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KEEPING THE DOOR AJAR?
FEDERAL CIRCUIT SAYS “IT AIN’T OVER
‘TIL IT’S OVER”¹

In a patent infringement lawsuit, when are final rulings “final”? Even the Federal Circuit is struggling with when to call a halt to all the fun, which leaves patent holders, accused patent infringers—and their counsel—in a sort of legal limbo.

For example, in *Bosch*, the court wrestled with “final” judgments in the context of 28 U.S.C. § 1292(c)(2)². The ultimate decision said that the statute confers jurisdiction on the Federal Circuit from a “final” patent infringement liability determination *even when a trial on damages has not yet occurred*.³

And, in the more recent *Fresenius* case, the court addressed “finality” in light of the outcome of the U.S. Patent and Trademark Office’s (PTO’s) reexamination of patent claims.⁴ The Federal Circuit allowed the PTO’s rejection of the claims-in-suit to torpedo a pending district court case because the case was not considered sufficiently “final.”⁵

IpQ reviews the 10-year history of the *Fresenius* case and its denouement to understand the complex—and changing—relationship between PTO reexaminations and district court infringement litigation.

Fresenius Case Chronology

- **Suit Filed (2003)** – *Fresenius* filed suit in April 2003 seeking declaratory judgments of invalidity and non-infringement regarding Baxter patents, including several claims of the ‘434 patent. Baxter counterclaimed for infringement.⁶
- **Ex parte Reexamination Requested (2005)** – In 2005, *Fresenius* requested an ex parte reexamination of the relevant claims of the ‘434 patent.⁷
- **PTO Grants Request (Jan. 2006)** – In parallel with the *Fresenius* litigation, the PTO agreed that a substantial new question of patentability existed. The PTO began to reexamine the ‘434 patent.⁸
- **Jury Verdict – Patent Invalid (June 2006)** – After the district court construed the claims of the patents-in-suit, *Fresenius* stipulated to infringement. The case proceeded to trial on the issue of invalidity.⁹ A jury found the claims of the ‘434 patent invalid and returned a verdict in

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1 Lawrence Peter “Yogi” Berra.
2 28 U.S.C. § 1292(c)(2), provides the Federal Circuit with exclusive jurisdiction “of an appeal from a judgment in a civil action for patent infringement which would otherwise be appealable . . . and is *final* except for an accounting.” (emphasis added).
3 *Robert Bosch, LLC v. Pylon Mfg. Corp.*, 719 F.3d 1305, 1308, 1320 (Fed. Cir. 2013).
4 *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330 (Fed. Cir. 2013) (“*Fresenius II*”).
5 *Id.* at 1347.
6 *Id.* at 1332; *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, No. C 03-1431 SBA, 2007 WL 518804, at *1 (N.D. Cal. Feb. 13, 2007).
7 *Fresenius II*, 721 F.3d at 1334.
8 *In re Baxter Int’l, Inc.*, 678 F.3d 1357, 1360 (Fed. Cir. 2012).
9 *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, No. C 03-1431 PJH, 2012 WL 761712, at *1 (N.D. Cal. Mar. 8, 2012).

The PTO examiner reached an initial determination that the claims of the '434 patent would have been obvious.

... the district court entered, and then stayed the effect of, a permanent injunction until January 1, 2009, (a "transition period") because Fresenius indicated that it could develop a non-infringing product by that date. The district court also awarded Baxter damages based on past infringing sales and an ongoing royalty on post-verdict sales. Both parties appealed.

On appeal, the Federal Circuit, addressed the district court's November 2007 "final judgment" and reversed in part, affirmed in part, and remanded the case.

Fresenius's favor.¹⁰

- **PTO Initial Determination (Dec. 2006)** – The PTO examiner reached an initial determination that the claims of the '434 patent would have been obvious.¹¹
- **JMOL Granted (Feb. 2007)** – In February 2007, the district court concluded that Fresenius failed to provide evidence sufficient to support the jury's verdict of invalidity. The court granted Baxter's motion for judgment as a matter of law (JMOL).¹² The amount of infringement damages remained undecided.
- **Damages Trial (Oct. – Nov. 2007)** – In October 2007, the district court held a second jury trial directed solely to damages.¹³ The jury awarded Baxter damages for infringement of the three asserted patents.¹⁴ On November 7, 2007, the district court entered a final judgment based on the jury's verdict.¹⁵
- **PTO Final Determination (Dec. 2007)** – In late 2007, the PTO examiner reached a final determination, rejecting the claims of the '434 patent as obvious in light of the prior art.¹⁶
- **Permanent Injunction (April 2008)** – In March and April 2008, the district court entered, and then stayed the effect of, a permanent injunction until January 1, 2009, (a "transition period") because Fresenius indicated that it could develop a non-infringing product by that date.¹⁷ The district court also awarded Baxter damages based on past infringing sales and an ongoing royalty on post-verdict sales.¹⁸ Both parties appealed.¹⁹
- **Federal Circuit Opinion (Fresenius I) (Sept. 2009)** – On appeal, the Federal Circuit, addressed the district court's November 2007 "final judgment" and reversed in part, affirmed in part, and remanded the case.²⁰ Finding the asserted claims of two of the patents invalid, the Federal Circuit reversed the district court's JMOL decision.²¹ Agreeing with the district court that Fresenius had failed to prove that the claims were invalid, the Federal Circuit affirmed JMOL on the '434 patent.²² As a result, the claims of the '434 patent were the only ones remaining in the litigation.²³ The Federal Circuit remanded the case for the district court to reconsider its injunction and ongoing royalty award in light of the Federal Circuit's decision.²⁴
- **B.P.A.I. Affirms (March 2010)** – In March 2010, the Board of Patent Appeals and Interferences (B.P.A.I.) affirmed the examiner's determination that the relevant claims of the '434

