related to damages and the injunction.<sup>156</sup> While that Federal Circuit appeal was pending, the PTO, at Gencor's behest, had begun an ex parte reexamination of Standard Havens' patent.<sup>157</sup> The PTO ultimately ruled that the patent was invalid,<sup>158</sup> and Standard Havens appealed that decision by filing a civil suit in the U.S. District Court for the District of Columbia.<sup>159</sup>

While that suit was pending, Gencor filed a motion in the Western District of Missouri to stay further proceedings in the infringement case.<sup>160</sup> The Missouri district court denied the motion, reasoning that, because of the Federal Circuit's affirmance of its prior ruling on validity and infringement, Standard Havens possessed "the equivalent of a final judgment" on those issues.<sup>161</sup> Considering the potential impact of a future ruling by the D.C. district court in the suit challenging the PTO's reexamination decision, the Missouri district court noted that it was aware of "no case or rule of law that holds that a final judgment in a separate lawsuit, in a separate jurisdiction, which may or may not be rendered at some undetermined point in the future would control and, indeed, void this Court's judgment in this case."<sup>162</sup>

The Federal Circuit reversed the Missouri district court's denial of Gencor's stay motion.<sup>163</sup> In a terse, unpublished opinion that provided little reasoning (and cited no pertinent authority), the court wrote:

The district court incorrectly concluded that the reexamination decision can have no effect on this infringement suit even if the reexamination decision becomes final. As a matter of law, . . . if the reexamination decision of unpatentability is upheld in the court action . . . , the injunction would thereby immediately become inoperative. In addition, if a final decision of unpatentability means the patent was void *ab initio*, then damages would also be precluded.<sup>164</sup>

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154 *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 810 F. Supp. 1072, 1073 (W.D. Mo. 1993), *rev'd*, 996 F.2d 1236.

155 *Id.*

156 *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360, 1376 (Fed. Cir. 1991).

157 *Id.* at 1366.

158 *Standard Havens*, 810 F. Supp. at 1073.

159 *Id.* After the America Invents Act, it is no longer possible to challenge the PTO's reexamination decisions through a civil suit; the only route for appeal is to the Federal Circuit. 35 U.S.C. § 141(b) (2012).

160 *Standard Havens*, 810 F. Supp. at 1073.

161 *Id.* at 1074, 1077.

162 *Id.* at 1076.

163 *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 996 F.2d 1236 (Fed. Cir. 1993) (per curiam) (unpublished table decision).

164 *Id.*

Nearly fifteen years later, the Federal Circuit again encountered conflicting court and PTO decisions in concurrent proceedings. In *Translogic Technology, Inc. v. Hitachi, Ltd.*, the Federal Circuit vacated a district court decision awarding damages in light of the PTO's subsequent invalidation of the patent.<sup>165</sup> In that case, a jury had awarded Translogic \$86.5 million in damages for infringement.<sup>166</sup> While post-verdict motions were pending in the district court, the PTO invalidated Translogic's patent in a reexamination proceeding requested by Hitachi, the defendant in the infringement case.<sup>167</sup> The district court eventually entered judgment on the jury verdict, and both Hitachi's appeal in the infringement case and Translogic's appeal from the PTO reexamination ended up in the Federal Circuit at the same time.<sup>168</sup> In one opinion, the Federal Circuit affirmed the PTO decision, holding that the patent was invalid for obviousness.<sup>169</sup> Then, in an unpublished opinion issued the same day, the Federal Circuit vacated the judgment in the infringement litigation and remanded with instructions that the district court dismiss the case.<sup>170</sup> As in *Standard Havens*, the Federal Circuit cited no authority for the principle that the PTO's decision required vacatur of the district court's prior ruling on validity and infringement.<sup>171</sup>

### B. *The Absolute Finality Rule*

Although the Federal Circuit rarely considered how the PTO's invalidation of a patent affects concurrent infringement litigation in the first thirty years of the court's existence, the court has decided three major cases on the issue in the past three years. The first case, *Fresenius USA, Inc. v. Baxter International, Inc.*,<sup>172</sup> confirmed what the Federal Circuit had suggested in its prior unpublished opinions: a PTO decision of invalidity takes precedence over a court ruling on the issue of validity so long as any issue of liability or damages remains pending in the court case. The second case, *Versata Computer Industry Solutions, Inc. v. SAP AG*,<sup>173</sup> illustrates the immediate impact of the Federal Circuit's adoption of the absolute finality rule, with the patent holder engaging in procedural maneuvering to expedite the conclusion of infringement litigation and the infringer plotting to delay the litigation to take advantage of a PTO ruling of invalidity. And in the third decision, *ePlus, Inc. v. Lawson Software, Inc.*,<sup>174</sup> the Federal Circuit extended the absolute finality rule by holding that a PTO decision could not only take precedence

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165 250 F. App'x 988 (Fed. Cir. 2007).

166 *Translogic Tech., Inc. v. Hitachi, Ltd.*, No. 99-407, 2005 WL 6054838, at \*1 (D. Or. May 12, 2005).

167 *See Translogic*, 250 F. App'x at 988.

168 *See id.*

169 *In re Translogic Tech., Inc.*, 504 F.3d 1249, 1251 (Fed. Cir. 2007).

170 *Translogic*, 250 F. App'x at 988.

171 *See id.*

172 721 F.3d 1330 (Fed. Cir. 2013).

173 564 F. App'x 600 (Fed. Cir. 2014).

174 789 F.3d 1349 (Fed. Cir. 2015).

over a court decision awarding damages for infringement, it could also require a court to vacate a finding of contempt that was based on an infringer's violation of an injunction.

## 1. Creation

The Federal Circuit first articulated the absolute finality rule in *Fresenius*. That case involved several patents owned by Baxter relating to hemodialysis machines, which are used in place of kidneys to remove toxins from the blood.<sup>175</sup> In 2003, Fresenius, one of Baxter's competitors, filed suit seeking declaratory judgments of noninfringement and invalidity of three Baxter patents.<sup>176</sup> Baxter counterclaimed for infringement.<sup>177</sup> The jury ruled in Fresenius's favor, holding Baxter's asserted patent claims to be invalid.<sup>178</sup> The district court, however, granted Baxter's motion for judgment as a matter of law, ruling that Fresenius had not presented sufficient evidence to support the verdict of invalidity.<sup>179</sup> At a subsequent trial on damages, the jury awarded Baxter \$14.266 million for infringement of the three asserted patents.<sup>180</sup> The district court also entered a permanent injunction (which it stayed to allow Fresenius to develop a noninfringing machine) and awarded Baxter ongoing post-verdict royalties on Fresenius's sales of infringing machines and related products.<sup>181</sup>

On appeal, the Federal Circuit affirmed the district court's grant of judgment as a matter of law to Baxter on its claim of infringement of one patent, U.S. Patent No. 5,247,434 (the '434 patent), but reversed the judgment in Baxter's favor on the other two patents, holding that the asserted claims were invalid.<sup>182</sup> Accordingly, the Federal Circuit vacated the award of ongoing royalties and remanded for the district court to reconsider the award in light of the Federal Circuit's holdings on validity.<sup>183</sup> In addition, the Federal Circuit affirmed the district court's decision to permanently enjoin Fresenius, but it vacated the injunction and remanded so that the district court could "revise or reconsider the injunction in light of" the holdings on validity.<sup>184</sup>

Fresenius then filed a petition for a writ of certiorari, which the Supreme Court denied.<sup>185</sup> At that point, court proceedings on the validity and infringement of the '434 patent were effectively concluded in Baxter's favor. And Fresenius had not challenged on appeal the amount of the jury's award

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175 *Fresenius*, 721 F.3d at 1332.

176 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 582 F.3d 1288, 1293 (Fed. Cir. 2009).

177 *Id.*

178 *Id.*

179 *Id.*

180 *Id.* at 1294.

181 *Id.*

182 *Id.* at 1304.

183 *Id.* at 1303.

184 *Id.* at 1304.

185 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 559 U.S. 1070 (2010).

for past damages.<sup>186</sup> So, Baxter's entitlement to the \$14.266 million awarded by the jury was, as a practical matter, no longer open to dispute.<sup>187</sup>

While the infringement litigation was pending on remand, the '434 patent expired, mooting Baxter's request for an injunction.<sup>188</sup> The district court eventually entered a final judgment ordering Fresenius to pay Baxter \$14.266 million plus interest in past damages and \$9.3 million in post-verdict royalties, and Fresenius again appealed to the Federal Circuit.<sup>189</sup>

As Baxter and Fresenius were disputing the infringement case in court, Baxter was also defending the '434 patent's validity at the PTO, where Fresenius had requested an ex parte reexamination.<sup>190</sup> While the infringement case was pending on remand, the Board of Patent Appeals and Interferences, the predecessor of the Patent Trial and Appeal Board created by the America Invents Act, issued a final decision invalidating the claims of the '434 patent that the courts had found to be infringed.<sup>191</sup> Baxter then appealed to the Federal Circuit, which affirmed the PTO's decision of invalidity.<sup>192</sup> The Federal Circuit acknowledged that, in the prior appeal in the infringement litigation, it had refused to invalidate the same patent claims the PTO had invalidated.<sup>193</sup> But the Federal Circuit emphasized that the standard of proving invalidity at the PTO is "a preponderance of the evidence," which is "substantially lower" than the clear and convincing standard that applies in district court litigation, and that the PTO's invalidity decision was based on prior art references "that were not squarely at issue" in the litigation.<sup>194</sup>

About a year after affirming the PTO's decision holding Baxter's patent to be invalid, the Federal Circuit ruled on Fresenius's appeal from the remanded district court proceedings.<sup>195</sup> A split panel of the court vacated the entire judgment in Baxter's favor—including the award of past damages that the Federal Circuit had previously affirmed.<sup>196</sup> Judge Dyk, writing for the court, began the opinion with an extensive discussion of the reexamination regime, asserting that, as a general matter, when the PTO invalidates a

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186 *Fresenius*, 582 F.3d at 1294.

187 On remand, Fresenius filed a motion for a new trial on past damages, but the district court denied the motion, noting that "Fresenius did not argue at trial or on appeal that the calculation of past damages depended on the number of patents infringed" and that, although the Federal Circuit vacated the injunction and post-verdict royalty award, the Federal Circuit "did not vacate the damages award." *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, No. 03-1431, 2011 WL 2160609, at \*2 (N.D. Cal. May 26, 2011).

188 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1333 (Fed. Cir. 2013).

189 *Id.* at 1334.

190 *Id.*

191 *See In re Baxter Int'l, Inc.*, 678 F.3d 1357, 1360 (Fed. Cir. 2012).

192 *Id.* at 1361, 1366.

193 *Id.* at 1364–65.

194 *Id.*

195 *Fresenius*, 721 F.3d 1330.

196 *Id.*

patent that is subject to pending litigation, “the patentee’s cause of action is extinguished and the suit fails.”<sup>197</sup>

The court then turned to Baxter’s argument that the courts had already and conclusively decided the issues of validity, infringement, and past damages and that, accordingly, Fresenius was now barred from relitigating those issues.<sup>198</sup> The court noted that “the cancellation of a patent’s claims cannot be used to reopen a final damages judgment,” but concluded that proceedings in the infringement case were not sufficiently final to be immune from the effects of PTO reexamination.<sup>199</sup> “Looking to general res judicata principles governing the preclusive effect of a judgment,” the court wrote, “it is well-established that where the scope of relief remains to be determined, there is no final judgment binding the parties (or the court).”<sup>200</sup> Because the Federal Circuit’s decision in the first appeal of the infringement litigation “left several aspects of the district court’s original judgment unresolved,” including the amount of ongoing royalties and the scope of the injunction, the Federal Circuit reasoned that there was no binding final judgment at the time the PTO invalidated the patent.<sup>201</sup> In a footnote, the court cited its prior unpublished opinion in *Translogic*, in which the Federal Circuit vacated a district court judgment of infringement in light of the patent’s subsequent invalidation in reexamination.<sup>202</sup>

Judge Newman dissented. She lamented that the court’s approach endorsed “tactical gaming and harassment” by potential infringers who can make multiple attempts to invalidate a single patent.<sup>203</sup> She also disagreed with the majority’s stringent view of finality, noting that the modern doctrine of issue preclusion treats finality as a “pliant” and “flexible” concept.<sup>204</sup> She catalogued opinions by numerous other federal courts of appeals acknowledging that decisions can be entitled to preclusive effect even if they do not end the litigation altogether, so long as the parties have had a “full and fair opportunity to litigate” the relevant issue (here, patent validity).<sup>205</sup>

When the Federal Circuit denied rehearing en banc, four of the ten participating judges dissented. Judge O’Malley, joined by Chief Judge Rader and Judge Wallach, wrote a forceful opinion criticizing the panel’s “anti-

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197 *Id.* at 1340.

198 *Id.*

199 *Id.* at 1340–41.

200 *Id.* at 1341.

201 *Id.*

202 *Id.* at 1344 n.10 (citing *Translogic Tech., Inc. v. Hitachi, Ltd.*, 250 F. App’x 988 (Fed. Cir. 2007)).

203 *Id.* at 1351 (Newman, J., dissenting).

204 *Id.* at 1356 (first quoting *Henglein v. Colt Indus. Operating Corp.*, 260 F.3d 201, 210 (3d Cir. 2001); and then quoting *Swentek v. USAIR, Inc.*, 830 F.2d 552, 561 (4th Cir. 1987)).

