

No. 13-1071

IN THE
Supreme Court of the United States

BAXTER INTERNATIONAL INC.
AND BAXTER HEALTHCARE CORPORATION,
Petitioners,

v.

FRESENIUS USA, INC.
AND FRESENIUS MEDICAL CARE HOLDINGS, INC.,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FEDERAL
CIRCUIT

**BRIEF OF AMICUS CURIAE INTELLECTUAL
PROPERTY OWNERS ASSOCIATION IN
SUPPORT OF PETITIONERS**

PHILIP S. JOHNSON, *President*
KEVIN H. RHODES, *Chair, Amicus*
Brief Committee
INTELLECTUAL PROPERTY
OWNERS ASSOCIATION
1501 M Street, NW
Suite 1150
Washington, DC 20005
(202) 507-4500

PETER G. PAPPAS
Counsel of Record
ANN G. FORT
STEPHANIE G. STELLA
SUTHERLAND ASBILL &
BRENNAN LLP
999 Peachtree Street NE
Suite 2300
Atlanta, Georgia 30309
Pete.Pappas@sutherland.com
(404) 853-8064

*Counsel for Amicus Curiae Intellectual
Property Owners Association*

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

Intellectual Property Owners Association (IPO) is a trade association representing companies and individuals in all industries and fields of technology who own or are interested in intellectual property rights.¹ IPO's membership includes more than 200 companies and over 12,000 individuals who are involved in the association either through their companies or as inventor, author, executive, law firm, or attorney members. Founded in 1972, IPO represents the interests of all owners of intellectual property. IPO regularly represents the interests of its members before Congress and the USPTO and has filed *amicus curiae* briefs in this Court and in other courts on significant issues of intellectual property law. This brief was approved by the IPO Board of Directors. A list of IPO board members can be found in the Appendix.²

¹ No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae* or its counsel made a monetary contribution to its preparation or submission. Petitioners have consented to the filing of this brief through a blanket consent letter filed with this Court on March 21, 2014. Respondents consented to the filing of this brief on March 31, 2014.

² IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

IPO submits this brief because its members share a significant interest in protecting the valuation of their intellectual property. Innovation is central to economic growth in the United States, and patents are a major driver of long-term economic performance.

In order to continue to incentivize corporations and individuals to invest in innovation, the government must safeguard the integrity and efficiency of the patent system, by providing the clarity necessary for patentees to protect and defend their property. And the competing patentee's interest in repose versus the public interest in having invalid patents invalidated makes this an issue of public importance. The issue before the Court in this case should be settled by this Court because it involves a complex issue regarding competing authority of the executive and judicial branches of government. IPO respectfully requests that this Court provide the requested clarity, and also welcomes the opportunity to provide the perspective of its members on this important question. In doing so, IPO is not advocating any particular result regarding the dispute in this case.

SUMMARY OF ARGUMENT

In 2009, the Federal Circuit affirmed the district court's 2007 determination that the asserted '434 patent claims were not invalid and were infringed by Fresenius. The Federal Circuit, however, remanded the case for reconsideration of injunctive relief and

post-verdict damages. In March 2012, the district court entered a damages award of the original \$14 million, plus \$9.3 million in post-verdict damages, but stayed execution of the award pending appeal.

Two years into the district court litigation, in 2005, Fresenius requested *ex parte* reexamination of the asserted claims of the '434 patent and, in December 2007, the USPTO examiner finally rejected those claims. While the district court litigation was pending on remand, in March, 2010, the USPTO Board—in contrast to the Federal Circuit's decision—affirmed the examiner's invalidity determination. Baxter appealed the USPTO Board decision, which was affirmed by the Federal Circuit in 2012. In April 2013, after the Federal Circuit's mandate had issued, the USPTO cancelled the '434 patent claims. Baxter argued on appeal that the cancellation of the '434 patent claims could not be given effect in the parallel litigation because there was a previous contrary final judgment in. The Federal Circuit panel majority, disagreed, however, and in its July 2, 2013 opinion held that the cancellation of patent claims during USPTO reexamination is binding on concurrent non-final infringement litigation. Because Baxter's remaining asserted claims had been cancelled by the USPTO, Baxter had no viable cause of action against Fresenius.

