

When is Final Really Final? The Federal Circuit Wrestles with Conflicting Court and PTO Decisions Relating to the Same Patent

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Yogi Berra, the sage of baseball and life, once said, "It ain't over until it's over." In many respects, that philosophy applies to district court patent infringement litigation that advances in parallel with proceedings in the U.S. Patent and Trademark Office to invalidate one or more of the patents in the litigation.

It has long been a strategy for a company facing charges of infringement in district court to initiate an action with the PTO to invalidate some or all of the patent claims at issue – by ex parte re-exam, inter partes re-exam or, since the passage of the America Invents Act in 2011, inter partes review. Because court cases and PTO proceedings progress at different speeds, it is typical for the court and the PTO to reach a decision at different times. When those tribunals reach conclusions at odds with one another – say, the court finds the patents valid and infringed and the PTO finds them invalid – the litigants are forced to continue the fight until the situation gets sorted out. Within the past year, the Federal Circuit has issued three decisions which bring some clarity to this murky area. This article exams those decisions.

Fresenius USA, Inc. v. Baxter International, Inc.

In the first, and best known, of these cases, *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330 (Fed. Cir. 2013), the court held that the cancellation of claims of a patent owned by Baxter and asserted against Fresenius by the PTO in a re-exam proceeding after judgment had been entered in Baxter's favor in district court served to vacate the judgment and end the matter with Fresenius prevailing. The history of the litigation is torturous, messy and long, having begun more than ten years before the Federal Circuit rendered its most recent (and probably last) decision in the case. Before it got to this point, the court case involved a jury trial, two appeals to the Federal Circuit and the entry of a judgment in Baxter's favor, while the ex parte re-exam involved a finding that the patent claims were obvious, an appeal to the Federal Circuit and a cancellation of the claims. In the end, the critical facts were that the Federal Circuit had affirmed judgment of invalidity in 2009 but remanded the case to dispose of issues relating to damages; following the "final" judgment on March 16, 2012, the court granted Fresenius's motion to stay the judgment while the parties cross-appealed on damages issues; and the PTO issued a certificate cancelling patent claims on April 30, 2013. The issue facing the Federal Circuit this time was whether the cancellation of the claims after final judgment had been entered but while that judgment was stayed ended the litigation in Fresenius's favor because the cancellation of the patent claims extinguished Baxter's cause of action.

In the majority decision issued on July 2, 2013, Judge Dyk (joined by Judge Prost) vacated the district court judgment in favor of Baxter and remanded with instructions to dismiss. Because both sides – and the court – agreed that "the cancellation of a patent's claims cannot be used to reopen a final damages judgment ending a suit based on those claims," *Id.* at 1340, the issue came down to whether the "final" judgment on invalidity that the district court had entered and the Federal Circuit had affirmed in

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2009 was final enough. The court held it was not. Even though the Federal Circuit's affirmance of the judgment of invalidity had brought to an end court proceedings relating to invalidity, "it did not end the controversy between the parties, or leave 'nothing for the court to do but execute the judgment.'" *Id.* at 1341, quoting from *Mendenhall v. Barber-Greene Co.*, 26 F.3d 1573, 1580 (Fed. Cir. 1994). Therefore, at the time of the PTO's cancellation of the claims, the district court case was still "open" and the judgment was still vulnerable to the PTO's decision.

Judge Newman wrote a dissent, the first two sentences of which neatly summed up her concerns:

The court today authorizes the Patent and Trademark Office, an administrative agency within the Department of Commerce, to override and void the final judgment of a federal Article III Court of Appeals. The panel majority holds that the entirety of these judicial proceedings can be ignored and superseded by an executive agency's later ruling.

Fresenius, 721 F.3d at 1347 (Newman dissent). According to Judge Newman, "when the issue of validity of claims has already been resolved in litigation, subsequent redetermination by the PTO is directly violative of the structure of government." *Id.* at 1349. Because the Federal Circuit had finally resolved the issue of patent validity, with its 2009 affirmance of the district court's judgment, the fact that the district court had to deal with damages issues did not make the validity judgment any less final because what remained "had no relation to any issue in reexamination; validity had been finally resolved in the courts." *Id.* at 1355. In a six to four vote, the Federal Circuit denied Baxter's petition for rehearing and rehearing en banc. *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 733 F.3d 1369 (Fed. Cir. 2013).

Versata Software, Inc. v. SAP America, Inc.

Faced with a different chronology than the court in *Fresenius*, the Federal Circuit reached a different result in *Versata Software, Inc. v. SAP America, Inc.*, 564 Fed.Appx. 600 (Fed. Cir. June 18, 2014). Versata obtained a judgment of infringement against SAP based upon a jury verdict, and SAP appealed. During the appeal, SAP filed a petition for Covered Business Method review of the Versata patent, and the PTAB initiated review. The Federal Circuit affirmed the judgment in favor of Versata but remanded to the district court to modify the permanent injunction it had issued. *Versata Software, Inc. v. SAP America, Inc.*, 717 F.3d 1255 (Fed. Cir. 2013). Six weeks after the Federal Circuit's decision, the PTAB found the patent to be invalid. Versata appealed. In the meantime, Versata withdrew its request for an injunction, which was the only part of the judgment not affirmed by the Federal Circuit.

