



ARE Patent Law Alert: Federal Circuit Upholds Decision Blocking Claims Against Amazon's Customers In A Follow On Lawsuit Based on Claim Preclusion and Kessler Doctrine

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In a precedential decision on June 17, 2020, the U.S. Court of Appeals for the Federal Circuit held that software developer PersonalWeb could not assert patent infringement claims against Amazon customers that use the Amazon S3 cloud storage system after its similar infringement claims against Amazon were dismissed in a prior lawsuit. *In re PersonalWeb Technologies LLC*, No. 19-1918 (Fed. Cir. 2020).

The decision by the three-judge panel upheld the district court ruling that claims regarding acts of infringement that occurred prior to the final judgment in the first district court action were barred by claim preclusion, and that the *Kessler* doctrine barred infringement claims relating to Amazon S3 after the final judgment.

Background

The patents in suit related to an invention in the field of computer networks referred to as "True Names" for data file items which created a unique identifier for a data item that related to the content of the data itself.

In December 2011, PersonalWeb sued Amazon and Dropbox, Inc. in the Eastern District of Texas alleging that Amazon S3, Amazon's web-based storage system, infringed the "True Name" patents.

After the district court issued its claim construction order, PersonalWeb stipulated to the dismissal of its claims against Amazon and the district court later issued an order dismissing the claims with prejudice.



In January 2018, PersonalWeb filed a number of new lawsuits in various districts against web operators which were customers of Amazon. In the new lawsuits, PersonalWeb alleged that by using Amazon S3, Amazon's customers had infringed the same "True Name" patents. Amazon intervened in the actions and filed a declaratory judgment against PersonalWeb seeking an order barring PersonalWeb's infringement actions against Amazon and its customers based on the dismissal with prejudice in the prior action in the Eastern District of Texas.

The customer cases and the declaratory judgment action were consolidated in a multi-district litigation proceeding and assigned to the Northern District of California. Amazon moved for summary judgment in light of the with-prejudice dismissal of PersonalWeb's action against Amazon in the Texas case, arguing that PersonalWeb was barred from suing Amazon or its customers for infringement based on the Amazon S3 system.

The district court granted the motion in part, holding that claim preclusion barred PersonalWeb's claims regarding acts of infringement that occurred prior to the final judgment in the Texas action, and that the *Kessler* doctrine barred infringement claims relating to Amazon S3 after the final judgment. See *Kessler v. Eldred*, 206 U.S. 285 (1907). The *Kessler* doctrine prevents previously defeated parties in an infringement suit from bringing litigation based on the same invention against the customers of the winning party of the previous suit.

The district court found that the claim preclusion requirements under *Kessler* were met. The court held that (1) the with-prejudice dismissal in Texas was a final judgment on the merits; (2) Amazon's customers were in privity with Amazon; and (3) the causes of action in the Texas case and in the customer cases were the same. The district court rejected PersonalWeb's argument that the claims against Amazon in the Texas case were limited to the multipart upload features of S3 and did not extend to S3 in general. The district court dismissed the eight customer cases.

Federal Circuit Holding

On appeal, PersonalWeb first argued that claim preclusion was inapplicable to the actions



against Amazon's customers because the Texas action involved a different feature of the S3 system.

On this issue, the Federal Circuit held that factual differences in PersonalWeb's theories of infringement in each case were not great enough to avoid claim preclusion.

Because the allegations were based on the "same set of transactions" regarding the S3 product generally, the Federal Circuit upheld the ruling that claim preclusion barred PersonalWeb from asserting infringement claims in the customer cases for actions pre-dating the judgment in the Texas case.

PersonalWeb also argued that the with-prejudice dismissal of the action against Amazon in Texas did not constitute adjudication of non-infringement and therefore should not have triggered analysis under the *Kessler* doctrine.

Because claim preclusion generally does not apply to acts of alleged infringement that occur after the final judgment of the earlier suit, PersonalWeb argued that the *Kessler* doctrine cannot be invoked unless the infringement or invalidity issue was "actually litigated." PersonalWeb argued that the issues were not actually litigated in the Texas case because PersonalWeb dismissed its claims before there was an adjudication.

However, the Federal Circuit held that the stipulated dismissal with prejudice in the Texas case operated as an adjudication on the merits for claim preclusion purposes and therefore resolved the dispute about liability for the patent infringement assertion. The stipulated dismissal conferred upon Amazon a limited trade right to continue producing, using, and selling Amazon S3 and the Federal Circuit therefore upheld the decision.

Practical Significance

PersonalWeb offers some insights into how the Federal Circuit is handling issues of claim preclusion and the *Kessler* doctrine in follow on lawsuits involving the same products



(albeit different parties) and the same patents as resolved in prior lawsuits.

We will continue to monitor cases regarding this and similar patent issues. Please feel free to contact us if you have any questions about how this decision may impact your rights.

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