205 *Id.* at 1355–58 (quoting *Employees Own Fed. Credit Union v. City of Defiance*, 752 F.2d 243, 254 (6th Cir. 1985)).

quoted view of finality.”<sup>206</sup> Since at least the 1960s, she argued, courts have held orders that establish liability to be final for the purpose of issue preclusion even if matters such as damages remain to be determined.<sup>207</sup> Judge O’Malley also noted that the panel decision “goes a long way toward rendering district courts meaningless in the resolution of patent infringement disputes” because courts will inevitably stay proceedings pending reexamination to avoid having their work nullified by a contrary decision of the PTO.<sup>208</sup> Judge Newman dissented separately, expressing concern that the court had created an “unconstrained free-for-all” that enables “pervasive duplication of litigation and reexamination of the same patents.”<sup>209</sup>

## 2. Consequences

The Federal Circuit’s next case involving conflicting validity decisions between a court and the PTO, *Versata v. SAP*,<sup>210</sup> illustrates the procedural free-for-all that worried Judge Newman. In that case, Versata sued SAP for infringing several patents on computer software.<sup>211</sup> After two trials, the district court found one of Versata’s patents to be infringed and rejected SAP’s arguments that the patent was invalid.<sup>212</sup> The court awarded Versata \$260 million in lost profits damages and \$85 million in reasonable royalties, and it also entered a permanent injunction.<sup>213</sup>

In an opinion issued in May 2013, the Federal Circuit affirmed the finding of infringement and the awards of lost profits and reasonable royalties.<sup>214</sup> (SAP did not appeal on the issue of validity.<sup>215</sup>) The court, however, also ruled that a portion of the injunction was overbroad and, as in *Fresenius*, remanded the case for the district court to modify the injunction.<sup>216</sup>

While SAP’s appeal had been pending at the Federal Circuit, SAP also sought review of Versata’s patent in the covered business method review proceeding created by the America Invents Act.<sup>217</sup> In fact, SAP filed its petition on the very first day the proceeding was available, September 16, 2012.<sup>218</sup> In June 2013, the PTAB ruled that Versata’s patent claims were invalid.<sup>219</sup> After

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206 *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 733 F.3d 1369, 1375 (Fed. Cir. 2013) (O’Malley, J., dissenting from denial of rehearing en banc).

207 *See id.* at 1375–76.

208 *Id.* at 1372.

209 *Id.* at 1383 (Newman, J., dissenting from denial of rehearing en banc).

210 *Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255 (Fed Cir. 2013).

211 *Id.* at 1259.

212 *Id.* at 1259–60.

213 *Id.* at 1260.

214 *Id.* at 1269.

215 *See id.* at 1260.

216 *Id.* at 1269.

217 *See SAP Am., Inc. v. Versata Dev. Grp., Inc.*, No. CBM2012-00001, 2013 WL 3167735, at \*1 (P.T.A.B. June 11, 2013).

218 *Id.*

219 *Id.* at \*20.

an unsuccessful petition for rehearing,<sup>220</sup> Versata appealed the PTAB's ruling to the Federal Circuit, and the court docketed the appeal on January 3, 2014.<sup>221</sup>

With conflicting court and PTO rulings on patent validity, the race to finality was on. In the district court, Versata tried to speed up final resolution and protect its damages judgment. On January 21, 2014, the day the Supreme Court denied SAP's petition for a writ of certiorari from the Federal Circuit's May 2013 decision in the infringement case,<sup>222</sup> Versata abandoned its request for an injunction, which was the only issue remanded by the Federal Circuit. Less than two weeks later, SAP responded by filing a motion with the district court seeking either a stay of proceedings in light of the pending Federal Circuit appeal of the PTAB proceeding or, under Rule 60 of the Federal Rules of Civil Procedure, a vacatur of the prior damages judgment based on the PTAB's invalidation of the patent.<sup>223</sup>

The district court denied the motion for a stay, reasoning that, after the Federal Circuit affirmed on liability and damages and Versata abandoned its request for an injunction, the case was complete.<sup>224</sup> The court also denied the motion to vacate the judgment, noting that SAP had "taken advantage of a full and fair opportunity to litigate the validity of the patent before this Court, before the jury, and before the Federal Circuit, even pursuing a writ [of certiorari] to the United States Supreme Court."<sup>225</sup> In language that seems to question the Federal Circuit's holding in *Fresenius*, the court wrote:

To hold that later proceedings before the PTAB can render nugatory that entire process, and the time and effort of all of the judges and jurors who have evaluated the evidence and arguments[,] would do a great disservice to the Seventh Amendment and the entire procedure put in place under Article III of the Constitution.<sup>226</sup>

The court ultimately distinguished *Fresenius*, noting that the covered business method review instigated by SAP was not "final" because the Federal Circuit had not yet decided Versata's appeal.<sup>227</sup> The court also emphasized the finality of the infringement case in court, noting that unlike in *Fresenius*, where the issue of post-verdict royalties was still pending at the time the Fed-

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220 SAP Am., Inc. v. Versata Dev. Grp., Inc., No. CBM2012-00001, 2013 WL 5947675, at \*1 (P.T.A.B. Sept. 13, 2013).

221 *Versata*, 2013 WL 3167735, at \*1, *appeal docketed*, No. 14-1194 (Fed. Cir. Jan. 3, 2014).

222 SAP Am., Inc. v. Versata Software, Inc., 134 S. Ct. 1013 (2014).

223 See *Versata Software, Inc. v. SAP Am., Inc.*, No. 2:07cv153, 2014 WL 1600327, at \*1 (E.D. Tex. Apr. 21, 2014); see also FED. R. CIV. P. 60(b)(5)–(6) (permitting relief from a judgment if "it is based on an earlier judgment that has been reversed or vacated," if "applying it prospectively is no longer equitable," or for "any other reason that justifies relief").

224 See *Versata*, 2014 WL 1600327, at \*1.

225 *Id.* at \*2.

226 *Id.*

227 *Id.*

eral Circuit affirmed the PTO's decision, "the judgment in this case is final and there are no further issues to be resolved."<sup>228</sup>

SAP appealed the district court's order to the Federal Circuit.<sup>229</sup> Versata, again seeking to expedite resolution of the case, filed a motion for summary affirmance, arguing that SAP was simply trying to prolong the infringement litigation.<sup>230</sup> SAP, for its part, argued that its "appeal is powered by the compelling logic that a district court should not enter judgment directing a party to pay \$391 million based on a patent that the Patent Office has finally determined invalid."<sup>231</sup> In a short order that contained no discussion of *Fresenius*, the Federal Circuit granted Versata's motion and affirmed the district court's judgment, allowing the damages award to stand, notwithstanding the contrary decision of the PTO.<sup>232</sup>

The Federal Circuit should not have resolved the *Versata* case without an opinion. The court's decision to uphold the damages award seems, on first glance, to be in tension with *Fresenius*, in which the court *overturned* an award of damages for infringement because of the PTO's subsequent ruling of invalidity.<sup>233</sup> Despite the Federal Circuit's silence, it is possible to reconcile the two cases by considering the finality of both the PTO proceeding and the court case. In *Versata*, the PTO had invalidated Versata's patent, but the PTO proceeding was not entirely concluded because the Federal Circuit had not yet affirmed the PTO's decision.<sup>234</sup> In *Fresenius*, by contrast, the PTO proceeding *was* entirely concluded at the time the Federal Circuit decided the second appeal in the infringement litigation (the Federal Circuit had affirmed the PTO's decision a year earlier<sup>235</sup>), so the PTO's ruling of invalidity provided a sufficiently final basis for overturning the district court's award of infringement damages.<sup>236</sup>

Moreover, the court case in *Fresenius*, it might be said, was "less final" than the court case in *Versata*. In *Fresenius*, the appeal in which the Federal Circuit vacated the judgment of infringement was an appeal from the district court's award of post-verdict royalties. In *Versata*, by contrast, all issues of liability and remedy had been resolved when the Federal Circuit affirmed the district court order denying SAP's motion to vacate the prior damages judgment. As the Federal Circuit recently suggested in a slightly different con-

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228 *Id.*

229 *See* *Versata Comput. Indus. Sols., Inc. v. SAP AG*, 564 F. App'x 600 (Fed. Cir. 2014).

230 Plaintiffs-Appellees' Motion to Dismiss or Summarily Affirm at 1, 3, *Versata*, 564 F. App'x 600 (No. 2014-1430).

231 Defendants-Appellants' Response to Motion to Dismiss or Summarily Affirm at 1, *Versata*, 564 F. App'x 600 (No. 2014-1430).

232 *Versata*, 564 F. App'x 600.

233 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1347 (Fed. Cir. 2013).

234 *See* *Versata Software, Inc. v. SAP Am., Inc.*, No. 2:07cv153, 2014 WL 1600327, at \*1 (E.D. Tex. Apr. 21, 2014).

235 *See supra* notes 190-94 and accompanying text.

236 For further discussion of how "final" PTO proceedings must be to justify vacatur of a court decision, see *infra* Section II.C.

text, a court decision on validity becomes immune from reconsideration due to changed circumstances once all remedial issues have been resolved.<sup>237</sup>

Doctrine aside, however, the result in *Versata* could not have been fully satisfying to either party. *Versata*, although it was able to preserve its damages award, was forced to abandon its request for injunctive relief in order to expedite finality, even though both the district court and the Federal Circuit had ruled that *Versata* was entitled to an injunction. SAP, on the other hand, was saddled with a \$391 million judgment for infringing a patent that PTO now believes—and the Federal Circuit has since affirmed<sup>238</sup>—never should have been issued.<sup>239</sup> *Versata* thus illustrates the procedural maneuvering that the absolute finality rule encourages, the difficult strategic decisions the rule requires, and the seeming arbitrariness that can result when a PTO decision of invalidity comes just a little too late.

### 3. Extension

The Federal Circuit's most recent decision in this line of cases, *ePlus v. Lawson*,<sup>240</sup> extended the absolute finality rule by allowing an infringer to rely on a PTO decision of invalidity to abrogate a court order holding the infringer in contempt. In that case, ePlus sued Lawson for infringement of U.S. Patents No. 6,023,683 (the '683 patent) and 6,505,172 (the '172 patent).<sup>241</sup> The patents claim methods and systems of using electronic databases to search for product information and to order products from third-party vendors.<sup>242</sup> The allegedly infringing software sold by Lawson was modular, meaning that Lawson's customers could choose to buy particular software components depending on their needs.<sup>243</sup> ePlus alleged infringement by five different configurations of Lawson's software, referred to by the

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237 See *Dow Chem. Co. v. Nova Chems. Corp.*, 803 F.3d 620, 625 (Fed. Cir. 2015) (Dyk, J.) (holding that the Federal Circuit's affirmance of a partial final judgment on the issue of validity did not prevent the court, in a later appeal that raised only damages questions, from reconsidering the prior ruling on validity under the Supreme Court's intervening decision in *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014), which lowered the legal standard for proving that a patent is invalid as indefinite); see also *Dow Chem. Co. v. Nova Chems. Corp.*, 809 F.3d 1223, 1228 (Fed. Cir. 2015) (O'Malley, J., dissenting from denial of rehearing en banc) (arguing, similar to her dissent from the denial of rehearing en banc in *Fresenius*, that "[t]he panel could not reopen a validity determination that had been the subject of a final judgment that was affirmed on appeal").

238 See *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1336 (Fed. Cir. 2015) (affirming the PTAB's decision to invalidate *Versata's* patent).

239 After the Federal Circuit affirmed the denial of SAP's motion to vacate the prior damages judgment, the parties settled the infringement dispute. See *Stipulation of Dismissal with Prejudice at 1, Versata Software, Inc. v. SAP Am., Inc.*, No. 2:07-cv-153 (E.D. Tex. Oct. 3, 2014).

240 *ePlus, Inc. v. Lawson Software, Inc.*, 789 F.3d 1349 (Fed. Cir. 2015).

241 *Id.* at 1351.

242 *Id.*

243 *Id.* at 1352.

Federal Circuit as “Configurations 1–5.”<sup>244</sup> The jury found that Configurations 3 and 5 infringed both claim 1 of the ’172 patent and claims 3, 26, 28, and 29 of the ’683 patent and that Configuration 2 infringed claim 1 of the ’172 patent.<sup>245</sup> The jury found that Configurations 1 and 4 did not infringe any of ePlus’s asserted patent claims.<sup>246</sup>

The Federal Circuit reversed in part, ruling that claim 1 of the ’172 patent and claim 3 of the ’683 patent were invalid and that claims 28 and 29 of the ’683 patent were not infringed.<sup>247</sup> The Federal Circuit, however, affirmed the district court’s finding that claim 26 of the ’683 patent was infringed.<sup>248</sup> Because only Configurations 3 and 5 infringed that claim, the Federal Circuit “remand[ed] for the district court to consider what changes are required to the terms of the injunction, consistent with this opinion.”<sup>249</sup>

On remand, the district court deleted from the injunction Configuration 2, which infringed only a patent claim that the Federal Circuit had ruled to be invalid.<sup>250</sup> The court also found Lawson in contempt, ruling that its redesigned software continued to infringe claim 26 of the ’683 patent.<sup>251</sup> The court ordered Lawson to pay a compensatory fine of roughly \$18.2 million and coercive daily fines of roughly \$62,000 until it complied with the injunction.<sup>252</sup> From that contempt order, Lawson again appealed to the Federal Circuit.

Meanwhile, claim 26 had been undergoing *ex parte* reexamination at the PTO in proceedings instituted by SAP, who was a defendant in a previous infringement suit filed by ePlus.<sup>253</sup> The Board of Patent Appeals and Interferences eventually issued a final decision invalidating claim 26,<sup>254</sup> and, while Lawson’s appeal from the contempt order was pending, the Federal Circuit affirmed the Board’s decision.<sup>255</sup>

On Lawson’s appeal from the contempt order, the Federal Circuit panel unanimously vacated the injunction prospectively because the PTO had invalidated the patent claim on which the injunction was based.<sup>256</sup> The court then confronted the sanctions the district court had awarded for Lawson’s

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244 *Id.*

245 *Id.*

246 *Id.*

247 *ePlus, Inc. v. Lawson Software, Inc.*, 700 F.3d 509, 520–22 (Fed. Cir. 2012).

248 *Id.* at 521. Lawson did not argue on appeal that claim 26 was invalid. *See id.* at 517–20.

249 *Id.* at 523.

250 *ePlus*, 789 F.3d at 1353.