10 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, No. C 03-1431 SBA, 2007 WL 518804, at *2 (N.D. Cal. Feb. 13, 2007); see *Fresenius II*, 721 F.3d at 1332.

11 *Fresenius II*, 721 F.3d at 1334.

12 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, No. C 03-1431 SBA, 2007 WL 518804, at *2, *14 (N.D. Cal. Feb. 13, 2007); see *Fresenius II*, 721 F.3d at 1332-33.

13 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, No. C 03-1431 PJH, 2012 WL 761712, at *1 (N.D. Cal. Mar. 8, 2012).

14 *Fresenius II*, 721 F.3d at 1333.

15 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, No. C 03-1431 PJH, 2012 WL 761712, at *2 (N.D. Cal. Mar. 8, 2012).

16 *Fresenius II*, 721 F.3d at 1334; *Ex parte Baxter Int'l, Inc.*, No. 2009-006493, 2010 WL 1048980, at *5-*6 (B.P.A.I. Mar. 18, 2010).

17 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 582 F.3d 1288, 1294 (Fed. Cir. 2009), cert. denied, 559 U.S. 1070 (2010) ("*Fresenius I*").

18 *Fresenius I*, 582 F.3d at 1294.

19 *Fresenius II*, 721 F.3d at 1333.

20 *Fresenius I*, 582 F.3d at 1291, 1304; see *Fresenius I*, 721 F.3d at 1333.

21 *Id.*

22 *Fresenius I*, 582 F.3d at 1302; see *Fresenius II*, 721 F.3d at 1333.

23 *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, No. C 03-1431 PJH, 2012 WL 761712, at *3 (N.D. Cal. Mar. 8, 2012).

24 *Fresenius I*, 582 F.3d at 1303; see *Fresenius II*, 721 F.3d at 1333.

In its opinion, B.P.A.I. said that, although the relevant claims were not proven invalid in court, because the PTO applies a lower standard of proof and a different standard for claim construction, “the agency is not bound by the court’s determination.”

In May 2012, while the appeal of the district court’s judgment was pending, the Federal Circuit affirmed the PTO’s determination that the reexamined claims of the ‘434 were obvious and invalid.

The issue presented to the Federal Circuit on appeal of the district court’s second final judgment was whether, under the reexamination statute, the PTO’s cancellation of claims was binding on the district court’s infringement litigation. The Federal Circuit panel concluded it was binding and dismissed the case ...

patent would have been obvious in light of previously un-submitted prior art.²⁵ In its opinion, B.P.A.I. said that, although the relevant claims were not proven invalid in court, because the PTO applies a lower standard of proof and a different standard for claim construction, “the agency is not bound by the court’s determination.”²⁶ Baxter appealed the board’s decision to the Federal Circuit.²⁷

- **On Remand to District Court (2011--2012)** – While the PTO’s decision was on appeal to the Federal Circuit, the district court considered issues on remand:
 - In May 2011, the district court denied Fresenius’s motion to stay the remand proceedings in view of (1) the length of time the case had been pending, (2) Fresenius’s two-and-a-half year delay after filing suit to request the reexamination, and (3) the “far from clear” effect of the reexamination on the pending litigation.²⁸
 - The district court conducted an evidentiary hearing in December 2011 on the issue of post-verdict royalties.²⁹ In March 2012, the district court entered final judgment in favor of Baxter and ordered Fresenius to pay Baxter substantial damages.³⁰ Fresenius appealed the district court’s judgment and, dissatisfied with the award, Baxter cross-appealed.³¹
 - In May 2012, the district court granted Fresenius’s motion to stay execution on the judgment pending appeal. In its order, the district court rejected Baxter’s argument that it was entitled to enforce the original 2007 judgment, observing that the March 16, 2012, final judgment appeared to have superseded the November 2007 final judgment.³²
- **Federal Circuit Affirms PTO (May 2012)** – In May 2012, while the appeal of the district court’s judgment was pending, the Federal Circuit affirmed the PTO’s determination that the reexamined claims of the ‘434 were obvious and invalid.³³ Baxter’s petition for rehearing en banc was denied.³⁴ When Baxter failed to petition for certiorari, in April 2013 the PTO issued a certificate cancelling the claims of the ‘434 patent.³⁵

Federal Circuit Analysis

The issue presented to the Federal Circuit on appeal of the district court’s second final judgment was whether, under the reexamination statute, the PTO’s cancellation of claims was binding on the district court’s infringement litigation.³⁶ The Federal Circuit panel concluded it was binding and dismissed the case based on the following analysis:

- To understand the relatively recent grant of reexamination authority, the court looked to the scope of the PTO’s historic reissue authority.³⁷ Under 35 U.S.C. § 307(b), reexamined claims “have the same effect [in pending litigation] as that specified in § 252 . . . for reissued patents.”

