IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

SMITH INTERNATIONAL, INC., Plaintiff, v. BAKER HUGHES INCORPORATED, Defendant.	Civ. A. No. 16-056-ER

PLAINTIFF SMITH INTERNATIONAL INC.'S MOTION TO LIFT STAY

Pursuant to the Court's Order dated July 31, 2017 (D.I. 103), Plaintiff Smith International, Inc. ("Smith") moves to lift the stay entered in this case.[1]

On July 31, 2017, the Court granted Defendant Baker Hughes, Inc.'s ("BHI") Motion to Stay (D.I. 33) this patent infringement suit pending *inter partes* review ("IPR") of United States Patent Nos. 6,732,817 ("the '817 Patent") and 7,314,099 ("the '099 Patent") by the United States Patent Trial and Appeal Board ("PTAB") and a Federal Circuit appeal relating to the rejection of certain claims of the '817 Patent during *ex parte* reexamination proceedings. D.I. 103.

Since BHI's Motion to Stay was filed, the PTAB declined to institute IPR proceedings with respect to the '817 Patent, thereby rejecting BHI's invalidity challenges to all contested claims of the '817 Patent. Additionally, on September 26, 2017, the United States Court of Appeals for the Federal Circuit issued a precedential opinion in *In re: Smith International, Inc.*, No. 2016-2303 in which it: (1) reversed the United States Patent and Trademark Office's ("PTO") rejection of all

[1] Pursuant to D. Del. LR 7.1.1, counsel for Smith hereby states that a reasonable effort has been made to reach agreement with BHI on the matters set forth herein, but that agreement could not be reached.

claims appealed from the *ex parte* reexamination of the '817 Patent; (2) reversed the PTAB's decision to uphold the examiner's rejections; and (3) found all appealed claims to be patentable. A copy of the Federal Circuit's opinion is attached hereto as Ex. 1.

In light of these developments, Smith respectfully requests that the Court lift the stay.

I. BACKGROUND AND STATUS OF THE CASE

Smith originally asserted the '817 and '099 Patents against BHI in the United States District Court for the Southern District of Texas on December 7, 2012. *See* D.I. 14, at 2. BHI moved to dismiss those allegations pursuant to FED. R. CIV. P. 12(b)(6) (along with moving to compel arbitration of the balance of the claims in the case brought by Smith's corporate parent). *See id.*, at 1-2. For three years, BHI's motion to dismiss remained pending, precluding Smith from pursuing its infringement allegations.

During the delay, on July 3, 2013, BHI requested *ex parte* reexaminations of some, but not all, of the claims of the '817 and '099 Patents. D.I. 41-1. Later, on December 4, 2013, and in response to the Southern District of Texas's directive to resubmit briefing on its motion to compel arbitration, BHI moved the Court in the Southern District of Texas to stay Smith's allegations relating to the '817 and '099 Patents in light of the pending *ex parte* reexaminations. D.I. 41-2.

While the PTO concluded that the challenged claims of the '099 Patent were not unpatentable over the prior art (D.I. 99-2, at A2709-A2725), the PTO finally rejected various claims of the '817 Patent that were at issue in the *ex parte* reexamination as unpatentable as obvious over the prior art. D.I. 99, at A1490-A1510; *see also* D.I. 34, at 5-6. Smith ultimately appealed the PTO examiner's rejection of the challenged claims of the '817 Patent to the PTAB. D.I. 97-1, at A1599-1644.

On December 10, 2015, nearly three years to the day after Smith first brought its infringement claims against BHI, the Southern District of Texas denied Baker Hughes's motion to

dismiss, and ordered the balance of the claims in the case to arbitration. D.I. 14, at 2-3. That case was dismissed without prejudice, and on January 29, 2016, Smith brought stand-alone claims against BHI for infringement of the '817 and '099 Patents in the District of Delaware. D.I. 1.

On April 29, 2016, the PTAB affirmed all of the PTO examiner's rejections of the claims of the '817 Patent. Ex. 1, at 1-2. Smith timely appealed to the Federal Circuit on June 29, 2016. Ex. 2, Corrected Brief For Smith International Inc., Appeal. No. 2016-2303 (Fed. Cir.), at 1.

