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Preclusive Effect of Unselected Patent Claims Not Resolved in *Katz* Decision

The U.S. Court of Appeals for the Federal Circuit has affirmed a district court's decision requiring a patentee to limit the number of patent claims that could be addressed in litigation. The Federal Circuit also affirmed the district court's refusal to sever and stay the case as to the unselected claims, rejecting the patentee's argument that entering final judgment on the unselected claims violated due process. *In re Katz Interactive Call Processing Patent Litig.*, Nos. 2009-1450, -1451, -1452, -1468, -1469, 2010-1017, Slip Op. at 10-15 (Fed. Cir. Feb. 18, 2011).

In the wake of ever-increasing numbers of patent claims,¹ this decision clarifies and supports a district court's inherent authority to ensure efficient adjudication of large numbers of patent claims. But in so doing, the Federal Circuit left unresolved the far more uncertain question: What is the preclusive effect of the final judgment on the unadjudicated claims in later actions? This question remains an open issue when a court orders a party to limit claims as opposed to cases where the parties reach an agreement deciding the fate of the unasserted claims.

The underlying litigation in this appeal consolidated 25 separate actions, in which the plaintiff, Ronald A. Katz Technology Licensing LP (Katz), asserted 1,975 claims from 31 patents against various defendant groups. *Id.* at 6. On appeal, Katz asserted 14 of those patents. *Id.* at 4.

Several defendants asked the district court to limit the number of asserted claims, with one group proposing that Katz initially select 40 claims per action, narrowing the number to 20 per action after discovery. *Id.* at 7. Although "Katz did not question the need to limit the number of claims in order to make the case manageable," Katz counter-proposed that it initially select 50 claims for each defendant group, narrowing the number to 20 claims for each defendant group after discovery. *Id.* The district court reached a compromise, ordering Katz to select no more than 40 claims for each defendant group for discovery, narrowing the number to 16 claims for each defendant group after discovery, provided that the total number of claims to be asserted against all defendants did not exceed 64 claims. *Id.*

The district court's order also contained a proviso permitting Katz "to add new claims if they 'raise[d] issues of infringement/validity that [were] not duplicative' of previously selected claims." *Id.* But Katz chose not to select additional claims and instead opted to move the court to sever and stay the case as to the non-selected claims. *Id.* at 9. "Katz contended that the court's requirement that it select particular claims violated its due process rights because the court's order could result in decisions having a preclusive effect on non-selected claims regardless of whether those claims present distinct issues of invalidity or infringement." *Id.* The district court denied Katz's motion, finding that Katz's rights under the unselected claims were protected by the court's proviso allowing it to add new claims. *Id.*

¹ See Edward Wyatt, *U.S. Sets 21st-Century Goal: Building a Better Patent Office*, N.Y. Times, Feb. 21, 2011, at A1 (noting that patent applications have become increasingly complex, consisting of hundreds, and sometimes thousands, of claims).

Katz appealed the district court's decision not to sever and stay the unselected claims,² contending that the district court divested Katz of its rights in the unselected claims without due process by entering final judgment without severing and staying the litigation of those claims. *Id.* Katz argued, *inter alia*, that the court's judgments may have preclusive effect in subsequent actions on the unselected claims and that due process requires that Katz be allowed to litigate the unselected claims either in this case or in subsequent actions. *Id.* at 10. According to Katz, it was improper for the district court to impose a burden on Katz rather than on the defendant appellees to show that the unselected claims raised non-duplicative issues of infringement or invalidity. *Id.* Without such a showing by the appellees, the unasserted claims should have been expressly excluded from the final judgments. *Id.*

The Federal Circuit rejected Katz's due process arguments and determined that the "district court acted reasonably in concluding that it would be more efficient to require Katz to point out those unselected claims that raised separate issues of infringement and invalidity rather than requiring the defendants to prove that all of the unselected claims were duplicative." *Id.* at 12. Based on "Katz's failure to make, or even attempt to make, any such showing, it was reasonable for the district court to deny Katz's motion to sever and stay the disposition of all of the unselected claims." *Id.* at 13-14.

In approving the district court's procedure, the Federal Circuit expressly noted that "we do not suggest that a district court's claim selection decisions in a complex case such as this one are unreviewable." *Id.* at 14. For example, if Katz had shown that some of its unselected claims presented unique issues as to liability or damages and the district court had refused to permit Katz to add such claims, that decision "would be subject to review and reversal." *Id.* But Katz instead chose to make an "all or nothing" argument that the entire claim selection process was flawed," which the Federal Circuit found unpersuasive. *Id.*

But the Federal Circuit did not reach a decision on the main thrust of Katz's due process argument with respect to the preclusive effect of the final judgments on the unselected claims. Instead, the court addressed this issue in a footnote, stating that "[a]lthough we accept Katz's assertion that the final judgments could have preclusive effects in later actions brought against the same or other parties, the precise effect of the judgments in this case will necessarily have to be decided in any such later actions that may be brought." *Id.* at 10 n.5. Stay tuned. Katz has another 28 actions that were not consolidated with this underlying case.



If you have any questions about this Legal Alert, please feel free to contact any of the attorneys listed below or the Sutherland attorney with whom you regularly work.

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² Katz also appealed the district court's order granting summary judgment of non-infringement, indefiniteness, failure to satisfy the written description requirement, and obviousness, and the district court's claim constructions. *In re Katz*, Slip Op. at 16-45. The Federal Circuit's resolution of these issues is outside the scope of this Legal Alert.