251 *ePlus, Inc. v. Lawson Software, Inc.*, 946 F. Supp. 2d 472, 490–92 (E.D. Va. 2013).

252 *ePlus*, 789 F.3d at 1354.

253 *Ex parte ePlus, Inc.*, No. 2010-007804, 2011 WL 1918594, at \*1 (B.P.A.I. May 18, 2011).

254 *See Ex parte ePlus, Inc.*, No. 2010-007804, 2012 WL 1050566, at \*1 (B.P.A.I. Mar. 23, 2012).

255 *In re ePlus, Inc.*, 540 F. App’x 998 (Fed. Cir. 2013).

256 *ePlus*, 789 F.3d at 1354–56 (citing *Pennsylvania v. Wheeling & Belmont Bridge Co.*, 54 U.S. (13 How.) 518, 577–79 (1851)).

past violations of the injunction, that is, for the violations that occurred before the PTO invalidated the patent in reexamination. The majority (Judge Dyk, joined by Chief Judge Prost) relied on *Fresenius* to vacate the sanctions order.<sup>257</sup> In *Fresenius*, the court explained, “We held . . . that even if this court has rejected an invalidity defense to infringement, an ‘intervening decision invalidating the patents unquestionably applies’ as long as ‘the judgment in [the infringement case] is not final.’”<sup>258</sup> As to finality, the court explained that “where the scope of relief remains to be determined, there is no final judgment.”<sup>259</sup> In the court’s view, its remand in the first appeal meant that the propriety of an injunction was still an open question at the time the PTO invalidated claim 26.<sup>260</sup> Thus, over the dissent of Judge O’Malley, the court held that *Fresenius* mandated vacatur of the sanctions award.<sup>261</sup>

The Federal Circuit denied ePlus’s petition for rehearing en banc by a vote of five to five, one vote shy of the majority needed to grant review.<sup>262</sup> Three judges wrote dissenting opinions, including Judge Newman, who again argued that the absolute finality rule conflicts with the law in other circuits that a ruling on liability is entitled to preclusive effect on that issue,<sup>263</sup> and Judge O’Malley who similarly cited the need “to reevaluate our finality jurisprudence.”<sup>264</sup>

Judge Moore wrote a provocative dissent focusing in part on the incentives created by the absolute finality rule, noting that it “encourages defendants to scrap and fight to keep underlying litigation pending in the hope that they will fare better with the PTO and then be able to unravel the district court judgment against them.”<sup>265</sup> She also highlighted broader concerns about parallel review of patent validity, writing:

[T]here are problems with a system which permits defendants to snatch victory from the already closed jaws of defeat. Whether these problems are to be resolved by the Supreme Court through its precedent on finality or through Congress, this sort of gamesmanship ought to be curtailed. I have

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257 *Id.* at 1358.

258 *Id.* (quoting *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330, 1344 (Fed. Cir. 2013)).

259 *Id.* (internal quotation marks omitted) (quoting *Fresenius*, 721 F.3d at 1341).

260 *Id.* at 1361.

261 *Id.* at 1362. In dissent, Judge O’Malley argued that *Fresenius* was distinguishable from the case at hand because, among other things, ePlus, the patent holder, never appealed the Federal Circuit’s ruling on the validity of the infringed patent claim (claim 26). *Id.* at 1367 (O’Malley, J., dissenting). Also, reiterating views expressed in her dissent from the denial of rehearing en banc in *Fresenius*, she argued that the absolute finality rule is “contrary to the well-established law of finality.” *Id.* at 1370.

262 *ePlus, Inc. v. Lawson Software, Inc.*, 790 F.3d 1307, 1308 (Fed. Cir. 2015).

263 *Id.* at 1311 (Newman, J., dissenting from denial of rehearing en banc) (citing *Zdanok v. Glidden Co.*, 327 F.2d 944, 955 (2d Cir. 1964)).

264 *Id.* at 1315 (O’Malley, J., dissenting from denial of rehearing en banc).

265 *Id.* at 1314 (Moore, J., dissenting from denial of rehearing en banc) (footnote omitted).

no problem with the dual track system Congress has created, but for at least a subset of cases, defendants are abusing the process by doing both. This is wasteful of judicial, executive, and party resources, and it is just plain unfair. Congress intended [post-issuance review] to be an alternative to district court litigation of certain validity issues, not duplicative of them.<sup>266</sup>

With the Federal Circuit's denial of rehearing in *ePlus*, and the Supreme Court's denial of certiorari,<sup>267</sup> the absolute finality rule is now indisputably the law. Yet the sharp disagreements among the Federal Circuit's judges suggest that the issue is far from settled. Consequently, this Article's next task is to provide a close analysis of the rationale for and consequences of the absolute finality rule.

### C. How Final Is Final?

The first question in that analysis involves the meaning of the absolute finality rule itself. For a PTO decision to be sufficiently final to provide grounds for vacating a court decision, it seems that all proceedings at the PTO, plus any judicial review of those proceedings, must be concluded. Although the Federal Circuit has not explicitly stated that rule, in *Fresenius* the court wrote that "the [reexamination] statute requires that a final PTO decision *affirmed by this court* be given effect in pending infringement cases that are not yet final."<sup>268</sup> District courts have accordingly interpreted *Fresenius* as requiring judgment in favor of the accused infringer only once the PTO's decision has been affirmed by the Federal Circuit.<sup>269</sup> Moreover, in a recent case between smartphone behemoths Apple and Samsung, the Federal Circuit affirmed a \$548 million judgment in favor of Apple even though the PTAB had already determined—in a decision that had not yet been reviewed by the Federal Circuit—that one of the infringed patents was invalid.<sup>270</sup> As a matter of statutory interpretation, it makes sense that PTO proceedings would be considered final only upon the conclusion of any appeal to the Federal Circuit. The statutes governing post-issuance review require the PTO to issue its certificate canceling patent claims determined to

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266 *Id.* at 1315.

267 *ePlus, Inc. v. Lawson Software, Inc.*, 136 S. Ct. 1166 (2016).

268 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1346 (Fed. Cir. 2013) (emphasis added).

269 *E.g.*, *Athenahealth, Inc. v. Carecloud Corp.*, No. 13-cv-10794-IT, slip op. at 1 (D. Mass. Jan. 21, 2016); *accord* *WesternGeco, LLC v. Ion Geophysical Corp.*, No. 4:09-CV-1827, slip. op. at 24–25 (S.D. Tex. May 4, 2016) (magistrate judge recommending the denial of a motion to vacate a judgment of infringement where the PTAB's decision of invalidity had not yet been reviewed by the Federal Circuit).

270 *Apple Inc. v. Samsung Elecs. Co.*, 786 F.3d 983, 989 (Fed. Cir. 2015), *cert. granted in part*, 136 S. Ct. 1454 (2016); *see also* *Ex parte Apple, Inc.*, Appeal No. 2014-007899, 2015 WL 5676869, at \*1, \*4 (P.T.A.B. Sept. 24, 2015) (denying rehearing and recounting procedural history).

be unpatentable only “when the time for appeal has expired or any appeal proceeding has terminated.”<sup>271</sup>

For a *court* decision to be sufficiently final to *avoid* vacatur due to a PTO decision of invalidity, the Federal Circuit has suggested, as noted above, that the “scope of relief” must be resolved.<sup>272</sup> Although the court has not expressly stated what it means for the scope of relief to be resolved, its decisions provide important clues. In cases involving only damages, finality seems to occur when all proceedings regarding entitlement to and amount of damages, including direct appeals from those proceedings, are concluded.<sup>273</sup> If the scope of relief *has* been resolved, a subsequent PTO ruling of invalidity will not provide the infringer with a basis for avoiding payment of damages pursuant to the judgment. As discussed in more detail below, separation of powers almost certainly prohibits the action of an administrative agency, such as the PTO, from serving as a basis for reopening a litigation-ending judgment awarding damages.<sup>274</sup>

In the injunction context, one might reasonably observe that the “scope of relief” is never definitively resolved because courts always have the power to revise injunctions in light of changed circumstances.<sup>275</sup> Indeed, the Federal Circuit has squarely held that the invalidation of a patent justifies the *prospective* vacatur of any injunction against infringement of that patent.<sup>276</sup>

271 35 U.S.C. § 307(a) (2012) (ex parte reexamination statute); *see also id.* §§ 318(b), 328(b) (provisions governing post-issuance proceedings created by the AIA, using similar language). For the purpose of issuing a cancellation certificate, it appears the PTO does not consider appeal proceedings terminated until there is no possibility of Supreme Court review on certiorari. *See* Letter from Thomas W. Krause, Acting Solicitor, U.S. Pat. & Trademark Off., to Joel G. MacMull, Archer & Greiner P.C. (Mar. 11, 2016), <http://assets.law360news.com/0771000/771166/letter%20re%203-8-16%20submission%20to%20ttab%20in%20tam.docx.pdf>, which explains the PTO’s refusal to conduct further proceedings on a trademark application after the Federal Circuit’s mandated decision in *In re Tam*, 808 F.3d 1321 (Fed. Cir. 2015) (en banc) (holding the Lanham Act’s bar on the registration of disparaging marks to be unconstitutional), *cert. granted sub nom.* Lee v. Tam, 2016 WL 1587871 (U.S. Sept. 29, 2016) (No. 15-1293). The letter states that “[c]onsistent with USPTO practice following a Federal Circuit decision . . . there will be no ‘further proceedings’ . . . until the last of the following occurs: (1) the period to petition for a writ of certiorari . . . expires . . . ; (2) a petition for certiorari is denied; or (3) certiorari is granted and the U.S. Supreme Court issues a decision.” *Id.*; *accord* U.S. PAT. & TRADEMARK OFF., EXAM GUIDE 01-16: EXAMINATION FOR COMPLIANCE WITH SECTION 2(A)’S SCANDALOUSNESS AND DISPARAGEMENT PROVISIONS WHILE CONSTITUTIONALITY REMAINS IN QUESTION I (2016), <http://www.uspto.gov/trademark/guides-and-manuals/trademark-examination-guides>.

272 *ePlus v. Lawson*, 789 F.3d 1349, 1361 (Fed. Cir. 2015) (internal quotation marks omitted) (quoting *Fresenius*, 721 F.3d at 1341).

273 *See supra* subsection II.B.2 (comparing the finality of damages proceedings in *Fresenius* and *Versata*).

274 *See infra* Section III.A (discussing *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211 (1995)).

275 11A WRIGHT ET AL., *supra* note 20, § 2961.

276 *See DeLorme Publ’g Co. v. Int’l Trade Comm’n*, 805 F.3d 1328, 1336 (Fed. Cir. 2015), *petition for cert. filed sub nom.* DBN Holding, Inc. v. Int’l Trade Comm’n, 2016 WL 3752587 (U.S. July 13, 2016) (No. 16-63).

One might invoke the court's ongoing power to alter injunctions to assert, similarly, that an order imposing sanctions for *past* violations of an injunction can also be vacated if the PTO invalidates the underlying patent, even if the terms of the injunction had already been definitively resolved.<sup>277</sup> In a recent case involving proceedings both in court and at the International Trade Commission, however, the Federal Circuit ruled that an order imposing sanctions *cannot* be vacated based on a subsequent ruling of invalidity unless—as was the case in *ePlus*—the injunction that provided the basis for sanctions is still subject to review on a direct appeal.<sup>278</sup>

To summarize: Federal Circuit law creates, essentially, a race to the finish. If a court decision awarding damages for infringement is contained in a final, litigation-ending judgment, that decision will be unaffected by any subsequent PTO decision of invalidity. Similarly, a court decision awarding contempt sanctions for violation of an injunction against infringement will be unaffected by any subsequent PTO decision of invalidity, so long as the injunction has merged into a final, litigation-ending judgment. Conversely, a PTO decision of invalidity that has been affirmed by the Federal Circuit will justify vacatur of any court decision awarding damages or imposing contempt sanctions, so long as the damage award or underlying injunction has not merged into a final, litigation-ending judgment. Although this absolute finality rule provides a relatively clear, bright-line test, the rule also has several potentially harmful consequences, as discussed next.

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277 See *ePlus*, 789 F.3d at 1370–71 (O'Malley, J., dissenting).

278 See *DeLorme*, 805 F.3d at 1336 (refusing to vacate a contempt sanction based on a violation of a consent order in which the accused infringer had agreed to refrain from importing infringing products, even though a court later invalidated the underlying patent, noting that because “[t]he Consent Order was final and no longer subject to review at the time of the violation, . . . we cannot set aside the penalty for that violation” (citing *ePlus*, 789 F.3d at 1358)). Whether proceedings at the Supreme Court on certiorari must also be concluded as a prerequisite to the finality of court proceedings is unclear. Although the PTO seems to view proceedings at the Office as not final until all options for appellate review—including by the Supreme Court on certiorari—are exhausted, see *supra* note 271, some Federal Circuit caselaw suggests that court proceedings become final—and therefore immune from the effects of PTO review—upon the affirmance of the district court's judgment by a Federal Circuit panel, even if the time for seeking rehearing or certiorari has not yet run. In *Cardpool, Inc. v. Plastic Jungle, Inc.*, 817 F.3d 1316 (Fed. Cir. 2016), for instance, the Federal Circuit refused to vacate a court decision of invalidity on the ground that the patent's claims had been amended in reexamination because a Federal Circuit panel had affirmed the decision of invalidity before the PTO issued its reexamination certificate. *Id.* at 1324. The patent holder, however, had filed a petition for rehearing en banc *after* the PTO issued the reexamination certificate, and the time for seeking certiorari had not even begun to run. *Id.* at 1319. Yet the Federal Circuit deemed the panel decision on validity to be “final” and immune from the effects of PTO reexamination. *Id.* at 1324.

