

No. 19-1124

IN THE
Supreme Court of the United States

CHRIMAR SYSTEMS, INC., DBA CMS
TECHNOLOGIES, INC., CHRIMAR
HOLDING COMPANY, LLC,

Petitioners,

v.

ALE USA INC., FKA ALCATEL-LUCENT
ENTERPRISE USA, INC.,

Respondent.

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

REPLY BRIEF

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REPLY

Respondent mainly argues that the Federal Circuit created no circuit split in departing from Restatement principles about judgment finality because no other circuit handles patents. Contrary to Respondent's theme, patent-specific carve-outs are a reason for granting cert, not denying it.

Respondent would shield the Federal Circuit from scrutiny because the Federal Circuit (alone among the circuits) handles "patent-specific circumstances." (BIO p.3). But *Amicus Baxter*, in particular, already anticipated Respondent's point. (Baxter *Amicus* pp. 9-10, cataloging eight recent cases in which this Court reversed a Federal Circuit legal doctrine diverging from the general law on grounds of patent-specific circumstances.). This exemplifies why this Court should step in to fix Federal Circuit doctrine, again, as it charts a patent-specific course diverging from the general law.

Beyond that, the majority of the BIO seeks to evade correction of Federal Circuit doctrine with arguments that this case is a bad vehicle, that *Chrimar* did not preserve the cert issue, and that *Chrimar* lacks injury concrete enough to give it standing. Respondent is incorrect on all points.

I. The BIO Does Not Refute the Circuit Split

The BIO seeks to label Chrimar’s proposed correction of errant Federal Circuit judgment-finality doctrine as a “novel preclusion rule.” (BIO pp. 3-4, 15, 22, 26, 29). But Respondent has it backwards. Respondent effectively ignores Chrimar’s main arguments supporting cert. Chrimar seeks a ruling that would direct the Federal Circuit to join the other circuits in applying provisions of the Restatement (Second) of Judgments that:

- (1) recognize finality of claims or issues embraced by a distinct part of a judgment even if unrelated aspects of the judgment remain open (§ 13, cmt. c) (Pet. pp. 15-16);
- (2) recognize that pendency of an appeal does not deprive any part of a judgment of finality (§ 13, cmt. f) (Pet. pp. 13, 15); and
- (3) recognize that, among conflicting judgments, it is the first judgment that controls an issue, as between the parties to that first judgment (§§ 14 cmt. a, 27 cmt. l) (Pet. p.17).

These are not novel principles. Courts outside of the Federal Circuit apply them universally. *E.g.*, *Pye v. Dep’t of Transp. Of State of Ga.*, 513 F.3d 290, 292 (5th Cir. 1975); (Pet. pp. 13-18).

Indeed, nothing in the BIO suggests that any of these three principles inaccurately states the general law. The Federal Circuit departed from this general law. There is a circuit split. This Court should fix it.

Respondent nevertheless argues that the Federal Circuit’s absolute-finality rule simply “applies general preclusion principles to patent case-specific circumstances of the court of appeals’ affirmance of a judgment from the Board invalidating all patent claims¹ while a district court case is still pending.” (BIO p.11). Respondent amplifies its “patent-specific” theme by stating that this “principle has not been ‘adopted’ by other courts of appeals because only the Federal Circuit has jurisdiction over patent appeals.” (BIO pp. 11-12).

But patent-specificity does not and cannot abrogate the general law. Patent-specificity in legal doctrine has in the past led to this Court’s review. Even within Respondent’s own statement of the issue as quoted above, Respondent does not contest that, generally, (1) part of a judgment may be deemed final even if other parts are not; (2) the pendency of an appeal from a district court decision does not nullify its finality, and (3) the first judgment among conflicting judgments controls among the parties to the first judgment. In other words, the presence or absence of a patent does not factor into the finality analysis. And for the BIO to argue that the issue at hand arises “while a district court case is still pending” is inaccurate under the facts of this case. Because the Board’s final decisions and their eventual affirmances *post*-dated the district court’s 2017 damages judgment, no district court case was “pending.” (Pet. pp. 6-8).

¹This statement is erroneous, as proven by the IPR certificates Respondent appended to its BIO. The Board did not “invalidat[e] all patent claims” in any of the four patents, but only cancelled certain ones in each.

