Nos. 2015-1470, -1554, -1556

IN THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

MENTOR GRAPHICS CORPORATION, an Oregon corporation,
Plaintiff - Cross-Appellant,

v.

EVE-USA, INC., a Delaware corporation, SYNOPSYS EMULATION AND VERIFICATION S.A.S., formed under the laws of France, SYNOPSYS, INC., a Delaware corporation,
Defendants-Appellants.

APPEALS FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON
CASES NOS. 3:10-CV-00954-MO (LEAD), 3:12-CV-01500-MO, 3:13-CV-00579-MO, JUDGE MICHAEL W. MOSMAN

REPLY BRIEF OF APPELLEE AND CROSS-APPELLANT MENTOR GRAPHICS CORPORATION

George A. Riley
Mark E. Miller
Anne E. Huffsmith
O'Melveny & Myers LLP
Two Embarcadero Center, 28th Floor
San Francisco, California 94111
Telephone: (415) 984-8700

Susan Roeder
O'Melveny & Myers LLP
2765 Sand Hill Road
Menlo Park, CA 94025
Telephone: (650) 473-2600

CERTIFICATE OF INTEREST

Counsel for Plaintiff-Cross-Appellant Mentor Graphics Corporation certifies the following:

1. The full name of every party or amicus represented by me is:

Mentor Graphics Corporation.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

Mentor Graphics Corporation.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

None.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this Court are:

O'MELVENY & MYERS LLP: George A. Riley, Mark E. Miller, Luann L. Simmons, Geoffrey H. Yost, Anne E. Huffsmith, Susan Roeder, Elysa Q. Wan, Marc J. Pensabene, Michael A. Koplow (no longer with firm), Nick Janda (no longer with firm), Kristin Hall (no longer with firm), Elizabeth Offen-Brown Klein (no longer with firm), Michael Sapoznikow (no longer with firm), Robin M. Wall (no longer with firm).

KLARQUIST SPARKMAN, LLP: James E. Geringer, Mark W. Wilson, Patrick M. Bible, Salumeh R. Loesch, Andrew M. Mason, Kristin L. Cleveland.

VENABLE, LLP: Megan S. Woodworth.

Dated: February 18, 2016

/s/ Mark E. Miller
Mark E. Miller
Counsel for Appellee and Cross-Appellant Mentor Graphics Corp.

TABLE OF CONTENTS

Page

TABLE OF ABBREVIATIONS vi

STATEMENT OF RELATED CASES vii

ARGUMENT 1

I. THE DISTRICT COURT ERRED IN REJECTING MENTOR'S CLAIM OF WILLFUL INFRINGEMENT.....1

A. The District Court Erred In Rejecting Mentor's Claim Of Willful Infringement Based Solely On The Procedural Posture Of The Case 1

B. Any Consideration Of Whether Synopsys' Unsuccessful Defenses Were Reasonable Should Be Performed By The District Court In The First Instance 6

II. THE DISTRICT COURT ERRED IN INVALIDATING CLAIMS 7, 9, AND 13 OF MENTOR'S '882 PATENT FOR FAILURE TO SATISFY THE WRITTEN DESCRIPTION REQUIREMENT 9

A. In the '882 Patent, Clock Frequencies Do Not Affect Whether The Clocks Are "Independent" 11

B. The Claims Neither Require Nor Prohibit A Frequency Relationship 13

III. THE DISTRICT COURT ERRED IN REJECTING THE SUPREME COURT PRECEDENT IN *LAWLOR* AND RELYING ON INAPPLICABLE FEDERAL CIRCUIT PRECEDENT TO APPLY RES JUDICATA TO BAR A CLAIM THAT DID NOT PREVIOUSLY EXIST.....15

A. The Binding Supreme Court Decision In *Lawlor* Precludes The Application Of Res Judicata In This Action.....16

B. The *Foster* Cases Do Not Control Over *Lawlor* And Do Not Apply Here.....18

TABLE OF CONTENTS
(continued)

Page

C. The *Kessler* Doctrine Has No Application Where There Is No Prior Finding Of Non-Infringement 22

CONCLUSION 23

CERTIFICATE OF SERVICE

CERTIFICATE OF COMPLIANCE

TABLE OF AUTHORITIES

Page

CASES

Aqua Shield v. Inter Pool Cover Team,
774 F.3d 766 (Fed. Cir. 2014) 7, 8

Aspex Eyewear, Inc. v. Marchon Eyewear, Inc.,
672 F.3d 1335 (Fed. Cir. 2012) 16, 17, 18, 22

Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.,
682 F.3d 1003 (Fed. Cir. 2012) 4, 9

Brain Life, LLC v. Elekta Inc.,
746 F.3d 1045 (Fed. Cir. 2014) 16, 18, 22

Carbice Corp. of Am. v. Am. Patents Dev. Corp.,
283 U.S. 27 (1931).....16

Cooper Cameron Corp. v. Kvaerner Oilfield Prods., Inc.,
291 F.3d 1317 (Fed. Cir. 2002) 13

