



When is a ruling truly 'final'?

Ryan B. McCrum at Jones Day considers the *Fresenius v Baxter* ruling and its potential impact on patent litigation in the US.

In a case that could have a dramatic impact on patent cases going forward, the Federal Circuit in *Fresenius v Baxter Int'l*, 721 F.3d 1330 (Fed. Cir. July 2, 2013) remanded with instructions to dismiss the case based on a successful bid for reexamination of the asserted patent, which concluded *after* the Federal Circuit had already affirmed the validity of the asserted patent on appeal. At the time the Federal Circuit dismissed the case, the only issues that had not been finally resolved related to damages. The Federal Circuit had already found the asserted claims valid and infringed. But, because there had not been a "final" judgment entered in the district court case, the Federal Circuit held that the intervening invalidity determination by the United States Patent and Trademark Office (USPTO), which was later affirmed by the Federal Circuit, required dismissal of the district court action.

The decision to remand with the instruction to dismiss turned primarily on the meaning of the word "final." Even though the issue of validity had been finally resolved, the Federal Circuit held that as long as any issue remains open, no matter how minor, a final order establishing liability is not truly final, and a subsequent finding of invalidity by the USPTO will require dismissal of the case. Not surprisingly, Baxter and two organizations (IPO and BIO – see *en banc* review section for details) have urged the Federal Circuit to rehear the appeal *en banc*. They argued several points:

- 1) the Court applied the wrong definition of "final";
- 2) the Court improperly allowed an administrative decision to displace the judgment of an Article III Court;

- 3) the Court's decision eliminates certainty and incentivizes gamesmanship;
- 4) the Court's decision conflicts with prior precedent; and
- 5) the Court failed to consider equitable factors.

In a somewhat surprising decision, the Federal Circuit refused to hear this case *en banc*. As a result, the original decision of the three-judge panel (one of which vigorously dissented) currently stands, and will remain standing if no petition for Supreme Court review is granted. If any petition for *certiorari* is denied, or it is granted but the Supreme Court affirms the Federal Circuit's ruling, it could have a significant impact on how practitioners approach patent litigation in the future. This article discusses the background of the case and its potential impact.

Case background

Fresenius I – the district court action: This case has a long history, arising from a declaratory judgment action filed by Fresenius on April 4, 2003 in the Northern District of California with respect to three Baxter patents (hereafter referred to as the '434 patent, the '027 patent and the '131 patent). Baxter filed counterclaims of infringement on all three patents.

A jury returned a verdict in Fresenius' favor in 2007, finding most of the asserted claims of all three patents invalid. That verdict, however, was reversed after the district court granted Baxter's motion for JMOL. In late

Résumé

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2007, the district court proceeded to a jury trial on damages and awarded Baxter over \$14 million in damages. A permanent injunction was entered in 2008, which the court stayed, and the court awarded Baxter ongoing post-verdict royalties on infringing devices. Both parties appealed.

On September 10, 2009, the Federal Circuit held that the asserted claims of two of the patents (in other words the ‘027 and ‘131 patents) were invalid, thus reversing the district court’s JMOL decision as to those patents. The Federal Circuit affirmed the validity and infringement holdings with respect to the asserted claims of the ‘434 patent. Nonetheless, the Court remanded the case, instructing the district court to reconsider the injunction and royalty award in light of the reversal of the district court’s grant of JMOL regarding the ‘027 and ‘131 patents.¹

On March 8, 2012, the district court awarded Baxter post-verdict damages at a reduced royalty rate, but later granted Fresenius’ motion to stay execution of the new judgment pending appeal. The injunction was no longer an issue because the ‘434 patent had expired by that time. Both parties appealed issues that were strictly limited to those associated with monetary damages.