Respondent goes on to state that the *Fresenius* decision (the one announcing the errant doctrine applied here) involved that court “rel[ying] on precedent from the Court and principles of finality embodied in the Restatement. . . .” (BIO p.12). But while the Federal Circuit did cite some decisions of this Court and the Restatement, Respondent makes no attempt to show that the Federal Circuit applied them correctly. The Petition exposes *Fresenius’s* faulty application of *John Simmons Co. v. Grier Bros. Co.*, 258 U.S. 82 (1922) (Pet. pp. 19-20), while the BIO makes no attempt to rehabilitate or explain away the Federal Circuit’s mistakes and misinterpretations of *Simmons*.

Respondent ironically relies instead on *Moffitt v. Garr*, 66 U.S. 273, 283 (1862). *Moffitt* supports *Chrimar*. In describing the effect on “antecedent suits” of surrender of a patent to achieve reissue, this Court stated that “unless [the patent] exists, and is in force **at the time of trial and judgment**, the suits fail.” *Id.* at 283 (emphasis added). By implication, a patent not yet subject to an adverse patentability decision at the Board “at the time of trial and judgment” remains fully effective, likewise judgments thereon. This implied rule supports *Chrimar*. At the time of trial and judgment, there was no Board decision ruling unpatentable any asserted patent claims.

Respondent places heaviest emphasis on the comment at the end of *Moffitt*, that moneys paid “on judgments in suits, or voluntary payment under the [surrendered] patent might [not] be recovered back.” *Id.* This Court stated that “title to these moneys does

not depend upon the patent, but upon the voluntary payment *or the judgment of the court.*" *Id.* (emphasis added). Putting to one side the offensive suggestion that a party's intransigence in refusing to abide by a trial court's judgment could itself justify vacating that judgment, the *Moffitt* quotation supports rather than opposes a cert grant. *Moffitt* reinforces Chrimar's argument (Pet. p.23) that it is the *judgment* that gives "title" to Chrimar in the "moneys" specified therein, not the patent (whatever its future fate might be). Denying cert now would incentivize future stonewalling of damages judgments.

The BIO also ignores the legal consequence of the affirmance in the first appeal, which directed remand solely on issues that did not affect past damages. (Pet. p.7). Under this Court's standards, such mandate left the courts "bound by the decree as the law of the case [such that it] must carry it into execution, according to the mandate." *In re Sanford Fork & Tool Co.*, 160 U.S. 247, 255 (1895). In such instances, a court "cannot vary it, or examine it for any other purpose other than execution; or give any other or further relief; or review it, even for apparent error, upon any matter decided on appeal; or intermeddle with it, further than to settle so much as has been remanded." *Id.*; see also *United States v. Ben Zvi*, 242 F.3d 89, 95 (2d Cir. 2001) (issue "ripe for review at the time of an initial appeal but [] foregone" outside of authority of district court to address "unless the mandate can reasonably be understood as permitting it to do so."). Thus, the Federal Circuit's judgment in the *second* appeal was erroneous because it "intermeddled" with already-affirmed issues.

Respondent also accuses Chrimar of ignoring and/or misapplying Restatement principles. (BIO pp. 13-15). Again, the opposite is true.

Respondent first cites the Restatement (Second) of Judgments, § 13, where it states that “issue preclusion” applies “from one action to another.” (BIO p.14). Effectively, however, the action on the three patents that formed the basis for patent infringement liability and past damages was complete by the time of Respondent’s second appeal. Because the second appeal concerned the thoroughness of a fourth patent’s dismissal, or the propriety of staying ongoing equitable relief, that appeal was irrelevant to this first action on three other patents where liability was affirmed. Thus, in practical effect, the second appeal was “another action.”² And, as pointed out in the Petition (at p.18), even the Federal Circuit looked to § 13 in its *Fresenius* decision as the proper authority to consult on finality standards that apply within the *same* case after a post-judgment Board cancellation decision.

Nor does the Restatement (Second) of Judgments, § 17, justify the Federal Circuit’s decision. As the BIO points out, § 17 renders conclusive a judgment between parties “except on appeal or other direct review.” (BIO pp. 14-15). Respondent did not fall within this exception. The “appeal or other direct review” of the liability on the first three patents had ended long before the Federal Circuit entertained the second appeal, which appeal itself dealt only with the

² This fact nullifies Respondent’s attempt to distinguish Chrimar’s Fifth Circuit decisions, supposedly on the grounds that they turned on there being two actions, a first and a subsequent one. (*See* BIO pp. 16-17).

fourth patent and ongoing royalties.³ At the time of the Federal Circuit’s erroneous ruling, no “appeal or other direct review” of the three-patent liability judgment (and past damages award) was pending.