The Federal Circuit's interpretation of finality of a judicial decision in this case in effect allowed an

administrative decision by an executive branch agency to displace the judgment of an Article III court, which may raise serious constitutional questions regarding the separation of powers between the two branches. Furthermore, such circumstances are likely to arise again because a substantial number of patents are involved in parallel proceedings, including infringement suits in federal district court and post-grant administrative review proceedings before the USPTO. There is thus a high likelihood that the USPTO will continue to issue decisions that conflict with district court invalidity judgments, even after a mandate issues affirming the district court's final judgment as to validity, but perhaps remanding the case to the district court for further proceedings on other issues in the case.

Further clarity provided by a Supreme Court decision on *certiorari* is needed. The absence of such clarity will only perpetuate the uncertainty created by the Federal Circuit's majority opinion, as contemplated by the dissenting panel members, and explained below. IPO thus respectfully urges the Court to grant the petition.

REASONS FOR GRANTING CERTIORARI

I. THE FEDERAL CIRCUIT'S INTERPRETATION OF FINALITY OF A JUDGMENT APPEARS TO EXPAND THE AUTHORITY OF THE USPTO TO SUPPLANT THE JUDGMENT OF AN ARTICLE III COURT.

In *Fresenius USA, Inc. v. Baxter Int’l, Inc.* (*Fresenius II*), 721 F.3d 1330, 1348 (Fed. Cir. 2013), the Federal Circuit’s panel majority determined that its *Fresenius USA, Inc. v. Baxter Int’l, Inc.* (*Fresenius I*) 582 F.3d 1288 (Fed. Cir. 2009) remand decision was “not sufficiently final” so as to preclude application of the USPTO’s intervening *ex parte* reexamination invalidity determination. In denying Baxter’s combined petition for panel rehearing and rehearing *en banc*, the court characterized the dissents as “urg[ing] that a plaintiff should be allowed to secure damages for infringement of a patent that has been conclusively found invalid by the PTO”—and reiterated the basis for its conception of “finality of judgment,” while omitting any mention of the constitutional question so vociferously argued by Baxter and the dissenting circuit judges. *Fresenius USA, Inc. v. Baxter Int’l, Inc.* (*Fresenius III*), 733 F.3d 1369, 1370 (Fed. Cir. 2013). The majority opinion denying rehearing stated:

A patentee’s right to damages for infringement is “founded on the validity of his patent.” *Worden v. Searls*, 121 U.S. 14, 25, 7 S. Ct. 814, 30 L.Ed. 853 (1887). As the panel majority pointed out, so long as the judgment in the infringement action is not final, “the language and legislative history of the reexamination statute show that Congress expected . . . that cancellation of claims during reexamination would

be binding in concurrent infringement litigation.” *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330, 1339 (Fed. Cir. 2013).

What constitutes a final judgment in this context was addressed by the Supreme Court in *Moffitt v. Garr*, where the Court interpreted the reissue statute, which has the same effect on pending litigation as does the reexamination statute. 66 U.S. 273, 282–83, 1 Black 273, 17 L.Ed. 207 (1861); 35 U.S.C. § 307(b). The Court held that the surrender of a patent (the equivalent of invalidation) is a legal cancellation of [the patent], and hence can no more be the foundation for the assertion of a right after the surrender, than could an act of Congress which has been repealed.” *Id.* at 283. Unless the patent remained in force “at the time of . . . judgment, the suit[] fail[s].” *Id.* This is in contrast to situations where the patentee has collected on a judgment because “moneys *recovered* on judgments in suits” could not be “recovered back” after surrender. *Id.* (emphasis added). *Moffitt* thus makes clear that a judgment of infringement is only final when a judgment has been

entered that would irrevocably allow execution and payment.

Id. at 1371.

