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Federal Circuit Patent Bulletin: *SpeedTrack, Inc. v. Office Depot, Inc.*

June 30, 2015

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On June 30, 2015, in *SpeedTrack, Inc. v. Office Depot, Inc.*, the U.S. Court of Appeals for the Federal Circuit (Prost, Mayer, O'Malley*) affirmed the district court's summary judgment that SpeedTrack's claim that the defendants infringed U.S. Patent No. 5,544,360, which related to a computer filing system for accessing files and data according to user-designated criteria, was barred by *res judicata* and under the [(*Kessler v. Eldred*, 206 U.S. 285 (1907))] Kessler doctrine. The Federal Circuit stated:

The Kessler doctrine "bars a patent infringement action against a customer of a seller who has previously prevailed against the patentee because of invalidity or noninfringement of the patent." . . . The Supreme Court subsequently explained that, under Kessler, a party who obtains a final adjudication in its favor obtains "the right to have that which it lawfully produces freely bought and sold without restraint or interference." The Court specified that this right "attaches to its product—to a particular thing—as an article of lawful commerce . . . ." We have likewise recognized that Kessler granted a "limited trade right" that attaches to the product itself. More recently, we reaffirmed the continued vitality of the Kessler doctrine, holding that it "precludes some claims that are not otherwise barred by claim or issue preclusion." . . .

The district court here found that "the Kessler doctrine [is] directly applicable to this case," and that the IAP software acquired the status of a noninfringing product in [the prior] Walmart [litigation]. There is no doubt that if Oracle were a party to this action, the facts here would fall squarely within Kessler. SpeedTrack alleged in a prior suit that Walmart's use of the IAP software infringed the '360 Patent. Oracle's predecessor, Endeca, intervened in that suit and sought declaratory judgment that its technology does not infringe. Both the district court and this court agreed, finding that the IAP software, and Walmart's use of that software, does not infringe the '360 Patent.

SpeedTrack is now pursuing the same infringement claims against other Oracle customers for allegedly infringing the same patent using the same IAP software found not to infringe in Walmart. As the district court found, Appellees in this case demonstrated that their use of the IAP software is "'essentially the same' as the implementation adjudged to be non-infringing in WalMart—specifically, [Appellees] have shown that they use

numbers, rather than names, as category descriptors." And, the district court found that, despite discovery, SpeedTrack "has been unable to identify any material differences between [Appellees'] use of the software and Wal-Mart's non-infringing use of the same software." Given these circumstances, the judgment in the Walmart case "settled finally and everywhere" that the IAP software does not infringe the '360 Patent.

Applying Kessler, it is Oracle's right that its "customers should, in respect of the [IAP software], be let alone by" SpeedTrack, and it is SpeedTrack's "duty to let them alone." Because Kessler creates a limited trade right that attaches to the IAP software itself, Oracle would have the right to an order prohibiting SpeedTrack from asserting that Oracle's customers infringe the '360 Patent by their use of the same software litigated in the Walmart case. SpeedTrack does not seriously dispute this conclusion on appeal. Instead, it argues that: (1) the right recognized in Kessler is one assertable, if at all, only by the product manufacturer or supplier, not by its customers; (2) Kessler does not apply where the manufacturer supplies only a component which is combined with other components and it is the combined configuration that infringes; and (3) Kessler is a doctrine which has been rendered obsolete by later developments in the law. . . .

The question of whether a customer can invoke the Kessler doctrine has divided circuits, and we have not specifically addressed it. . . . We conclude that the rationale underlying the Kessler doctrine supports permitting customers to assert it as a defense to infringement claims. Although the Supreme Court in Kessler focused exclusively on the manufacturer's rights, and expressed no opinion on whether a customer could assert the defense, it recognized the fact that the manufacturer and customer's interests are intertwined, remarking that "[n]o one wishes to buy anything if with it he must buy a law suit." Allowing customers to assert a Kessler defense is consistent with the Court's goal of protecting the manufacturer's right to sell an exonerated product free from interference or restraint. A manufacturer cannot sell freely if it has no customers who can buy freely. . . . SpeedTrack's argument that the Kessler doctrine can only be invoked by a manufacturer must fail.

SpeedTrack next argues that the Kessler doctrine does not apply to cases where the manufacturer is selling a component that is later combined with other objects and that combined product infringes. . . . In the Walmart case, Oracle's predecessor was awarded judgment that it does not infringe the '360 Patent by making, using, or selling the IAP software, and that its customer's use of that software does not infringe. The district court here found that SpeedTrack was unable to identify any material differences between Appellees' use of the IAP software and Walmart's noninfringing use of that same software. . . .

Finally, SpeedTrack argues that "the Kessler doctrine has been effectively displaced by modern preclusion principles." SpeedTrack concedes, as it must, that Kessler has not been overturned. It argues, however, that Kessler became unnecessary when the Supreme Court authorized non-mutual collateral estoppel in Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313, 349 (1971). The Court in Blonder-Tongue did not cite Kessler, however, and there is no indication that the Court sought to overrule it. According to SpeedTrack, Kessler carved a narrow exception to this mutuality principle by permitting a manufacturer to enjoin suits against its customers. [T]he Kessler doctrine is a necessary supplement to issue and claim preclusion: without it, a patent owner could sue a manufacturer for literal infringement and, if unsuccessful, file suit against the manufacturer's customers under the doctrine of equivalents. Or, a patent owner could file suit

against the manufacturer's customers under any claim or theory not actually litigated against the manufacturer as long as it challenged only those acts of infringement that post-dated the judgment in the first action. That result would authorize the type of harassment the Supreme Court sought to prevent in Kessler when it recognized that follow-on suits against customers could destroy the manufacturer's judgment right.