IP Alert | When Does a Manufacturer's Successful Patent Defense Shield its Customers?

By Matt Becker and Marc Cooperman

A tightly woven web of intersecting legal doctrines governs the scope of protection an accused manufacturer's patent victory affords its customers that sell or use the same accused product. A case pending possible rehearing at the U.S. Court of Appeals for the Federal Circuit may further spin the web in a way that could favor either patent owners or accused infringers.

PersonalWeb Technologies LLC's nearly 10-year-old patent litigation saga against Amazon and its customers took another twist last week when the Federal Circuit invited a response to PersonalWeb's petition for panel rehearing. PersonalWeb's petition alleged errors in the Federal Circuit's June 17, 2020 decision affirming that claim preclusion and the Kessler doctrine barred PersonalWeb's infringement suits against Amazon customers. PersonalWeb's petition contends that the Federal Circuit improperly expands the Kessler doctrine. The Kessler doctrine acts as a supplement to claim preclusion and generally bars subsequent infringement actions against a party's customers following judgment of non-infringement in favor of the party.[1]

The story begins in December 2011 when PersonalWeb sued Amazon in the U.S. District Court for the Eastern District of Texas, alleging that Amazon's Simple Storage Service ("S3") system infringed five patents referred to as the "True Name Patents," which related to naming network data items. Following a claim construction ruling, PersonalWeb stipulated to the dismissal of all of its claims against Amazon with prejudice. In June 2014, the district court entered an order dismissing all claims against Amazon with prejudice and entered final judgment against PersonalWeb. There was no finding or judgment of non-infringement.

Starting in January 2018, PersonalWeb sued dozens of website operators, many of which were Amazon's customers, in district courts across the country. PersonalWeb alleged that Amazon's

customers infringed the True Name Patents by using S3—the same system at issue in the earlier dismissed case against Amazon. Amazon intervened on behalf of its customers, filing a declaratory judgment action against PersonalWeb that sought an order barring the infringement actions against its customers based on claim preclusion and the Kessler doctrine.

The Judicial Panel on Multidistrict Litigation consolidated the cases and assigned them to the U.S. District Court for the Northern District of California. Amazon moved for summary judgment arguing that the prior action against Amazon in Texas precluded PersonalWeb's suits against Amazon's customers for infringement based on their use of the S3 system. The Northern District of California granted Amazon's motion for summary judgment, holding that (i) claim preclusion barred PersonalWeb's claims for infringement prior to the final judgment in the Eastern District of Texas action against Amazon, and (ii) the Kessler doctrine barred PersonalWeb's claims of infringement relating to S3 brought against Amazon's customers after the final judgment.

PersonalWeb appealed to the Federal Circuit and made two primary challenges to the California court's decision. First, PersonalWeb argued that claim preclusion is not applicable because the Texas action and the California action constituted different causes of action. In particular, PersonalWeb argued that its infringement claims against Amazon's customers in California involved entirely different features within the S3 system ("cache control" functionality) than in the Texas action ("multipart upload" functionality), which made them different causes of action. Second, PersonalWeb argued that the Texas action did not adjudicate infringement and the dismissal with prejudice was, therefore, insufficient to trigger the Kessler doctrine.

The Federal Circuit affirmed the district court decision and rejected both of PersonalWeb's arguments. First, in analyzing PersonalWeb's different cause of action arguments, the Federal Circuit examined the overlap between the products accused of infringement in the earlier Amazon action and the later customer actions. The Federal Circuit found that PersonalWeb did not limit its Amazon case infringement contentions to only "multipart upload" functionality. More importantly, the Federal Circuit held that both the Amazon and customer cases related to the same set of transactions—use of the same Amazon S3 product—and therefore both involved the same causes of action.

Second, in addressing PersonalWeb's Kessler argument, the Federal Circuit explained that the Kessler doctrine "fills the gaps" left by claim and issue preclusion by allowing an adjudged non-infringer to avoid harassment for continuing its business after a post-final judgment in a patent action. PersonalWeb argued that Amazon was not an adjudicated non-infringer because the original Texas case was dismissed before there was any adjudication of non-infringement. The Federal Circuit rejected this argument. The Federal Circuit cited past decisions of the court that invoked the Kessler doctrine to bar all claims that were or "could have been brought" in the prior

action and found that the stipulated dismissal with prejudice in the Texas case operated as an adjudication on the merits. The Federal Circuit characterized the Kessler doctrine as granting a "limited trade right" that attaches to the product itself and extends to the manufacturer a right not to be sued for infringement post-final judgment. The with-prejudice dismissal of the Texas action, therefore, protected Amazon's right to use the S3 system from subsequent infringement challenges, even subsequent challenges against Amazon's customers.

In its petition for rehearing, PersonalWeb argues that the original Federal Circuit panel's ruling improperly expands the Kessler doctrine in direct contradiction to Supreme Court and Federal Circuit's precedent.

According to PersonalWeb, the Supreme Court's Kessler doctrine shields a manufacturer's customers from subsequent lawsuits over a previously litigated patent only if in the first lawsuit the manufacturer's right to sell its products freely was established by "final judgment." In other words, the Kessler shield applies where the manufacturer was an "adjudged non-infringer" with the right to sell non-infringing products "everywhere and always."

PersonalWeb argues that no Supreme Court or Federal Circuit decision has ever applied the Kessler doctrine in the absence of a prior judgment with some finding that an accused device or method did not infringe the patent(s) in suit. Thus, according to PersonalWeb, the panel erred by implementing Kessler's protections here, where there was no prior judgment of non-infringement in the prior Amazon lawsuit. So according to PersonalWeb, the impact of the panel's ruling is that an agreed dismissal with prejudice now bars a subsequent suit for both pre-and post-judgment acts of infringement—in direct contradiction of prior precedent.

The Federal Circuit has asked Amazon and its customers for a response brief to the petition for rehearing before the end of August 2020.

The case is PersonalWeb Technologies, LLC v. Patreon, Inc. et al., 2019-1918 (Fed. Cir. 2020).

For more information about the content in this alert or if you have questions about the business and legal implications of the Court's decision, please contact a Banner Witcoff attorney.

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[1] Kessler v. Eldred, 206 U.S. 285 (1907).

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