Judge O'Malley declined to vote for *en banc* review of the USPTO's invalidity ruling in *In re Baxter Int'l Inc.* In her concurring opinion, joined by Chief Judge Rader and Judge Linn, O'Malley expressed an understanding that the panel opinion did not "endorse '[the USPTO's] administrative nullification [by a contrary reexamination invalidity decision] of a final judicial decision [of the district court]'" – i.e., *Fresenius I. In re Baxter Int'l, Inc.* 698 F.3d 1349, 1350 (Fed. Cir. 2012) (O'Malley, J., concurring). Chief Judge Rader and Judge O'Malley's dissent from the denial of Baxter's petition for rehearing *en banc*,³ however, underscores the unforeseen implications of the court's subsequent conception of finality of judgment in *Fresenius II*, which appeared to result in just such an endorsement.

In her dissent, Judge Newman disagreed with Judge O'Malley's understanding of the panel opinion but agreed with the premise that an agency review cannot alter the binding effect of a prior judicial decision. *See In re Baxter*, 698 F.3d at 1351. Although it thus appeared that at least four members of the Federal Circuit agreed that a

³ Judge Linn did not participate.

USPTO decision on reexamination cannot nullify a prior adverse decision of the Federal Circuit, the court's denial of rehearing *en banc* leaves that question unsettled.

Whether the district court's validity judgment is "final," allowing an administrative decision by an executive branch agency to displace the judgment of an Article III court may raise serious constitutional questions regarding the separation of powers between the two branches. In her *Fresenius II* dissent, and again in her dissent from denial of the petition for rehearing *en banc*, Judge Newman disagreed with the panel majority, arguing that its decision violates constitutional principles establishing the relative authority of an Article III court versus an administrative agency, because "judgments of Article III courts are 'final and conclusive upon the rights of the parties.'" *Fresenius III*, 733 F.3d at 1382 (citing *Gordon v. United States*, 117 U.S. 697, 702 (1864); *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211, 226 (1995)); *Fresenius II*, 721 F.3d at 1348 (citing *Gordon v. United States*, 117 U.S. 697, 702 (1864)). Judge Newman further opined:

The court's ruling that PTO reexamination overrides the prior adjudication of patent validity is contrary to the legislative purposes of reexamination, offensive to principles of litigation finality and repose, and violative of the Constitution. The

judicial decision of patent validity is not available for review, revision, or annulment by the PTO. When the issue of patent validity has been litigated and finally decided in the courts, this binds not only other courts, the parties, and the public; it binds the other branches of government.

Fresenius III, 733 F.3d at 1364–65. Judge Newman’s dissent further underscores the need for this Court to address the constitutional questions regarding separation of powers raised by the Federal Circuit’s concept of finality of judgments. *Cf. In re Constr. Equip.*, 665 F.3d 1254 (Fed. Cir. 2011) (upholding the USPTO’s invalidation based on reexamination of a patent that had been litigated and held not invalid eleven years earlier where the reexamination was initiated by a party to the prior litigation); *In re Swanson*, 540 F.3d 1368, 1379 n.5 (Fed. Cir. 2008) (upholding the USPTO’s invalidation of claims of a patent that had been held not invalid by the Federal Circuit in prior litigation, although the court acknowledged that “an attempt to reopen a final federal court judgment of infringement on the basis of a reexamination finding of invalidity might raise constitutional problems”).

The *Fresenius II* dissent also challenged the panel majority’s claim that “Congress expected reexamination to take place concurring with litigation, and that cancellation of claims during

reexamination would be binding in concurring infringement litigation.” *Fresenius II*, 721 F.3d at 1351. Under the dissent’s view, the majority has “authorize[ed a] PTO reexamination to override a prior judicial adjudication of patent validity,” thereby

creat[ing] a constitutional violation that should have been avoided. *See NLRB v. Catholic Bishop of Chi.*, 440 U.S. 490, 500–01 (1979) (courts are required to choose any reasonable construction of a statute that would eliminate the need to confront a contested constitutional issue); *Hooper v. California*, 155 U.S. 648, 657 (1895) (courts must resort to “every reasonable construction . . . in order to save a statute from unconstitutionality”).

