

RETHINKING FINALITY IN THE PTAB AGE

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A judgment must be “final” to have preclusive effect.¹ Though the finality requirement is an elusive concept that has not been, and likely cannot be, reduced to a single test, one of the most quoted statements defines a final decision rigidly as “one which ends the litigation on the merits and leaves nothing for the court to do but execute the judgment.”² Despite the lack of a single test, many circuits have applied increasingly relatively liberalized definitions over the years.³ The Federal Circuit, however, has reverted to a “stingy” definition of finality in recent patent cases.⁴

With the Federal Circuit’s rigid interpretation of finality, district court judgments of patent infringement, which might have been final under a more pliant finality concept adopted by other circuit courts, would no longer preclude the application of intervening decisions of invalidity by the Patent Trial and Appeals Board (PTAB) of the United States Patent and Trademark Office (PTO).⁵ In *Fresenius USA, Inc. v. Baxter International, Inc.* and *ePlus, Inc. v. Lawson Software, Inc.*, the Federal Circuit concluded that the judgments were not sufficiently final to preclude PTO determinations of patent invalidity because the scope of relief remained to be determined.⁶ The Federal Circuit’s narrow interpretation of finality increases gamesmanship in patent cases because it incentivizes alleged infringers to “scrap and fight,” keeping cases alive until defendants obtain a

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1. *G. & C. Merriam Co. v. Saalfield*, 241 U.S. 22, 28 (1916).

2. *Catlin v. United States*, 324 U.S. 229, 233 (1945).

3. 15A CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE § 3909 (2d ed. 2006).

4. *ePlus, Inc. v. Lawson Software, Inc.*, 789 F.3d 1349, 1369 (Fed. Cir. 2015) (O’Malley, J., dissenting).

5. Patent infringement decisions in federal district court are appealable to the Federal Circuit. 28 U.S.C. § 1295 (2006).

6. *Lawson*, 789 F.3d at 1361; *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330, 1341 (Fed. Cir. 2013).

favorable PTO decision that might trump a non-final district court judgment of infringement.⁷

Part I of this Note introduces the concept of finality and describes the evolution of this principle in federal practice and procedure. Part II maps the pre- and post-America Invents Act (AIA) patent litigation landscape to provide insight into how dual-track litigation, and consequently the finality issue in patent litigation, arose. Part III summarizes three recent cases dealing with preclusive finality at the Federal Circuit and the ensuing problems. Finally, Part IV offers solutions to address these problems, including having the Supreme Court overrule the Federal Circuit's view of finality and implementing automatic stays of most district court proceedings in favor of PTO proceedings when there is dual-track litigation.

I. FINALITY IN FEDERAL LITIGATION

In order to investigate whether the Federal Circuit has correctly treated finality issues in patent law, it is critical to understand how courts have generally defined finality in federal practice and procedure. This Part examines the traditional definitions of finality and describes the evolution of the principle towards encompassing more flexibility.

A. FINALITY FOR APPEAL

This Section describes how courts have defined finality for appeal. In general, finality has evolved from a less flexible to a more pragmatic concept throughout the years. To understand the Federal Circuit's current treatment of finality for appeal and whether it is consistent with general practice, it is important to investigate the background of finality.

1. *Finality and Flexibility*

Finality has been defined as a decision that “ends the litigation on the merits and leaves nothing for the court to do but execute the judgment.”⁸ Several cases have underscored the importance of finality,⁹ including *Cobbledick v. United States*, where the Supreme Court emphasized the importance of finality in achieving a well-functioning legal system.¹⁰ There, Justice Frankfurter referenced the Judiciary Act of 1789 and noted that “from the very beginning,” Congress was wary of “enfeebling judicial

7. *ePlus, Inc. v. Lawson Software, Inc.* 790 F.3d 1307, 1314 (Fed. Cir. 2015) (Moore, J., dissenting from denial of rehearing en banc).

8. *Catlin v. United States*, 324 U.S. 229, 233 (1945).

9. *See* 15A WRIGHT & MILLER, *supra* note 3, § 3909.

10. 309 U.S. 323, 324–25 (1939).

administration.”¹¹ The Court thus forbade piecemeal disposition of a case on appeal.

Other cases, however, have defined finality less rigidly. For instance, in *Radio Station WOW, Inc. v. Johnson*, the Court stated that “even so circumscribed a legal concept as appealable finality has a penumbral area.”¹² The Court then noted precedent cases that allowed review of an adjudication when it was “independent of, and unaffected by, another litigation with which it happen[ed] to be entangled.”¹³ In *Dickinson v. Petroleum Conversion Corp.*, the Court even suggested a balancing approach for determining finality, where one would balance the “inconvenience and costs of piecemeal review” along with “the danger of denying justice by delay.”¹⁴

2. Pragmatic Finality

In the 1960s, courts further relaxed the rigid definition of finality, using pragmatic finality reasoning to justify appeal even when there was more left for the court to do than execute on the judgment.¹⁵ Pragmatic finality meant that the finality requirement would not be applied as a sterile formalism, but instead should be applied practically to fulfill its underlying purpose of ensuring a “just, speedy, and inexpensive determination.”¹⁶ The cases at that time involved ad hoc balancing of the needs and perils of review on a case-by-case basis.¹⁷ For instance, the Court in *Gillespie v. United States Steel Corp.* noted the importance of giving the finality requirement a “practical rather than a technical construction.”¹⁸ The Court then held that there was finality after considering the costs of piecemeal review, injustice in delaying the determination of rights, how ample the reasons were for viewing the claims as severable, and how fundamental the presented questions were to the further conduct of the case.¹⁹

Although *Gillespie* and other cases at that time seemed to abolish a generalized finality rule in favor of an ad hoc approach, later cases have

11. *Id.*

12. *Radio Station WOW, Inc. v. Johnson*, 326 U.S. 120, 124 (1945).

13. *Id.* at 126.

14. *Dickinson v. Petroleum Conversion Corp.*, 338 U.S. 507, 511 (1950); *see also* 15A WRIGHT & MILLER, *supra* note 3, § 3909.

15. 15A WRIGHT & MILLER, *supra* note 3, § 3913.

16. *Id.* (quoting *Brown Shoe Co. v. United States*, 370 U.S. 294, 306 (1962)).

17. *Id.*

18. 379 U.S. 148, 151 (1964) (quoting *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541, 546 (1949)).

19. *Id.* at 152–54.

sparingly used pragmatic finality reasoning.²⁰ Indeed, cases in later years have even explicitly rejected pragmatic finality. For example, the *Johnson v. Jones* Court stated, “we do not now in each individual case engage in ad hoc balancing to decide issues of appealability.”²¹

B. FINALITY FOR PRECLUSION

This Section discusses how courts have defined finality for preclusion. Like finality for appeal, finality for preclusion has evolved into a more flexible concept. It is important to understand this background in order to gain insight into how the Federal Circuit’s definition of preclusive finality compares to how other circuit courts treat finality.

1. *Traditional Analysis*

The rules of res judicata, which determine the preclusive effect of a judgment, cover two doctrines.²² Claim preclusion, or true res judicata, prevents plaintiffs from seeking further relief on the same claim or cause of action once judgment is rendered. This applies even when there are certain matters not previously litigated so long as they should have been advanced.²³ Issue preclusion, or collateral estoppel, bars relitigation of issues that were adjudicated and essential to a prior judgment.²⁴

In the traditional approach, courts generally deem an issue final for preclusion similarly to how they determine if it is final for appeal.²⁵ Thus, finality for preclusion, as for appeal, occurs when there is a decision that “ends the litigation on the merits and leaves nothing for the court to do but execute the judgment.”²⁶ Thus, where an order would establish liability while not yet setting remedies, there would be no finality for appeal or preclusion.²⁷ On the other hand, in more complex litigation, where judgment is entered for some but not all claims or parties, but does not yet terminate the entire action, these judgments are final for both appeal and preclusion.²⁸

Preclusion can also be defeated when there is finality. While motions for a new trial and motions to vacate do not suspend preclusion, granting a

20. 15A WRIGHT & MILLER, *supra* note 3, § 3913.

21. 515 U.S. 304, 315 (1995).

22. 18 WRIGHT & MILLER, *supra* note 3, § 4402.

23. *Id.*

24. *Id.*

25. *Id.* § 4432.

26. *Catlin v. United States*, 324 U.S. 229, 233 (1945).

27. 18 WRIGHT & MILLER, *supra* note 3, § 4432.

