



Can ‘Loophole’ in IPR Statute Lead to Resurgence of DJ Actions?

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One reason may be the *inter partes* review (IPR) statute. Taking effect in 2012, that statute (part of the America Invents Act) forecloses an IPR if the petitioning party (or real party-in-interest) has already filed a civil action challenging the validity of the patent—i.e., if the party has already filed a complaint seeking a DJ of invalidity. If, on the other hand, the party is sued for patent infringement, it has one year in which to file an IPR petition, regardless of whether it counterclaims for a DJ of invalidity. At least part of the decrease in DJ complaints in patent cases is likely due to potential infringers forgoing invalidity claims in a DJ action to preserve their ability to file an IPR.⁴

But what if a would-be accused infringer could file a civil action, seek declaratory relief of invalidity in district court, and yet preserve its ability to file an IPR? Some parties have leveraged what a recent district court decision described as an “apparent loophole” in the IPR statute to do just that.⁵ We explore that “loophole” and the strategic considerations it raises.

I. Congress Limited a Party’s Ability to File both DJ Complaints of Invalidity and IPRs

To understand this “apparent loophole,” we start with the words of the IPR statute—35 U.S.C. § 315(a)(1) bars parties from filing IPR petitions if “before the date on which the petition for such a review is filed,” the party files a “civil action challenging the validity of a claim of the patent.”⁶

Patent Trial and Appeal Board decisions have generally interpreted the § 315(a)(1) bar expansively. In *Cisco Systems Inc. v. ChriMar Systems Inc.*, a decision recently designated

precedential, the board held that filing a DJ complaint challenging validity is sufficient to trigger the § 315(a) bar—even if the party later voluntarily dismisses that action without prejudice.⁷ Furthermore, the board has rejected arguments that amending a complaint to remove invalidity challenges can cure a § 315(a) bar.⁸

II. The Different Routes to a DJ of Invalidity

IPR statutory bars aside, there are various ways to seek a declaration of invalidity from a district court. First, a party can wait to be sued and assert counterclaims seeking a DJ of invalidity. But this approach cedes control of important early strategic decisions (like venue) to the patent owner and will require the defendant to file any IPRs challenging the asserted patents within one year of suit.

Second, a party can file a complaint seeking a DJ of invalidity—often combining it with a DJ of noninfringement. These actions have historically been a popular vehicle to prevent patent owners from forum shopping, assuming there is an actual case or controversy and the court exercises its discretion to hear the claims. But, under § 315(a)(1), this approach forecloses subsequent IPRs for the DJ plaintiff and real parties-in-interest.

Third, a party can file a complaint seeking a DJ of noninfringement only. But how does seeking a DJ of noninfringement actually lead to a declaration of invalidity? The answer lies in Federal Rule of Civil Procedure 13. A counterclaim of infringement is compulsory to a DJ of noninfringement.⁹ Once the patent owner files infringement counterclaims, the original DJ plaintiff can answer with invalidity affirmative defenses and assert “counterclaims-in-reply” seeking a DJ of invalidity. A potential accused infringer recently took this approach in the Northern District of California.¹⁰

III. Recognizing the Apparent Loophole in the IPR Statute

In April, a district court in the Northern District of California denied a patent owner’s motion to strike a DJ plaintiff’s counterclaims-in-reply.¹¹ In that case, the would-be infringer filed a complaint seeking a DJ that it did not infringe any enforceable claim of several patents.¹² The patent owner counterclaimed for infringement of several of those patents.¹³ In its answer to those counterclaims, the accused infringer pled various affirmative defenses, including a defense based on patent invalidity.¹⁴ It also asserted “counterclaims-in-reply,” seeking declarations that the claims of those patents were invalid.¹⁵ In other words, the accused

infringer filed a civil action, and also sought to maintain a claim for a declaration of invalidity without technically filing “a civil action challenging the validity of a claim of the patent,” which would have triggered the § 315(a) bar.¹⁶ In a motion to strike the counterclaims-in-reply, the patent owner argued that this tactic was an “end-run around the rules governing the availability of *inter partes* review.”¹⁷

In denying the patent owner’s motion, the court noted that the pleadings included affirmative defenses of invalidity, which the court had no reason to strike.¹⁸ Therefore, the question was not whether the court should consider the invalidity challenge; the question was whether the court should allow a separate DJ counterclaim in addition to the affirmative defense of invalidity.¹⁹ The court concluded that, because the counterclaim-in-reply was redundant of the affirmative defenses, striking the DJ counterclaims would be futile.²⁰

In the course of its analysis, the district court cited a non-precedential PTAB decision addressing the same issue.²¹ In that case, the petitioner had previously filed in a district court a counterclaim-in-reply seeking a declaration that the claims of the challenged patent were invalid.²² The board nonetheless instituted review, noting that the IPR statute explicitly distinguishes a “civil action challenging validity” from a “counterclaim challenging validity”—with only the former barring an IPR.²³ The board also noted that the statute does not parse certain counterclaims, such as “counterclaims-in-reply” from other “counterclaims.” So, in the board’s view, counterclaims in reply—like standard counterclaims—do not trigger the bar.²⁴ In light of the Supreme Court’s recent decision in *Thryv, Inc. v. Click-to-Call Technologies, LP*, the board’s determinations at institution—including, for example, whether § 315(a) bars an IPR, may not be reviewable—leaving the board as the final arbiter on interpretation of the § 315(a) (1) bar.²⁵