Fresenius II – USPTO reexamination proceedings: In 2005, about two years after Fresenius initiated the district court case, Fresenius filed a request for reexamination of the asserted claims of the ‘434 patent, which were the only ones that were found valid and infringed in *Fresenius I*. In March of 2010, the USPTO issued a final decision finding that all asserted claims of the ‘434 patent were obvious in light of various prior art references. Baxter appealed to the Federal Circuit.

On May 17, 2012, the Federal Circuit upheld the USPTO’s finding that all asserted claims of the ‘434 patent were obvious over the prior art, despite its earlier ruling in *Fresenius I* that those same claims were valid. On April 30, 2013, the USPTO issued a Reexamination Certificate for the ‘434 patent that canceled all of the claims from that patent which had been asserted against Fresenius.

As a result of *Fresenius II* and the USPTO’s cancellation of the asserted claims of the ‘434 patent, on July 2, 2013, the Federal Circuit remanded the still pending district court case with instructions to dismiss.

Timeline of events

April 2003:	Fresenius files declaratory judgment action
May 2003:	Baxter files counterclaims for infringement
October 2005:	Fresenius files request for reexamination of ‘434 patent, which was later granted
February 2007:	District Court finds three asserted patents valid and infringed
September 2009:	Federal Circuit affirms validity and infringement of ‘434 patent, but reversed validity findings regarding the ‘027 and ‘131 patents and remanded with respect to injunction and royalty awards
March 2010:	USPTO finds asserted claims of ‘434 patent obvious
March 2012:	District Court awards Baxter damages at reduced royalty rate
May 2012:	Federal Circuit affirms USPTO finding that ‘434 patent is obvious
April 2013:	USPTO issues Reexamination Certificate canceling asserted claims of ‘434 patent
July 2013:	Federal Circuit remands in district court case with instructions to dismiss

Analysis of the 2013 ruling

The question on appeal was whether the USPTO’s affirmed decision, that the asserted patent was obvious in view of prior art, required dismissal of the parallel district court action involving the same patent, where the Federal Circuit had already affirmed the validity of the asserted patent. The Federal Circuit held that despite its prior ruling in the district court case that the asserted patent was valid and infringed, a subsequent determination by the USPTO finding the asserted patent obvious required dismissal of the district court case.² The primary rationale for its decision was that the district court case was not “final” at the time of the USPTO’s determination, even though all issues other than those relating to damages had been conclusively decided.³

The Federal Circuit began its analysis with a lengthy discussion of the history of the USPTO’s reissue and reexamination authority and related precedent. In view of this history and precedent, the Court concluded that pending suits based on claims canceled by the USPTO must be dismissed:

“[T]he language and legislative history of the reexamination statute show that Congress expected reexamination to take place concurrent with litigation, and that cancellation of claims during reexamination would be binding in concurrent infringement litigation.”⁴

Baxter did not disagree that in general when a claim is cancelled, any pending litigation in which the claims are asserted becomes moot. However, Baxter argued that the cancellation of the claims should not have any impact on the litigation because the validity of the ‘434 patent had been conclusively decided in 2007. The company further argued that the district court’s 2007 judgment of validity, affirmed on appeal in 2009, was final and binding on the parties in the district court case and, thus, had *res judicata* effect in the district court case. The Federal Circuit did not dispute that the cancellation of a patent’s claims cannot be used to reopen a final judgment ending an action. However, the Federal Circuit disagreed with Baxter’s understanding of the term “final,” which was the principal issue addressed by the Federal Circuit on appeal:

“It is important here to distinguish between different concepts of finality... We are... not dealing with finality for purposes of determining the potential *res judicata* effect of this infringement litigation on another suit. We are concerned instead with whether the judgment in this infringement case is sufficiently final so that it is immune to the effect of the final judgment in the PTO proceedings, as affirmed by this court in *In re Baxter*.”⁵

The Federal Circuit held that even though the issue of validity may have been conclusively decided, that is not the relevant inquiry. Instead, the relevant question according to the Court was whether the cause of action was entirely concluded and merged into a final judgment, thereby ending the litigation on the merits and leaving nothing for the court to do but execute the judgment.⁶ The Court reasoned that:

“Our remand to the district court in *Fresenius I* did not end the controversy between the parties, or leave “nothing for the court to do but execute the judgment.” To the contrary, we left several aspects of the district court’s original judgment unresolved, including royalties . . . and injunctive relief.”⁷

Because issues relating to damages remained open, the Federal Circuit concluded that the district court case was not “final,” and the intervening reexamination determination by the USPTO required dismissal.