28. *Id.*

new trial and vacating a judgment both defeat preclusion.²⁹ Though pending appeals do not affect preclusion, final rulings on appeal limit preclusion to matters that were resolved, with no preclusion as to those vacated or reversed.³⁰ Additionally, there is no preclusion when an entire case is reversed and remanded.³¹

2. *A More Flexible View of Preclusive Finality*

Similar to the definition of finality for appeal, expanded definitions of preclusive finality have emerged through the years. In *Zdanok v. Glidden Co.*, the Second Circuit held that a determination of liability should have preclusive effect despite the fact that damages had not yet been assessed.³² In *Lummus Co. v. Commonwealth Oil Refining Co.*, Judge Friendly stated that a non-final judgment for appeal could be final for preclusion, depending on factors such as the “nature of the decision” (whether or not it was “avowedly tentative”), the “adequacy of the hearing, and the opportunity for review.”³³ Indeed, the court noted that finality for preclusion 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.”³⁴ As such, the *Lummus* court held that a decision staying court proceedings pending arbitration, despite being interlocutory, had preclusive effect on arbitrability issues because the initial action was not intended to be tentative and it was appealable.³⁵

Further relaxing the definition of finality for preclusion, courts have even found preclusive power in rulings that had not been appealed and were still available for appeal in the future.³⁶ In *Sherman v. Jacobson*, a Southern District of New York court held that an unappealable ruling (where the appeal was dismissed for lacking final judgment) could preclude relitigation because the first decision was neither intended to be provisional nor was avowedly tentative.³⁷

Preclusion can also occur without a trial on the merits, such as when there has been partial summary judgment as to specific issues or parties.³⁸

29. *Id.*

30. *Id.*

31. *Id.*

32. 327 F.2d 944, 955 (2d Cir. 1964).

33. 297 F.2d 80, 89 (2d Cir. 1961).

34. *Id.*

35. *Id.* at 89–90.

36. 18 WRIGHT & MILLER, *supra* note 3, § 4434.

37. 247 F. Supp. 261, 270 (S.D.N.Y. 1965).

38. 18 WRIGHT & MILLER, *supra* note 3, § 4434.

However, courts in those instances have discretion in determining whether preclusion is appropriate, and some considerations include how thoroughly summary judgment was contested in the first action and how substantial the burdens are to renew the summary judgment in the second action.³⁹

The definitions of finality for appeal and for preclusion have evolved over time. Though both have incorporated flexibility throughout the years, courts have more recently reverted to a stricter rule for appeal finality with no such shift for preclusion finality.

II. THE RISE OF PTAB PROCEEDINGS CHALLENGING PATENT VALIDITY

Prior to the enactment of the AIA, parties infrequently sought PTO review of patents.⁴⁰ As such, courts did not need to grapple with the finality issue of when district court judgments should be given preclusive effect if different patent validity decisions were concurrently made at the judicial courts and at the PTO. The AIA changed the patent landscape, offering many advantages to patent challengers at the PTO compared to what reexamination provided. As a result, there were increased opportunities for parallel proceedings, eventually bringing finality issues into the spotlight.

A. THE PRE-AIA LANDSCAPE

By the mid-2000s, non-practicing entities (NPEs), which seek to monetize patent holdings through litigation and do not seek to use, make, or sell the patented products, had become a serious concern for both courts and companies, bringing about twenty percent of total patent infringement suits.⁴¹ NPEs use the asymmetric costs of litigating to extract settlements from patent infringement defendants.⁴² While NPEs typically encounter low litigation expenses, as they have low discovery costs and typically pay lawyers on contingent fee arrangements, the alleged infringers in contrast spend significant amounts of money finding prior art for invalidity

39. *Id.*

40. See Inter Partes Reexamination Filing Data, U.S. PAT. & TRADEMARK OFF. 1 (Sept. 30, 2014), http://www.uspto.gov/sites/default/files/documents/inter_parte_historical_stats_roll_up_EOY2014.pdf [<https://perma.cc/RW49-CL2P>]; Ex Parte Reexamination Filing Data, U.S. PAT. & TRADEMARK OFF. 1 (Sept. 30, 2014), http://www.uspto.gov/sites/default/files/documents/ex_parte_historical_stats_roll_up_EOY2014.pdf [<http://perma.cc/84QC-FK3C>].

41. James M. Rice, Note, *The Defensive Patent Playbook*, 30 BERKELEY TECH. L.J. 725, 740 (2015).

42. *Id.* at 738–39; see also Colleen V. Chien, *Holding Up and Holding Out*, 21 MICH. TELECOMM. & TECH. L. REV. 1, 9 (2014).

arguments and paying attorneys on hourly bases.⁴³ Furthermore, because NPEs do not make, use, or sell products, and typically have no assets, they need not fear countersuits.⁴⁴ The pressures to settle with NPEs are great. In the early 2000s and before, defendants in patent infringement suits needed to spend an average of \$2.46 million to defend a case through trial, while it cost only about \$57,000 to resolve a case before trial.⁴⁵

Further incentivizing NPEs to continue their practices, courts granted permanent injunctions to patentees on successful infringement suits as a matter of course prior to the 2006 *eBay Inc. v. MercExchange, L.L.C.* case.⁴⁶ This “automatic injunction rule” placed NPEs in enhanced bargaining positions in settlement negotiations, especially against defendants with profitable enterprises at stake.⁴⁷ However, the *eBay* Court stopped this practice, holding that “injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases.”⁴⁸

Though low-cost routes to invalidate patents at the PTO were available to defendants in infringement cases prior to the institution of the AIA, they were unpopular both because of their structure and because they were slow. The *ex parte* reexamination system, which is still available today, was one option, but it has its shortcomings, primarily that third party challengers cannot participate after instituting reexaminations, and patent validity challenges are limited to prior art consisting of patents and printed publications.⁴⁹ Congress also created the now-defunct *inter partes* reexamination in 1999, which did allow third parties to comment on patent holder’s responses.⁵⁰ Yet the reexamination system still remained rarely used. For many years, there were less than a hundred *inter partes* reexamination filings per year.⁵¹ Though *ex parte* reexaminations were used more frequently, those filings still never totaled more than 500 per year until

43. Rice, *supra* note 41, at 738.

44. *Id.* at 739.

45. *Id.*

46. Robin M. Davis, Note, *Failed Attempts to Dwarf the Patent Trolls: Permanent Injunctions in Patent Infringement Cases Under the Proposed Patent Reform Act of 2005 and eBay v. MercExchange*, 17 CORNELL J.L. & PUB. POL’Y 431, 433 (2008).

47. *Id.*

48. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).

49. Jonathan Tamimi, Note, *Breaking Bad Patents: The Formula for Quick, Inexpensive Resolution of Patent Validity*, 29 BERKELEY TECH. L.J. 587, 588–89 (2014).

50. *Id.* at 589.

51. *Inter Partes Reexamination Filing Data*, *supra* note 40.

2005.⁵² Lengthy petitions in the reexamination system likely contributed to an inability of the PTO to timely complete proceedings, disincentivizing patent challengers from using reexaminations. In particular, the lack of page limits for *inter partes* reexamination petitions led to requests that averaged 246 pages, with the PTO taking about thirty-eight months to make decisions.⁵³

To help reexaminations proceed more quickly, in 2005 the PTO created the Central Reexamination Unit, consisting of examiners concentrating solely on reexaminations.⁵⁴ This change increased the popularity of the system, doubling the number of annual filings from 583 in 2005 to 1061 in 2010.⁵⁵

B. THE AIA ERA

The AIA renamed the Board of Patent Appeals and Interferences (BPAI) to the Patent Trial and Appeals Board (PTAB), and introduced new PTAB proceedings, involving many advantages for alleged infringers. In order to understand why defendants in patent infringement suits pursue parallel proceedings at the PTO, it is essential to examine the benefits of the new AIA reviews.

1. *Enactment of the AIA*

After many calls for patent reform in the early 2000s, with industry groups testifying in 2004 that patent litigation was too expensive and took too long⁵⁶ and companies funding lobbying groups to combat the NPE problem,⁵⁷ Congress in 2011 enacted the AIA.⁵⁸

The AIA replaced *inter partes* reexamination with *inter partes* review (IPR).⁵⁹ Anyone other than the patent holder may file an IPR petition, though filing a civil action first bars IPR filing.⁶⁰ IPRs contain certain limitations. For example, petitioners may only assert novelty (§ 102) and obviousness (§ 103) arguments based on patents and printed publications as

52. Ex Parte *Reexamination Filing Data*, *supra* note 40.

53. Ryan J. Gatzemeyer, Note, *Are Patent Owners Given a Fair Fight? Investigating the AIA Trial Practices*, 30 BERKELEY TECH. L.J. 531, 542 (2015).

54. Tamimi, *supra* note 49, at 590.

55. Inter Partes *Reexamination Filing Data*, *supra* note 40; Ex Parte *Reexamination Filing Data*, *supra* note 40.

56. Tamimi, *supra* note 49, at 591.

57. Rice, *supra* note 41, at 741.

58. *Id.* at 742.

59. 35 U.S.C. § 311 (2012).