### III. RETHINKING THE ABSOLUTE FINALITY RULE

Among other things, the absolute finality rule encourages wasteful procedural maneuvering, allows an adjudged infringer a second chance at proving invalidity, and threatens separation of powers by permitting an administrative agency to effectively nullify court judgments. Consequently, the merits of the absolute finality rule deserve close scrutiny. This Part provides that normative analysis. It begins by discussing the separation of powers concerns raised by the absolute finality rule and critiquing, from a doctrinal perspective, the Federal Circuit decisions embracing that rule. It then evaluates the rule from a policy perspective and considers alternative ways courts could resolve or avoid conflicts with the PTO.

#### A. Separation of Powers

The absolute finality rule does not necessarily violate Supreme Court caselaw on separation of powers, despite arguments to the contrary by at least one Federal Circuit judge.<sup>279</sup> But because the rule allows a PTO decision to alter a decision by an Article III court, separation of powers concerns cannot be ignored and provide a good starting point for a normative analysis.

Separation of powers doctrine prohibits the branches of the federal government from “encroaching on the central prerogatives” of one another.<sup>280</sup> Because, under Article III, the federal courts alone possess “[t]he judicial Power of the United States,”<sup>281</sup> the Supreme Court has held that final judgments of Article III courts cannot be overturned by other branches of government. In *Plaut v. Spendthrift Farm, Inc.*,<sup>282</sup> for instance, the Supreme Court held unconstitutional a federal statute that attempted to reinstate securities fraud claims that a federal district court had previously held to be time barred. The Court reasoned that Article III “gives the Federal Judiciary the power, not merely to rule on cases, but to *decide* them, subject to review only by superior courts in the Article III hierarchy.”<sup>283</sup> In a parallel line of cases dating back to the eighteenth century, the Supreme Court has confirmed that officials in the executive branch (which includes the PTO) may not review on appeal the decisions of Article III courts. In *Hayburn’s Case*, for example, the Court indicated that Congress could not authorize the federal courts to determine whether Revolutionary War veterans were eligible for a

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279 See *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330, 1348–53 (Fed. Cir. 2013) (Newman, J., dissenting); see also Daniel Sutter, Note, *Leaving the Fox in the Henhouse: ePlus v. Lawson Software, Inc. and the Court’s Submission to the Executive Branch*, 25 FED. CIR. B.J. 489, 493 (2016) (arguing that the Federal Circuit’s decision in *ePlus* violated the separation of powers).

280 *Miller v. French*, 530 U.S. 327, 341 (2000) (citing *Loving v. United States*, 517 U.S. 748, 757 (1996)).

281 U.S. CONST. art. III, § 1.

282 514 U.S. 211, 240 (1995).

283 *Id.* at 218–19.

federal pension when, under the pension statute, those determinations were subject to review by the Secretary of War.<sup>284</sup>

In contrast to the prohibition on Congress and the executive branch reviewing or altering the final decisions of Article III courts, the Supreme Court has allowed Congress to prospectively modify the effect of injunctions issued by the federal courts. In *Miller v. French*, for instance, the Court upheld the constitutionality of a provision of the Prison Litigation Reform Act (PLRA) that automatically stayed a previously entered injunction upon the defendant's filing of a motion to terminate that injunction.<sup>285</sup> In distinguishing *Plaut*, which struck down a statute reinstating previously dismissed securities fraud claims,<sup>286</sup> the Court emphasized a distinction between injunctions and judgments in suits seeking money damages.<sup>287</sup> Legislative reopening of a judgment in a suit seeking damages is not permissible, the Court explained, because that judgment is the "last word of the judicial department."<sup>288</sup> Legislative alteration of injunctions, by contrast, is permissible because there has been no "final" court decision—a court always retains authority to modify an injunction.<sup>289</sup>

Although the Federal Circuit's recent decisions in *Fresenius* and *ePlus* could be characterized as allowing the executive branch to impermissibly overturn a court judgment in a lawsuit seeking damages,<sup>290</sup> those Federal Circuit decisions can be distinguished from the Supreme Court's decisions in *Plaut* and *Hayburn's Case*, which disapproved of statutes on separation of powers grounds. In *Plaut*, Congress sought to overturn a final, litigation-ending judgment entered by a district court. By contrast, in Federal Circuit cases such as *Fresenius* and *ePlus*, the district court had not entered a litigation-ending judgment at the time the PTO post-issuance proceedings concluded. Indeed, if the district court *had* entered such a judgment, that judgment, under the Federal Circuit's absolute finality rule, would have taken precedence.<sup>291</sup> The absolute finality rule is also consistent with *Hayburn's Case* and the bar on executive review of judicial decisions. In post-issuance review, the

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284 2 U.S. (2 Dall.) 409, 410 (1792); see also *Chi. & S. Air Lines, Inc. v. Waterman S.S. Corp.*, 333 U.S. 103, 113–14 (1948) ("It has . . . been the firm and unvarying practice of Constitutional Courts to render no judgments not binding and conclusive on the parties and none that are subject to later review or alteration by administrative action.") (citing *Hayburn's Case*, 2 U.S. (2 Dall.) 409).

285 530 U.S. at 333–34, 350.

286 *Plaut*, 514 U.S. at 214–15, 240.

287 *Miller*, 530 U.S. at 347.

288 *Id.* at 344 (quoting *Plaut*, 514 U.S. at 227 (internal quotation marks omitted)).

289 *Id.* at 347; see also *supra* note 277 and accompanying text.

290 See *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1349 (Fed. Cir. 2013) (Newman, J., dissenting) ("[W]hen the issue of validity of the claims has already been resolved in litigation, subsequent redetermination by the PTO is directly violative of the structure of government.").

291 *Cf. id.* at 1346 (majority opinion) ("There is no basis to read *Plaut* to impose restrictions on reopening before there has been a final judgment *ending the case . . .*" (emphasis added)).

PTO is not reviewing a court's decision on patent validity, it is reconsidering its *own* decision to issue the patent.<sup>292</sup>

Yet *Miller*, which upheld the automatic stay provision of the PLRA even though the stay altered the effect of a judgment entered by an Article III court, also does not provide definitive support for the Federal Circuit's absolute finality rule. The Court in *Miller* approved of legislation altering the scope of prospective injunctive relief but, in both *Fresenius* and *ePlus*, the PTO's invalidity decisions had the effect of wiping out court awards of retrospective monetary relief. The distinction between injunctions and damages was critical to the Court's reasoning in *Miller*, in which the Court acknowledged that, as illustrated by *Plaut*, the political branches may not reopen court judgments in lawsuits seeking damages.<sup>293</sup>

In short, all of the patent cases recently confronted by the Federal Circuit can be distinguished from the Supreme Court's leading decisions on separation of powers. Yet the absolute finality rule, which grants precedence to PTO decisions of invalidity despite court rulings rejecting challenges to patent validity, remains in tension with the basic policy that the federal courts should have the last word on cases within their jurisdiction.<sup>294</sup> This underlying tension provides a reason to at least be skeptical of the Federal Circuit's approach, even if it cannot definitively be said that the court's approach is unconstitutional.

### B. Doctrinal Reassessment

Another reason to be skeptical of the Federal Circuit's absolute finality rule is that the rule is based on several authorities that, contrary to the court's contentions, do not clearly indicate how to resolve conflicting decisions between a court and the PTO in concurrent proceedings.

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292 Cf. *Miller*, 530 U.S. at 343 (upholding the automatic stay provision of the PLRA, noting that “[u]nlike the situation in *Hayburn’s Case*, [the PLRA] does not involve the direct review of a judicial decision by officials of the Legislative or Executive Branches”). The fact that the PTO (or the Federal Circuit, when it is reviewing the PTO's decision) is not *directly* reviewing the prior court ruling also probably ensures that the absolute finality rule is consistent with the Seventh Amendment's reexamination clause. See U.S. CONST. amend. VII (“In Suits at common law . . . the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law.”); see also *MCM Portfolio, LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1293 (Fed. Cir. 2015), *cert. denied*, No. 15-1330, 2016 WL1724103 (U.S. Oct. 11, 2016) (holding that inter partes review does not violate the Seventh Amendment right to trial by jury).

293 *Miller*, 530 U.S. at 344.

294 That said, even in cases such as *Fresenius*, where a court decision is vacated because of a PTO ruling, one might say that the courts did, in fact, get the last word—they dismissed the case as moot. See *Fresenius*, 721 F.3d at 1347. But that mootness dismissal was, of course, premised entirely on the PTO's antecedent ruling of invalidity. See *id.*

## 1. The Basis of the Absolute Finality Rule

In holding that a PTO decision of invalidity takes precedence over a court decision rejecting a validity challenge, the Federal Circuit has relied heavily on prior decisions involving inconsistent validity rulings *by two courts*. For instance, the Federal Circuit in *Fresenius* analogized to its prior decision in *Mendenhall v. Barber-Greene Co.*<sup>295</sup> In *Mendenhall*, the Federal Circuit held that a jury verdict of patent invalidity was entitled to issue preclusive effect in another pending court case, even though, in that pending case, the Federal Circuit had already affirmed a judge's validity decision favoring the patent holder, entered after a bench trial.<sup>296</sup> (To justify its own conflicting rulings, the Federal Circuit emphasized the deferential standard of appellate review for findings of fact and the different identities of the fact finders in the two cases.<sup>297</sup>) The Federal Circuit in *Mendenhall*, as in *Fresenius*, reasoned that there was no "final judgment" in the pending case in which the judge had ruled in the patent holder's favor on the issue of validity because, despite the Federal Circuit's affirmance of the judge's decision, there were matters related to damages still to be resolved.<sup>298</sup>

The requirements of issue preclusion were clearly met in *Mendenhall*: the contested issue in both proceedings (patent validity) was identical and the patent holder had a full and fair opportunity to litigate that issue in the case in which the jury found the patent to be invalid.<sup>299</sup> In cases involving concurrent proceedings in the courts and at the PTO, by contrast, a critical element of issue preclusion is missing because the PTO applies a lower standard of proof than the courts on the question of patent validity. The *Restatement (Second) of Judgments*, for instance, flatly states that preclusion is not appropriate when the party seeking to invoke preclusion "has a significantly heavier burden than he had in the [prior] action,"<sup>300</sup> which is precisely the case when an accused infringer seeks to rely in court on an invalidity determination by the PTO under the preponderance of the evidence standard, because in court the accused infringer must prove invalidity by clear and convincing evidence. The Federal Circuit has recognized that failure to carry the clear

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295 See *id.* at 1343–44 (citing *Mendenhall v. Barber-Greene Co.*, 26 F.3d 1573, 1580–81 (Fed. Cir. 1994)).

296 *Mendenhall*, 26 F.3d at 1576.

297 See *Mendenhall v. Cedarapids, Inc.*, 5 F.3d 1557, 1571 (Fed. Cir. 1993).

298 *Mendenhall*, 26 F.3d at 1576.

299 In addition, patent validity was actually litigated and necessary to—indeed, essential to—the judgment in that case. On the elements of issue preclusion, see generally *Levi Strauss & Co. v. Abercrombie & Fitch Trading Co.*, 719 F.3d 1367, 1371 (Fed. Cir. 2013) ("We have stated four preconditions for a second suit to be barred by issue preclusion: (1) identity of the issues in a prior proceeding; (2) the issues were actually litigated; (3) the determination of the issues was necessary to the resulting judgment; and (4) the party defending against preclusion had a full and fair opportunity to litigate the issues.").

300 RESTATEMENT (SECOND) OF JUDGMENTS § 28(4) (AM. LAW INST. 1982); accord *WRIGHT ET AL.*, *supra* note 20, § 4422 ("[A] party who has carried the burden of establishing an issue by a preponderance of the evidence is not entitled to assert preclusion in a later action that requires proof of the same issue by a higher standard.").

and convincing standard in court does not preclude a later challenge to validity at the PTO due to the *lower* burden of proof at the PTO.<sup>301</sup> But in cases such as *Fresenius*, the court has not recognized the corollary to that principle: a PTO ruling finding *invalidity* by a preponderance of the evidence does not—as a matter of preclusion law—bind the patent holder in a later court proceeding requiring clear and convincing evidence.

Even if the requirements of issue preclusion are not satisfied, however, no one disputes that, as a general matter, the PTO's decision to invalidate a patent prohibits the patent holder from pursuing claims of infringement in the future.<sup>302</sup> But that prohibition does not arise from the common law doctrines of preclusion at issue in *Mendenhall*. As noted above, under the statutes authorizing post-issuance review, the PTO, once it concludes that a claim is unpatentable and proceedings have concluded, issues a cancellation certificate that has the legal effect of rescinding the relevant patent rights.<sup>303</sup> It is that act of cancellation—not issue preclusion doctrine—that bars the claim of infringement. Thus, *Mendenhall*, which approves of issue preclusion in parallel court proceedings, does not resolve the key question in a case such as *Fresenius*: Does the PTO's issuance of a cancellation certificate mean that courts must vacate a definitive decision on validity?

The Federal Circuit in *Fresenius*, although it drew on *Mendenhall* and the common law of preclusion as the basis for the absolute finality rule, acknowledged the importance of the PTO's act of cancellation, noting that it “extinguishes the underlying basis for suits based on the patent” and that, therefore, any pending suit must be dismissed.<sup>304</sup> To support the notion that pending suits must be dismissed, the Federal Circuit cited the Supreme Court's 1861 decision in *Moffitt v. Garr*, which held that the plaintiff's surrender of a patent to the PTO required dismissal of a pending suit for infringement.<sup>305</sup> The Court in *Moffitt* noted that patent infringement suits “depend upon the patent existing at the time they were commenced, and unless it exists, and is in force at the time of trial and judgment, the suits fail.”<sup>306</sup> This statement suggesting that the patent must be in force *at the time of the court's judgment* is the best support for the absolute finality rule that can be found in Supreme Court caselaw. Yet the statement is clearly dicta, for the lower court in *Moffitt* never entered judgment on the merits of the infringement claim.<sup>307</sup> Rather, the patent holder surrendered his patent less than two months after commencing suit.<sup>308</sup> In short, *Moffitt* also does not definitively

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301 *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427–29 (Fed. Cir. 1988).