IV. Strategic Implications: DJ Actions with Invalidity Counterclaims-in-Reply

In light of the current case law, potential accused infringers should consider filing a complaint seeking a DJ of noninfringement, and then filing DJ of invalidity “counterclaims-in-reply” to the patent owner’s compulsory infringement counterclaims. This strategy may allow the party to choose the venue and to preserve its ability to file an IPR. And, as explained above, maintaining a DJ claim for invalidity (as opposed to just asserting affirmative defenses of invalidity) allows the accused infringer to continue litigation against a patent owner, even if

the patent owner would prefer to drop its infringement claim for certain patents, which often occurs as discovery advances and cases are narrowed for trial.²⁶

This ability to keep a patent owner's patents at risk can provide an accused infringer settlement leverage, particularly where the patents at issue generate licensing revenue from third parties. In these cases, the patent owner has to weigh not only the value of the suit, but the risk that some of its revenue-generating patents—which may or may not offer a strong infringement position in the case—could be invalidated. Invalidity challenges—in either a claim, counterclaim, or counterclaim-in-reply—are also valuable if an accused infringer expects to release new products that could potentially infringe the same patent, but for which there may not yet be an actual case or controversy. Maintaining a DJ action where there is a case or controversy over current products can be a way to clear the air of patents that could be asserted against future products.

It is not hard to see why a party would want to pursue a DJ of invalidity. And in light of the IPR statutory bar, which could eliminate arguably the most attractive forum for challenging validity—the PTAB—it stands to reason that a party would not want to file a civil action challenging the validity of the patent. By seeking a declaration of invalidity via a counterclaim-in-reply, the party still selects the district court venue and maintains a claim for a declaration of invalidity, but leaves open the possibility of a later IPR challenge, so long as it is filed within one year of service of the compulsory counterclaim of infringement.²⁷ Given the potential availability of this strategic path, will we see more DJ actions? Potentially—although other considerations could play into parties' decision whether to take this route.

First, the district court could simply strike a party's invalidity counterclaims-in-reply.²⁸ So long as the party includes affirmative defenses of invalidity, the issue of invalidity will still be addressed for any patents that remain asserted. The accused infringer will, however, lose the potential settlement leverage based on a threat of invalidity for any patents that the patent owner drops from the case.

Second, the court has the inherent authority not only to strike the counterclaims-in-reply, but also to instruct the DJ plaintiff to amend its original complaint to add the claims of invalidity.²⁹ This option presents an interesting question. What effect does an amended complaint have on a party's ability to file IPRs in the future? By filing an amended complaint

with claims of invalidity, the party will almost certainly be barred under § 315(a) from filing future IPR petitions.

But what happens if the party keeps a “ready-to-file” IPR petition in its pocket that it can file with the board before filing such an amended complaint in the district court? The answer may depend on the interplay between the statutory bar of § 315(a) and Federal Rule of Civil Procedure 15(c)(1)(B), which determines when amended claims relate back to the date of an earlier pleading. Under Rule 15(c)(1)(B), an amendment relates back to the date of the original complaint if it arises out of the same “conduct, transaction, or occurrence” set out in the original complaint.³⁰ To date, such a scenario involving § 315(a) does not appear to have been addressed by any court.

Practice Point: Careful pleading may allow a party to file a civil action seeking a declaration of invalidity in district court while leaving intact its ability to pursue later an IPR challenging the same patent. But parties should weigh their options carefully. If a court strikes invalidity counterclaims-in-reply, the DJ plaintiff will have to decide whether to amend its complaint, which will likely foreclose a future IPR. And not filing an amended complaint will leave the party to rely on its affirmative defenses, eliminating any leverage a DJ claim of invalidity might add, but leaving open the option to file an IPR at a later date. Although seemingly feasible at present, whether the strategic maneuvering described here signals a resurgence of DJ actions in patent cases remains to be seen. So far, district courts and the PTAB have justified their decisions by pointing to strict adherence to the text of the statute. Thus, short of legislative action, this strategy may remain viable for the foreseeable future.

¹ The authors searched DocketNavigator for all district court patent litigation complaints in the referenced years. Based on DocketNavigator’s classifications of complaints, the authors compared the number of complaints identified as DJ complaints to the total number of complaints for each year.

²*Id.*

³*See Cardinal Chem. Co. v. Morton, Int’l*, 508 U.S. 83, 98 (1993); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007); *Meds. Co. v. Mylan, Inc.*, 853 F.3d 1296, 1302 n.1 (Fed. Cir. 2017) (“[A] finding of noninfringement cannot moot a counterclaim of invalidity.” (citing *Cardinal Chem*, 508 U.S. at 99 (1993))).