Fresenius II, 721 F.3d at 1353.

The *Fresenius II* panel majority agreed that, under *Plaut*, “allowing a PTO determination to control the outcome of pending litigation is unconstitutional, because it offends the separation of powers,” *id.* at 1345, but disagreed that its decision violates any constitutional principles based on its determination that Baxter lacked final judgment in *Fresenius I*. The majority relied on a ruling by an agency of the executive branch when overturning the previous court decision affirming the validity, liability, accounting, and injunction, and denial of

rehearing and rehearing *en banc*, and this Court's denial of *certiorari*. The creation of a scenario in which an agency decision has had—and will most likely continue to have—such weighty impact on the parties despite contrary decisions of the district courts and Federal Circuit demands the guidance of this Court.

Where a case presents such an important constitutional issue, touching on the proper role of each of our branches of government where valuable economic rights are at stake, a decision of this Court would offer an opportunity for continued thorough analysis of the question for the good of all parties in patent litigation involving invalidity claims or defenses.

**II. THE ABSENCE OF THIS COURT'S GUIDANCE
WILL ONLY PERPETUATE THE UNCERTAINTY
CREATED BY THE FEDERAL CIRCUIT IN
CIRCUMSTANCES GUARANTEED TO RECUR.**

This Court's guidance is necessary to stem the uncertainty created by the Federal Circuit's decision in *Fresenius II* in the rising number of patent cases subject to parallel proceedings, including infringement suits in federal district court and post-grant administrative review proceedings before the USPTO. A lack of such guidance will otherwise result in continued uncertainty, races between district courts and the PTO, and the potential for

wasting the courts' and the parties' time and resources.

Although the America Invents Act (AIA) changed part of the landscape for post-issuance reviews of patent validity by the PTO, it left intact the procedure used in this case, *ex parte* reexamination proceedings—like those initiated here by Fresenius. A request for reexamination may be filed at any time after a patent has issued; thus, a party unsuccessful in invalidating a patent in a district court, and even after appeal to the Federal Circuit, still may be able to do so under the lower burden of proof standards in a USPTO proceeding—just as Fresenius did here—thereby potentially eliminating any certainty or finality resulting from federal court patent litigation.

The significant backlog of reexaminations makes the potential for conflict real, and not just theoretical. From the 1981 launch of *ex parte* reexamination through 2012, the annual number of filings rose more than 320% (from 187 to 788).⁴ Although requests dropped dramatically in 2013,⁵

⁴ The 787 *ex parte* reexamination filings in fiscal year 2012 is the total through September 30, 2012. In 2013, that number dropped to 305. United States Patent and Trademark Office Ex Parte Reexamination Filing Data - September 30, 2013, http://www.uspto.gov/patents/stats/inter_parte_historical_stats_roll_up_EOY2013.pdf, and September 30, 2012, http://www.uspto.gov/patents/stats/ex_parte_historical_stats_roll_up_EOY2012.pdf.

⁵ *Id.*

due to the increased number of available post-grant review options, the determinations on reexamination requests have remained steady, and the number of reexamination proceedings known to have related litigation jumped 22.5%.⁶ Of the nearly 13,000 requests filed since inception, 92% have been granted, and approximately one-third of the subject patents were also known to be in litigation.⁷ All claims were canceled in only 11% of cases.⁸ The majority of reexaminations, however—68% of cases—resulted in the claims being amended.⁹ Thus, even if a defendant fails to invalidate the claims in litigation, it may still avoid infringement by forcing the patentee to amend its claims in reexamination.

The 80% rate of claim cancellation or amendment, lack of time restrictions on filing, lower “substantial new question of patentability” standard for initiating the review, and lower burden of proof for invalidating claims in a USPTO proceeding all will continue to make reexamination an attractive

⁶ United States Patent and Trademark Office, Performance & Accountability Report 200 (FY 2013), <http://www.uspto.gov/about/stratplan/ar/USPTOFY2013PAR.pdf>.