On July 19, 2016, Defendant BHI petitioned the PTAB to conduct *inter partes* review of the '817 Patent. *See* Petition for *Inter Partes* Review Under 35 U.S.C. § 312, *Inter Partes* Review No. IPR2016-01450 (D.I. 35-1); Petition for *Inter Partes* Review Under 35 U.S.C. § 312, *Inter Partes* Review No. IPR2016-01451 (D.I. 36-1). That same day, BHI also petitioned the PTAB to conduct *inter partes* review of the '099 Patent. *See* Petition for *Inter Partes* Review Under 35 U.S.C. § 312, *Inter Partes* Review No. IPR2016-01440 (D.I. 34-1); Petition for *Inter Partes* Review Under 35 U.S.C. § 312, *Inter Partes* Review No. IPR2016-01452 (D.I. 37-1).

Three months later, on October 21, 2016, BHI moved the Court to stay this case pending resolution of the petitioned IPR proceedings. D.I. 33; D.I. 34. Recognizing the prejudice that would result from further delaying the adjudication of Smith's claims, Smith opposed BHI's motion. D.I. 40.

On December 22, 2016, the PTAB issued its decision denying institution of both petitions for *inter partes* review that BHI filed with respect to the '817 Patent. *See* Ex. 3, Decision Denying Institution of *Inter Partes* Review for IPR2016-01450; Ex. 4, Decision Denying Institution of *Inter Partes* Review for IPR2016-01451. Then, on February 2, 2017, the PTAB issued its decision instituting *inter partes* review for both petitions that BHI filed with respect to the '099 Patent on a small portion of the asserted claims. D.I. 59-1.

In May 2017, this case was re-assigned to the Honorable Eduardo C. Robreno of the United States District Court for the Eastern District of Pennsylvania. D.I. 81. On June 2, 2017, the Court amended the Patent Case Scheduling Order (D.I. 20) as it related to final infringement contentions and final invalidity contentions, and continued the claim construction hearing until further order of the Court. D.I. 86. The Court entered an Order staying the case on July 31, 2017. D.I. 103. In so doing, the Court also ordered the parties to "keep the Court apprised of any developments regarding the inter partes reexamination of the '099 patent and the appeal of the '817 patent in the Federal Circuit Court of Appeals." *Id.*

Pursuant to the Court's Order (D.I. 103), Smith apprises the Court that on September 26, 2017, the Federal Circuit issued a precedential opinion which: (1) reversed the PTO's rejections of all claims appealed from the *ex parte* reexamination; (2) reversed the decision of the PTAB; and (3) found all appealed claims to be patentable. *See* Ex. 1.

As currently situated, thirty of the seventy-four originally asserted claims of the '817 Patent have now been found patentable by the Federal Circuit, and BHI is now estopped from asserting prior art that was or could have been previously asserted. As such, the claims of the '817 Patent are streamlined for this litigation, as effectively only infringement is at issue. In addition, only twenty-eight of the fifty-six asserted claims from the '099 Patent currently remain in *inter partes* review proceedings before the PTAB, and the hearing on these claims is currently set for October 25, 2017. An opinion will follow shortly after.

II. THE STAY SHOULD BE LIFTED

A. There has been a significant change in circumstances that warrants lifting the Court's stay.

Since the Court stayed this case, there has been a significant change in circumstances that warrants a lifting of the stay. *See Fifth Mkt., Inc. v. CME Grp., Inc.*, No. CIV.A. 08-520-GMS,

2013 WL 3063461, at *1 n.1 (D. Del. June 19, 2013) ("In later determining whether to lift a stay, the court considers any new developments that might have altered the aforementioned stay calculus. . . . When circumstances have changed such that the court's reasons for imposing the stay no longer exist or are inappropriate, the court may lift the stay.") (citations omitted). The September 26, 2017 Federal Circuit decision on Smith's appeal regarding the *ex parte* reexamination of the '817 Patent has significantly altered and simplified this litigation, by holding that all thirty claims at issue were patentable over the prior art. Ex. 1, at 14-15.

In its July 20, 2017 letter, BHI argued that a stay should be granted based on Smith's pending appeal to the Federal Circuit regarding the thirty claims that were rejected during the *ex parte* reexamination of the '817 Patent. D.I. 101. More specifically, BHI argued that granting a stay would reduce the ten claim terms at issue for the Court to construe because "[i]f the Federal Circuit were to uphold the findings of the PTO related to the '817 Patent, two terms would no longer be at issue because the claims containing those terms would be invalid." *Id*. BHI's rationale in this regard is no longer applicable in light of the Federal Circuit's decision affirming the patentability of the '817 Patent claims. Therefore, the circumstances underlying BHI's request for a stay of the case have substantially changed.