⁴ In 2017, the Supreme Court decided *TC Heartland*, which curtailed patent owners' broad ability to bring suit in their desired jurisdiction. This development may have also contributed to a decrease in DJ actions due to decreased pressure on potential defendants to file a preemptive suit and secure a favorable jurisdiction. *TC Heartland v. Kraft Foods Grp. Brands*, 137 S. Ct. 1514 (2017).

⁵ *Epic Games, Inc. v. Acceleration Bay LLC*, No. 19-cv-04133, 2020 U.S. Dist. LEXIS 58327 at *10 (N.D. Cal. Apr. 1, 2020).

⁶ And if a party files a civil action challenging the validity of a patent after it files after an IPR challenging that patent, the district court case is automatically stayed. See 35 U.S.C. § 315(a) (2).

⁷ IPR2018-01511, Paper 11 (PTAB Jan. 31, 2019).

⁸ See, e.g., *HTC Corp. v. AGIS Software Dev.*, IPR2019-00485, Paper 9 at 9–11 (PTAB July 1, 2019); *ZTE (USA), Inc. v. AGIS Software Dev.*, IPR2019-00487, Paper 9 at 5 (PTAB July 30, 2019). On the other hand, another recent decision cabined § 315(a) by clarifying that it applies only to actions that directly seek to invalidate a patent, and not to those that merely implicate its validity—for example, an antitrust case based on fraudulent procurement of a patent. See *American Nat'l Mfg., Inc. v. Sleep Number Corp.*, IPR2019-00514, Paper 10 at 11-14 (PTAB Aug. 5, 2019).

⁹ *Vivid Techs., Inc. v. American Science & Eng'g, Inc.*, 200 F.3d 795, 801-02 (Fed. Cir. 1999).

¹⁰ *Epic Games*, 2020 U.S. Dist. LEXIS 58327.

¹¹ *Id.*

¹² *Id.* at *1-2.

¹³ *Id.* at *2.

¹⁴ *Id.* at *8.

¹⁵ *Id.* at *2.

¹⁶35 U.S.C. § 315(a).

¹⁷*Epic Games*, 2020 U.S. Dist. LEXIS 58327 at *3.

¹⁸*Id.* at *8-9.

¹⁹*Id.* at *9.

²⁰*Id.* at *8.

²¹*See Canfield Scientific, Inc. v. Melanoscan, LLC*, IPR2017-02125, Paper 15 at 2-7 (PTAB Mar. 30, 2018).

²²*Id.* at 2-3.

²³*Id.* at 4 (internal quotation marks omitted).

²⁴*Id.* at 5.

²⁵*Thryv, Inc. v. Click-To-Call Techs., LP*, ___ U.S. ___, 140 S. Ct. 1367 (2020); *see also ESIP Series 2, LLC v. Puzhen Life USA, LLC*, ___ F.3d ___, No. 2019-1659, 2020 U.S. App. LEXIS 15934 at *12-14 (Fed. Cir. May 19, 2020) (holding that the board's real party in interest determination was non-appealable).

²⁶Resolution of infringement eliminates any apprehension of suit, but does not moot a declaratory judgment counterclaim of patent invalidity. *See MedImmune*, 549 U.S. at 132 n.11 (citing *Cardinal Chem.*, 508 U.S. at 98); *but see Old Town Canoe Co. v. Confluence Holdings Corp.*, 448 F.3d 1309, 1323-24 (Fed. Cir. 2006) (Mayer, J., dissenting) (distinguishing *Cardinal Chemical* in a pre-*MedImmune* case and concluding that a noninfringement judgment eliminated the case or controversy over declaratory judgment claims of invalidity and unenforceability).

²⁷*See St. Jude Med., Cardiology Div., Inc. v. Volcano Corp.*, IPR2013-00258, Paper 29 at 7 (PTAB Oct. 16, 2013).

²⁸*See Epic Games*, 2020 U.S. Dist. LEXIS 58327, at *6-8.

²⁹ See *Fujitsu Ltd. v. Nanya Tech. Corp.*, No. 06-cv-6613, 2007 U.S. Dist. LEXIS 44386 at * 6 (N.D. Cal. June 6, 2007) (requiring plaintiff to amend its complaint to add its counterclaims-in-reply, including a claim of patent infringement, as causes of actions in its complaint); *Pogue v. Allied Prods. Corp.*, No. 89-cv-3548, 1989 U.S. Dist. LEXIS 11092 (N.D. Ill. 1989) (directing party to amend its complaint to avoid jury confusion). The *Epic Games* court suggested that simply reclassifying the counterclaims-in-reply as claims in the original complaint using its inherent authority may not be viewed by the PTAB as a bar to seeking an IPR under 35 U.S.C. § 315. See *Epic Games*, 2020 U.S. Dist. LEXIS 58327, at n.2.

³⁰ See *Barnes & Noble, Inc. v. LSI Corp.*, 823 F. Supp. 2d 980, 991 (N.D. Cal. 2011) (finding that invalidity claims in amended complaint relates back to original complaint when applying first-to-file rule where they concerned the same patents, accused products, and functionality that were in the original complaint).

Categories

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