302 *See, e.g., Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1340 (Fed. Cir. 2013) (“Baxter wisely agrees that in general, when a claim is cancelled, the patentee loses any cause of action based on that claim . . .”).

303 *See supra* note 271 and accompanying text.

304 *Fresenius*, 721 F.3d at 1338, 1344.

305 66 U.S. 273, 282–83 (1861).

306 *Id.* at 283.

307 *See id.* at 273–74.

308 *Id.*

answer the question of whether the PTO's invalidation of a patent mandates dismissal when a court *has already resolved* the issue of validity.

In answering that question, the Federal Circuit has also analogized to the Supreme Court's 1922 decision in *Simmons Co. v. Grier Bros.*<sup>309</sup> but that analogy is likewise unavailing because of numerous changes in patent law, appellate procedure, and preclusion law over the past one hundred years. In *Simmons*, the Third Circuit, in an appeal from an infringement case in the Western District of Pennsylvania, held a patent owned by Simmons to be invalid.<sup>310</sup> But the Supreme Court, in an appeal from a subsequent infringement case filed by Simmons in the Southern District of New York, rejected the defendant's challenge to patent validity and held the patent to be infringed.<sup>311</sup> After that Supreme Court decision, Simmons sought to reopen infringement proceedings in Pennsylvania.<sup>312</sup> The Third Circuit held that Simmons could not reopen the proceedings, but the Supreme Court reversed.<sup>313</sup> The Court emphasized that the Third Circuit's original holding of invalidity "did not bring the suit to a conclusion" because a special master had yet to calculate damages on an unfair competition claim that Simmons had joined with its patent infringement claim, noting that "there can be but one final decree in a suit in equity."<sup>314</sup>

It is a stretch to claim, as the Federal Circuit has, that *Simmons* is controlling in modern cases involving inconsistent validity decisions by a court and the PTO.<sup>315</sup> To begin with, claims seeking damages for patent infringement no longer proceed in equity, and today it is not unusual to have more than one "final" judgment in a case. Federal Rule of Civil Procedure 54(b) allows a court to enter judgment on fewer than all of the claims in a case if there is no just reason for delay.<sup>316</sup> In patent cases specifically, 28 U.S.C. § 1292(c)(2) grants the Federal Circuit appellate jurisdiction over patent infringement judgments that are "final except for an accounting,"<sup>317</sup> meaning that, in those cases, there will essentially be two final judgments, one

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309 See *Fresenius*, 721 F.3d at 1342 (citing *Simmons Co. v. Grier Bros.*, 258 U.S. 82 (1922)).

310 *Simmons*, 258 U.S. at 83–84.

311 *Id.* at 84–85.

312 *Id.* at 85.

313 *Id.* at 88, 92.

314 *Id.* at 89.

315 See *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 733 F.3d 1369, 1372 (Fed. Cir. 2013) (Dyk, J., concurring in denial of rehearing en banc) ("If we were to hold that our judgment in *Fresenius* . . . is immune to a subsequent adjudication of invalidity, we would contravene controlling Supreme Court authority in *Simmons* . . .").

316 FED. R. CIV. P. 54(b) ("When an action presents more than one claim for relief . . . or when multiple parties are involved, the court may direct entry of a final judgment as to one or more, but fewer than all, claims or parties only if the court expressly determines that there is no just reason for delay.").

317 28 U.S.C. § 1292(c)(2) (2012).

determining liability for infringement and another setting the amount of damages.<sup>318</sup>

Moreover, when the Supreme Court decided *Simmons*, decisions that did not fully resolve a case, such as the Third Circuit's ruling of invalidity, were usually not entitled to preclusive effect until the case concluded.<sup>319</sup> The Court in *Simmons* did not base its holding on preclusion doctrine, but, given the stringent finality requirement that prevailed at the time, it is not surprising that the Court viewed the Third Circuit's interlocutory ruling of invalidity to be insufficiently conclusive to avoid the effect of the Court's subsequent ruling in favor of the patent holder. Today, by contrast, the Third Circuit's decision that the patent was invalid would likely be considered final for preclusion purposes because it definitively resolved that issue as between the parties to the case, even if other issues remained to be decided.<sup>320</sup> Indeed, *Simmons*'s second suit for infringement, after the Third Circuit's finding of invalidity, would almost certainly be precluded today under *Blonder-Tongue*, which held that a court decision of invalidity precludes all future claims for infringement.<sup>321</sup>

In short, it is not at all clear that *Simmons* would be decided the same way today, so the Federal Circuit's suggestion that the case is "controlling . . . authority" is questionable.<sup>322</sup> But we may never know how *Simmons* would be decided today because the creation of the Federal Circuit makes it unlikely that the case's fact pattern—conflicting decisions by two federal courts of appeal on the validity of the same patent—will ever recur.

## 2. Issue Preclusion Finality

To summarize the argument thus far: none of the authorities on which the Federal Circuit has relied provide lock-tight support for its holding that, so long as any issue remains to be determined in a court case, a PTO decision of invalidity takes precedence over a court decision rejecting a validity challenge. In several dissenting opinions, Judges Newman and O'Malley have identified a doctrine they believe conclusively shows that the absolute finality rule is wrong. Specifically, they have argued that caselaw discussing the finality requirement of issue preclusion doctrine answers the question of when a court decision is immune from the effects of a PTO decision of invalidity.<sup>323</sup> Although the Federal Circuit's absolute finality rule is certainly in tension with the flexible notions of finality that prevail under modern preclusion

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318 See, e.g., *Robert Bosch, LLC v. Pylon Mfg. Corp.*, 719 F.3d 1305, 1308 (Fed. Cir. 2013) (en banc).

319 See 18A WRIGHT ET AL., *supra* note 20, § 4432.

320 See *infra* subsection III.B.2.

321 *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313 (1971).

322 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 733 F.3d 1369, 1372 (Fed. Cir. 2013) (Dyk, J., concurring in denial of rehearing en banc).

323 See, e.g., *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1355 (Fed. Cir. 2013) (Newman, J., dissenting); *Fresenius*, 733 F.3d at 1375–76 (O'Malley, J., dissenting from denial of rehearing en banc).

doctrine, issue preclusion principles also do not definitively indicate how to mediate conflicting decisions between a court and the PTO on the validity of a single patent.

To be sure, Judges Newman and O'Malley are correct about the content of modern preclusion doctrine. Traditionally, finality for issue preclusion purposes was similar to the finality required for a judgment to be appealable.<sup>324</sup> The order had to end the litigation on the merits and leave nothing for the court to do but execute the judgment.<sup>325</sup> Thus, in *Fresenius*, the majority was able to claim that “[a]n order that establishes liability but leaves open the question of damages or other remedies . . . [is] not final for purposes of preclusion under *traditional* analysis.”<sup>326</sup>

Today, however, finality is typically applied “less strictly for preclusion purposes than for purposes of appeal.”<sup>327</sup> The leading case drawing this distinction is Judge Friendly’s opinion for the Second Circuit in *Lummas Co. v. Commonwealth Oil Refining Co.*, which noted:

Whether a judgment, not “final” in the sense of [being appealable], ought nevertheless be considered “final” in the sense of precluding further litigation of the same issue, turns upon such factors as the nature of the decision (i.e., that it was not avowedly tentative), the adequacy of the hearing, and the opportunity for review. “Finality” in the context here relevant may mean little more than that the litigation of a particular issue has reached such a stage that a court sees no really good reason for permitting it to be litigated again.<sup>328</sup>

Accordingly, an order that definitively establishes liability but leaves unresolved remedial questions, such as the amount of damages or the precise terms of an injunction, is usually entitled to preclusive effect on the issue of liability, even though the case is still ongoing.<sup>329</sup>

Under this modern, flexible conception of finality, the district court rulings on validity and infringement that the Federal Circuit overturned in *Fresenius* and *ePlus* were, as Judges Newman and O'Malley argued, final for preclusion purposes before the PTO proceedings concluded. In *Fresenius*, the court proceedings on validity and infringement effectively concluded when the Federal Circuit affirmed the district court’s ruling in favor of Baxter (the patent holder) on those issues and the Supreme Court denied certiorari from that ruling. Although the Federal Circuit remanded for further proceedings related to ongoing royalties and the injunction, for issue preclu-

324 18A WRIGHT ET AL., *supra* note 20, § 4432.

325 *Id.*

326 *Fresenius*, 721 F.3d at 1341–42 (second and third alterations in original) (some emphasis omitted) (quoting 18A WRIGHT ET AL., *supra* note 20, § 4432 (internal quotation marks omitted)).

327 *Fresenius*, 733 F.3d at 1380 (O'Malley, J., dissenting from denial of rehearing en banc) (emphasis omitted).

328 297 F.2d 80, 89 (2d Cir. 1961); accord RESTATEMENT (SECOND) OF JUDGMENTS § 13 (AM. LAW INST. 1982).

329 See, e.g., *Zdanok v. Glidden Co.*, 327 F.2d 944, 955 (2d Cir. 1964) (Friendly, J.); see generally 18A WRIGHT ET AL., *supra* note 20, at § 4434 (citing cases).

sion purposes, the court rulings on validity and infringement were final more than two years before the Federal Circuit affirmed the PTO decision invalidating Baxter's patent claims.<sup>330</sup> Likewise, in *ePlus*, validity and infringement were resolved in the first appeal, which concluded ten months before the Federal Circuit affirmed the PTO's invalidity decision.<sup>331</sup>

Issue preclusion, however, is not the relevant doctrine in cases involving conflicting decisions between the courts and the PTO. As noted, the courts and the PTO apply different burdens of proof on the issue of validity, which defeats a key requirement for issue preclusion.<sup>332</sup> Moreover, the finality requirement for issue preclusion ensures that *the decision to be given preclusive effect* is sufficiently conclusive to forestall relitigation. In cases such as *Fresenius* and *ePlus*, however, the Federal Circuit's finality analysis has focused on the court's decision in infringement litigation, which does not forestall proceedings in the PTO. Indeed, it is relatively uncontroversial that the PTO can continue post-issuance review even after a court rejects a validity challenge.<sup>333</sup> (This is because, as noted above, a court decision rejecting a validity challenge is binding only on the parties to the case, whereas a decision of invalidity—whether by the court or the PTO—is binding against the entire world.<sup>334</sup>) If any decision could be characterized as being given “preclusive” effect in cases such as *Fresenius* and *ePlus*, it is the PTO's decision to invalidate the patent, which forestalls continued litigation of the infringement claims in court. But because the court decision is not being assessed for its preclusive effect, the fact that it is final for issue preclusion purposes does not establish that it should take precedence over a PTO decision, contrary to what Judges Newman and O'Malley have argued.

That said, the fact that a court decision is final for the purpose of preclusion among the courts illustrates how the absolute finality rule threatens sep-

330 See *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 559 U.S. 1070 (2010); *In re Baxter Int'l, Inc.*, 678 F.3d 1357, 1364 (Fed. Cir. 2012). It should be noted that the issues of validity and infringement could, in theory, have been considered by the Supreme Court if it had granted certiorari in a subsequent appeal in the infringement case. See *Amcast Indus. Corp. v. Detrex Corp.*, 45 F.3d 155, 160 (7th Cir. 1995) (Posner, C.J.) (noting that the denial of certiorari from a decision that does not conclude the litigation “does not preclude a grant of certiorari to review the identical issue at a later stage in the case”). In *Baxter's* case, however, that contingency was extremely unlikely because *Fresenius* had already petitioned the Court to review the Federal Circuit's rulings on validity and infringement, and the Court denied that petition. See *supra* note 185 and accompanying text. Moreover, even though the Supreme Court has the ability to reconsider issues long since resolved by the lower courts, the lower courts' rulings remain final for preclusion purposes unless and until that happens. See *Amcast*, 45 F.3d at 160.

331 See *In re ePlus, Inc.*, 540 F. App'x 998 (Fed. Cir. 2013); *ePlus, Inc. v. Lawson Software, Inc.*, 700 F.3d 509 (Fed. Cir. 2012).

332 See *supra* subsection III.B.1.

333 See *supra* note 132 and accompanying text. Judge Newman has been a noted skeptic of this rule. See *In re Constr. Equip. Co.*, 665 F.3d 1254, 1263 (Fed. Cir. 2011) (Newman, J., dissenting) (arguing that “a patent that has been held valid or invalid in court” should not be subject to reexamination in the PTO).

334 See *supra* notes 43–48 and accompanying text.

aration of powers—the rule allows the PTO to alter a decision that would otherwise be binding between the parties in all courts nationwide. Moreover, the basic policies of efficiency and repose that undergird preclusion doctrine support the suggestion by Judges Newman and O’Malley that the absolute finality rule is too inflexible.<sup>335</sup> Infringement defendants such as Fresenius and Lawson had a full and fair opportunity to litigate the issues of validity and infringement, all the way through appeal. And they lost. But issue preclusion doctrine does not itself resolve whether a court ruling rejecting a validity challenge should stand despite the PTO’s conclusion that the patent is invalid.

### 3. Law of the Case

Unlike the cases on which the Federal Circuit’s majority opinions have relied and unlike the issue preclusion doctrine invoked by Judges Newman and O’Malley, the doctrine of law of the case addresses the precise question with which the Federal Circuit has struggled in its recent decisions: Should a court reconsider a prior ruling in light of an intervening event, such as the PTO’s invalidation of a patent? Under the law of the case doctrine, a decision on a particular issue should be followed in all subsequent proceedings in the same case unless “exceptional circumstances” exist.<sup>336</sup> For instance, if a prior decision “was clearly erroneous” and to adhere to it “would work a manifest injustice,” reconsideration of that decision may be warranted.<sup>337</sup> The decision to depart from the law of the case is a matter of discretion,<sup>338</sup> and as long as a case remains pending, the court has the power to alter its earlier rulings.<sup>339</sup>

Law of the case is a common law doctrine. It is most akin to stare decisis,<sup>340</sup> but instead of ensuring decisional consistency from one case to another, law of the case ensures decisional consistency within a particular

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335 This argument is also consistent with the frequent complaint that the Federal Circuit too eagerly embraces bright-line rules and resists context-sensitive standards that would require the court to engage in policy analysis. Leading explorations of that critique include Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1671 (2003); Rochelle Cooper Dreyfuss, *The Federal Circuit: A Continuing Experiment in Specialization*, 54 CASE W. RES. L. REV. 769, 772 (2004); Craig Allen Nard & John F. Duffy, *Rethinking Patent Law’s Uniformity Principle*, 101 NW. U. L. REV. 1619, 1620–21 (2007); Arti K. Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to Patent System Reform*, 103 COLUM. L. REV. 1035, 1103–04 (2003); and John R. Thomas, *Formalism at the Federal Circuit*, 52 AM. U. L. REV. 771, 774 (2003).