The Court also addressed the tension caused by its first decision affirming the validity of the asserted claims of the ‘434 patent and its later decision to dismiss the action based on its affirmation of



the USPTO determination that the asserted claims of the ‘434 patent are obvious. Relying on Supreme Court precedent, the Federal Circuit stated that “the district court must apply intervening legal developments affecting the asserted patent’s validity, even if the court of appeals already decided the validity issue the other way.”⁸

In reaching its decision, the Court relied heavily on *Mendenhall v Barber-Greene Co.*, 26 F.3d 1573 (Fed. Circuit 1994). In that case, Mendenhall had asserted its patents in concurrent suits against two alleged infringers, Cedarapids and Astec. The *Astec* case resulted in a verdict that the patents were valid, which was affirmed by the Federal Circuit on appeal. The case was remanded to address damages and other issues. While the *Astec* case was pending on remand, the asserted patents were found invalid in the *Cedarapids* suit, which was later affirmed by the Federal Circuit.

On appeal from the *Astec* litigation, Astec argued that the *Cedarapids* decision barred Mendenhall from recovering for infringement, because its patents had been invalidated. The Federal Circuit agreed, holding that “because the Mendenhall patents are invalid, the plaintiffs cannot now enjoin or recover damages from these defendants.”⁹ To allow for such relief “appears anomalous in the extreme in connection with patents this court has just held invalid.”¹⁰ The Federal Circuit found the *Mendenhall* case indistinguishable from the facts presented by Baxter on appeal.

Baxter argued that *Mendenhall* was distinguishable because the first *Mendenhall* appeal was taken as an interlocutory appeal under Section 1292(c)(2), whereas the appeal in *Fresenius I* was taken under Section 1295, which provides for appeals from “final” judgments. The Federal Circuit did not find this distinction meaningful, stating that “nothing in *Mendenhall* suggest that the statutory basis for the first appeal controlled whether it would be given *res judicata* effect within the controlling litigation.”¹¹

Baxter also argued that allowing a USPTO determination to control the outcome of pending litigation is unconstitutional because it offends the separation of powers. The Federal Circuit rejected this

argument, finding that so long as the suit is not over and there has been no final judgment, it must give effect to the USPTO’s cancellation of the asserted claims. While other branches cannot retroactively reopen a case, the Federal Circuit was clear that the district court case had not reached the stage at which applying the USPTO’s determinations would be considered reopening a case.

Judge Newman wrote a lengthy dissent, arguing two points:

- 1) that the majority opinion is an unconstitutional violation of the separation of powers; and
- 2) that the validity holding in *Fresenius I* was a final judgment that should not be disturbed by a later USPTO determination.

As to the first point, Judge Newman argued that “[a]n agency of the executive branch cannot override or revise or ignore, or deny faith and credit to, the judgment of an Article III court.”¹² “The PTO can neither invalidate, nor review, a patent whose validity the court has adjudicated.”¹³ “[W]hen the issue of validity of the claims has already been resolved in litigation, subsequent redetermination by the PTO is directly violative of the structure of government.”¹⁴

For this argument to have merit, however, there must have been a final judgment by an Article III court, which leads to Judge Newman’s second point. Judge Newman vehemently argued that the validity of the ‘434 patent was conclusively determined, by final decision and mandate of the Court, from which *certiorari* was requested and denied:

