

How They Won It: Fish Nixes \$23M Baxter Win With Re-Exam

By **Jonathan Randles**

Law360, New York (August 23, 2013, 10:24 PM ET) -- Fish & Richardson PC attorneys' prudent decision to seek re-examination of a Baxter International Inc. patent asserted against their client Fresenius USA Inc. culminated in the Federal Circuit's wiping out a \$23.5 million judgment, a ruling that solidifies the importance of post-grant proceedings in patent litigation.

On July 2, the appeals court ruled that a U.S. Patent and Trademark Office decision invalidating a Baxter patent negates a lower court's earlier infringement judgment against Fresenius because the issue of potential damages was still being litigated.

Baxter claimed the judgment on Fresenius' liability for infringing its patent was final and that the award should therefore stand. The company has petitioned the Federal Circuit to hear the appeal en banc, arguing that the decision perverts the separation of powers and will "result in a flood of new re-examination requests and duplicative litigation in the [patent office]".

But if the decision stands, it may encourage more defendants to pursue post-grant proceedings before the USPTO on patents they are accused of violating.

The ruling also signals that post-grant review, such as re-examination, can directly impact the outcome of patent litigation and may lead judges to stay more cases to avoid making rulings that are later negated.

"It represents a bit of a sea change for how patent litigation is going to go," said Michael Fleming of Miles & Stockbridge PC on Friday.

That Fresenius now has the upper hand on its rival — a decade after the dispute found its way into court — is a testament to the persistence of Fish & Richardson attorneys Michael Florey and Juanita Brooks.

"I think the overarching theme of this case is that tenacity pays off," Brooks said.

The dispute dates back to 2003, when Fresenius filed a declaratory judgment action in California against Baxter, alleging claims in four patents were invalid. Baxter responded by filing counterclaims for infringement. The case concerned Fresenius' 2008K hemodialysis machine.

Early on in the case, Fish & Richardson filed an ex parte re-examination request asking the PTO to cancel the claims of Baxter's patents, a decision that would be paramount to Fresenius' eventual victory.

In 2006, a jury found in favor of Fresenius, which claimed Baxter's patents were invalid because they'd been either anticipated or made obvious.

But in what became the first of many twists in the case, U.S. District Judge Sandra Armstrong set aside the jury's verdict in February 2007, ruled that Fresenius was liable for infringing the asserted patents, and ordered a separate damages trial.

The parties went to trial a second time in the fall of 2008, and again Fresenius mostly prevailed over its rival. Baxter had sought as much as \$150 million in damages but was awarded just \$14.25 million by a jury.

Once more, however, Fresenius' momentum proved short-lived. Judge Armstrong imposed a royalty rate on Fresenius that was several orders of magnitude greater than the jury had determined would be reasonable. As a result, Fresenius' potential liability spiked to well over \$100 million.

"The judge was trying to give Baxter back the damages award they didn't get the first time," Florey said.

The ruling prompted the first of two Federal Circuit appeals by Fresenius. In 2009, the appellate court invalidated two of the three remaining patents Baxter was asserting in the case. But its U.S. Patent Number 5,247,434 survived on technical grounds: the Federal Circuit ruled Fresenius had failed to present evidence of prior art that would justify a finding of invalidity.

Although Baxter's patents were similar and related to the same claimed invention, the '434 patent contained what are known as means-plus-function limitations, which require a separate structural analysis. The Federal Circuit ruled that Fresenius' technical expert had not done enough to match up the corresponding structure in the patent with the prior art.

Importantly though, Fish & Richardson argued that any potential damages would have to be recalculated if the Baxter patents Fresenius was found liable of infringing were thrown out. This proved a shrewd tactic, as the Federal Circuit remanded the case. Without the remand, the case would likely have been over, and Fresenius would have faced the prospect of paying out a nine-figure damages award.

In another fortunate break for Fresenius, Judge Armstrong recused herself from the litigation on remand. The case was taken over by U.S. District Judge Phyllis J. Hamilton, who conducted an in-depth evidence hearing and ultimately rejected Baxter's argument that it was entitled to the full royalty it had

been awarded before the Federal Circuit invalidated two of its patents.

In an order issued last year, Judge Hamilton, directed Fresenius to pay Baxter \$9.3 million in post-verdict royalties, along with the \$14.3 million awarded by the jury back in 2007, plus costs and pre- and post-judgment interest.

The damages ruling, which shrunk Fresenius' liability, strengthened the company's resolve to press on with the litigation, Florey said.

"It's one thing to have \$10 million hanging over your head — it's another thing to have \$120 million," Florey said. "Getting a good result there was critical."

Meanwhile, re-examination of Baxter's patent continued. The USPTO found it to be obvious and canceled the claims, and Fresenius prepared its second appeal in the case.

The question the Federal Circuit considered this time was whether Judge Armstrong's 2007 liability ruling should be considered a final judgment, which would preclude Fresenius' challenge in light of the USPTO's re-examination decision.

Fresenius argued that because the damages issue was still being litigated, the decision was not yet final. And because the USPTO had killed the patents, Baxter was not entitled to the award, the company argued.

"We think that a final judgment is one that ends the case, and this case is still going," Florey said.

In a split decision, the Federal Circuit backed Fresenius, vacating the lower court's decision and instructing Judge Hamilton to dismiss the case. In the majority opinion, Judge Dyk found the case had still been pending when the USPTO invalidated the patent.

"The intervening decision invalidating the patents unquestionably applies in the present litigation, because the judgment in this litigation was not final," Judge Dyk wrote.

Florey said an important aspect of Fish & Richardson's litigation strategy was litigating the damages issue on appeal. As the Federal Circuit's decision demonstrates, so long as damages are at issue, there is no final judgment in the case, he said.

"A lot of times parties give short shrift to the damages issues," Florey said. "In this case, the fact that we did an effective job briefing the damages and royalties issues got us that remand to lower the royalty and allowed the re-examination to finish while the case was pending."

The patent in suit is U.S. Patent No. 5,247,434.

U.S. Circuit Judges Timothy Dyk, Sharon Prost and Pauline Newman sat on the panel for the Federal Circuit.

Fresenius is represented by Juanita Brooks and Michael Florey of Fish & Richardson PC.

Baxter is represented by Michael Abernathy, Sanjay Murthy, Devon Beane and David Simons of K&L Gates LLP.

The case is Fresenius USA Inc. v. Baxter International Inc., case No. 2012-1334, in the U.S. Court of Appeals for the Federal Circuit.

--Additional reporting by Ryan Davis and Zach Winnick.

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