⁷ United States Patent and Trademark Office Ex Parte Reexamination Filing Data - September 30, 2013, http://www.uspto.gov/patents/stats/inter_parte_historical_stats_roll_up_EOY2013.pdf.

⁸ *Id.*

⁹ *Id.*

litigation defense strategy. There is thus a high likelihood that the USPTO will continue to issue reexamination decisions that conflict with district court validity judgments, even after mandate issues affirming the district court validity judgment. The continuing importance of this issue underscores the need for this Court to erase the uncertainty remaining following the Federal Circuit's split panel decision.

CONCLUSION

Where a case presents such an important constitutional issue, touching on the proper role of each of our branches of government, the analysis of this Court would offer much needed clarity. For this and all of the foregoing reasons, IPO respectfully requests that the Court grant the petition for a writ of *certiorari*.

Respectfully submitted.

PHILIP S. JOHNSON,
President
 KEVIN H. RHODES, *Chair,*
Amicus Brief Committee
 INTELLECTUAL PROPERTY
 OWNERS ASSOCIATION
 1501 M Street, NW
 Suite 1150
 Washington, DC 20005
 (202) 507-4500

Counsel for Amicus Curiae
 April 7, 2014

PETER G. PAPPAS
Counsel of Record
 ANN G. FORT
 STEPHANIE G. STELLA
 SUTHERLAND ASBILL &
 BRENNAN LLP
 999 Peachtree Street NE
 Suite 2300
 Atlanta, Georgia 30309
Pete.Pappas@sutherland.com
 (404) 853-8064

APPENDIX

APPENDIX¹

**Members of the Board of Directors
Intellectual Property Owners Association**

Edward Blocker Koninklijke Philips N.V.	Krish Gupta EMC Corporation
Tina M. Chappell Intel Corp.	Horacio Gutierrez Microsoft Corp.
William J. Coughlin Ford Global Technologies LLC	Jennifer M. Hall Mars Inc.
Robert DeBerardine Sanofi-Aventis	Dennis R. Hoerner, Jr. Monsanto Co.
Anthony DiBartolomeo SAP AG	Carl B. Horton General Electric Co.
Louis Foreman Enventys	Michael Jaro Medtronic, Inc.
Scott M. Frank AT&T	Philip S. Johnson Johnson & Johnson
Darryl P. Frickey Dow Chemical Co.	Lisa K. Jorgenson STMicroelectronics, Inc.
Roger Gobrogge Rolls-Royce Corp.	Charles M. Kinzig GlaxoSmithKline

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Appendix

Christopher H. Kirkman The Travelers Companies, Inc.	Kevin H. Rhodes 3M Innovative Properties Co.
David J. Koris Shell International B.V.	Mark L. Rodgers Air Products & Chemicals, Inc.
Allen Lo Google Inc.	Curtis Rose Hewlett-Packard Co.
Timothy F. Loomis Qualcomm, Inc.	Matthew Sarboraria Oracle USA Inc.
Steven W. Miller Procter & Gamble Co.	Manny Schecter IBM Corp.
Douglas K. Norman Eli Lilly and Co.	Steven J. Shapiro Pitney Bowes Inc.
Elizabeth A. O'Brien Covidien	Dennis C. Skarvan Caterpillar Inc.
Sean O'Brien United Technologies Corp.	Russ Slifer Micron Technology, Inc.
Salvatore Pace Praxair, Inc.	Terri H. Smith Motorola Solutions, Inc.
Richard F. Phillips Exxon Mobil Corp.	Daniel J. Staudt Siemens Corp.
Dana Rao Adobe Systems Inc.	Brian K. Stierwalt ConocoPhillips

Appendix

Thierry Sueur
Air Liquide

James J. Trussell
BP America, Inc.

Roy Waldron
Pfizer, Inc.

Michael Walker
DuPont

BJ Watrous
Apple Inc.

Stuart L. Watt
Amgen, Inc.

Michael Young
Roche, Inc.