“Here, all of the issues on appeal were finally adjudicated by the Federal Circuit; the remand authorized the district court to determine only post-judgment royalties. The remand had no relation to any issue in reexamination; validity had been finally resolved.”¹⁵

Judge Newman was particularly critical of the majority’s opinion that no final judgment on a particular issue is truly final as long as other issues remain open, even if those open issues are wholly unrelated to issues that were conclusively decided on appeal. According to Judge Newman, the majority’s opinion regarding finality “is contrary to the precedent of every circuit.”¹⁶ She cited a host of

appellate decisions in support of this argument and her conclusion that “[w]hen an issue has been finally decided it cannot be reopened, although other issues remain open.”¹⁷

En banc review is denied

On August 1, 2013, Baxter filed a combined petition for rehearing and rehearing *en banc*. The Federal Circuit invited a response from Fresenius on August 6, 2013. A response was filed by Fresenius on August 20, 2013. On August 15, 2013, Biotechnology Industry Organization (BIO) and the Intellectual Property Owners Association (IPO) filed briefs as *Amicus Curiae* seeking rehearing *en banc*.

In their papers, Baxter, BIO and IPO argue five main points:

- 1) The validity determination in *Fresenius I* was final and, therefore, immune from attack by a subsequent USPTO decision;
- 2) The Federal Circuit’s decision violates the separation of powers doctrine;
- 3) The Federal Circuit’s decision eliminates certainty and incentivizes gamesmanship in the form of intentionally prolonging litigation and filing multiple requests for reexamination until the patent fails;
- 4) The Federal Circuit’s decision conflicts with prior precedent where determinations regarding certain issues were deemed final despite the fact that other issues remained opened; and
- 5) The Federal Circuit failed to take into account equitable considerations.

On November 5, 2013, the Federal Circuit in a split decision denied Baxter’s petition for rehearing and rehearing *en banc*. Six judges voted to deny *en banc* review, and four judges voted to grant *en banc* review. Specifically, Judges Lourie, Prost, Moore and Reyna voted to deny *en banc* review. Judge Dyk wrote an opinion concurring in the denial, which was joined by Judge Prost. Judge O’Malley wrote an opinion dissenting from the denial that was joined by Chief Judge Rader and Judge Wallach. Judge Newman wrote a separate opinion dissenting from the denial. Circuit Judges Chen and Hughes did not participate.



The three opinions issued with the Order denying further review reflect diverging views regarding the issue of finality.

Judge Dyk’s opinion relies primarily on Supreme Court and Federal Circuit decisions to argue that “a judgment of infringement is only final when a judgment has been entered that would irrevocably allow execution and payment.”¹⁸ For example, Judge Dyk argued that *Simmons Co. v Grier Bros. Co.*, 258 U.S. 82 (1922) is an example of a case where “an intervening decision on validity was binding on a pending case where liability had been resolved but a final decree had not yet been entered.”¹⁹ Judge Dyk noted that in that case, “[t]he district court... originally found infringement and entered judgment.”²⁰ Yet, “even though the questions of infringement and validity had been resolved, the judgment was not immune to the effect of the subsequent decision by the Supreme Court because it had not ended litigation on all issues.”²¹

Judge Dyk further relied on *Mendenhall v Barber-Green Co.*, 26 F.3d 1573, 1580 (Fed. Cir. 1994) as another example of a case where “a final judgment of infringement and no invalidity had to be overturned in light of a subsequent ruling of invalidity because the case as a whole was not final.”²² As Judge Dyk pointed out, in *Mendenhall*, “[t]he court originally affirmed the judgment of infringement and no invalidity but remanded ‘for determination of damages and other issues.’”²³ While the case was pending in district court, the asserted claims were held invalid in a separate appeal.²⁴ Judge Dyk noted that “[w]e nonetheless gave effect to our adjudication of invalidity because ‘the [original] judgment of this court on liability... resulted in a remand for further proceedings... [and] was not the final judgment in the case.’”²⁵

Judge Dyk concluded his opinion by expressing that “[i]f we were to hold that our judgment in *Fresenius I* is immune to a subsequent adjudication of invalidity, we would contravene controlling Supreme Court Authority in *Simmons* and controlling Federal Circuit authority in *Mendenhall*.”