60. §§ 311(a), 315(a)(1).

grounds for invalidity.⁶¹ Further, IPRs involve certain timing restrictions, as petitioners must wait until nine months after a patent is granted or after a post-grant review (PGR) is concluded before filing a request.⁶²

The AIA also added two new procedures to challenge patent validity: PGR⁶³ and the transitional program for covered business method (CBM) review.⁶⁴ Any person other than the patent holder can file a PGR request on any ground of invalidity.⁶⁵ There are timing constraints, as PGR requests must be filed within nine months of a patent grant; also, first filing a civil action challenging patent validity would bar a PGR.⁶⁶ CBMs mostly mirror PGRs, though there are some differences. First, the CBM is only a transitional program that lasts eight years.⁶⁷ Second, a patent challenger must have already been sued for infringement in order to invoke a CBM.⁶⁸ Third, a challenger can file a CBM petition at any time so long as the patent fits within the “covered business method” definition.⁶⁹

2. *Advantages of the New Reviews Under the AIA*

The new reviews under the AIA offer many advantages to patent challengers over reexaminations. First, the time frame to a final decision is relatively short. The PTAB must issue a final written decision in eighteen months for AIA reviews, though a six-month extension is available.⁷⁰ Second, the invalidation rates are favorable to patent challengers. The PTAB has invalidated the majority of claims in cases it has instituted, including a nearly seventy-five percent invalidation rate for IPRs and an over ninety-four percent invalidation rate for CBMs,⁷¹ with no final decisions yet for PGRs (and only three PGRs instituted as of September 2015).⁷²

61. § 311(b).

62. § 311(c).

63. § 321.

64. Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 18, 125 Stat. 284, 329-331 (2011).

65. 35 U.S.C. § 321(a)-(b).

66. §§ 321(c), 325(a)(1)-(2).

67. Leahy-Smith America Invents Act § 18(a)(3).

68. § 18(a)(1)(B).

69. § 18(d)(1).

70. Tamimi, *supra* note 49, at 594.

71. Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. REV. 881, 926, 930 (2015).

72. *Am. Simmental Ass'n v. Leachman Cattle of Colo., LLC*, No. PGR2015-00005 (P.T.A.B. June 19, 2015) (institution of post-grant review); *Am. Simmental Ass'n v. Leachman Cattle of Colo., LLC*, No. PGR2015-00003 (P.T.A.B. June 19, 2015) (institution of post-grant review); *Netsirv v. Boxbee, Inc.*, No. PGR2015-00009 (P.T.A.B. Aug. 4, 2015) (institution of post-grant review).

There may be several reasons for the high invalidation rates. One possible reason affecting CBMs in particular is the Supreme Court's recent interpretation of § 101's requirement for subject matter eligibility. After the Court's 2014 *Alice Corp. v. CLS Bank International* decision, it has been unwritten policy that claims directed to financial or business methods are presumed abstract and thus patent-ineligible by examiners, with patent-eligibility reached if the inventions are "significantly more' than the abstract idea."⁷³ Another potential reason is the high threshold (especially compared to *ex parte* reexaminations) needed to institute an AIA review. Petitioners must show a "reasonable likelihood" of prevailing for IPRs⁷⁴ and that it is "more likely than not" a challenged claim is unpatentable for PGRs and CBMs.⁷⁵

Additionally, it is easier for a patent challenger to prevail at the PTO compared to district courts due to differences in the burden of proof and claim construction. PTAB proceedings only require a "preponderance of the evidence" to invalidate patents,⁷⁶ which is more favorable for patent challengers than the district court's "clear and convincing" standard.⁷⁷ And, whereas district courts give claims their ordinary and customary meaning,⁷⁸ PTO proceedings apply the "broadest reasonable construction" standard, increasing the chance that claims will infringe on prior art.⁷⁹ However, this difference may change as the Supreme Court in January 2016 granted certiorari to determine whether the PTO should continue using its claim construction standard.⁸⁰

C. THE RISE OF PARALLEL LITIGATION IN DISTRICT COURTS AND THE PTAB

Pursuit of a parallel proceeding at the PTO has many advantages, including decreasing a patent's economic value, providing alleged patent infringers with relief from an unfavorable district court judgment of

73. Jasper L. Tran, *Software Patents: A One-Year Review of Alice v. CLS Bank*, 97 J. PAT. & TRADEMARK OFF. SOC'Y 532, 539 (2015).

74. 35 U.S.C. § 314(a).

75. 35 U.S.C. § 324(a); Leahy-Smith America Invents Act § 18(a).

76. 35 U.S.C. §§ 316(e), 326(e).

77. Dolin, *supra* note 71, at 916.

78. *See In re Translogic Tech., Inc.*, 504 F.3d 1249, 1257 (Fed. Cir. 2007).

79. *See* 37 C.F.R. §§ 42.100(b), 42.200(b), 42.300(b) (2014); *In re Cuzo Speed Techs., LLC*, 793 F.3d 1268, 1278–79 (Fed. Cir. 2015) (affirming "broadest reasonable interpretation standard").

80. Ryan Davis, *High Court to Review PTAB's Claim Construction Standard*, LAW360 (Jan. 15, 2016), <http://www.law360.com/articles/744734/high-court-to-review-ptab-s-claim-construction-standard> [<http://perma.cc/46AC-CKJW>].

infringement, and taking advantage of a different claim construction standard. Providing background on why parallel proceedings are attractive is essential for understanding the rise in dual track litigation and the resulting issues on finality.

1. *Pursuit of PTO Reviews Can Decrease a Patent's Economic Value*

There is a substantial percentage of dual-track litigation at district courts and at the PTAB. In one study, eighty percent of IPRs involved patents also asserted in district court litigation.⁸¹ This percentage is especially high when compared to the thirty-three percent of *ex parte* reexaminations involving patents also in litigation.⁸²

One reason why parties pursue parallel litigation is that courts are more likely than not to grant motions to stay the district court litigation until the resolution of PTO proceedings.⁸³ This delays the resolution of litigation, negatively impacting the ability of patent holders to reap economic benefits from their patents, such as damages awards and royalties. This is especially important in fast-moving industries where patented technologies have short lifespans and infringing companies commonly go out of business. Indeed, companies have pointed to the existence of reexaminations as the reason they refused to purchase licenses.⁸⁴ Gaining a reprieve from litigation can also give the alleged patent infringer market advantage in the form of additional time to design a non-infringing alternative.⁸⁵ As the Federal Circuit noted, “unwarranted reexaminations can harass the patentee and waste the patent life.”⁸⁶

Further, companies use reexaminations and AIA reviews—or merely threats of a PTO proceeding—to pressure patent holders into negotiating a settlement or licensing terms favorable for the challenger.⁸⁷ The uncertainty surrounding patent validity during PTO proceedings has broad effects on patent holders, including undermining the ability of an inventor to assert his or her patent, adversely affecting a company's stock prices and scaring

81. Brian J. Love & Shawn Ambwani, *Inter Partes Review: An Early Look at the Numbers*, 81 U. CHI. L. REV. DIALOGUE 93, 103 (2014).

82. *Ex Parte Reexamination Filing Data*, *supra* note 40.

83. Raymond A. Mercado, *The Use and Abuse of Patent Reexamination: Sham Petitioning Before the USPTO*, 12 COLUM. SCI. & TECH. L. REV. 92, 109 (2011); Tamimi, *supra* note 49, at 610.

84. Mercado, *supra* note 83, at 114.

85. Stefan Blum, *Ex Parte Reexamination: A Wolf in Sheep's Clothing*, 73 OHIO ST. L.J. 395, 427 (2012).

86. *In re Recreative Techs. Corp.*, 83 F.3d 1394, 1397 (Fed. Cir. 1996).

87. Dolin, *supra* note 71, at 944–46; Blum, *supra* note 85, at 425.

off investors, as well as alerting current or potential licensees to a patent's potential weaknesses.⁸⁸

2. *PTO Proceedings Can Provide Relief from a District Court Judgment of Infringement*

Additionally, a patent challenger may gain relief from a district court judgment of infringement if a PTO proceeding finds a patent invalid. This occurred in *Flexiteek Americas, Inc. v. PlasTEAK, Inc.*, where the district court granted the defendant's motion for relief from judgment, finding it would be "unequitable" under the Federal Rules of Civil Procedure 60(b)(5) and (6) to enforce an injunction and money judgment predicated on an invalid and cancelled claim.⁸⁹ Similarly, the Federal Circuit (in a non-precedential opinion) vacated a district court injunction and damage award for infringement when a reexamination proceeding invalidated the patent claims due to obviousness.⁹⁰

3. *Application of the Broadest Reasonable Interpretation Standard in Post-Grant Proceedings Contributes to Dual Track Litigation*

The PTAB standard of claim construction, broadest reasonable interpretation (BRI), has an established place in patent examinations. There, applicants amend claims to distinguish the invention from the prior art, a process that decreases the chance that allowed claims would have a broader scope than justified.⁹¹

However, a problem arises when the PTO applies the BRI standard to issued claims in post-grant proceedings, and they encourage alleged patent infringers to pursue dual track litigation. The issue is that the ability to amend claims during post-grant proceedings is illusory, with motions to amend rarely granted.⁹² As such, instead of facilitating an iterative amendment process that aids in defining claim scope, application of BRI during post-grant proceedings harmfully and inappropriately broadens claims until they read on prior art.⁹³ This may lead to high invalidation rates of patents in post-grant proceedings⁹⁴ when these patents could have

88. Blum, *supra* note 85, at 426.

89. No. 08-60996-CIV, 2012 WL 5364247, at *2 (S.D. Fla. Oct. 31, 2012).

90. *Translogic Tech., Inc. v. Hitachi, Ltd.*, 250 F. App'x 988, 988 (Fed. Cir. 2007).