SAP moved the district court to vacate or stay the judgment, in part, because of the PTAB's finding that the Versata patent was invalid. The district court denied the motion because a final judgment had been issued in the case (and the CBM proceedings were on appeal and not final). The court reasoned:

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

Versata Software, Inc. v. SAP America, Inc., 2014 WL 1600327 at *2 (E.D. Tex. April 21, 2014). The court distinguished *Fresenius* on the ground that Versata's judgment "is final and there are no further issues to be resolved." *Id.* In a very short *per curiam* decision, the Federal Circuit granted Versata's motion to dismiss SAP's appeal without citing *Fresenius* or any other cases. *Versata*, 564 Fed.Appx. 600.

ePlus, Inc. v. Lawson Software, Inc.

The Federal Circuit decided the final installment of its what-is-final trilogy on July 25, 2014 in *ePlus, Inc. v. Lawson Software, Inc.*, -- F.3d --, 2014 WL 3685911 (Fed. Cir. July 25, 2014). In another split decision, the majority (again consisting of Chief Judge Prost and Judge Dyk) vacated a permanent injunction and contempt order following the PTO's cancellation of the patent claim on which the injunction and contempt order had been based. As in the *Fresenius* and *Versata* cases, *ePlus* took a winding path to the Federal Circuit. At trial, *ePlus* prevailed on both infringement and validity, and the district court entered an injunction. The Federal Circuit reversed in part, holding only one of the claims of one of the asserted patents valid and infringed and remanded for the district court to reconsider the injunction. On remand, the district court modified the injunction and then found Lawson in contempt of the injunction. Lawson appealed both the injunction and contempt order. While that appeal was pending, the PTO concluded in a re-exam proceeding that the surviving claim was invalid, which the Federal Circuit affirmed in a separate appeal.

The Federal Circuit panel unanimously – without objection from the patent owner – first vacated the injunction, holding that the basis for the injunction – a valid patent claim – no longer existed in view of the PTO's invalidation of the claim. Accordingly, under long-standing Federal jurisprudence, the injunction could not remain in place. *ePlus*, 2014 WL 3685911 at *5.

On the contempt question, the majority began its analysis by noting that courts have long held that civil contempt sanctions arising from the violation of a non-final injunction barring infringement of a patent should be set aside when the patent is subsequently found to be invalid. *Id.* at *6, citing *Worden v. Searls*, 121 U.S. 14, 26 (1887). The court then held that the *Worden* rule applied equally where “the injunction has been set aside as the result of the PTO proceeding rather than a court judgment.” *ePlus*, 2014 WL 3685911 at *7. Finally, relying extensively on *Fresenius*, the majority concluded that the injunction entered by the district court was not final at the time the PTO invalidated the claim at issue because following remand the court had issued a modified injunction, which had been appealed, and the PTO decision invalidating the patent had occurred before the appeal had been decided. Therefore, Lawson could be relieved from the contempt order. *Id.* at **7-8.

Judge O'Malley dissented from the portion of the majority's decision holding that Lawson did not have to pay civil contempt sanctions. First, she argued that *Fresenius* did not apply to the *ePlus* case because the factual and procedural postures were different at the point in time when the PTO found the patent claims to be invalid. *Id.* at *12. Even if *Fresenius* were not distinguishable, however, Judge O'Malley found the application of that decision to the situation in *ePlus* troubling because “[t]he majority's approach to finality will further displace the critical role of district courts in patent infringement suits.” *Id.* at *14. Specifically:

By extending *Fresenius II* to these materially different circumstances, the majority assumes that *any* determination made during an infringement case, even if that specific issue is never appealed, can be nullified by the action of an administrative agency as long as anything – even a fully discretionary “consideration” of an intact remedy – remains available.

Id. (emphasis in original). According to Judge O'Malley, the majority's approach to finality “creates uncertainty for any future compensatory contempt awards” because the trial court always retain the equitable power to revise injunctions prospectively. *Id.* at *15.

Notwithstanding the strong dissents of Judge Newman (in *Fresenius*) and Judge O'Malley (in *ePlus*), practitioners must now consider the law of the Federal Circuit to be that as long as *any part* of a district court case remains to be decided, an intervening final decision by the PTO that invalidates the claims of an asserted patent will lead to the vacating of a court judgment in favor of the patent owner, regardless of how remote the open issues in the case are from the issue of the validity of the patent. We have likely not heard the last on this issue, however, as it would not surprise anyone if the Federal Circuit eventually decides to

consider it en banc. On the other hand, with the time limits the AIA now places on post-grant review proceedings, the types of timing issues that arose in the *Fresenius*, *Versata* and *ePlus* cases will not occur with any frequency in the future, so the issue of finality may one day be looked upon as a quirk of a bygone era.

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