Dow Chem. Co. v. Nova Chems. Corp.,
803 F.3d 620 (Fed. Cir. 2015) 17

Foster v. Hallco Mfg. Co.,
947 F.2d 469 (Fed. Cir. 1991) 15, 19

Golden Bridge Tech., Inc. v. Nokia, Inc.,
527 F.3d 1318 (Fed. Cir. 2008) 6

Hallco Mfg. Co. v. Foster,
256 F.3d 1290 (Fed. Cir. 2001) 15, 20, 21

Halo Elecs., Inc. v. Pulse Elecs., Inc.,
769 F.3d 1371 (Fed. Cir. 2014), *cert. granted*, No. 14-1513, 2015
WL 3883472 (U.S. Oct. 19, 2015).....6

Hill-Rom Servs., Inc. v. Stryker Corp.,
755 F.3d 1367 (Fed. Cir. 2014) 14

ICU Med., Inc. v. Alaris Med. Sys., Inc.,
558 F.3d 1368 (Fed. Cir. 2009) 14

TABLE OF AUTHORITIES
(continued)

Page

In re Seagate Tech., LLC,
497 F.3d 1360 (Fed. Cir. 2007) 1, 2, 3

Kessler v. Eldred,
206 U.S. 285 (1907).....22

Lawlor v. Nat'l Screen Serv. Corp.,
349 U.S. 322 (1955)..... 15, 16, 21

LizardTech, Inc. v. Earth Res. Mapping, Inc.,
424 F.3d 1336 (Fed. Cir. 2005) 15

Newell Cos. v. Kenney Mfg. Co.,
864 F.2d 757 (Fed. Cir. 1988) 18

Pactiv Corp. v. Dow Chem. Co.,
449 F.3d 1227 (Fed. Cir. 2006) 22

Schlegel Mfg. Co. v. USM Corp.,
525 F.2d 775 (6th Cir. 1975) 19

Stryker Corp. v. Zimmer, Inc.,
782 F.3d 649 (Fed. Cir. 2015), *cert. granted*, No. 14-1520, 2015
WL 3883499 (U.S. Oct. 19, 2015).....6

SV Int'l, Inc. v. Fu Jian Quanyu Indus. Co.,
820 F. Supp. 2d 677 (M.D.N.C. 2011) 21

Synopsys, Inc. v. Mentor Graphics Corp.,
2016 U.S. App. LEXIS 2250 (Fed. Cir. Feb. 10, 2016).....7, 8

Vas-Cath Inc. v. Mahurkar,
935 F.2d 1555 (Fed. Cir. 1991) 13

Williams v. Gillette Co.,
887 F. Supp. 181 (N.D. Ill. 1995).....19

STATUTES

35 U.S.C. § 112.....13

TABLE OF AUTHORITIES
(continued)

Page

OTHER AUTHORITIES

K. Gupta & J.P. Kesan, *Studying the Impact of eBay on Injunctive Relief in Patent Cases* (July 10, 2015), available at http://ssrn.com/abstract=2629399 or http://dx.doi.org/10.2139/ssrn.2629399.....5

TABLE OF ABBREVIATIONS

'109 Patent	Synopsys' U.S. Patent No. 6,132,109
'176 Patent	Mentor's U.S. Patent No. 5,649,176
'376 Patent	Mentor's U.S. Patent No. 6,240,376
'526 Patent	Synopsys' U.S. Patent No. 7,069,526
'531 Patent	Mentor's U.S. Patent No. 6,009,531
'882 Patent	Mentor's U.S. Patent No. 6,947,882
'962 Patent	Mentor's U.S. Patent No. 6,876, 962
AB	Amicus Brief, filed July 24, 2015
EDA	Electronic Design Automation
EVE	EVE-USA, Inc. and Synopsys Emulation and Verification S.A.S.
FPGA	Field Programmable Gate Array
IPR	Inter Partes Review
Mentor	Mentor Graphics Corporation
MPR	Mentor's Principal and Response Brief, filed September 30, 2015
PTAB	Patent Trial and Appeal Board
SRB	Synopsys' Response and Reply Brief, filed January 11, 2016
Synopsys	Synopsys, Inc., EVE-USA, Inc. and Synopsys Emulation and Verification S.A.S.
ZeBu emulators	ZeBu Server, ZeBu Server 2, ZeBu Server 3, and ZeBu Blade emulators

STATEMENT OF RELATED CASES

The Statement of Related Cases in Mentor's previous brief identified several pending matters. MPR 1-2. Mentor supplements that Statement as follows:

1. On February 10, 2016, this Court issued a decision in the parties' appeals of the IPR of the '376 Patent. This Court affirmed the Board's decision, holding that the Board did not err in its ruling that claims 1 and 28 of the '376 Patent were not invalid. *Synopsys, Inc. v. Mentor Graphics Corp.*, Case No. 14-1516, -1530.

2. On February 10, 2016, this Court dismissed Synopsys' appeal from the dismissal of its APA suit as moot. *Synopsys, Inc. v. Lee*, 2015-1183.

3. Briefing in Synopsys' appeal from the decision of the United States District Court for the Northern District of California regarding the invalidity of three Synopsys patents not at issue in this case was completed on November 4, 2015. *Synopsys, Inc. v. Mentor Graphics Corp.*, No. 15-1599. That appeal is a companion case to this one, and oral argument has not yet been scheduled.