91. *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268, 1285–86 (2015) (Newman, J., dissenting).

92. *Id.* at 1287–88 (2015) (Newman, J., dissenting).

93. *Id.* at 1287 (Newman, J., dissenting).

94. See Dolin, *supra* note 71, at 901.

survived in district court because the BRI standard is not used there.⁹⁵ A high rate of patent invalidation at the PTAB would encourage alleged infringers to pursue post-grant review, and indeed, by February 2015 the number of IPR filings was 2.5 times higher than predicted.⁹⁶

III. THE FINALITY GAME

As a source of recent uncertainty for patent holders seeking to assert their patents, the Federal Circuit has come to different conclusions for when a district court judgment of infringement becomes sufficiently “final” to preclude an intervening PTO decision of patent invalidity. While the Federal Circuit in *Versata Computer Industry Solutions, Inc. v. SAP AG* left the district court damage award intact,⁹⁷ it vacated the district court judgment of infringement in *Fresenius*. The court reasoned that the judgment, while final for purposes of appeal, was not sufficiently final for preclusion.⁹⁸ Against this backdrop, the Federal Circuit recently considered a third finality case, *Lawson*, and reached the same conclusion as in *Fresenius*.⁹⁹ This Part will analyze these cases to address the question of when a judgment is actually final for purposes of preclusion.

A. A RACE TO FINALITY BETWEEN THE PTAB AND THE DISTRICT COURT

Whether a district court judgment of infringement precludes a PTO decision of patent invalidity depends in large part on timing and which decision the Federal Circuit affirms first. The following Sections explore the timelines of the *Versata* and *Fresenius* cases to explain the disparate outcomes.

1. *In Versata, the Federal Circuit Affirms District Court Judgment of Infringement Before Ruling on PTAB Decision of Invalidity*

In *Versata*, the Federal Circuit affirmed the district court’s judgment of infringement and damages award in a non-precedential opinion,¹⁰⁰ despite the PTAB’s holding in a CBM that the patentee’s claims were

95. *Id.* at 916.

96. Gene Quinn, *Are PTAB Proceedings Fundamentally Unfair to Patent Owners?*, IP WATCHDOG (Sept. 22, 2015), <http://www.ipwatchdog.com/2015/03/06/ptab-proceedings-unfair-to-patent-owners/id=55397> [<https://perma.cc/9KEF-SQAG>].

97. 564 F. App’x 600, 601 (Fed. Cir. 2014).

98. 721 F.3d 1330, 1341, 1347 (Fed. Cir. 2013).

99. *See* 789 F.3d 1349, 1361 (Fed. Cir. 2015).

100. 564 F. App’x at 601.

unpatentable.¹⁰¹ Importantly, after the Federal Circuit in 2013 had vacated the district court's injunction,¹⁰² the patent holder moved to dismiss its claims for injunctive relief in 2014.¹⁰³ As such, the district court on remand found the injunction issue "moot," leaving its previous judgment awarding damages as the "operative" one.¹⁰⁴ The Federal Circuit then affirmed, finding that the district court had indeed entered final judgment in 2011.¹⁰⁵ The timeline in Figure 1 summarizes the progress of *Versata* through the courts.

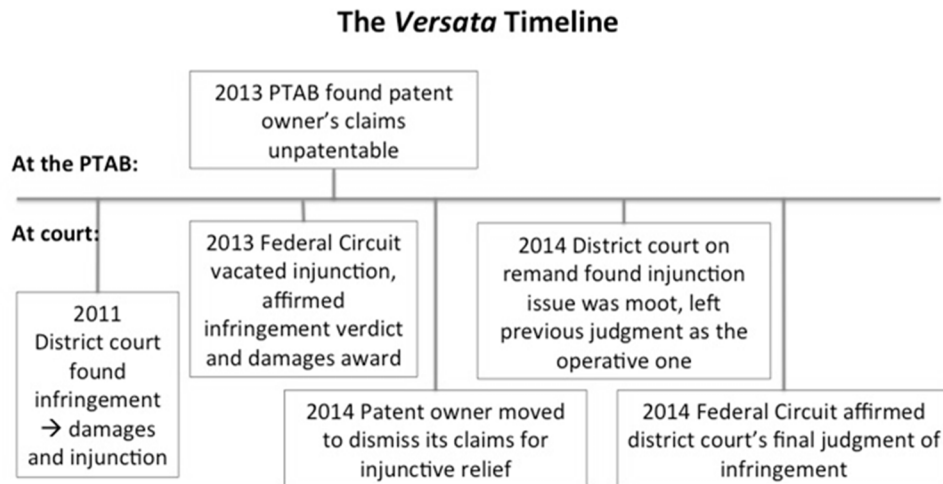


Figure 1: Timeline of *Versata Computer Industry Solutions, Inc. v. SAP AG*

2. In *Fresenius*, the Federal Circuit Affirms the PTAB Decision of Invalidity

In contrast, in *Fresenius*, the Federal Circuit found that a district court "judgment final for purposes of appeal . . . was not sufficiently final to preclude application of the intervening final judgment in *In re Baxter* [in which the Federal Circuit affirmed the PTO's rejection of claims in reexamination]."¹⁰⁶ The district court in 2007 had granted patent holder Baxter's motion for judgment as a matter of law (JMOL), finding that *Fresenius* had not proven that the patent claims were invalid.¹⁰⁷ A jury trial

101. *SAP Am., Inc. v. Versata Dev. Grp., Inc.*, No. CBM2012-00001 (P.T.A.B. June 11, 2013).

102. *Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255, 1258 (Fed. Cir. 2013).

103. *Versata Software, Inc. v. SAP Am., Inc.*, No. 2:07cv153-RSP, 2014 U.S. Dist. LEXIS 35267, at *6 (E.D. Tex. Mar. 16, 2014).

104. *Id.*

105. *Versata*, 564 F. App'x at 600.

106. *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1341 (Fed. Cir. 2013).

107. *Id.* at 1332–33.

later awarded damages to Baxter for infringement of three asserted patents, and the district court entered an injunction and post-verdict royalties as well.¹⁰⁸ On appeal in 2009, the Federal Circuit affirmed the JMOL with respect to U.S. Patent No. 5,247,434 (“the ’434 patent”), reversed with respect to the other two patents, and remanded for the district court to revise the injunction and royalty award.¹⁰⁹ However, reexamination proceedings at the PTO had invalidated relevant claims of the ’434 patent in 2007, with the Federal Circuit affirming in 2012.¹¹⁰

The affirmed PTO decision trumped the district court judgment because the 2007 district court judgment was set aside in 2009, and because the 2009 decision to remand was not final as it left the injunction and royalties unresolved.¹¹¹ As such, there was no finality sufficient to preclude application of the Federal Circuit’s 2012 decision affirming the PTO’s cancellation of the claims,¹¹² leading to dismissal of the case.¹¹³ Figure 2 summarizes the progress of *Fresenius* through the courts.

The *Fresenius* Timeline

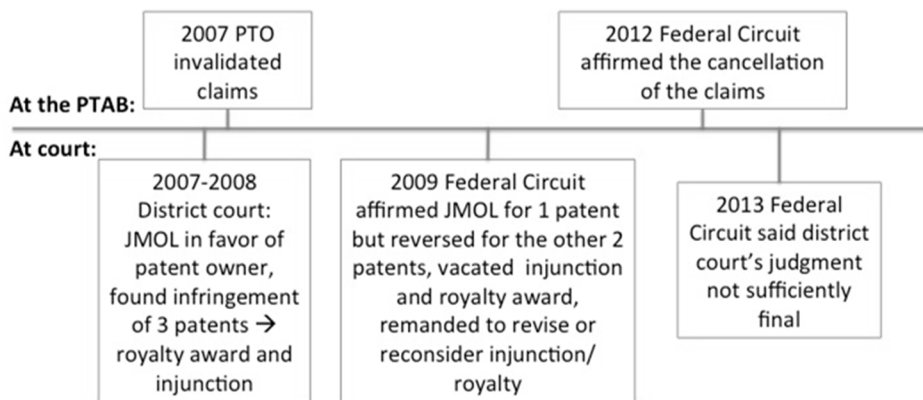


Figure 2: Timeline of *Fresenius USA, Inc. v. Baxter International, Inc.*

B. *EPLUS, INC. V. LAWSON SOFTWARE, INC.*

The Federal Circuit most recently considered the finality issue in *Lawson*. The court found similarly to *Fresenius* and determined that the

108. *Id.* at 1333.