As for § 73 (which states that a “change in the circumstances” might justify setting aside or modifying a judgment), this provision does not apply. The comments to § 73 reveal that only “very unusual circumstances” would justify revisiting a past damages judgment—even a material change in the law does not qualify. Restatement (Second) of Judgments, § 73, cmt. b. The Restatement gives the example of a second judgment relying on the validity of a first for the existence of liability, where the first judgment gets reversed. In that case it is appropriate to modify the second judgment. *Id.* That is not the situation here. In any event, § 73 recites relief available in a trial court, not an appellate court. Respondent never asked the district court to “set aside” or “modify” (as opposed to “stay”) the past damages judgment. (R.338-339, R.895-896). This Court should therefore disregard Respondent’s counterfactual attempt to invoke § 73 to avoid cert. (*See* BIO p.19).

The BIO also finds fault with the Petition’s citation of *Cromwell v. County of Sac*, 94 U.S. 351 (1877), which Chrimar cites to underscore that its

³ Respondent suggests that its Rule 60(b)(5) motion sought to modify the original past-damages judgment. (BIO pp. 19, 26). Not so. The only post-remand Rule 60 motion that Respondent filed in the district court asked for a “stay” of that judgment, not for past damages to be vacated. (R.338-339; R.895-896, “requests . . . to stay prospective enforcement of the Amended Final Judgment, in the form of ongoing royalties . . .”). Vacatur of the past damages judgment was *sui generis* at the Federal Circuit, not preserved by Respondent at the district court for a second appeal.

right to collect past damages arose from the judgment, not from the underlying patents. Yet the BIO focuses myopically on the factual backdrop of *Cromwell*, while ignoring the statement of law undergirding its holding. The BIO suggests that *Cromwell* is limited to analysis of defensive issue preclusion. (BIO p.16). However, *Cromwell's* statement of law speaks broadly enough to encompass same-case finality: “If such defences were not presented in the action, and established by competent evidence, the subsequent allegation of their existence is of no legal consequence. The judgment is as conclusive, so far as **future proceedings at law** are concerned, as though the defences never existed.” *Id.* at 352-53. This holding refers to “future proceedings,” regardless of the case number identifier under which those proceedings happen. In other words, *Cromwell* is apposite authority that directly refutes the Federal Circuit’s “absolute finality” rule. It signifies that the first judgment for past damages that the Federal Circuit affirmed should have been deemed “conclusive, so far as future proceedings at law are concerned,” even within the same case, no matter what the Board later did to cancel asserted patent claims.

Finally, the BIO seeks to sidestep the Federal Circuit’s conflict with *Qualcomm, Inc. v. FCC*, 181 F.3d 1370 (D.C. Cir. 1999). In that case, the D.C. Circuit recognized that it would be constitutionally anathema to permit another branch of government to issue a decree whose effect would unwind a previously-entered Article III judgment. Respondent says that things are different in this case, since the Federal Circuit is the actor (an Article III court) who gave effect to the Board decisions, and the Board did

not directly command the courts. (BIO pp. 17-18). This is a distinction without a difference. Under Respondent's logic, the D.C. Circuit in *Qualcomm* would have ruled opposite to how it did, viewing itself (an Article III court) as the actor giving effect to Congress's decision to eliminate certain radio licensing applications, rather than viewing Congress as improperly commanding the courts. But the D.C. Circuit held the opposite, proving that Respondent is wrong. This case and *Qualcomm* are in severe conflict, as several Federal Circuit judges have acknowledged. (Pet. pp. 25-27).

For the foregoing reasons, the BIO presents no legitimate merits-based reason to deny review. Even if it had, at the very least, the Federal Circuit dissents cited in the Petition and *Amici* briefs sharply question whether the *Fresenius* rule is correct, much less wise policy. These dissents justify this Court's review.

II. The BIO's Vehicle, Preservation and Standing Arguments Lack Merit

Respondents' remaining arguments opposing cert are makeweight.

Respondent proposes that this case presents an "unattractive vehicle." (BIO pp. 20-27). Respondent is wrong.

First, the fact that a third party (not Respondent) triggered the agency proceedings underscores the injustice of the *Fresenius* rule and its overbroad application. (*See Baxter Amicus* pp. 6-7).