ARGUMENT

I. THE DISTRICT COURT ERRED IN REJECTING MENTOR'S CLAIM OF WILLFUL INFRINGEMENT

A. The District Court Erred In Rejecting Mentor's Claim Of Willful Infringement Based Solely On The Procedural Posture Of The Case

The jury found that Synopsys infringes the '376 Patent. Determining whether that infringement was willful focuses on Synopsys'—the *infringer's*—conduct. Specifically, the *Seagate* framework assesses whether "the *infringer* acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc) (emphasis added). The actions taken (or not taken) by a patentee in response to infringement have little if any bearing on this question. Synopsys' and the district court's reliance on *Mentor's* conduct—not moving for a preliminary injunction—is therefore misplaced. The district court failed to consider any of the conduct of Synopsys and EVE, either before or after termination of the Mentor-EVE license, and instead rejected Mentor's claim for willful infringement with no analysis of witness demeanor or live testimony or anything else, based only on the procedural posture of the case. A40394:11-13.

Synopsys fails to address Mentor's argument and case law establishing that a proper consideration of the totality of the circumstances should take into account the conduct of Synopsys and EVE prior to license termination/infringement (MPR

60-62), other than asserting that "infringement only could have occurred *after* the suit was filed." SRB 39. Both EVE and Synopsys were aware of the '376 Patent, Mentor's prior assertion of the '376 Patent against EVE, the high likelihood that Synopsys and EVE would be subject to assignor estoppel, and that EVE's license under the '376 Patent would terminate if EVE were acquired by Synopsys. A1203(¶¶ 14-15); SRB 44. These facts put Synopsys on notice of a high likelihood that its continued manufacture and sale of ZeBu emulators would infringe the '376 Patent. Synopsys, nevertheless, acquired EVE because it needed the ZeBu emulators to "fill [a] gap" in its product line. SRB 12. The district court's failure to consider these facts was error under *Seagate*, which instructs courts to consider an accused infringer's "prelitigation *conduct*," not just prelitigation *infringement*. *Seagate*, 497 F.3d at 1374 (emphasis added).

The district court also erred by ignoring more than three months of infringing activity by Synopsys between termination of the Mentor-EVE license on October 2, 2012 and the filing of Mentor's counterclaim for willful infringement on January 11, 2013. A1200; A1228.[1] The district court never considered the evidence of Synopsys' conduct during that period; instead, the district court

[1] This three-month period represented a significant portion of the period covered by the jury's damages award. The jury awarded over $36 million in damages for the 14-month period from when the Mentor-EVE license terminated on October 4, 2012 until discovery closed on December 31, 2013. *See* A198.

disposed of Mentor's claim for willful infringement prior to trial, incorrectly concluding that *Synopsys*' filing of a declaratory judgment action was the relevant cutoff between "prelitigation" and "postlitigation conduct," and that Mentor's willfulness claim therefore "was premised solely on post-litigation conduct." SRB 42. The district court effectively foreclosed consideration of "prelitigation" conduct since Synopsys filed its declaratory relief action days *before* it acquired EVE and terminated the license. A1200; A1849-50.

Although Synopsys and the district court rested the objective willfulness determination on the prelitigation/postlitigation distinction, *Seagate*—the source of that distinction—discussed that distinction only in the context of determining whether the waiver of attorney-client privilege that results from the advice-of-counsel defense extends to trial counsel (497 F.3d at 1374), not in the separate section of the opinion that articulates the standard for willful infringement (*id.* at 1371). In any event, *Seagate* makes clear that the relevant "litigation" is the assertion of a claim for willfulness. As this Court explained the rationale for the distinction, "when a complaint is filed, a patentee must have a good faith basis for *alleging willful infringement*" and thus "*a willfulness claim* asserted in the original complaint must necessarily be grounded in the accused infringer's pre-litigation conduct." *Seagate*, 497 F.3d at 1374 (emphasis added). By asserting that "*Seagate* says nothing about the filing date for *infringement* claims" (SRB 44 (emphasis in

original)), Synopsys ignores both the language of *Seagate* and the logical basis for any prelitigation/postlitigation distinction.

The rule advocated by Synopsys and adopted by the district court would effectively impose a categorical requirement that a patentee seek a preliminary injunction in order to preserve its claim for willfulness. But that would significantly increase the number of motions for preliminary injunctions even though, as discussed in Mentor's first brief (MPR 64-65), there are many valid reasons why a patentee may choose not to seek a preliminary injunction that have nothing to do with "the ultimate legal question of whether a reasonable person would have considered there to be a high likelihood of infringement of a valid patent." *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1008 (Fed. Cir. 2012). For example, a patentee seeking royalties may conclude that it is unlikely to be able to make the necessary showing of irreparable harm to obtain a preliminary injunction. A recent study determined that motions for preliminary injunctions were filed in only 1.4 percent of patent cases filed in district courts in 2012 (the year that Synopsys filed its complaint for declaratory judgment), and fewer than 20 percent of those motions were granted. K. Gupta & J.P. Kesan, *Studying the Impact of eBay on Injunctive Relief in Patent Cases* (July 10, 2015), available at http://ssrn.com/abstract=2629399 or

http://dx.doi.org/10.2139/ssrn.2629399. Patentees should not be incentivized to file futile motions that will add to the complexity and cost of patent litigation.