336 *W.L. Gore & Assocs. v. Garlock, Inc.*, 842 F.2d 1275, 1279 (Fed. Cir. 1988) (quoting *Cent. Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1580 (Fed. Cir. 1983)).

337 *White v. Murtha*, 377 F.2d 428, 431–32 (5th Cir. 1967); *accord Ormco Corp. v. Align Tech., Inc.*, 498 F.3d 1307, 1319 (Fed. Cir. 2007).

338 *Higgins v. Cal. Prune & Apricot Grower, Inc.*, 3 F.2d 896, 898 (2d Cir. 1924) (Hand, J., sitting by designation) (“[L]aw of the case’ does not rigidly bind a court to its former decisions, but is only addressed to its good sense.”).

339 See 18B WRIGHT ET AL., *supra* note 20, § 4478.

340 See Allan D. Vestal, *Law of the Case: Single-Suit Preclusion*, 1967 UTAH L. REV. 1, 2.

case. Under both doctrines, a prior decision is persuasive but not necessarily binding on the court that rendered it.<sup>341</sup> Under law of the case doctrine, a court is justified in reconsidering its prior decision if the relevant law or facts have changed since the prior decision.<sup>342</sup> Thus, law of the case doctrine, if it were applied in the case of parallel court and PTO proceedings, would plainly offer the court discretion to depart from a prior ruling rejecting a challenge to patent validity when, since that prior decision, the PTO has issued a ruling of invalidity—a critically important change in circumstances.

Remarkably, several cases the Federal Circuit has cited in developing its absolute finality rule support the idea of resolving conflicts between the courts and the PTO via law of the case doctrine. *Luminous Unit Co. v. Freeman-Sweet Co.*, a Seventh Circuit case cited in *Fresenius*, provides one example.<sup>343</sup> In that case, the trial court found a patent to be infringed and rejected the infringer's argument that the patent was invalid.<sup>344</sup> The Seventh Circuit affirmed on the issues of validity and infringement and remanded for an accounting of damages.<sup>345</sup> Meanwhile, the patent holder had surrendered the infringed patent to the PTO and obtained a reissue patent.<sup>346</sup> When the trial court learned of the surrender, it vacated its prior decision on validity, refusing to be bound by that decision as the law of the case.<sup>347</sup> The Seventh Circuit affirmed, noting that law of the case is "not an inexorable rule, and should not be applied where the law as announced is clearly erroneous, and establishes a practice which is contrary to the best interests of society, and works a manifest injustice."<sup>348</sup> The court noted that when the plaintiff surrendered the patent it "lost its right to prosecute its pending suit to final decree" and that, despite the prior ruling in favor of the patent holder on the issue of validity, "it became the duty of the court to dismiss the suit."<sup>349</sup>

Likewise, in *Mendenhall*, the Federal Circuit preclusion case that was central to the court's adoption of the absolute finality rule in *Fresenius*, the court addressed an alternative argument grounded in law of the case. Specifically, the patent holder argued that the Federal Circuit's previous ruling rejecting the validity challenge was the law of the case and therefore immune from reconsideration despite the subsequent ruling of invalidity in another case.<sup>350</sup> But the Federal Circuit disagreed, noting that the subsequent ruling

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341 *See id.*

342 *Dow Chem. Corp. v. Nova Chems. Corp.*, 803 F.3d 620, 628 (Fed. Cir. 2015).

343 3 F.2d 577, 577 (7th Cir. 1924), *cited in* *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1344 n.10 (Fed. Cir. 2013).

344 *Id.*

345 *Freeman-Sweet Co v. Luminous Unit Co.*, 264 F. 107, 110 (7th Cir. 1920).

346 *Luminous*, 3 F.2d at 579.

347 *Id.* at 577.

348 *Id.* at 580.

349 *Id.*

350 *Mendenhall v. Barber-Greene Co.*, 26 F.3d 1573, 1583 (Fed. Cir. 1994).

of invalidity qualified as “an exceptional circumstance” warranting reconsideration of its earlier ruling rejecting a validity challenge.<sup>351</sup>

Although the Federal Circuit has not relied on the law of the case doctrine in its recent decisions involving conflicting rulings between a court and the PTO, it is possible to recast the absolute finality rule in law of the case terms. Specifically, the Federal Circuit’s opinions in cases such as *Fresenius* could be read as holding that a PTO decision of invalidity is *always* an exceptional circumstance that warrants overturning a prior court decision rejecting a validity challenge in a pending case. Yet the law of the case doctrine is directed toward the court’s sound discretion and encourages the court to consider whether departing from a prior ruling would be fair or efficient.<sup>352</sup> These discretionary, policy-type considerations are wholly absent from the Federal Circuit’s recent opinions. If the court were to ground its analysis in the law of the case, rather than relying on arguably inapposite caselaw, it would be forced to engage those considerations, and an alternative to the absolute finality rule might emerge.

### C. *Applying the Law of the Case Doctrine*

It is, to be sure, not an easy task to resolve cases involving conflicting decisions on patent validity through the policy concerns embedded in law of the case doctrine. On one hand, it is reasonable to suggest that accused infringers should be allowed to invoke PTO decisions of invalidity at practically any point in the case to protect them from paying damages on a now-invalidated patent.<sup>353</sup> That said, the absolute finality rule can give accused infringers two chances to prove invalidity, which might be viewed as unfair and wasteful.<sup>354</sup> Indeed, it is not a stretch to say that *Fresenius* was gaming the system—it sought reexamination only after an adverse court ruling on summary judgment.<sup>355</sup> Given that gamesmanship, it would be reasonable to conclude that *Fresenius* should not have received the benefit of the PTO’s

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351 *Id.*

352 See Joan Steinman, *Law of the Case: A Judicial Puzzle in Consolidated and Transferred Cases and in Multidistrict Litigation*, 135 U. PA. L. REV. 595, 599 (1987) (“Law of the case principles are . . . best understood as rules of sensible and sound practice that permit logical progression toward judgment, but that do not disable a court from altering prior interlocutory decisions in a case.”).

353 See *ePlus, Inc. v. Lawson Software, Inc.*, 790 F.3d 1307, 1309 (Fed. Cir. 2015) (Dyk, J., concurring in denial of rehearing en banc) (“[I]t would be ‘manifestly unjust’ to allow [the patent holder] to recover from its invalid patent ‘when the rest of the industry is not impeded by the patents.’” (quoting *Mendenhall*, 26 F.3d at 1583)); see also Ilardi, *supra* note 151, at 2235 (“Most people would likely agree that the . . . outcome in [*Fresenius*] was correct—collecting damages on a patent that turns out to be invalid seems at odds with fundamental concepts of fairness . . .”).

354 See *ePlus*, 790 F.3d at 1315 (Moore, J., dissenting from denial of rehearing en banc).

355 See *Fresenius Med. Care Holdings, Inc. v. Baxter Int’l, Inc.*, No. 03-1431, 2007 WL 1655625, at \*1 (N.D. Cal. June 7, 2007) (noting that the district court had denied *Fresenius*’s motions for summary judgment of invalidity and granted *Baxter*’s motion for partial summary judgment of validity).

decision of invalidity. Indeed, a common critique of bright-line rules, such as the Federal Circuit's absolute finality rule, is that they can be manipulated, particularly by sophisticated actors, as litigants in high-stakes patent disputes tend to be.<sup>356</sup>

That said, those who think the PTO issues too many "bad" patents (that is, patents on inventions that represent only marginal improvements in the state of the art)<sup>357</sup> might have no problem with allowing patent challengers multiple chances to prove invalidity. But from a procedural perspective, allowing a party to twice litigate a single issue is unusual. In *Blonder-Tongue*, for example, the Supreme Court eliminated the requirement of mutuality as a prerequisite to preclusion because it was untenable "to afford a litigant more than one full and fair opportunity for judicial resolution of the same issue."<sup>358</sup> And in *Parklane Hosiery Co. v. Shore* the Court approved of non-mutual offensive issue preclusion precisely because the defendants had "received a 'full and fair' opportunity to litigate their claims" in an earlier case.<sup>359</sup>

In an attempt to find some direction through these competing considerations, it is worth noting a seminal observation by Brainerd Currie. "[T]he first lesson one must learn on the subject of res judicata," he wrote, "is that judicial findings must not be confused with absolute truth."<sup>360</sup> On that view, a PTO ruling of invalidity that follows a court ruling rejecting a validity challenge does not necessarily indicate that the court was wrong, nor does it prove that the asserted patent is definitely invalid in some ontological sense. Because courts construe patent claims more narrowly than the PTO and presume patents to be valid, it is harder to invalidate a patent in court than it is at the PTO. More than anything else, then, inconsistent court and PTO decisions: (a) reflect these different legal regimes and (b) suggest that reasonable minds can differ about the patent's validity—a fact that is not surprising in disputes that the parties view as sufficiently important to pursue through two separate decisions by two different adjudicative bodies.

If a patent's validity is inherently uncertain, allowing an accused infringer multiple opportunities to invalidate it risks giving the proceedings

356 See, e.g., Donald T. Hornstein, *Resiliency, Adaptation, and the Upsides of Ex Post Lawmaking*, 89 N.C. L. REV. 1549, 1575–77 (2011); David A. Weisbach, *Formalism in the Tax Law*, 66 U. CHI. L. REV. 860, 860 (1999).

357 See generally CHRISTINA BOHANNAN & HERBERT HOVENKAMP, CREATION WITHOUT RESTRAINT: PROMOTING LIBERTY AND RIVALRY IN INNOVATION 61 (2012) (summarizing critiques of the modern patent system).

358 *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 328 (1971).

359 439 U.S. 322, 332–33 (1979).

360 Brainerd Currie, *Mutuality of Collateral Estoppel: Limits of the Bernhard Doctrine*, 9 STAN. L. REV. 281, 315 (1957). For a similar observation in the context of law of the case, see James Wm. Moore & Robert Stephen Oglebay, *The Supreme Court, Stare Decisis and Law of the Case*, 21 TEX. L. REV. 514, 553 (1943) ("Practical results, rather than academic pedantry, are needed [in assessing law of the case]. And it should always be borne in mind that those ends necessitate a termination of litigation within a reasonable time, rather than the inconclusive striving for some theoretical ideal.").

“the aura of [a] gaming table,” which the Supreme Court scorned in *Blonder-Tongue*.<sup>361</sup> The Court acknowledged that “neither judges, the parties, nor the adversary system performs perfectly in all cases,” and that, accordingly, “the requirement of determining whether the party against whom an estoppel is asserted had a full and fair opportunity to litigate is a most significant safeguard.”<sup>362</sup>

The seeming impossibility of determining, with absolute certainty, whether an invention satisfies the requirements of the Patent Act supports a principle—contrary to the Federal Circuit’s current doctrine—that limits accused infringers to one shot at proving invalidity. But articulating a rule to implement that principle is surprisingly difficult. The primary option available to the Federal Circuit (or the Supreme Court, should it decide to overturn the Federal Circuit’s caselaw) would be to adopt the view of Judges Newman and O’Malley that court proceedings are immune from the effects of PTO review once the court has reached a decision on validity that would be entitled to preclusive effect in another court.<sup>363</sup>

Yet that approach has its own problems. Most notably, because it would render court decisions final at an earlier stage, it would provide less of an incentive to stay litigation, likely resulting in more frequent conflicts between the courts and the PTO. In addition, by allowing a court decision on validity to short-circuit PTO proceedings, it would thwart Congress’s explicit decision—embodied most recently in the AIA—to offer infringers two arenas for challenging validity (the courts and the PTO).

The reality is that, as long as both the courts and the PTO possess independent power to invalidate a single patent, conflicting decisions will occur. No rule of finality adopted by the Federal Circuit will eliminate those conflicts, it will only change which of the decisions take precedence. Congress could, of course, reduce or eliminate conflicting decisions by making various changes to the parallel proceedings, and those legislative possibilities are considered below.<sup>364</sup> For now, the most effective option for reducing con-

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361 402 U.S. at 329.

362 *Id.*

363 *See supra* subsection III.B.2.

364 The Federal Circuit or the Supreme Court, it should be noted, could also reduce the possibility of conflicting decisions by making various changes to judge-made doctrines of stare decisis and administrative law, but those changes offer partial solutions at best. The courts could, for instance, require the PTO to defer as a matter of stare decisis to the Federal Circuit’s prior decisions on purely legal issues relevant to the determination of patent validity, such as the ultimate conclusion on obviousness. *See Janicke, supra* note 151, at 61; *see also KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 427 (2007) (“The ultimate judgment of obviousness is a legal determination.”). That proposal makes sense when there is an identical record of prior art before the court and the PTO. In that situation, both tribunals are deciding the exact same legal question. *See generally Stevenson v. Sears, Roebuck & Co.*, 713 F.2d 705, 711 n.5 (Fed. Cir. 1983) (noting that, in sequential suits for patent infringement, “[t]he weight given a prior holding of ‘validity’ will vary depending on the additional prior art or other evidence on patentability that is produced in the subsequent suit” and that “[i]f . . . the record in the second suit is substantively identical to the

flicts is for courts to judiciously use their power to stay litigation in light of post-issuance proceedings at the PTO.<sup>365</sup> The absolute finality rule, for all its shortcomings, provides a strong incentive for district courts to stay litigation because their decisions do not become “final” until every single remedial issue is resolved. Indeed, *Fresenius* is commonly cited by district courts as a reason to justify staying an infringement case.<sup>366</sup> And, as noted, district courts now grant about eighty percent of requests to stay litigation pending instituted inter partes review.<sup>367</sup> Thus, despite its flaws, the absolute finality rule might be the best option under current law for mediating conflicting decisions between the courts and the PTO.