109. *Id.*

110. *Id.* at 1334, 1336.

111. *Id.* at 1341.

112. *Id.*

113. *Id.* at 1347.

PTO invalidity decision trumped the non-final district court judgment of infringement.¹¹⁴

1. *Facts and Procedural History*

In 2009, ePlus, Inc., the owner of U.S. Patent Nos. 6,023,683 (“the ’683 patent”) and 6,505,172 (“the ’172 patent”), sued Lawson Software, Inc. for infringement.¹¹⁵ The patents related to methods and systems for using electronic databases to search for product information and order from third-party vendors.¹¹⁶ Lawson sold modular computer software products, and customers decided which combination of individual software components to purchase.¹¹⁷ The configurations generally allowed users to search for, select, and order products electronically.¹¹⁸ ePlus asserted different patent claims against distinct configurations of Lawson’s software modules, and a jury found that two configurations infringed two system claims and three method claims, while a third configuration infringed one system claim.¹¹⁹ The district court then issued an injunction prohibiting Lawson from “making, using, offering to sell, or selling . . . any of the [adjudged infringing] product configurations.”¹²⁰

On appeal, the Federal Circuit found the majority of the claims invalid or not infringed, affirming infringement only with respect to method claim 26 of the ’683 patent.¹²¹ As a result, the third configuration was no longer infringing,¹²² and the court consequently remanded for the district court to reconsider the terms of the injunction.¹²³ On remand, the district court modified the injunction by removing the third configuration.¹²⁴ Additionally, the district court instituted contempt proceedings, as ePlus alleged that Lawson’s redesign of its software did not make its products more than colorably different from the infringing configurations.¹²⁵ The court held Lawson in contempt for violating the injunction and ordered Lawson to pay fines.¹²⁶ While Lawson’s appeals of the modified injunction

114. ePlus, Inc. v. Lawson Software, Inc., 789 F.3d 1349, 1361 (Fed. Cir. 2015).

115. *Id.* at 1352.

116. *Id.* at 1351.

117. *Id.* at 1352.

118. *Id.*

119. *Id.*

120. *Id.*

121. *Id.*

122. *Id.* at 1353.

123. *Id.*

124. *Id.*

125. *Id.* at 1353–54.

126. *Id.* at 1354.

and contempt order were pending, the Federal Circuit affirmed the PTO's reexamination decision invalidating claim 26 of the '683 patent.¹²⁷ The PTO subsequently cancelled claim 26.¹²⁸

2. *The Federal Circuit's Analysis*

When the case returned to the Federal Circuit, the court considered two issues.¹²⁹ The first was whether the modified injunction must be set aside once the PTO cancelled the claim on which it was based.¹³⁰ Second, the court considered whether civil contempt remedies based on the violation of an injunction must also be set aside when the injunction was overturned on appeal.¹³¹

With respect to the injunction, the court stated, "It is well established that an injunction must be set aside when the legal basis for it has ceased to exist."¹³² Courts have previously applied this rule when there were changes in the law as well as when patents were found invalid.¹³³ As such, the *Lawson* court reasoned there was "no longer any legal basis to enjoin Lawson's conduct" with the PTO's cancellation of claim 26 and thus vacated the injunction.¹³⁴

Regarding the civil contempt issue, the court stated that the right to relief falls with an injunction deemed to be erroneously issued, provided that the injunction is "not final, i.e., that is still subject to litigation over the propriety of its issuance."¹³⁵ The court then noted that the rule has been applied to set aside civil contempt sanctions when the Supreme Court had invalidated a patent.¹³⁶ Reasoning that the case was "not distinguishable on the ground that the basis for the injunction has been removed as the result of the PTO proceeding rather than a court judgment," the Federal Circuit determined that the civil contempt sanctions may be set aside.¹³⁷ In reaching its conclusion, the court referenced *Fresenius*, where the damages award was set aside when the PTO cancelled the patent claim.¹³⁸

127. *Id.*

128. *Id.*

129. *Id.* at 1351.

130. *Id.*

131. *Id.*

132. *Id.* at 1354.

133. *Id.* at 1354–55.

134. *Id.* at 1355–56.

135. *Id.* at 1356.

136. *Id.* at 1357 (citing *Worden v. Searls*, 121 U.S. 14, 25–26 (1887)).

137. *Id.* at 1358.

138. *Id.* (citing *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1344, 1347 (Fed. Cir. 2013)).

In determining whether the injunction was final, the Federal Circuit stated that a final decree “adjudicates upon the entire merits, leaving nothing further to be done except the execution of it,”¹³⁹ whereas in a non-final judgment, “the scope of relief remains to be determined.”¹⁴⁰ The court found that because the district court’s original injunction did not link specific enjoined activities or products with specific infringed claims, the Federal Circuit’s invalidation and holding of non-infringement with respect to the majority of the claims resulted in “a substantial question as to the appropriate scope of the injunction.”¹⁴¹ The court also questioned the propriety of the sales and manufacturing injunction.¹⁴² Because the Federal Circuit had invalidated the system claims, leaving only a method claim as infringing, there was a question of whether enjoining the sales and manufacturing of Lawson’s systems could be based on a method claim.¹⁴³ Though ePlus argued that induced infringement by Lawson of method claim 26 justified the sales and manufacturing injunction, the court dismissed that argument, reasoning that inducement requires active steps to encourage direct infringement and an affirmative intent for the product to be used to infringe.¹⁴⁴ The court stated that mere sale of an apparatus capable of performing the method does not satisfy the requirements for induced infringement.¹⁴⁵

Therefore, because “the propriety of the injunction against sales and manufacturing was still an issue after the first appeal, there had not been ‘a final decree . . . that finally adjudicates upon the entire merits, leaving nothing further to be done except the execution of it.’”¹⁴⁶ Additionally, “the ‘scope of the relief remain[ed] to be determined.’”¹⁴⁷ As such, the PTO’s cancellation of the method claim 26 required vacating the injunction and contempt sanctions.¹⁴⁸ Figure 3 summarizes the progress of *Lawson* through the courts.

139. *Id.* (quoting *John Simmons Co. v. Grier Bros. Co.*, 258 U.S. 82, 88 (1922)).

140. *Id.* (quoting *Fresenius*, 721 F.3d at 1341).

141. *Id.* at 1359.

142. *Id.* at 1359–60.

143. *Id.*

144. *Id.* at 1360.

145. *Id.*

146. *Id.* at 1361 (quoting *John Simmons Co. v. Grier Bros. Co.*, 258 U.S. 82, 88 (1922)).

147. *Id.* (quoting *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330, 1341 (Fed. Cir. 2013)).

148. *Id.*

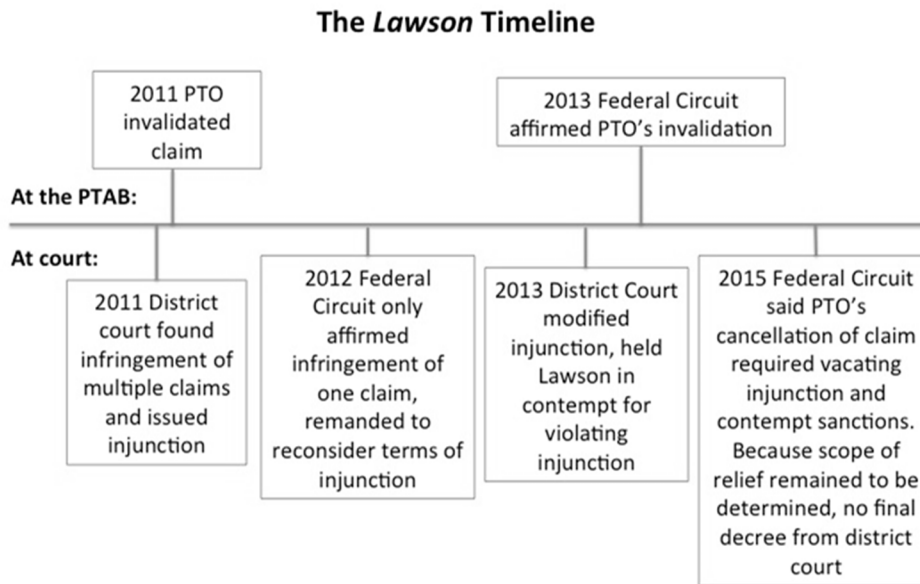


Figure 3: Timeline of *ePlus, Inc. v. Lawson Software, Inc.*

C. UNFAIR OUTCOMES AND CONCERNS WITH GAMESMANSHIP

Lawson and *Fresenius* create issues of unfairness and gamesmanship. The application of such a narrow definition of finality in *Lawson* to overturn a permanent injunction unfairly burdens patent holders relying on relief from courts. Also, the incentive to prolong district court litigation so that alleged infringers may potentially receive a favorable PTO decision of invalidity increases gamesmanship, a result that harms the public and patent holder.