Synopsys' portrayal of itself as an innocent company that would have been forced to choose between resting on reasonable defenses and engaging in a "costly and potentially unnecessary redesign" of infringing products (SRB 43) is divorced from reality. Synopsys purposely acquired an infringing product line and never wavered from the decision to continue manufacturing and selling the infringing products, regardless of the termination of the Mentor-EVE license or any events in this litigation. If allowed to stand, the district court's decision provides a roadmap for even the most brazen infringer: file a declaratory judgment action before commencing infringement, thereby insulating the infringer from any liability for willful infringement unless the patentee takes the highly unusual step of moving for a preliminary injunction *as the defendant in the case*. Even the most flagrant infringers will be able to deflect a charge of willfulness by arguing that the patentee had an obligation to "save me from myself."

The district court's refusal to consider the totality of the conduct of Synopsys and EVE both before and after the date they filed their complaint for declaratory judgment was incorrect not only under *Seagate* but likely also under new standards currently under consideration by the Supreme Court, which has granted petitions for certiorari that seek a less "rigid" standard for determining

willfulness. *See Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 769 F.3d 1371 (Fed. Cir. 2014), *cert. granted*, No. 14-1513, 2015 WL 3883472 (U.S. Oct. 19, 2015), and *Stryker Corp. v. Zimmer, Inc.*, 782 F.3d 649 (Fed. Cir. 2015), *cert. granted*, No. 14-1520, 2015 WL 3883499 (U.S. Oct. 19, 2015). The Court should reverse or vacate the district court's erroneous determination on willfulness and remand, which will also give the district court an opportunity to consider Mentor's claim for enhanced damages under any legal standard and/or standard of proof for willfulness that the Supreme Court may announce in *Halo/Stryker*.

B. Any Consideration Of Whether Synopsys' Unsuccessful Defenses Were Reasonable Should Be Performed By The District Court In The First Instance

Synopsys' motion in limine to preclude Mentor's willful infringement claim focused on the prelitigation/postlitigation distinction and argued only in passing that the PTO reexamination of the '376 Patent demonstrated the objective reasonableness of Synopsys' conduct. A26721. Synopsys has waived the new argument that unsuccessful non-infringement and nonexistent res judicata defenses were objectively reasonable (SRB 47) by failing to make those arguments to the district court. *See Golden Bridge Tech., Inc. v. Nokia, Inc.*, 527 F.3d 1318, 1322 (Fed. Cir. 2008) ("Our precedent generally counsels against entertaining arguments not presented to the district court." (citation omitted)).

Synopsys' argument that its invalidity, res judicata, and infringement defenses were reasonable also fails on the merits. To evaluate this argument, the Court must focus on "whether the infringer's defenses, *as ultimately presented to the court*, were reasonable." *See Aqua Shield v. Inter Pool Cover Team*, 774 F.3d 766, 774 (Fed. Cir. 2014) (emphasis in original). Synopsys asserted invalidity in PTO proceedings in which *different legal standards* applied; Synopsys did not raise invalidity or res judicata defenses to infringement of the '376 Patent in this case. *See* SRB 47. Moreover, Synopsys ignores critical facts that render these defenses-in-hindsight inapplicable in the context of the claims it was found to have infringed in this case.

First, Synopsys cites unidentified "invalidity defenses, which led the Board to institute *inter partes* review and cancel some of the asserted claims." SRB 47. But assignor estoppel barred Synopsys altogether from challenging the validity of the '376 Patent in this case. A118; MPR 45-47. Even if Synopsys were not barred from raising its invalidity defenses, the PTAB's cancellation of claims that were not asserted in the litigation does not support the reasonableness of those invalidity defenses as to the claims for which the jury found infringement. The PTAB confirmed the validity of some infringed claims—a decision that this Court recently affirmed. *Synopsys, Inc. v. Mentor Graphics Corp.*, 2016 U.S. App. LEXIS 2250, at *34 (Fed. Cir. Feb. 10, 2016). And on the rest of the infringed

claims, the PTAB refused to even initiate *inter partes* review. *Id.* at *6. The reasonableness of an infringer's defenses must be judged on a claim-by-claim basis, and Synopsys' defenses to the particular claims that it was found to have infringed were not reasonable. *See Aqua Shield*, 774 F.3d at 774 (citing infringer's failure to present defenses to certain claims as a factor to be considered on remand of willfulness claim).

Second, Synopsys did not raise res judicata as a defense to infringement of the '376 Patent, either in its motion for summary judgment based on res judicata or otherwise. A14062. That defense therefore does not support a finding that Synopsys' infringement was not willful. *See Aqua Shield*, 774 F.3d at 769, 774 (vacating decision of no willful infringement, which was based in part on infringer's "reasonable belief that its products were non-infringing," noting that the infringer failed to present any infringement defenses).