Judge O’Malley disagreed on the issue of finality. At the outset, she stated:

“In this case: (1) the district court resolved all issues of validity, infringement, past damages, and the right to post-verdict relief; (2) our court affirmed the resolution of these issues on appeal; and (3) the United States Supreme Court denied Fresenius’ petition for a writ of *certiorari*. Following the denial of cert. neither the district court, nor this court, could disturb Baxter’s entitlement to damages for infringement. But, according to the majority, the PTO could – and did – erase Baxter’s adjudicated right to be compensated for that infringement. Under no reasonable application of the law, however, could the PTO’s actions eradicate that judgment.”²⁶

Elaborating on the issue of finality, Judge O’Malley argued that: “Once the Supreme Court denied Fresenius’ petition for certiorari following our decision in *Fresenius I*, Fresenius liability for infringement, its failure to prove invalidity, and its responsibility for past damages were firmly established and beyond challenge. The only live issues remaining in the case related to postverdict relief. And, even the live issues regarding postverdict relief did not concern the right to such relief – which was established; the remand only asked that the court reconsider the scope of and formula used for such relief. All other aspects of the case had been conclusively resolved. Importantly, those remaining calculations were ones for the court to undertake because they fell within its equitable authority to award prospective relief in the form of an injunction, a compulsory license, or some combination thereof.”²⁷

Criticizing the majority’s view on finality, Judge O’Malley remarked that such a view “is significantly out of step with the law as it stands today.”²⁸ She cited various treatises and appellate court decisions to

argue that “finality [is recognized] in situations like the one presented here – where the merits are conclusively decided – even though other issues remain.” See, e.g., 18A Charles A. Wright, Arthur R. Miller, & Edward H. Cooper, Federal Practice and Procedure § 4432 (2d ed. 2002) (“[R]ecent cases have suggested that preclusion may be appropriate if the order is sufficiently firm.”); see also 18A Charles A. Wright, Arthur R. Miller, & Edward H. Cooper, Federal Practice and Procedure § 4432 (2d ed. 2002) (“If an appellate court terminates the case by final rulings as to some matters only, preclusion is limited to those matters actually resolved by the appellate court. . . .”); see also Restatement (Second) of Judgments § 13(b), (comment e) (1982) (“A judgment may be final in a res judicata sense as to a part of an action although litigation continues as to the rest.”); see also *Zdanok v Glidden Co.*, 327 F.2d 944, 955 (2nd Cir. 1964) (“Collateral estoppel does not require a judgment which ends the litigation and leaves nothing for the court to do but execute judgment, but includes many dispositions which, though not final in that sense, have nevertheless been fully litigated.”).

With regard to the two cases relied on by the majority and Judge Dyk in his opinion (in other words, *Simmons Co. v Grier Brothers Co.* and *Mendenhall v Barber-Greene Co.*), Judge O’Malley distinguished them on the grounds that “[n]either of those cases... involved an appeal from a final judgment and completed accounting (i.e., in those cases no measure of damages had been established.”²⁹ Judge O’Malley argued that:

“The circumstances here are entirely different. Final judgment was entered, the calculation of past damages had occurred, and appellate review of those determinations had concluded. Baxter’s right in the judgment had vested. In other words, unlike in *Mendenhall* and *Simmons*, a true “accounting” had occurred... .The only remaining issues related to post-verdict relief.”³⁰

For these reasons, Judge O’Malley concluded that the ruling in *Fresenius I* was sufficiently final, and should not have been interrupted by the intervening finding of invalidity by the USPTO.

