

Overlooked Patent Cases: Preclusion's Effect On Settlement

By **Andrew Holtman, Melissa Gibson and Hannah Price** (May 19, 2021)

The U.S. Court of Appeals for the Federal Circuit expanded the century-old Kessler doctrine in the 2020 *In re: PersonalWeb Technologies LLC* decision to give preclusive effect to issues that were not actually litigated but were finally decided through voluntary dismissal with prejudice in a prior litigation.[1]

As recent, potentially overlooked district court decisions demonstrate, parties must consider the potentially long-reaching preclusive impact of dismissing a litigation with prejudice when drafting terms of settlement agreements.

History of the Kessler Doctrine

The Kessler doctrine was adopted almost 115 years ago by the U.S. Supreme Court in *Kessler v. Eldred*. [2] In that case, customers of a manufacturer that withstood an infringement action were sued for infringement of the previously asserted patents for their separate use of the manufacturer's products. [3]

The court found that Kessler had the right to manufacture, use and sell its products based on the final judgment of the original suit and that the patent owner was encroaching on that right by suing Kessler's customers for use of those very same products. [4]

The court adopted the Kessler doctrine to prevent patent owners from bringing follow-on suits against customers of a seller who previously prevailed against said patent. [5] Simply put, per the Federal Circuit in the 2014 *Brain Life LLC v. Elekta Inc.* decision, the Kessler doctrine "'fills the gap' left by claim and issue preclusion by 'allowing an adjudged non-infringer to avoid repeated harassment for continuing its business as usual post-final judgment in a patent action.'" [6]

Federal Circuit's Reinvigoration and Expansion of the Kessler Doctrine to Follow-On Suits That Have Not Been Actually Litigated

Recently, the Federal Circuit renewed consideration of the application and scope of the Kessler doctrine. In 2020, the Federal Circuit broadened the Kessler doctrine's reach by barring follow-on patent infringement actions that were finally decided but not actually litigated.

In *PersonalWeb*, the patent owner voluntarily dismissed an infringement action alleging that Amazon.com Inc.'s product infringed its patents. [7] The patent owner later filed dozens of new lawsuits alleging Amazon's customers infringed the same asserted patents by using the same product that was the subject of the previous litigation against Amazon. [8]

The court held that the Kessler doctrine barred the patent owner from filing suit against Amazon's customers because the patent owner dismissed its own claims with prejudice, which amounted to a final, adverse disposition. [9]



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The court rationalized that if the Kessler doctrine were limited solely to adverse decisions resulting from a contested adjudication, patent owners would be free to harass manufacturers and their customers, which is exactly the conduct the Supreme Court sought to prevent in Kessler.[10]

Moreover, the court rejected the patent owner's argument that applying the Kessler doctrine to voluntary dismissal would stifle patent litigation settlements.[11] Critically, the court explained that parties wishing to settle litigations can preserve their rights to sue after a dismissal by crafting the settlement agreement to limit the preclusive effect of dismissal.[12]

District Courts' Delineation of the Kessler Doctrine's Metes and Bounds

In the wake of the appellate court's expansion of the Kessler doctrine, district courts have begun to articulate how the newer scope applies.

First, in March the U.S. District Court for the Central District of California explained that the Kessler doctrine is limited to claims that were brought or could have been brought in the previous litigation.[13]

In *Uniloc 2017 LLC v. Ubisoft Inc.*, the patent owner, Uniloc, voluntarily dismissed with prejudice two infringement suits against Akamai Technologies Inc.'s content delivery network product due to a license that effectively prevented Uniloc from suing Akamai for infringement.[14]

Uniloc instead filed a follow-on infringement action against Akamai's customer, Ubisoft, for its use of Akamai's content delivery network technology.[15] The court was unpersuaded by Uniloc's contention that the 2017 *Mentor Graphics Corp. v. EVE-USA Inc.* decision[16] stood for the proposition that the Kessler doctrine does not apply to an infringement action when a license that is no longer in effect ended the first lawsuit.[17]

Of critical importance, noted the court, was that the Kessler doctrine does not apply to alleged acts of infringement that did not exist at the time of the previous action.[18] Here, however, the alleged infringement existed at the time of the initial suit, so Uniloc could have filed an infringement action at that time.[19] Accordingly, Uniloc was barred from advancing this suit under the Kessler doctrine.