Third, Synopsys fails to show that its infringement defense was objectively reasonable. The only challenge to the jury verdict of infringement is premised on a claim construction argument that it did not make below and is barred from raising for the first time on appeal (*see* MPR 19-20), and that is also unreasonable (*see* MPR 14-28).

It is undisputed that the district court never reached the issue of whether Synopsys' defenses were reasonable. SRB 42. This Court should simply reject

Synopsys' "reasonable defenses" argument, or, in the alternative, remand the issue to the district court for a determination of whether, based on its "first-hand knowledge of witnesses, testimony, and issues" and "feel for the overall case," "a reasonable litigant could realistically expect those defenses to succeed." *Bard*, 682 F.3d at 1008 (internal quotation marks and citations omitted).

II. THE DISTRICT COURT ERRED IN INVALIDATING CLAIMS 7, 9, AND 13 OF MENTOR'S '882 PATENT FOR FAILURE TO SATISFY THE WRITTEN DESCRIPTION REQUIREMENT

The district court construed "independent" to mean "there is no required relationship between clock edges." This construction relates only to the relationship between clock edges of two clocks, that is, the phase of the clocks, and says nothing about the frequencies of the clocks. Synopsys' characterization of "independent" as being affected by, or related to, a frequency relationship is wrong, both legally and technically. First, neither the claims of the'882 Patent nor the district court's construction of "independent" includes or refers to the frequency of the clocks. Second, for every two clocks that have a frequency, those frequencies may always be expressed as a ratio or a relationship of the number of clock edges per unit time; it is technically impossible, therefore, for any two clocks to be "unqualifiedly" independent (they will always have a frequency relationship). Third, Synopsys' own expert testified that a timing relationship between clock edges is determined by verifying the relative arrival times of clock edges. A5130.

The relative arrival times of clock edges of two clocks is a phase relationship, not a frequency relationship. And Mentor Graphics' expert testified that those of ordinary skill in the art do not consider clock frequencies when determining a relationship between clock edges. A14248. For at least these reasons, the district court's judgment invalidating the '882 Patent is erroneous and should be reversed.

Synopsys' analogy of a running race is also wrong. In a running race, either one clock times all runners, or, if there are separate clocks for each runner, all clocks start at the same time—the first clock edges occur at the same time. In other words, there is a timing relationship between the clock edges because the edges are aligned (or synchronous). The independent clocks in the '882 Patent could more accurately be compared to clocks for timing a ski race. The clock timing each ski racer starts when the racer exits the start gate. The racer selects the start time—there is no starting gun—and a wand across the starting gate triggers the clock as the racer moves the wand. There is no relationship between the start time of the clock for the first racer and the racers that follow; the clock edges of these clocks are independent (or asynchronous). Likewise, the signal routing clocks in the '882 Patent are independent from the user clocks because the occurrence of the clock edges are not coordinated or synchronized – the clocks are independent or asynchronous.

A. In the ’882 Patent, Clock Frequencies Do Not Affect Whether The Clocks Are “Independent”

The Summary of the Invention in the ’882 Patent describes the invention without reference to the frequency of the user clock and the signal routing clock:

> The reconfigurable logic devices are reconfigurable to emulate a circuit design using at least one user clock to clock the logic elements and at least one signal routing clock to time multiplex the routing of emulation signals between the reconfigurable logic devices, with the at least one signal routing clock being independent of the at least one user clock. As a result, both asynchronous as well as synchronous signals may be automatically routed by the emulation system.

A565 (2:14-22). The ’882 Patent goes on to teach that the claimed clocks are independent not because of a lack of a frequency relationship but because the clocks are in separate time domains. A567(6:14-18, 41-48). “[B]y separating the emulator into different regions, each being a separate time domain,” the invention is able to overcome problems related to propagation delay and routing asynchronous signals. A570(11:41-49). Much like the start times of clocks in a ski race, the clock edges in the ’882 Patent have no timing relationship. If one clock is stopped, the other clock(s) will continue running unaffected. And the clock edges may occur (arrive) at any time relative to each other because the clock edges are not bound by any timing relationship. The specification also teaches that frequency is not a factor in determining whether two clocks are independent. In the embodiments of the invention disclosed in the ’882 Patent, the signal routing

clock has a higher frequency than the user clock; nevertheless, the patent teaches that those clocks are independent. A566(4:16-35); A567(6:14-21).

Synopsys' arguments and the district court's summary judgment order are mistaken in reading the claims to require "unqualifiedly independent clocking" (A23749) and asserting that the claims require "entirely" or "completely" independent clocks (SRB 40, 48, 54, 56). Such a requirement is (a) found nowhere in the claims or the specification, (b) inconsistent with the district court's claim construction, which is not so restrictive (the claim construction relates only to a phase relationship—a "required timing relationships between clock edges"), (c) inconsistent with the specification (which states that two clocks with a frequency relationship are independent clocks (A566(4:16-35); A567(6:14-21))), and (d) technically impossible because any two clocks necessarily have a frequency relationship.

Synopsys asserts that the frequency relationship disclosed by the '882 Patent is a "timing relationships between clock edges" because the edges of the signal routing clock "occur at a faster rate" than the edges of the user clock. SRB 57. But any two clocks have a frequency relationship, and unless their frequencies are identical, the clock edges of one will necessarily "occur at a faster rate" than the other. A14247-48. This has no bearing on whether the clocks are independent. *Id*.