Second, Respondent's argument that "only Chrimar fully litigated" prior art invalidity is false. Respondent took its prior art invalidity case to the brink, only dropping it on the eve of trial after forcing Chrimar to incur expense. (See District Court ECF#236 at pp. 15-16, Final Pretrial Order asserting prior art invalidity). Respondent's pleadings asserted specific items of prior art that overlapped with those which the Board used in its decisions. (Compare pleading at R.954-955 with Board decisions at R.355, R.429, R.514, R.586-587 and R.760). Under these circumstances, Respondent "actually litigated" prior art invalidity for trial, but lost. *VirnetX Inc. v. Apple Inc.*, No. 2019-1050, 792 F. Appx. 796, 803-04, 2019 U.S. App. LEXIS 34866, at *16-17 (Fed. Cir. Nov. 22, 2019) (nonprecedential).

Third, the Federal Circuit's inaction on rehearing (BIO p.23) only signals that its application of the challenged *Fresenius* rule has become routine, indicating full percolation of the issue for this Court's review. (See NSBA *Amicus* p.10).

Fourth, Respondent tries to turn the tables, emphasizing issue preclusion tying Chrimar's (not Respondent's) hands. (BIO p.24). This argument proves too much, because whenever the challenged *Fresenius* rule applies, there will be a Board unpatentability decision adverse to the patentee. Issue preclusion against *Chrimar* is also not germane, since (as argued) the first of two inconsistent decisions (not the latter) applies between the parties to the first decision, *i.e.*, the validity judgment that Respondent lost. (Pet. p.17). In any case, traditional exceptions would apply to negate issue preclusion against

Chrimar, including that Chrimar did not choose the forum issuing the adverse decision. *Blonder Tongue Labs., Inc. v. Univ. Ill. Found.*, 402 U.S. 313, 332-33 (1971).

Fifth, Respondent calls it “patently false” (BIO p.25) that the 2017 district court judgment was the last word on liability, past damages and the determination of the ongoing royalty rate. It is Respondent who is wrong, since the district court on remand only changed the duration of (not the rate of) ongoing royalties. (App. 12a-17a).

Sixth, Respondent suggests that it would prevail on alternative grounds if Chrimar were to obtain its requested relief here. (BIO p.27). This strains credulity, since at most Respondent would obtain review of its request to stay ongoing royalties pending completion of appeals of Board decisions. Contrary to its arguments, Respondent did not ask the district court to vacate (as opposed to “stay”) the past damages award. And the “stay” it did request is now moot, since those Board appeals are now complete.

Turning to the waiver argument, this too lacks merit. Chrimar consistently presented the issue that the Article III final judgment was final enough to be immune to later Board unpatentability decisions—the same overarching issue here. (*E.g.*, Federal Circuit ECF#16-1 p.4; ECF#37 pp. 12-25; ECF#57-1 pp. 8-9). Additionally, it would have been futile to argue to a three-judge panel that it overrule binding circuit precedent. For this very reason, there is no waiver when a party first asks for reversal of binding

precedent while before an *en banc* court. *United States v. Hernandez-Estrada*, 749 F.3d 1154, 1159-60 (9th Cir. 2014) (noting “the Supreme Court has not deemed an issue waived when first raised in a petition for rehearing *en banc* before a circuit court”) (citation omitted).

Likewise, the Petition has already refuted Respondent’s misplaced policy arguments. (BIO p.29). Namely, the rule that gives final effect to the earlier of two inconsistent judgments already presupposes a potentially-meritorious “second bite at the apple.” Nonetheless, it balances competing interests, such as the interests of justice in giving effect to final judgments of trial courts, and disincentivizing gamesmanship, to let the first decision stand between its parties. (Pet. p.22).

Finally, the argument that Chrimar lacks constitutional standing because of cancellation certificates from May 2020 borders on the absurd. Injury in fact is the loss of a district court monetary judgment. Chrimar’s injury remains concrete. Chrimar’s rights rest on a valuable judgment of the district court (not on any particular patent). It is this judgment that was erroneously vacated by the Federal Circuit ruling under review here. As Respondent also concedes, the Federal Circuit’s operative theory in its decision was issue preclusion, not voidness *ab initio* of Chrimar’s rights. Restoration of that judgment would redress Chrimar’s injury. And, if Respondent were correct, even admittedly erroneous application of the *Fresenius* rule would always evade review after Board cancellation.

III. Conclusion

This Court should grant the Petition.

Respectfully submitted,

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