1. *Too Much Deference to the PTO is Unfair to the Plaintiff in Lawson*

In *Lawson*, too much deference to the PTO combined with the Federal Circuit's narrow definition of finality resulted in the Federal Circuit vacating the contempt sanctions through retroactive dissolution of the contempt order.¹⁴⁹ The court reasoned that the right to relief falls with an injunction erroneously issued, even a permanent injunction, so long as the injunction was not final.¹⁵⁰ But, in applying a more flexible definition of

149. *See id.*

150. *Id.* at 1356.

finality, the injunction was final because it was not reversed or vacated on appeal, and the district court did not exceed its power when it issued it.¹⁵¹

From a policy standpoint, allowing a collateral attack on a permanent injunction contravenes principles of res judicata and finality.¹⁵² Respect for permanent injunctions is important for following court orders and judicial procedures, as well as for avoiding repetitious litigation.¹⁵³ When courts defer to PTO determinations of invalidity—despite having issued a final decree—and consequently vacate contempt awards, it is “just plain unfair” to plaintiffs counting on permanent injunctions to halt patent infringement.¹⁵⁴

2. *Lawson and Fresenius Increase Gamesmanship*

The timing of *Lawson*, *Fresenius*, and *Versata* put together has suggested that alleged patent infringers losing at the judicial courts ought to “scrap and fight,” prolonging litigation until a PTO determination in their favor can “unravel the district court judgment against them.”¹⁵⁵ Indeed, critical to the *Versata* decision was that while the Federal Circuit had vacated injunctive relief and remanded the case in 2013, seemingly without final judgment because the court did not leave “nothing further”¹⁵⁶ to do except the execution of the decree, the patent holder moved to dismiss its claims for injunctive relief.¹⁵⁷ The plaintiff did not scrap and fight to prolong litigation. This led to the district court on remand deeming the injunction issue moot and its previous judgment of infringement as the operative one.¹⁵⁸

In contrast, the alleged infringer in *Fresenius* scrapped and fought, ultimately benefiting from the PTO determination of patent invalidity that trumped the district court judgment of infringement. After initiating a declaratory judgment of invalidity and non-infringement of four of Baxter’s

151. See *ePlus, Inc. v. Lawson Software, Inc.*, 790 F.3d 1307, 1313 (Fed. Cir. 2015) (Newman, J., dissenting from denial of rehearing en banc).

152. *Id.*

153. *Id.* at 1312 (Newman, J., dissenting from denial of rehearing en banc) (quoting *N.L.R.B. v. Local 282, Int’l Bhd. of Teamsters*, 428 F.2d 994, 999 (2d Cir. 1970)).

154. *Id.* at 1315 (Moore, J., dissenting from denial of rehearing en banc).

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

156. *John Simmons Co. v. Grier Bros. Co.*, 258 U.S. 82, 88 (1922).

157. *Versata Software, Inc. v. SAP Am., Inc.*, No. 2:07cv153-RSP, 2014 U.S. Dist. LEXIS 35267, at *6 (E.D. Tex. Mar. 16, 2014).

158. *Id.*

patents, Fresenius's subsequent actions indicated a dilatory motive.¹⁵⁹ Fresenius sought reexamination of two of the patents, but when the PTO in 2006 issued non-final rejections of the claims, Fresenius did not move for a stay in favor of the PTO proceeding.¹⁶⁰ Instead, presumably believing it would prevail, Fresenius chose to proceed with trial.¹⁶¹ Fresenius suffered a substantial setback when the district court granted JMOL in favor of Baxter. It consequently filed a reexamination request of a third patent.¹⁶² Immediately after (but four years after initiating the litigation), Fresenius requested that the district court stay a damages trial until the PTO concluded its reexamination proceedings.¹⁶³ Though Fresenius was unsuccessful in its motion to stay, it ultimately won, as the Federal Circuit eventually set aside the district court judgment, leaving no final judgment to preclude application of the PTO's decision of invalidity.¹⁶⁴

From these two cases, as well as *Lawson*, which had the same outcome as *Fresenius*, alleged infringers can learn many useful lessons. These include the benefits of keeping claims alive, proceeding on multiple fronts to invalidate patents, engaging in delay tactics, and continuously filing requests for PTO reexaminations or post-grant reviews, all to prolong litigation until there is a favorable PTO determination of invalidity that can trump a district court's "non-final" judgment of infringement.

As a result of this gamesmanship, the patent holder and the public lose. Though it is true that invalidating bad patents has social value—indeed, many believe that the ability to obtain poor business method patents led to the NPE problem in the first place¹⁶⁵—and thus the indirect effect of gamesmanship can be beneficial to the public, in other ways it is harmful. Parties who have won judgments of infringement "fair and square"¹⁶⁶ at district court can subsequently see their damage awards, injunctions, and contempt sanctions for violating the injunction all vacated. This is

159. *Fresenius Med. Care Holdings, Inc. v. Baxter Int'l, Inc.*, No. 03-1431, 2007 WL 1655625, at *1, *5 (N.D. Cal. June 7, 2007) (order denying Fresenius's motion to stay) ("It is difficult to imagine a scenario in which a dilatory motive could be more apparent.").

160. *Id.* at *2.

161. *Id.* at *5.

162. *Id.* at *2.

163. *Id.* at *2-3, *5 ("Thus, after years of protracted litigation, only now, at the 11th hour and after suffering a substantial setback, does Fresenius extol the virtues of reexamination.").

164. *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1341 (Fed. Cir. 2013).

165. H.R. REP. NO. 112-98, pt. 1, at 54 (2011).

166. Brief for Biotechnology Indus. Org. as Amicus Curiae Supporting Petitioners at 9, *Baxter Int'l Inc. v. Fresenius USA, Inc.*, No. 13-1071, 2014 WL 1389012, at *9 (U.S. Apr. 7, 2014).

detrimental to companies' financial success. Companies with biological products, for example, depend on significant investments from third parties, which are secured by patent protection.¹⁶⁷ With uncertainty in the ability to enforce patent rights, the ability to obtain investments to generate innovative products for the benefit of the public is jeopardized.¹⁶⁸

Furthermore, uncertainty can increase the pressures on patent holders to settle. For example, alleged infringers can file petitions to institute a PTAB proceeding to bolster a defense to willfulness,¹⁶⁹ consequently encouraging patent holders to settle because they lose the ability to collect treble damages when there is a successful willfulness defense.¹⁷⁰ Similarly, the uncertainty may pressure patent holders to settle for licensing terms favorable to the licensees. For example, because PGRs can be initiated on numerous grounds¹⁷¹ and may thus be an attractive post-grant proceeding for patent challengers, patent holders would likely be hesitant to be overly aggressive in out-licensing its patents during the time window when PGRs are eligible.¹⁷²

One can argue that these results are justified by the need to invalidate bad patents. It is true that the new proceedings under the AIA were meant to "encourage the filing of meritorious patentability challenges" in order to "further improve patent quality."¹⁷³ Yet, the AIA reviews were not meant to undermine the purpose of the finality requirement, which is to ensure a just, speedy, and inexpensive determination.¹⁷⁴ The AIA reviews ought to improve patent quality without the gamesmanship that can create so much uncertainty regarding patent rights, making it difficult for patent holders to obtain investments as well as pressuring patent holders to settle or to acquiesce to certain licensing terms for fear that patent challenges may be pursued.

167. *Id.* at 1.

168. *Id.* at 2.

169. Aashish Kapadia, Note, *Inter Partes Review: A New Paradigm in Patent Litigation*, 23 TEX. INTELL. PROP. L.J. 113, 135 (2015).

170. *Id.*

171. 35 U.S.C. § 321(b) (2012).

172. Robert Greene Sterne et al., *America Invents Act: The 5 New Post-Issuance Procedures*, 13 SEDONA CONF. J. 27, 34–35 (2012).

173. *Coal. for Affordable Drugs VI, LLC v. Celgene Corp.*, IPR2015-01092, IPR2015-01096, IPR2015-01102, IPR2015-01103, IPR2015-01169, at 4 (P.T.A.B. Sept. 25, 2015) (order denying motions for sanctions).

174. *See* 15A WRIGHT & MILLER, *supra* note 3, § 3913.

IV. PARTIAL SOLUTIONS TO THE FINALITY ISSUE

There are different ways to at least partially remedy the unfairness in the system and uncertainty about the rights of patent holders. One solution is to overturn the Federal Circuit's stingy view of preclusive finality for patent cases, which conflicts with its own definition of finality for appeals and with other circuit courts. Alternatively, instituting a nearly automatic stay of litigation rule would solve many, even if not all, problems.