B. The Claims Neither Require Nor Prohibit A Frequency Relationship

The written description requirement is found in the first paragraph of Section 112 and states: "The specification shall contain a written description of the invention." 35 U.S.C. § 112. "The invention is, for purposes of the 'written description' inquiry, *whatever is now claimed*." *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1564 (Fed. Cir. 1991) (emphasis in original). Because the claims of the '882 Patent and the district court's construction of the claims do not contain any limitations related to clock frequencies, and because the specification teaches that the signal routing clock and the user clock are independent even though one is faster than the other, there is no need for the specification to teach "unqualifiedly independent clocking" or "entirely" or "completely" independent clocks.

Synopsys' argument has two irreconcilable parts: in part one, Synopsys argues that "independent" includes a negative limitation prohibiting frequency relationships; in part two, Synopsys argues that the absence of a frequency relationship in the claims results in an impermissibly broad claim. Part one, the construction of "independent," is addressed above. Part two fails because it reads like an "essential element" test; but this Court has stated that there is no such thing as the "essential element" test. *Cooper Cameron Corp. v. Kvaerner Oilfield Prods., Inc.*, 291 F.3d 1317, 1323 (Fed. Cir. 2002). The problem with Synopsys' making these arguments together is that precluding a frequency relationship under

an erroneous construction of "independent" (which differs from the district court's construction) necessarily precludes the frequency relationship Synopsys insists should have been included in the claims. Synopsys' attempt to import a frequency relationship between the signal routing clock and the user clock from the specification to the claims is wrong. *See Hill-Rom Servs., Inc. v. Stryker Corp.*, 755 F.3d 1367, 1371 (Fed. Cir. 2014).

The cases cited by Synopsys are inapposite. In both cases, the claims omitted a feature of the invention itself. Here, the invention of the '882 Patent is an emulation system that uses independent clocks to route asynchronous or synchronous signals between logic elements. A565(2:14-22). This feature of independent clocks is found squarely in the claims at issue; thus, the claims do not recite anything broader than the invention. A570(Claim 5). By contrast, the patented invention in *ICU Medical, Inc. v. Alaris Medical Systems, Inc.* was a medical valve with spikes. 558 F.3d 1368, 1375 (Fed. Cir. 2009). The "spikes" feature of the invention was absent from some of the claims, and those claims were found to be impermissibly broader than the disclosed invention. *Id.* at 1378-79. Similarly, the invention in *LizardTech, Inc. v. Earth Resource Mapping, Inc.* was a method that specifically included the step of "maintaining updated sums" to form a "seamless DWT (discrete wavelet transform)." 424 F.3d 1336, 1340, 1343, 1345-

46 (Fed. Cir. 2005). This step of the invention was absent from the invalidated claim. *Id.* at 1346.

III. THE DISTRICT COURT ERRED IN REJECTING THE SUPREME COURT PRECEDENT IN *LAWLOR* AND RELYING ON INAPPLICABLE FEDERAL CIRCUIT PRECEDENT TO APPLY RES JUDICATA TO BAR A CLAIM THAT DID NOT PREVIOUSLY EXIST

Synopsys relies heavily on this Court's decisions in *Foster v. Hallco Manufacturing Co.*, 947 F.2d 469 (Fed. Cir. 1991) ("*Foster I*"), and *Hallco Manufacturing Co. v. Foster*, 256 F.3d 1290 (Fed. Cir. 2001) ("*Foster II*"), to argue that Mentor was barred by res judicata from asserting infringement claims against Synopsys. The Court is not bound in this case by the *Foster* decisions for two reasons. First, to the extent *Foster I* and *Foster II* are invoked to bar Mentor's claims for infringement of the '176 and '531 patents, they are inconsistent with binding Supreme Court authority holding that a prior judgment does not bar a subsequent suit based on conduct that occurred after the prior judgment. *Lawlor v. Nat'l Screen Serv. Corp.*, 349 U.S. 322, 327-28 (1955). Second, the *Foster* decisions are distinguishable. Neither *Foster I* nor *Foster II* addressed causes of action for patent infringement based on post-settlement conduct. The *Foster* decisions do not bar Mentor's infringement action.

A. The Binding Supreme Court Decision In *Lawlor* Precludes The Application Of Res Judicata In This Action

In *Lawlor*, the plaintiffs settled a first action against National Screen and three film producers, dismissing the action with prejudice and taking a sublicense. In a second action, the plaintiffs sued the original defendants and added five new film producer defendants. *Lawlor*, 349 U.S. at 324-25. The Supreme Court held that suing on the same course of conduct was not barred by res judicata where all conduct complained of in the second action occurred subsequent to the judgment in the first action. *Id.* at 327-28. The same is true here: all of the new, infringing conduct not only occurred well after the judgment in the 2006 Action, but after EVE's license terminated in 2012.