²⁵ *Ex parte Baxter Int’l, Inc.*, No. 2009-006493, 2010 WL 1048980, at *17 (B.P.A.I. Mar. 18, 2010); see *Fresenius II*, 721 F.3d at 1332.

²⁶ *Id.* at *12 (citing *Ethicon v. Quigg*, 849 F.2d 1422, 1429 (Fed. Cir. 1988)).

²⁷ *Ex parte Baxter Int’l, Inc.*, No. 2009-006493, 2010 WL 1048980, at *17 (B.P.A.I. Mar. 18, 2010); see *Fresenius II*, 721 F.3d at 1335.

²⁸ *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, No. C 03-1431 PJH, 2011 WL 2160609, at *1 (N.D. Cal. May 26, 2011).

²⁹ *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, No. C 03-1431 PJH, 2012 WL 761712, at *5 (N.D. Cal. Mar. 8, 2012); *Fresenius II*, 721 F.3d at 1333.

³⁰ *Fresenius I*, 721 F.3d at 1334.

³¹ *Id.* at 1333.

³² *Id.* at 1334.

³³ *In re Baxter Int’l, Inc.*, 698 F.3d 1349 (Fed. Cir. 2012); see *Fresenius I*, 721 F.3d at 1335.

³⁴ *In re Baxter Int’l, Inc.*, 698 F.3d 1349, 1350 (Fed. Cir. 2012).

³⁵ *Fresenius I*, 721 F.3d at 1335.

³⁶ *Id.* at 1336.

³⁷ *Id.*

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Shook, Hardy & Bacon offers expert, efficient and innovative representation to our clients. We know that the successful resolution of intellectual property issues requires a comprehensive strategy developed in partnership with our clients.



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- Based on applicable statutes and U.S. Supreme Court and Federal Circuit case law under either the reissue or reexamination statute, if the PTO confirms the original claim in identical form, a lawsuit based on that claim may continue. If the original claim is cancelled or amended to cure invalidity, however, the patentee's cause of action is extinguished.³⁸
- The issue was whether the judgment in the infringement case was sufficiently "final" so that it was immune from the affirmed final judgment in the PTO proceedings and not "final" for purposes of determining the potential res judicata effect of the case on another suit.³⁹ While the November 2007 final judgment entered by the district court might have been given preclusive effect in another infringement action, it was not sufficiently final to preclude application of the intervening final judgment in *In re Baxter*.⁴⁰ Similarly, the Federal Circuit's remand in *Fresenius I* was not sufficiently final to prevent the application of *In re Baxter* in the pending suit.⁴¹
- Allowing the PTO determination to control the outcome of the pending case was not an unconstitutional breach of the separation of powers. The case was not over, and no final judgment had been entered.⁴² The general rule is that an appellate court must apply the law in effect at the time it renders its decision.⁴³

The majority also considered and responded to arguments Judge Pauline Newman raised in her lengthy dissent.⁴⁴ The majority concluded, "In light of the cancellation of Baxter's remaining claims, Baxter no longer has a viable cause of action against Fresenius. Therefore, the pending litigation is moot. We vacate the district court's judgment and remand with instructions to dismiss."⁴⁵

Conclusions

First, in light of *Fresenius*, will litigants game the system in an attempt to gain a tactical advantage? Consider:

- The bifurcation of liability and damages issues, which is standard practice in some district courts, increases the length of district court litigation and potential exposure due to PTO reexamination of patent validity.
- The ruling in *Bosch* allows appeals of liability issues before damages are decided. Given the average length of Federal Circuit appeals, this materially increases the duration of district court litigation. Again, exposure is exacerbated.
- Recognizing the length-in-litigation exposure issue, Judge Newman filed a concurring opinion in *Fresenius I* to voice concern about the dramatic increase in reexamination proceedings and observed that if reexamination is "routinely available to delay the judicial resolution of disputes, the procedure is subject to inequity, if not manipulation and abuse, through the delays that are inherent in PTO activity."⁴⁶

Second, if your client is an accused infringer, you could consider how to use available tools appropriately to advance your client's position both in the district court and in the PTO.

Third, assess potential reexamination risks to your patents if you are a patent owner asserting them in litigation. Litigation can become a long haul, which leaves potential openings for left-field PTO determinations. It pays to think broadly when building your case.

³⁸ *Id.* at 1340.

³⁹ *Id.* at 1341.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.* at 1345.

⁴³ *Id.* (citing *Thorpe v. Hous. Auth. of the City of Durham*, 393 U.S. 268, 281 (1969)).

⁴⁴ *Id.* at 1346-47.

⁴⁵ *Id.* at 1347.

⁴⁶ *Fresenius I*, 582 F.3d at 1305 (Newman, J., concurring).