A. THE FEDERAL CIRCUIT SHOULD NOT TREAT PRECLUSIVE FINALITY MORE STINGILY THAN FINALITY FOR APPEAL

The Federal Circuit has a "stingy" view of preclusive finality.¹⁷⁵ For instance, the court in *Fresenius* reasoned that a district court judgment of infringement could be sufficiently final for appeal, but it was not sufficiently final for preclusion of the affirmed PTO's determination of invalidity.¹⁷⁶ In so holding, the court relied on a traditional analysis of preclusive finality, which is that an order establishing liability but leaving open the question of damages or other remedies is not final for purposes of preclusion.¹⁷⁷

The Federal Circuit in *Lawson* took it further by inappropriately applying *Fresenius* to a case with materially different remand instructions. While the *Fresenius* court vacated the injunction on appeal and required the district court to analyze the injunction anew, the *Lawson* court did not and merely suggested that the district court use its discretion to consider any changes.¹⁷⁸ Further, the remand order in *Lawson* was more specific than in *Fresenius*, not allowing the district court to change the final determinations on the merits or undertake further proceedings.¹⁷⁹

In applying *Fresenius* reasoning to a situation where an injunction remained in force and where the remand order was more limited in scope, the *Lawson* decision further narrows the definition of finality as well as by creating unacceptable uncertainty whenever there are contempt orders. *Lawson* states that a final decree "adjudicates upon the entire merits, leaving nothing further to be done except the execution of it,"¹⁸⁰ while in a non-final judgment, "the scope of relief remains to be determined."¹⁸¹ For

175. *ePlus, Inc. v. Lawson Software, Inc.*, 789 F.3d 1349, 1369 (Fed. Cir. 2015) (O'Malley, J., dissenting).

176. *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1341 (Fed. Cir. 2013).

177. *Id.* at 1341–42.

178. *Lawson*, 789 F.3d at 1367 (O'Malley, J., dissenting).

179. *Id.* at 1371.

180. *Id.* at 1358 (quoting *John Simmons Co. v. Grier Bros. Co.*, 258 U.S. 82, 88 (1922)).

181. *Id.* (quoting *Fresenius*, 721 F.3d at 1341).

injunctions, district courts retain the equitable power to revise them in light of changed circumstances.¹⁸² As such, courts relying on *Lawson* would find every injunction non-final, as the “scope of relief remains to be determined” in perpetuity, and then vacate every contempt order when a later PTO decision invalidates the patent at issue.¹⁸³ This outcome is highly problematic for patent holders depending on enforceable injunctions to prevent infringement.

Furthermore, when comparing the *Lawson* and *Fresenius* decisions with *Robert Bosch, LLC v. Pylon Manufacturing Corp.*, the Federal Circuit appears to have “wildly divergent” views on finality for purposes of appeal and for preclusion.¹⁸⁴ In *Bosch*, the Federal Circuit held that liability determinations in patent cases were final for purposes of appeal, though damages and willfulness determinations remained.¹⁸⁵ This liberal view of finality for appeal conflicts with the stingy *Fresenius* and *Lawson* view of finality for preclusion.

In contrast, other circuit courts have applied finality less strictly for preclusion than for appeal, not more so. For instance, the court in *Miller Brewing Co. v. Joseph Schlitz Brewing Co.* stated that to be final for purposes of collateral estoppel, “[f]inality’ in the sense of 28 U.S.C. § 1291 [for appeal] is not required.”¹⁸⁶ And in *Lummus*, the court delineated factors for courts to weigh “[w]hether a judgment, not ‘final’ in the sense of 28 U.S.C. § 1291, ought nevertheless be considered ‘final’ in the sense of precluding further litigation of the same issue.”¹⁸⁷ In order to treat finality for appeal and finality for preclusion consistently with *Bosch* as well as more in line with other circuit courts, the Federal Circuit should adopt a more flexible view of finality for preclusion.

B. THE FEDERAL CIRCUIT SHOULD TREAT FINALITY AS OTHER CIRCUIT COURTS HAVE

While the Federal Circuit applies a traditional notion of preclusive finality in patent cases, which allows patent validity to be re-decided when post-judgment damages still remain, other circuit courts are more flexible,

182. *Id.* at 1370 (O’Malley, J., dissenting).

183. *Id.*

184. *Id.* at 1371 (O’Malley, J., dissenting).

185. *Robert Bosch, LLC v. Pylon Mfg. Corp.*, 719 F.3d 1305, 1320 (Fed. Cir. 2013).

186. 605 F.2d 990, 996 (7th Cir. 1979).

187. *Lummus Co. v. Commonwealth Oil Refining Co.*, 297 F.2d 80, 89 (2d Cir. 1961).

imposing finality and preclusion to issues that were finally decided in full and fair litigation.¹⁸⁸

The other circuit courts have a more relaxed view of finality rather than a traditional view. In *Zdanok*, the Second Circuit stated that “collateral estoppel . . . includes many dispositions which, though not final in that sense [leaving nothing except execution of the judgment], have nevertheless been fully litigated.”¹⁸⁹ The Third Circuit defines preclusive finality as a “more ‘pliant’ concept than it would be in other contexts.”¹⁹⁰ Likewise, the Fourth Circuit describes finality for collateral estoppel as a “flexible concept,” “mean[ing] 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.”¹⁹¹ The Sixth Circuit explained that an adverse judgment following a full and fair opportunity to litigate is preclusive, as “[o]ne bite at the apple is enough.”¹⁹² Similarly, the Eighth Circuit reasoned that it made sense for preclusion to apply to preliminary resolutions or liability determinations without damage awards or other forms of relief when the parties had presented evidence with strong incentives to litigate the issue fully, and when the first proceeding addressed the same issue presented in the second proceeding.¹⁹³

Under the finality principles of other circuit courts to the facts of *Fresenius* and *Lawson*, there should have been preclusive finality. First, it is likely that there were strong incentives for all parties to litigate the issue fully. There were substantial stakes involved in the form of tens of millions of dollars in a damage award or a permanent injunction,¹⁹⁴ six to ten years of litigation,¹⁹⁵ and the opposing parties making related products in the same fields.¹⁹⁶ Second, both judicial and PTAB proceedings involved the

188. *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330, 1355 (Fed. Cir. 2013) (Newman, J., dissenting).

189. *Zdanok v. Glidden Co.*, 327 F.2d 944, 955 (2d Cir. 1964).

190. *Henglein v. Colt Indus. Operating Corp.*, 260 F.3d 201, 210 (3d Cir. 2001).

191. *Swentek v. USAIR, Inc.*, 830 F.2d 552, 561 (4th Cir. 1987).

192. *Emps. Own Fed. Credit Union v. City of Defiance*, 752 F.2d 243, 245 (6th Cir. 1985).

193. *John Morrell & Co. v. Local Union 304A of United Food & Commercial Workers*, 913 F.2d 544, 564 (8th Cir. 1990).

194. *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330, 1333 (Fed. Cir. 2013) (\$14.266 million); *ePlus, Inc. v. Lawson Software, Inc.*, 789 F.3d 1349, 1352 (Fed. Cir. 2015) (permanent injunction).

195. *Fresenius*, 721 F.3d at 1332 (10 years); *Lawson*, 789 F.3d at 1352 (6 years).

196. *Fresenius*, 721 F.3d at 1332 (hemodialysis); *Lawson*, 789 F.3d at 1351–52 (electronic databases).

same issue: patent invalidity.¹⁹⁷ As such, applying the more pliant and flexible view of finality to *Fresenius* and *Lawson* makes more sense, as it is overwhelmingly adopted in the other circuit courts, and it would be fair because it prevents the alleged infringers from taking a second bite at the apple.

C. THE SUPREME COURT SHOULD APPLY *EBAY* REASONING TO CONFORM FINALITY TO ESTABLISHED PRACTICE

The Supreme Court should resolve the conflicts described above by applying *eBay* reasoning. Prior to the *eBay* decision, the Federal Circuit had an “automatic injunction rule” for patent cases.¹⁹⁸ According to this categorical rule, courts would issue permanent injunctions once there was infringement and patent validity, unless there were exceptional circumstances to protect public interest.¹⁹⁹ This rule was troubling not only because it deviated from the traditional four-factor test for injunctive relief, it also placed NPEs in enhanced bargaining positions.²⁰⁰ In *eBay*, the Supreme Court overturned the automatic injunction rule, finding that a departure from traditional equity practice should not be “lightly implied.”²⁰¹ The Court held that injunctive relief is within the “equitable discretion of the district courts” and that courts must exercise that discretion consistently with “traditional principles of equity, in patent disputes no less than in other cases.”²⁰² In so holding, the Court highlighted the language of the Patent Act of 1952, stating that injunctions “may [be issued] in accordance with the principles of equity.”²⁰³ In the aftermath, *eBay* essentially eliminated NPEs’ leverage power, as NPEs were no longer able to viably threaten companies with injunctions.²⁰⁴

Here, the Federal Circuit has significantly deviated from the established federal practice of finality, applying an overly stringent rule and departing from other circuit courts. The Supreme Court ought to step in and rule that

197. *Fresenius*, 721 F.3d at 1332–35; *Lawson*, 789 F.3d at 1352, 1354. To be precise, though district courts can invalidate patents, they do not actually find patents “valid,” only that the patent challenger did not meet its burden of finding invalidity. *ePlus, Inc. v. Lawson Software, Inc.*, 790 F.3d 1307, 1309 (Fed. Cir. 2015) (Dyk, J., concurring in denial of rehearing en banc).