Patent infringement "is essentially a tort, and implies invasion of some right of the patentee." *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931). This Court has confirmed that "a party who sues a tortfeasor is ordinarily not barred by a prior judgment from seeking relief for discrete tortious action by the same tortfeasor that occurs subsequent to the original action." *Aspex Eyewear, Inc. v. Marchon Eyewear, Inc.*, 672 F.3d 1335, 1333-34 (Fed. Cir. 2012) (citing *Lawlor*, 349 U.S. at 328). These "well-settled principles" have been applied to patent cases involving sequential acts of infringement. *Brain Life, LLC v. Elekta Inc.*, 746 F.3d 1045, 1054 (Fed. Cir. 2014); *see also Dow Chem. Co. v. Nova Chems. Corp.*, 803 F.3d 620, 626-27 (Fed. Cir. 2015) ("It is well established that,

as to claims for continuing conduct after the complaint is filed, each period constitutes a separate claim." Thus, "claim preclusion also does not apply to damages accruing after the filing of the complaint and not the subject of the first judgment.").

In *Aspex*, the parties stipulated to a dismissal with prejudice of all causes of action existing at the time of the settlement with regard to an "Old Design" of the allegedly infringing product. Aspex then brought a patent infringement claim against Marchon's "New Design" product, which Marchon alleged was "essentially the same" as the Old Design product. 672 F.3d at 1342. This Court held that "res judicata does not bar Aspex's lawsuit with respect to accused products that were not in existence at the time of the [earlier actions] for the simple reason that res judicata requires that in order for a particular claim to be barred, it is necessary that the claim either was asserted, or could have been asserted, in the prior action." *Id*. And it did not matter whether the New Design products were "essentially the same" as the Old Design products, because the New Design products were made or sold *after* the previous lawsuits. *Id*.

Synopsys is a tortfeasor that invaded Mentor's patent rights anew, committing sequential acts of infringement. Contrary to Synopsys' assertion, SRB 63, Mentor disputes that the ZeBu emulators accused in this action are "essentially the same" as the old ZeBu emulators accused in the 2006 Action. Under *Lawlor*,

Aspex, and *Brain Life*, however, it does not matter whether the ZeBu emulators accused in this action are "essentially the same" as the old ZeBu emulators. Res judicata does not apply to infringement claims against devices that were made or sold subsequent to the first action.

Regardless of how one interprets this Court's decisions in *Foster I* and *Foster II* and the purportedly conflicting decisions that followed, the Supreme Court precedent in *Lawlor* is controlling. The rule articulated in *Newell Cos. v. Kenney Manufacturing Co.*, 864 F.2d 757 (Fed. Cir. 1988), regarding conflicting panel decisions, therefore, does not apply.[2]

B. The *Foster* Cases Do Not Control Over *Lawlor* And Do Not Apply Here

Synopsys' position is contrary to "well-settled principles" set forth in *Lawlor* and applicable in patent cases that "if the party could not have asserted particular claims – because the tortious conduct in question had not occurred at that time – those claims could not have been asserted and therefore are not barred by res judicata." *Brain Life*, 746 F.3d at 1054 (citing *Aspex*, 672 F.3d at 1343). The *Foster* cases cannot trump the Supreme Court's holdings in *Lawlor* and, in any event, are distinguishable.

[2] The district court's "critical holding," *see* SRB 65, was to apply res judicata. This is the holding Mentor challenges on appeal. Mentor is not challenging the district court's reasoning that otherwise applicable, older Federal Circuit precedent controls over newer precedent of this Court. Rather, Mentor is arguing that *Lawlor* controls regardless, and that the *Foster* decisions are distinguishable.

In *Foster I*, a prior infringement action settled with Foster taking a license and the entry of a consent judgment stipulating that the asserted patents were "valid and enforceable in all respects." 947 F.2d at 481. Foster subsequently developed a new product and filed an action seeking a declaration that the patents were invalid and that Foster's new product did not infringe. This Court held that the challenge to validity was not exempt from "normal principles of *res judicata* applicable to consent judgment" under which "such challenge would be precluded." *Id.* at 477. If litigants "were given a second chance to litigate the issue of validity," the Court reasoned, "alleged infringers might well accept a license under a consent decree and forego an attack on validity until favored by a stronger financial position, or until threatened by other manufacturers who were not paying royalties." *Id.* at 476-77 (citing *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 781 (6th Cir. 1975)). Foster could not relitigate invalidity defenses from the prior action if its new devices were essentially the same as the devices accused in the prior action. *Id*. at 479-80.

Foster I simply held that general principles of res judicata apply to a consent decree addressing patent validity. *See Williams v. Gillette Co.*, 887 F. Supp. 181, 185 (N.D. Ill. 1995). Unlike the adjudged infringer in *Foster I*, Mentor does not seek to resurrect invalidity defenses it conceded in a prior action. Instead, it seeks redress for new infringement by Synopsys. Reversing the district court's

application of res judicata to new acts of infringement that occurred long after a settlement and dismissal will not result in the relitigation of invalidity defenses resolved in prior litigation.