Judge Newman also dissented, but on mostly different grounds than Judge O’Malley. As in her original dissent discussed above, Judge Newman again argued that the majority decision permits an executive branch of the government (here the USPTO) to override the judgments of Article III courts:

“Article III judgments are “final and conclusive upon the rights of the parties.” ... A system of override by an administrative agency interferes with the power and obligation of the courts to “render dispositive judgments.” ... Instead of finality after full litigation, full trial in the district court, and full appeal in the Court of Appeals, now the question of patent validity remains open, vulnerable to contrary disposition, unconstrained by any form of estoppel or restraint flowing from the finality of adjudication.”

Implications of the case

If the Supreme Court does not take this case on appeal, or does take the case on appeal but does not change the outcome, there are a number of important strategic considerations for patent litigators moving forward.

First, other than the added cost, there is little apparent downside to at least considering initiation of reexamination or post grant review proceedings. Of course, post grant review proceedings present estoppel issues, but most would agree that an accused infringer has a better chance of invalidating a patent before the USPTO than in a district court or before the International Trade Commission (ITC) given the different standards of proof applied in those forums. Further, *ex parte* reexamination effectively gives an accused infringer a second bite at the apple. At a minimum, reexamination or post

grant review should be a major consideration in any defense strategy moving forward.

Second, speed to trial, as well as contemplating ways to expedite the litigation, are now more important than ever for patent owners. The district court case in *Fresenius I* was pending for more than 10 years. Had the district court case ended earlier, Baxter would have been able to collect the monetary damages despite the eventual unfavorable outcome in the reexamination proceedings. For example, engaging in motion practice on issues that are of modest significance can serve to delay the case.

Third, delaying USPTO proceedings may help maximize the chances that parallel district court or ITC litigation will be resolved before the USPTO proceedings. *Ex parte* reexamination and post grant review practice both provide patent owners the ability to seek extensions of time that will prolong those proceedings. Patent owners should consider taking advantage of such tools.

Fourth, patent holders should consider forums that are least likely to stay litigation pending the outcome of reexamination or post grant review proceedings. The ITC, for example, is a forum that historically has refused to stay litigation pending the outcome of parallel government agency proceedings, especially *ex parte* reexamination proceedings. Time will tell how the ITC and other jurisdictions will handle requests to stay litigation pending post grant review proceedings.

Fifth, it is important that accused infringers appreciate the significance of damages issues, and how those issues can be used to prolong the litigation. *Fresenius* was able to substantially prolong the case by appealing the damages issues, which proved critical. Had those issues not been kept alive, there would have likely been a different outcome.

Whether such strategic considerations are advisable will obviously depend on whether the Supreme Court decides accept *certiorari* the outcome of any such appeal.

¹ *Fresenius USA, Inc. v Baxter Int’l, Inc.*, 582 F.3d 1288 (Fed. Cir. 2009), at 1303.

² *Fresenius v Baxter Int’l*, No. 2012-1334 (Fed. Cir. July 2, 2013), at 1339-44.

³ *Id.*

⁴ *Id.* at 1339.

⁵ *Id.* at 1340-1341.

⁶ *Id.* at 1342.

⁷ *Id.* at 1341.

⁸ *Id.* at 1342.

⁹ *Id.* at 1584.

¹⁰ *Id.* at 1578.

¹¹ *Id.* at 1344.

¹² *Id.* at 1348.

¹³ *Id.* at 1349.

¹⁴ *Id.*

¹⁵ *Id.* at 1355.

¹⁶ *Id.*

¹⁷ *Id.* at 1356.

¹⁸ *Fresenius v Baxter Int’l*, 733 F.3d 1369, 1371 (Fed. Cir. 2013).

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

²³ *Id.* at 1372.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.* at 1373.

²⁷ *Id.* at 1375.

²⁸ *Id.*

²⁹ *Fresenius* at 1378.

³⁰ *Id.*