198. *Davis*, *supra* note 46.

199. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393–94 (2006).

200. *Davis*, *supra* note 46.

201. 547 U.S. at 391, 395 (quoting *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 320 (1982)).

202. *Id.* at 394.

203. *Id.* at 392 (quoting 35 U.S.C. § 283 (2012)).

204. *Rice*, *supra* note 41, at 742–43.

a more flexible definition of finality applies to “patent disputes no less than in other cases.”²⁰⁵ Though the Supreme Court did reject a pragmatic finality approach in *Johnson v. Jones*,²⁰⁶ the decision occurred prior to *eBay*, and the Court may likely find more persuasive the *eBay* rationale that such a departure from established practice in patent cases should not be “lightly implied.”²⁰⁷

Just as the *eBay* Court relied on the 1952 Patent Act to come to its conclusion, the Court here could refer to the AIA’s emphasis on providing for “quick and cost effective alternatives to litigation.”²⁰⁸ If the Federal Circuit continues defining finality rigidly, PTO proceedings will no longer be true alternatives to litigation but avenues of gamesmanship for defendants in patent infringement suits. Knowing the Federal Circuit’s stringent view of finality, alleged patent infringers can merely prolong district court litigation until a favorable PTO result overthrows district court judgments that should have been deemed final. There are some limitations to this practice, such as timing restrictions (for instance, the alleged infringer only has one year after being sued to file an IPR petition)²⁰⁹ and the likelihood that only infringers of weak patents having a risk of being invalidated would pursue this. Despite these caveats, the defendants who can game the system have significant leverage power that the NPEs used to have, and they can force patent holders to settle or agree to certain licensing terms before PTO decisions are made and used to trump district court judgments.

One counterargument is that conforming the Federal Circuit’s treatment of finality to other circuit courts’ more flexible definition creates unfairness because initial infringers would be held liable if the PTO eventually invalidates a patent, while later infringers would not. Furthermore, Congress created the Federal Circuit to place “unusually complex [and] technically difficult” patent cases in the hands of a single appeals court to create uniform and better-quality patent decisions.²¹⁰ So long as the Federal Circuit is consistent with its rigid finality rule, perhaps a specialist court should receive deference in its patent decisions and not be forced to conform to other circuit courts.

205. See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).

206. 515 U.S. 304, 315 (1995).

207. See *eBay*, 547 U.S. at 391.

208. H.R. REP. NO. 112-98, pt. 1, at 48 (2011).

209. 35 U.S.C. § 315(b) (2012).

210. H.R. REP. NO. 97-312, at 22–23 (1981).

D. ALTERNATIVELY, DISTRICT COURTS SHOULD IMPLEMENT
AUTOMATIC STAYS IN MOST CASES

Nearly automatic stays of district court litigation until resolution of a PTO proceeding would prevent contradictory determinations of validity at the courts and the PTO. This would eliminate problems of unfairness resulting from either a rigid or flexible finality rule, as there would only be one decision of validity or invalidity from the start. Further, the Federal Circuit would not need to conform its finality definition to the other circuit courts because there would be no district court judgments in conflict with PTO determinations. Because an automatic stay rule would incentivize gamesmanship, an absolute rule would not be viable.

Currently, there is no automatic stay rule, and district courts have wide discretion to stay cases pending PTO proceedings. Courts consider three factors in weighing their decisions: whether a stay would “unduly prejudice or present a clear tactical disadvantage to the non-moving party,” whether a stay would “simplify the issues in question and trial of the case,” and “whether discovery is complete and whether a trial date has been set.”²¹¹ For CBMs, district courts are especially lenient in granting stays, recognizing a fourth factor of whether a stay would reduce the burden of litigation on the parties and on the court.²¹² Interestingly, motions to stay pending resolution of a PTO proceeding have increased dramatically,²¹³ and grant rates for litigation stays have also risen,²¹⁴ with stays fully denied only seventeen percent of the time.²¹⁵ If district courts continue granting stays in the majority of cases, they may solve the problems associated with dual-track litigation by themselves, without the need to implement an automatic stay rule.

Nonetheless, district courts do not favor stays in certain situations. For instance, district courts are cognizant of when defendants may be gaming the system, waiting to move for a stay until after trial and only when there

211. PETER S. MENELL ET AL., PATENT CASE MANAGEMENT JUDICIAL GUIDE § 2.2.6.4.1 (3d ed. 2015).

212. *Id.* § 2.2.6.4.2.

213. *Motions to Stay District Court Cases Pending Post-Grant Proceedings*, DOCKET REP. (Aug. 24, 2015), <http://docketreport.blogspot.com/2015/08/motions-to-stay-district-court-cases.html> [<http://perma.cc/QFX4-TJLV>].

214. MENELL ET AL., *supra* note 211 § 2.2.6.4.1.

215. Joseph Casino & Michael Kasdan, *Trends from 2 Years of ALA Post-Grant Proceedings*, LAW360 (Sept. 29, 2014), <http://www.law360.com/articles/581512/trends-from-2-years-of-aia-post-grant-proceedings> [<http://perma.cc/8UPY-KASX>].

is a favorable PTO action for them.²¹⁶ In general, delay in filing is detrimental to the movant, and judges have refused to grant stays if they sense a dilatory motive or if they have already invested time and energy on a case.²¹⁷ Thus, despite the general pattern of judges typically granting stays, the discretion can lead to denial of stays, dual proceedings, and disparate determinations on patent validity. As such, having *nearly* automatic stays may be advisable when PTO proceedings are instituted.

An absolute automatic-stay rule would not be viable because it would further incentivize gamesmanship. Currently, delays in district court litigation can greatly benefit alleged infringers because they negatively impact the ability of patent holders to obtain damage awards and royalties, and uncertainty over patent rights pressures patent holders to acquiesce to licensing or settlement terms unfavorable to them.²¹⁸ With an automatic stay rule, *all* defendants would likely petition for PTO review in order to obtain these benefits associated with delay. As such, a nearly automatic stay rule would be preferable. With this rule, district courts should stay unless there is evidence of egregious strategic behavior by the movants, such as immense delay in moving to stay or an exceedingly low likelihood of patent invalidation at the PTO.

With a nearly automatic stay rule, PTO post-grant proceedings will truly be alternatives to litigation. It is possible that this rule will burden district court judges who may have invested time and energy on a case, leading to resentment of the proposed system. But, it seems that the overall burdens would be less than in the current system, where district court judgments of patent infringement—the results of numerous years of litigation—have the potential to be deemed non-final for preclusion and set aside for PTO determinations of invalidity.

216. *E.g.*, *Fresenius Med. Care Holdings, Inc. v. Baxter Int'l, Inc.*, No. 03-1431, 2007 WL 1655625, at *2–3, *5 (N.D. Cal. June 7, 2007) (order denying Fresenius's motion to stay) (“Thus, after years of protracted litigation, only now, at the 11th hour and after suffering a substantial setback, does Fresenius extol the virtues of reexamination.”).

217. *See* Kapadia, *supra* note 169, at 127 (noting that a motion to stay was denied when the movant waited until only seven business hours before jury selection to request a stay, while a court found no dilatory motive in a different case when the movant waited less than three months after receiving the complaint to request a stay); Casino & Kasdan, *supra* note 215 (contrasting situations where requests to stay were granted, such as before claim construction had been briefed, with situations where stays were denied, for instance when the movant requested a stay after discovery and Markman hearing).

218. *See supra* Section II.C.1.

V. CONCLUSION

With short timeframes for decisions and high patent invalidity rates, AIA reviews have become very popular with alleged infringers, leading to increased dual-track litigation at the PTO and at the district court. As seen in *Versata*, *Fresenius*, and *Lawson*, with concurrent litigation comes the question of when a district court judgment of infringement is sufficiently final to preclude an intervening PTO determination of invalidity. The Federal Circuit has applied a rigid definition of finality to patent cases, stating that a final judgment leaves nothing further to be done except its execution. This treatment of finality raises gamesmanship concerns, as alleged infringers are incentivized to prolong district court litigation in hopes of receiving a favorable PTO determination. Further, the Federal Circuit's treatment of finality in patent cases contrasts with the other circuits' more pliant, flexible definition of finality. To address concerns of gamesmanship, unfairness, and the special treatment of patent cases, the Federal Circuit should conform its finality definition to established federal practice, or district courts should implement stays absent strategic behavior.