#### IV. THE FUTURE OF ABSOLUTE FINALITY

Although the courts have limited options for adapting to parallel regimes for reviewing patent validity, Congress has more wide-ranging power to harmonize proceedings in court and at the PTO.

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record produced in the first suit, then it is extremely likely that the court will give its prior holding stare decisis effect”). Moreover, any differences in the standards of proof between the courts and the PTO should be irrelevant when the tribunals are resolving a pure question of law. See Janicke, *supra* note 151, at 58 (citing *Microsoft Corp. v. i4i Ltd.*, 131 S. Ct. 2238, 2253 (2011) (Breyer, J., concurring)). However, in cases that end in conflicting decisions, such as *Fresenius*, the record before the court and the PTO often differs, see *In re Baxter Int’l, Inc.*, 678 F.3d 1357, 1365 (Fed. Cir. 2012) (affirming the PTO’s invalidity decision in reexamination even though the Federal Circuit had previously rejected a validity challenge, noting that “the examiner based [the] rejections on prior art references that were not squarely at issue during the trial on the invalidity issues”), which weakens the case for PTO deference to a prior court ruling as a matter of stare decisis.

Alternatively, the courts could invoke principles of administrative law to defer to the PTO’s resolution of the issue of patent validity. As a general matter, deference to the agency would be appropriate if the PTO were given substantive rulemaking authority, which it does not currently have. See Michael J. Burstein, *Rules for Patents*, 52 WM. & MARY L. REV. 1747, 1751 (2011). Even in the absence of substantive rulemaking authority, some commentators have argued that court deference to the PTO is still appropriate due to the America Invents Act’s creation of relatively formal adjudication proceedings, such as inter partes review and post-grant review. See, e.g., Melissa F. Wasserman, *The Changing Guard of Patent Law: Chevron Deference for the PTO*, 54 WM. & MARY L. REV. 1959, 1966–67 (2013). But even if court deference to the PTO is appropriate as a general matter, that does not necessarily resolve the issue that is the focus of this Article: What happens if, at the time the PTO enters a decision of patent invalidity, a court has *already* resolved the issue of validity in the patent holder’s favor?

365 See generally Sherkow, *supra* note 21, at 267–68 (“District courts should . . . take a nuanced, case-by-case approach to determining whether to grant litigants’ request for stays pending the outcome of [PTO] proceedings . . .”).

366 See, e.g., *PersonalWeb Techs., LLC v. Apple Inc.*, 69 F. Supp. 3d 1022, 1025 (N.D. Cal. 2014).

367 See Love & Ambwani *supra* note 6, at 103.

### A. *Court-PTO Conflicts After the America Invents Act*

Some participants in the patent system have argued that Congress has, in fact, already addressed the issue of conflicting decisions between the courts and the PTO and that, accordingly, the absolute finality rule will not matter in the future.<sup>368</sup> The most notable way in which the AIA helps avoid conflict is by requiring the post-issuance proceedings it created (inter partes review, post-grant review, and covered business method review) to conclude, in most cases, within one year of the PTAB's decision to institute.<sup>369</sup> Because district court patent cases usually do not conclude that quickly (unless the parties settle), the PTO will often finish its post-issuance review before the court proceedings are complete, even if the court proceedings are not stayed.<sup>370</sup>

But the one-year time limit on PTO review does not eliminate all possibility of conflict. To begin with, a defendant in patent infringement litigation can wait as long as a year after the complaint is filed to petition for inter partes review,<sup>371</sup> and a petition for covered business method review can be filed almost any time after the complaint is filed.<sup>372</sup> Likewise, a petitioner in inter partes review who is *not* a defendant in infringement litigation can also file its petition at any time.<sup>373</sup> Further extending the timeline, the patent

368 See, e.g., Respondents' Brief in Opposition to Petition for Writ of Certiorari at 29–30, *Baxter Int'l, Inc. v. Fresenius USA, Inc.*, 134 S. Ct. 2295 (2014) (No. 13-1071) [hereinafter *Fresenius BIO*]; Craig E. Countryman, *2015 Patent Decisions of the Federal Circuit*, 65 AM. U. L. REV. 769, 903–04 (2016).

369 See 35 U.S.C. §§ 316(a)(11), 326(a)(11) (2012); 37 C.F.R. § 42.300(c) (2015).

370 On average, inter partes review proceedings take about fifteen months, from the filing of the petition until the PTO's final disposition. Love & Ambwani, *supra* note 6, at 99. Patent cases in federal district courts take, on average, approximately one year to resolve, but that figure is skewed downward by the large number of cases that settle early on. See Mark A. Lemley, *Where to File Your Patent Case*, 38 AIPLA Q.J. 401, 415, 418 (2010); see also Vishnubhakat et al., *supra* note 6, at 70 (reporting that, from September 2012 through June 2015, seventy percent of patent cases filed in the district courts were likely settled and that three-quarters of those likely settlements occurred within 9.9 months of case filing). For cases that go to trial, the time from filing to trial varies greatly among the districts. See Lemley, *supra*, at 416 (reporting a time to trial of less than one year in the quickest districts, the Western District of Wisconsin and the Eastern District of Virginia, but a time to trial of over two years in the district with the largest number of patent cases, the Eastern District of Texas).

371 35 U.S.C. § 315(b).

372 The only timing requirement is that the window for post-grant review must be closed. 37 C.F.R. § 42.303. That usually occurs nine months after the patent issues. See *supra* note 72.

373 A common scenario in which a non-defendant petitions for inter partes review is when a patent holder has sued the petitioner's customers for using allegedly infringing technology manufactured by the petitioner. See Brian J. Love, *Inter Partes Review as a Shield for Technology Purchasers: A Response to Gaia Bernstein's The Rise of the End-User in Patent Litigation*, 56 B.C. L. REV. 1075, 1088 (2015) (reporting that roughly fourteen percent of inter partes review petitions filed in the first eighteen months of the proceeding's existence were filed by manufacturers with at least one customer facing a lawsuit, but also noting that only one-quarter of those petitions "were filed by manufacturers who had not also been sued themselves"). Other non-defendants who have filed inter partes review

holder has three months to respond to the petition,<sup>374</sup> and the PTAB will not act on a petition until it receives that response.<sup>375</sup> In addition, the PTAB can for good cause extend the one-year time limit for conducting the review.<sup>376</sup> Finally, as discussed above, PTO proceedings probably are not sufficiently final to justify abrogating a district court decision at least until the Federal Circuit affirms the PTO's invalidity decision, which can take the better part of an additional year.<sup>377</sup> Thus, in some cases, post-issuance proceedings will conclude two or three years after an infringement complaint is filed, which is plenty of time for a court to issue a conflicting decision on patent validity, particularly in judicial districts that process patent cases relatively quickly.<sup>378</sup>

Likewise, contrary to some suggestions,<sup>379</sup> the AIA's estoppel provisions will not prevent conflicting decisions between the courts and the PTO. As discussed above, those provisions prevent accused infringers from pursuing arguments in court that they have already pursued or, in some cases, could

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petitions include industry groups, public interest organizations, and membership-based patent risk management firms such as RPX and Unified Patents. *See id.* at 1094 n.59.

374 37 C.F.R. §§ 42.107(b), 42.207(b), 42.300(a).

375 35 U.S.C. §§ 313, 323. Under the statute, the PTAB, after receiving the patent owner's response, has three months to decide whether the institute review. *Id.* §§ 314(b), 324(c).

376 *Id.* §§ 316(a)(11), 326(a)(11); 37 C.F.R. § 42.300(c).

377 *See* U.S. Court of Appeals for the Federal Circuit, *Median Time to Disposition in Cases Terminated After Hearing or Submission*, <http://www.cafc.uscourts.gov/sites/default/files/Median%20Disposition%20Time%20for%20Cases%20Terminated%20after%20Hearing%20or%20Submission%20Detailed%20table%20of%20data%202006-2015%29.pdf> (last visited Sept. 12, 2016); *see also* *WesternGeco LLC v. Ion Geophysical Corp.*, No. 4:09-CV-1827 (S.D. Tex. May 4, 2016) (suggesting that PTO proceedings are not final until *all* possible routes of appellate review—including certiorari from the Supreme Court—are exhausted).

378 For instance, in *Ultratec, Inc. v. Sorenson Communications, Inc.*, No. 13-CV-346, 2015 WL 2248437, at \*2 (W.D. Wis. May 13, 2015), *appeal dismissed sub nom.* *Ultratec, Inc. v. CaptionCall, LLC*, 611 F. App'x 720 (Fed. Cir. 2015), a jury returned a verdict in the patent holder's favor nearly five months before the PTAB invalidated several of the asserted patent claims in inter partes review. Likewise, in *Paice LLC v. Hyundai Motor Co.*, No. 12-CV-499-MJG (D. Md. Oct. 7, 2015), the jury returned a verdict in favor of the patent holder roughly two months before the PTAB invalidated several of the asserted patent claims, *Ford Motor Co. v. Paice LLC*, No. IPR2014-00904, 2015 WL 8536745 (P.T.A.B. Dec. 10, 2015); *Ford Motor Co. v. Paice LLC*, No. IPR2014-00875, 2015 WL 7695188, at \*15 (P.T.A.B. Nov. 23, 2015). Also, in *WesternGeco*, No. 4:09-CV-1827, at 4–5, the Federal Circuit affirmed a jury verdict of infringement one month before the PTAB issued a decision finding several of the asserted patents to be invalid. In *Personal Audio, LLC v. CBS Corp.*, No. 2:13-cv-270-JRG-RSP (E.D. Tex. Sept. 15, 2014), a jury entered a verdict of infringement even though the PTAB had a few months earlier invalidated the asserted claims, *Elec. Frontier Found. v. Personal Audio, LLC*, No. IPR2014-00070, 2014 WL 8584938, at \*15 (P.T.A.B. Apr. 10, 2014). Finally, in *VirnetX Inc. v. Apple Inc.*, the PTO invalidated several asserted patent claims shortly after a jury verdict of infringement. *See* Apple's Renewed Motion to Stay at 3–5, *VirnetX Inc. v. Apple Inc.* (E.D. Tex. July 25, 2016) (No. 6:12-CV-855-RWS); *see also* *VirnetX Inc. v. Apple Inc.*, No. 6:12-CV-855, slip op. at 1 (E.D. Tex. July 29, 2016) (vacating the jury verdict on other grounds).

379 *See* *Fresenius BIO*, *supra* note 368, at 30.

have pursued, before the PTAB.<sup>380</sup> But the estoppel provisions are irrelevant if, as commonly occurs in cases that result in conflicting decisions, the accused infringer loses first in court and wins later at the PTAB. Under the AIA, a loss in court has no estoppel effect at the PTAB.

Finally, but perhaps most importantly, the AIA leaves unaffected ex parte reexamination, which was the PTO proceeding at issue in *Fresenius* and *ePlus*. Ex parte reexamination remains available after the AIA and, thanks in part to the absolute finality rule, it will likely remain an attractive option for at least some accused infringers.<sup>381</sup> Unlike inter partes review, which an accused infringer must seek within a year of being sued for infringement, ex parte reexamination can be requested at any time.<sup>382</sup> And there are no statutory estoppel provisions. Ex parte reexamination thus allows an accused infringer to adopt a wait-and-see approach toward litigation: if the accused infringer proves invalidity in litigation, there is no need for review by the PTO; if litigation is not going well, the accused infringer can request ex parte reexamination. That is the strategy *Fresenius* employed in its litigation with *Baxter*. And the Federal Circuit's holding in that case ensures that so long as the accused infringer can string out the litigation for a sufficiently long time, the infringer will be able to invoke any favorable decision by the PTO.

To be sure, most cases involving parallel proceedings in court and at the PTO will not result in conflicting decisions on patent validity. Litigation is often stayed, or PTO proceedings conclude before any court ruling on validity, or the parties simply settle. And, despite the opportunity for gamesmanship presented by ex parte reexamination, many accused infringers will choose inter partes review because it allows them to participate in the proceedings and it is more likely than ex parte reexamination to invalidate the patent. Still, because ex parte reexamination remains available, and because post-issuance proceedings under the AIA will not always conclude before district court litigation, the problem of conflicting court and PTO decisions will likely continue to arise in future disputes.

### B. Legislative Solutions

The question remains whether there is any way to eliminate conflicting decisions between the courts and the PTO without causing undue harm to the patent system. The surest way to eliminate conflicting decisions would be to force litigants into a single forum. That reform has already been partly realized through frequent judicial stays of litigation pending post-issuance review. But because courts do not invariably grant stay motions, the courts

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380 See *supra* Section I.B.

381 In 2014, the PTO received 343 requests for ex parte reexamination, which is down from a pre-AIA high of 787 in 2012. EX PARTE REEXAMINATION FILING DATA, *supra* note 53, at 1. On the continued attractiveness of ex parte reexamination even after the AIA, see generally Chris Rourk & Blake Dietrich, *Ex Parte Re-Exam—An Overlooked Way to Challenge Patents*, LAW360 (Apr. 28, 2016), <http://www.law360.com/ip/articles/778917/ex-parte-re-exam-an-overlooked-way-to-challenge-patents>.

382 See 35 U.S.C. § 302 (2012).

themselves are unlikely to fully eliminate conflicting decisions on patent validity.