B. Continuing the stay will not simplify the issues for trial.

As a result of these changed circumstances, maintaining the stay in this case will not undeniably simplify the issues for trial. First, after the Federal Circuit's decision affirming the patentability of the '817 Patent claims, the '817 Patent is no longer subject to any separate proceedings outside of this Court. Therefore, there are no issues (claim construction or otherwise) to be narrowed regarding the '817 Patent, and the infringement claims are ripe for adjudication.

Second, Smith is currently asserting fifty-six claims from the '099 Patent, which may be subject to further narrowing after claim construction and discovery are completed. *See* D.I. 101.

All of those claims were confirmed as patentable by the PTO in November 2014, as a result of the BHI-instituted *ex parte* reexamination. *See* D.I. 99-2, at A2709-A2725. This case was filed in January 2016, and BHI subsequently requested that the PTO institute IPR proceedings, applying new prior art. IPRs were instituted on twenty-eight of the fifty-six asserted claims—leaving ***twenty-eight claims twice confirmed*** as patentable over BHI's filings with the PTO.

Within those twenty-eight claims, only two of the ten claim terms briefed for claim construction in this case can potentially be affected by the remaining IPRs, and those two claim terms are found in claims 1 and 27 of the '099 Patent. *See* D.I. 101. Continuing the stay has the potential of removing at most only two of ten claim terms that are currently before the Court for construction, and even then, these claim terms will only be impacted if BHI prevails in showing that these two claims are invalid.

In sum, with the Federal Circuit appeal completed, there is so little at stake in the IPRs that it does not warrant any further delay of the *Markman* hearing. The parties have fully briefed the ten terms at issue for claim construction in this Court. The pending IPRs will have *at most* an impact on two of the ten claim terms. As such, the potential for simplifying issues by continuing the stay is minimal.

C. Continuing the stay will cause undue delay, prejudice, and harm to Smith.

Given that the Federal Circuit has now affirmed the patentability of all of the '817 Patent claims and that eight of ten terms at issue for the Court to construe will remain at issue regardless of the outcome from the two pending IPRs, continuing to stay the case pending the resolution of the two IPRs will only serve to cause further undue delay, prejudice, and harm to Smith.

As explained in Smith's Opposition to BHI's Motion to Stay, BHI has effectively delayed the prosecution of Smith's patent infringement claims with respect to the '817 and '099 Patents for over four years, since Smith originally asserted the patents in the Southern District of Texas on

December 7, 2012. D.I. 40 at 7. Since this case was first filed, the '817 Patent has now twice been reviewed by the PTO at BHI's urging, and all asserted claims are confirmed patentable. All claims of the '099 Patent survived a first BHI-requested *ex parte* reexamination, and IPRs were denied on half of the asserted claims. Yet, despite BHI's failures in the PTO, BHI has achieved its apparent objective—delaying resolution of this case and running years off the life of the patents.

The harm to Smith is evident. The hearing for the IPRs is currently scheduled for October 25, 2017. The PTAB's decision should issue in February 2018 (one year after institution), but may be extended by six months by the PTAB for good cause. In other words, continuing this stay will result in a substantially longer delay in Smith's ability to prosecute its claims to over ***five years*** at a minimum—nearly one-quarter of the 20-year patent term. This is undue delay—and, at this point, completely unnecessary delay—and also results (and has resulted) in undue prejudice to Smith. *See, e.g.*, *Ohio Willow Wood Co. v. Alps S. Corp.*, No. 2:04-CV-1223, 2008 WL 4683222, at *3 (S.D. Ohio Oct. 21, 2008) (finding that a four year delay would unduly prejudice the patentee).

Moreover, BHI exacerbated the delays. As explained in Smith's Opposition to BHI's Motion to Stay, BHI filed its *ex parte* reexamination requests against certain of the claims of the '817 and '099 Patents in July 2013. D.I. 40, at 9. Although BHI had already prepared its invalidity challenges, BHI waited nearly six months after this case was filed in January 2016 to file its IPR petitions, and then waited another three months to file its Motion to Stay. *Id*. In view of this, and the current status of the PTAB and Federal Circuit proceedings, rewarding BHI with further delay is unjust and harmful to Smith who only seeks to protect technology it invented and patented.

III. CONCLUSION

Lifting the stay and scheduling a *Markman* hearing is appropriate. All of the claim terms at issue have been fully briefed. Few issues remain in the pending IPRs that could potentially

impact this case, and the vast majority of the Asserted Claims have been confirmed as patentable—twice. For the foregoing reasons, Smith respectfully requests that the Court lift the stay entered on July 31, 2017, and either set a *Markman* hearing date or direct the parties to confer promptly to establish a revised scheduling order.

DATED: October 3, 2017

Respectfully submitted,

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