Later in March, in the *CFL Technologies LLC v. General Electric Co.* decision, the U.S. District Court for the District of Delaware further elucidated the contours of the Kessler doctrine.[20]

First, the court found that, similar to claim preclusion, a change in the law exception does not apply to the Kessler doctrine.[21] Specifically, the court declined to accept that a change in inequitable conduct law following a final judgment that negated the basis for entering into a voluntary dismissal with prejudice was a barrier to the application of the Kessler doctrine.[22]

Next, the court further expanded the Kessler doctrine to apply to an earlier final judgment that the asserted patents are unenforceable.[23] The court, however, stopped short of expanding the Kessler doctrine to bar subsequent infringement actions involving patents that were not at issue when the case was dismissed with prejudice.[24]

Here, the court denied the accused infringer's motion to dismiss because it failed to demonstrate that the asserted patents were subject to the prior dismissal with prejudice.[25] Specifically, the court found the record was not clear as to whether the asserted patents were withdrawn early in the case without prejudice or were still at issue when the case was dismissed with prejudice.[26]

Simply put, despite the breadth of the preclusive effect of the Kessler doctrine, it stops short of precluding subsequent infringement actions asserting patents that were not the subject of the dismissal with prejudice.

What This Means in Practice

The recent expansion of the Kessler doctrine is a cautionary tale to patent owners about the importance of preserving rights for future patent litigations against third parties in settlement agreements. In these cases, the patent owners' failure to preserve their rights precluded them from suing third-party end users for infringing their patents. As the Federal Circuit cautioned in *PersonalWeb*:

To the extent that a plaintiff wishes to settle an infringement action while preserving its rights to sue the same or other parties in the future, it can do so by framing the dismissal agreement to preserve any such rights that the defendant is willing to agree to. Settling parties will remain free to limit the preclusive effect of a dismissal; they simply have to fashion their agreement in a way that makes clear any limitations to which they wish to agree as to the downstream effect of the dismissal.[27]

Absent such reservations of rights in the settlement agreement, the application of the Kessler doctrine is strict and broad. As *Uniloc* and *CFL Technologies* demonstrate, while change of law or alteration of licensing rights does not negate its preclusive effect, patent owners can avoid its reach by simply using forethought when drafting its settlement agreements, particularly when voluntarily dismissing with prejudice.

As the Federal Circuit noted, the parties should make clear their understanding of the agreement along with any future impact it wishes to identify or negate. One would argue this truth even, or perhaps particularly, where the doctrine remains unclear. For instance, while the original Kessler case discussed "claims that were brought or could have been brought," the *Uniloc* case refers only to the acts of infringement as existing at the time when the original suit was filed.

A cautious patent owner drafting a settlement agreement might consider whether the "could have been brought" language also applies to patents that existed at the time of the initial suit that could have been asserted and not just acts of infringement. *CFL Technologies* nearly answered this question, but not fully.

With respect to the alleged infringer, the accused manufacturer may have a tactical advantage when negotiating an agreement to dismiss with prejudice. The accused manufacturer must consider whether protecting its customers from follow-on litigations outweighs obtaining some other desirable provision in exchange for allowing the patent owner to contractually reserve its rights to sue.

Manufacturers, particularly those who indemnify their customer's use of their products, should also consider whether any of their prior litigations invoke the protections of the Kessler doctrine.

As seen from these recent decisions, the courts place significant emphasis on the contracting powers of the parties. That power, however, can be dangerous if a party is not aware of or does not consider the broad preclusive impact of the Kessler doctrine. When faced with a voluntary dismissal with prejudice, both parties should carefully consider their interests in follow-on litigations when crafting the terms of the agreement.

Conclusion

With *PersonalWeb*, the Federal Circuit not only expanded the Kessler doctrine but opened the door for the doctrine to be broadened even further. In effect, the doctrine is relatively unbound so long as it continues to stay true to the spirit of the original rationale underlying its adoption — protecting from follow-on infringement suits any product to which the manufacturer established a right not to be sued for infringement on the same patents.

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Akin Gump represents Amazon and General Electric but not in the matters discussed in this article.

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[1] 961 F.3d 1365 (Fed. Cir. 2020).

[2] 206 U.S. 285 (1907).

[3] *Id.* at 285-86.

[4] *Id.* at 289-90.

[5] *Id.*

[6] *In re PersonalWeb Tech.*, 961 F.3d at 1376 (quoting *Brain Life, LLC v. Elekta Inc.*, 746 F.3d 1045, 1056 (Fed. Cir. 2014)).

[7] *Id.* at 1372.

[8] *Id.*

[9] *Id.* at 1379.

[10] *Id.*

[11] *Id.*

[12] *Id.*

[13] Uniloc 2017, LLC v. Ubisoft, Inc., No. SA CV 19-01150-DOC-KES, 2021 WL 1255605, at *4 (C.D. Cal. Mar. 18, 2021).

[14] Id. at*1.

[15] Id.

[16] 851 F.3d 1275 (Fed. Cir. 2017).

[17] Uniloc 2017, 2021 WL 1255605, at *6.

[18] Id. (citing Mentor Graphic Corp., 851 F.3d at 1301).

[19] Id.

[20] No. 18-1444-RGA, 2021 WL 1105335 (D. Del. Mar. 23, 2021).

[21] Id. at *3

[22] Id.

[23] Id. at *6.

[24] Id. at *7-*8.

[25] Id.

[26] Id.

[27] In re PersonalWeb Tech., 961 F.3d at 1379.