One way in which Congress could force litigants into a single forum would be to adopt a regime of staged adjudication in which one body, either the courts or the PTO, would decide all issues within its authority before the other body is allowed to proceed.<sup>383</sup> Given the political winds favoring expansion of PTO proceedings and the Seventh Amendment guarantee of a jury trial on the issue of infringement,<sup>384</sup> the most plausible model of staged adjudication would require the parties to first litigate all validity and enforceability issues at the PTO before moving on to court proceedings on infringement and remedies.<sup>385</sup>

Assigning all validity issues to the PTO may make sense from the perspective of institutional design, for it has expert examiners and administrative patent judges who would seem better equipped than a federal district judge or a jury to resolve the issue of patent validity.<sup>386</sup> The notion of essentially referring questions of validity to the PTO mirrors John Duffy's proposal that courts invoke administrative law's primary jurisdiction doctrine to obtain authoritative claim constructions from the agency.<sup>387</sup> Permitting an infringer to litigate validity only at the PTO would also save the courts from conducting proceedings that may prove to have been unnecessary. The infringement litigation in *Fresenius*, for instance, spanned ten years, two jury trials, and two appeals before the Federal Circuit dismissed the case. The infringement litigation in *ePlus* spanned five years, a jury trial, contempt proceedings, and two appeals before the Federal Circuit dismissed it.

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383 The concept of staged adjudication has recently gained attention in the institutional design literature. See, e.g., Louis Kaplow, *Multistage Adjudication*, 126 HARV. L. REV. 1179, 1223–25 (2013); see also Greg Reilly, *Linking Patent Reform and Civil Litigation Reform*, 47 LOY. U. CHI. L.J. 179, 184 (2015) (suggesting staged litigation to reduce the costs of discovery in patent cases).

384 See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996).

385 Having the PTO decide validity issues first would make sense because one ruling of invalidity precludes all future enforcement efforts, as the Supreme Court held in *Blonder-Tongue*. Thus, a ruling of invalidity is more valuable to the public than a ruling of noninfringement, which would not preclude a future suit against a different defendant. See Megan M. La Belle, *Against Settlement of (Some) Patent Cases*, 67 VAND. L. REV. 375, 397–401 (2014). For a proposal that the issues of validity and infringement be staged *within* district court litigation to reduce accused infringers' incentives to argue for noninfringement rather than invalidity, see Roger Allan Ford, *Patent Invalidity Versus Noninfringement*, 99 CORNELL L. REV. 71, 119 (2013).

386 See Arjun Rangarajan, Note, *Towards a More Uniform Procedure for Patent Invalidation*, 95 J. PAT. & TRADEMARK OFF. SOC'Y 375, 384 (2013); Amy J. Tindell, Note, *Final Adjudication of Patent Validity in PTO Reexamination and Article III Courts: Whose Job Is It Anyway?*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 787, 801 (2007).

387 John F. Duffy, *On Improving the Legal Process of Claim Interpretation: Administrative Alternatives*, 2 WASH. U. J.L. & POL'Y 109, 145–48 (2000); see also Iardi, *supra* note 151, at 2242 (proposing, as a mechanism to avoid conflicting court and PTO decisions on patent validity, to use the primary jurisdiction doctrine to mandate that courts refer certain validity issues to the PTO).

Shifting validity proceedings entirely to the PTO, however, would be a drastic change, as courts have had the power to issue validity rulings since Congress passed the very first Patent Act in 1790.<sup>388</sup> Staging adjudication of patent cases would also impose costs on patent owners and the public. For patent owners, staging would delay enforcement of the patent and grant the accused infringer additional leverage in negotiating a settlement on favorable terms. For the public, shifting validity proceedings entirely to the PTO would likely require an increase in the PTO's resources, most notably the hiring of additional administrative patent judges.<sup>389</sup> The PTO has already grown substantially in recent years, and this bureaucratic expansion may not be sustainable.<sup>390</sup>

In short, there are reasonable arguments both in favor of shifting all validity proceedings to the PTO and in favor of the status quo, in which the PTO has the ability to decide some (but not all) issues of validity and in which the courts often (but not always) stay litigation pending PTO review. The elimination of conflicting decisions might be one additional consideration in favor of shifting validity proceedings to the PTO but because conflicting decisions occur in only a subset of cases, that consideration should probably not be dispositive on this complex question of institutional design.

There are, however, more modest reforms that could help reduce the frequency of conflicting decisions between the courts and the PTO without fundamentally transforming the patent system. To begin with, one possibility, short of assigning all validity issues to the PTO, would be for Congress to make clear that, absent exceptional circumstances, court litigation should be stayed pending PTO review. The AIA essentially dictates this result when the PTAB is conducting covered business method review.<sup>391</sup> Congress could extend that approach to other PTO proceedings, including inter partes review and perhaps even ex parte reexamination, particularly if the reexamination was requested by the defendant in the litigation. The benefit of applying to all PTO proceedings the stay approach of the covered business method statute, as opposed to a rule mandating staged adjudication, is that it would allow district courts to deny a stay when it would clearly harm the patent holder—for example, if the PTO instituted review of only a fraction of the patent claims asserted in the litigation; if the defendant did not file its peti-

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388 Act of April 10, 1790, §§ 5–6, 1 Stat. 109, 111–12. Shifting validity proceedings entirely to the PTO would also require Congress to eliminate the authority of the International Trade Commission to rule on patent validity, which seems unlikely to occur. See Thomas F. Cotter, *The International Trade Commission: Reform or Abolition? A Comment on Colleen V. Chien & Mark A. Lemley*, Patent Holdup, the ITC, and the Public Interest, 98 CORNELL L. REV. ONLINE 43, 53 (2013); see also *supra* notes 33, 43 (discussing the ITC's authority over patent disputes).

389 The PTO currently employs about 250 PTAB judges. See Ryan Davis, *Departing PTAB Chief Judge Hailed for Smooth AIA Launch*, LAW360 (May 19, 2015), <http://www.law360.com/articles/657843>.

390 See John M. Golden, *Proliferating Patents and Patent Law's "Cost Disease"*, 51 Hous. L. REV. 455, 483 (2013).

391 See *supra* notes 101–02 and accompanying text.

tion at an early stage of the litigation (this consideration is particularly relevant when the PTO proceeding is *ex parte* reexamination, a proceeding for which there is no deadline for seeking PTO review); or if the parties are competitors and the patent holder, if victorious, would likely be entitled to an injunction.<sup>392</sup>

Congress might focus reform efforts on *ex parte* reexamination in particular. Congress could eliminate the proceeding altogether, but that may be bad policy. *Ex parte* reexamination, because it does not allow the challenger to participate, can be a cheaper option for those who cannot afford the adversarial proceedings created by the AIA. One simple change to *ex parte* reexamination Congress should consider is imposing on defendants who are sued for infringement a time limit for requesting reexamination, similar to the one-year time limit imposed by the AIA. A time limit on requesting reexamination would restrict an accused infringer's ability to take a wait-and-see approach to the litigation, as occurred in *Fresenius*. And it would also increase the chances that the district court would grant a motion to stay, because that motion would inevitably be filed early in the case.

The aim of reducing conflicting court and PTO decisions also supports the idea of having the courts and the PTAB apply the same claim construction standards when reviewing the validity of an issued patent. The Supreme Court recently refused to overturn the PTO's use of the broadest reasonable interpretation standard, applying *Chevron* deference,<sup>393</sup> but both the House and the Senate have considered bills that would require the PTAB to apply the same claim construction standard as the district courts.<sup>394</sup> Aligning claim construction standards would help ensure that PTAB claim constructions receive preclusive effect in court (and vice versa) and thereby help avoid conflicting rulings on validity. However, because conflicting decisions are often due to differing factual records and burdens of proof,<sup>395</sup> aligning claim construction standards would not eliminate conflict entirely.<sup>396</sup>

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392 See generally *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307, 1314, 1317–20 (Fed. Cir. 2014) (discussing several considerations relevant to the decision of whether to stay litigation pending covered business method review).

393 *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2142–43 (2016).

394 Protecting American Talent and Entrepreneurship (PATENT) Act of 2015, S. 1137, 114th Cong. § 14(b)(a)–(b); Innovation Act, H.R. 9, 114th Cong. § 9(b) (2015).

395 See *supra* notes 30–31 and accompanying text.

396 For an example of conflicting decisions that might have been avoided if the courts and the PTO applied the same claim construction standards, see *Intellectual Ventures I, LLC v. Canon Inc.*, 143 F. Supp. 3d 143, 184 n.54 (D. Del. 2015) (denying a stay pending post-issuance review and noting that, although the PTAB had found one of the asserted patents to be invalid, the court had construed a key claim term “in a contrary manner to the construction assigned by the PTAB”). For a recent Federal Circuit opinion grappling with the differences between the *Phillips* claim construction standard applied by the courts and the PTO's broadest reasonable interpretation standard, see *PPC Broadband, Inc. v. Corning Optical Commc'ns RF, LLC*, 815 F.3d 747, 756 (Fed. Cir. 2016) (“If we were tasked with reviewing the Board's construction according to *Phillips* . . . , this case would be straight-forward. [The appellant's suggested claim] construction is the only construction . . . consistent with . . . the specification. But this case is much closer under the

Congress could further increase consistency between district court litigation and post-issuance review at the PTO by requiring both tribunals to apply the same burden of proof on the question of patent validity. For instance, one proposal pending in Congress would require the PTO to apply the clear and convincing evidence standard that applies in court litigation over validity.<sup>397</sup> That proposal, however, is hard to justify as a matter of institutional design. The clear and convincing standard that applies in litigation is a form of judicial deference to agency decision-making.<sup>398</sup> But it makes little sense to say that a three-judge panel of the PTAB conducting inter partes review should defer to a prior decision by a single examiner to issue the patent.<sup>399</sup>

Another option for aligning the burdens of proof would be to eliminate the presumption of validity altogether and have both the courts and the PTO apply a preponderance standard. That reform would almost certainly have to come from Congress, not the courts, for the Supreme Court in 2011 squarely held that, under the current version of the Patent Act, a challenger must prove invalidity by clear and convincing evidence.<sup>400</sup> In any event, it may be too drastic to lower the burden of proof in all patent cases merely to solve the episodic problem of conflicting court and PTO rulings on validity. A thorough analysis of any proposal to eliminate the presumption of validity would also need to engage broad considerations about the state of the patent system that are beyond this Article's scope. For instance, if it is true that the PTO issues too many bad patents, then the clear and convincing evidence standard may unduly insulate those patents from invalidity challenges, and there is a strong argument for repealing it.<sup>401</sup> (Indeed, the decision to issue a patent, made by a single examiner with limited time to allocate to the task<sup>402</sup> may not be the type of reasoned decision-making to which court deference is appropriate.<sup>403</sup>) By contrast, if one is skeptical about the ability of a lay

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broadest reasonable interpretation standard . . ."). For a scholarly argument in favor of aligning claim construction standards, see Dreyfuss, *supra* note 21, at 289 (arguing that "[a]llowing patent holders to rely on prior PTAB claim constructions in enforcement actions would streamline litigation and provide winning patent holders with a degree of repose").

397 Support Technology and Research for Our Nation's Growth (STRONG) Patents Act of 2015, S. 632, 114th Cong. §§ 102–03 (2015).

398 Stuart Minor Benjamin & Arti K. Rai, *Who's Afraid of the APA? What the Patent System Can Learn from Administrative Law*, 95 GEO. L.J. 269, 281–82 (2007).

399 In any case, the pending bill, which proposes many other controversial reforms to the patent system, is backed by several Democratic senators and is therefore unlikely to gain traction in the current Congress.

400 *Microsoft Corp. v. i4i Ltd. P'ship*, 564 U.S. 91 (2011).

401 See Doug Lichtman & Mark A. Lemley, *Rethinking Patent Law's Presumption of Validity*, 60 STAN. L. REV. 45, 48 (2007).

402 See Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1499–1500 (2001).

403 Cf. *United States v. Mead Corp.*, 533 U.S. 218, 228 (2001) ("The weight [accorded to an administrative] judgment in a particular case will depend upon the thoroughness evident in its consideration, the validity of its reasoning, its consistency with earlier and later pronouncements, and all those factors which give it power to persuade, if lacking

judge or jury to better evaluate patent validity than the supposedly expert examiners at the PTO, then the clear and convincing standard probably makes sense,<sup>404</sup> even if it facilitates occasional conflicts between the courts and the PTO.

#### CONCLUSION

As long as both the courts and the PTO are allowed to decide the validity of the same patent, inconsistent decisions will occur and the problem of Schrödinger patents—patents that appear to be both valid and invalid—will persist. Both the Federal Circuit and Congress have, to date, mostly ignored this reality. The Federal Circuit has adopted a bright-line, absolute finality rule that disregards the difficult practical and policy questions that conflicting decisions implicate. Congress, for its part, has consistently expanded post-issuance review at the PTO by emphasizing the speed and efficiency of administrative adjudication<sup>405</sup> while ignoring the complications of having two different forums review the validity of a single patent.

Because Congress has the ultimate authority to create and abolish these parallel regimes, the courts can only adapt. Under current law, the most effective way for courts to avoid conflict with the PTO is to stay litigation, although that is not the optimal solution in every case. As Congress considers further changes to the law of patent enforcement,<sup>406</sup> the issue of how to better coordinate patent validity disputes should be a central concern.

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power to control.” (alteration in original) (quoting *Skidmore v. Swift & Co.*, 323 U.S. 134, 140 (1944)) (internal quotation marks omitted)).

404 See Brief for the United States as Amicus Curiae Supporting Respondents at 28, *Microsoft*, 564 U.S. 91 (No. 10-290).

405 See, e.g., H.R. REP. NO. 112-98, at 40 (2011).

406 See generally Paul R. Gugliuzza, *Patent Litigation Reform: The Courts, Congress, and the Federal Rules of Civil Procedure*, 95 B.U. L. REV. 279, 283–87 (2015) (discussing recent legislative proposals to reform patent litigation).