In *Foster II*, an older Hallco product, "Hallco I," had been found to infringe Foster's patent on summary judgment in an earlier action. *Foster II*, 256 F.3d at 1293. The parties settled and Hallco took a royalty-bearing license. Hallco and Foster later disagreed over whether the license covered Hallco's redesigned product, "Hallco II." Hallco then filed *Foster II*, seeking a declaration that Hallco II did not infringe Foster's patent and thus was not covered by the license. Foster counterclaimed for breach of the settlement agreement. *Id.* at 1293. This Court held that the settlement and dismissal of the prior action barred Hallco from reasserting its invalidity defenses if Hallco II was "essentially the same" as Hallco I. *Id.* at 1297. "We will not give parties the power to agree to waste the resources of the courts in revisiting infringement determinations that have already been made." *Id.* at 1298. Therefore, if on remand the two devices were found to be "essentially the same," not only would Hallco be "precluded from challenging validity and infringement," but "[s]uch a finding would also necessitate a judgment for Foster on the counterclaim, requiring Hallco to pay royalties on the Hallco II, since it is the same as the Hallco I for which the license agreement requires payment." *Id.*

While the Court also stated that "Foster is precluded from bringing another suit for infringement regarding the Hallco I," *id*. at 1297, this appears to be dicta, since Foster did not bring a claim for infringement in *Foster II* at all, let alone a claim for infringement arising from new sales of Hallco I. *Foster II* otherwise stands for the proposition that a finding of infringement on summary judgment need not be relitigated in a later action. The dicta from *Foster II* does not mean that Synopsys is free to sell infringing emulators in perpetuity, immune from liability for infringement of Mentor's patents. *See Lawlor*, 349 U.S. at 329 ("Acceptance of respondents' novel contention would in effect confer on them a partial immunity from civil liability for future violations. Such a result is consistent with neither the antitrust laws nor the doctrine of res judicata."); *see* also *SV Int'l, Inc. v. Fu Jian Quanyu Indus. Co.*, 820 F. Supp. 2d 677, 685 (M.D.N.C. 2011) (applying *Lawlor* and distinguishing *Foster II* because it did not reach "the issue here: namely, whether, after the parties settle an initial, broadly worded infringement claim … without an express finding of infringement or invalidity and dismiss it with prejudice, a new, identically worded infringement claim based on post-settlement acts is precluded.").

Nor is *Pactiv Corp. v. Dow Chemical Co.*, 449 F.3d 1227, 1231 (Fed. Cir. 2006), applicable. *Pactiv* presents a completely different scenario than this case, in which the infringer settled by taking a license but then ceased paying royalties,

breached the license, and filed a declaratory relief action attempting to resurrect its previous non-infringement and validity defenses. *Practiv* did not address a subsequent patent infringement action or new acts of infringement.

By contrast, *Aspex* and *Brain Life* both addressed new claims of infringement based on new infringing conduct that followed a judgment of dismissal. *See Aspex*, 672 F.3d at 1340 ("In 2009, Aspex filed the present action, charging defendants with infringement …."); *Brain Life*, 746 F.3d at 1050-1051 ("Brain Life then filed suit against several defendants" alleging that several treatment systems "infringed the method claims" of the patent at issue in the first action). Contrary to the district court's conclusion, *Aspex* and *Brain Life* can be reconciled with *Foster I* and *Foster II*.

C. The *Kessler* Doctrine Has No Application Where There Is No Prior Finding Of Non-Infringement

This Court recently held, "The *Kessler* doctrine fills the gap between these preclusion doctrines … allowing an *adjudged non-infringer* to avoid repeated harassment for continuing its business as usual post-final judgment in a patent action where circumstances justify that result." *Brain Life*, 746 F.3d at 1056 (citing *Kessler v. Eldred*, 206 U.S. 285 (1907) (emphasis added)). Neither EVE nor Synopsys is an "adjudged non-infringer." On the contrary, EVE settled the 2006 Action by agreeing to pay a royalty for the asserted patents. Synopsys stands

accused of infringing those same patents. Accordingly, the *Kessler* doctrine has no application here.

CONCLUSION

The Court should grant Mentor's cross-appeal on issues of willfulness, res judicata, and invalidity of the '882 Patent and affirm the district court's judgment in all other respects.

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Respectfully submitted,

/s/ Mark E. Miller

Mark E. Miller
O'Melveny & Myers LLP
Two Embarcadero Center, 28th Floor
San Francisco, California 94111
Telephone: (415) 984-8700
Facsimile: (415) 984-8701
markmiller@omm.com

Counsel for Appellee and Cross-Appellant
Mentor Graphics Corp.

CERTIFICATE OF SERVICE AND FILING

I certify that on February 18, 2016, I electronically filed the foregoing, REPLY BRIEF OF APPELLEE AND CROSS-APPELLANT MENTOR GRAPHICS CORPORATION, by using the Court's CM/ECF filing system.

I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

Dated: February 18, 2016

Respectfully submitted,

/s/ *Mark E. Miller*

Mark E. Miller
O'Melveny & Myers LLP
Two Embarcadero Center, 28th Floor
San Francisco, California 94111
Telephone: (415) 984-8700
Facsimile: (415) 984-8701
markmiller@omm.com

Counsel for Appellee and Cross-Appellant
Mentor Graphics Corp.

CERTIFICATE OF COMPLIANCE

Counsel for Plaintiff-Cross-Appellant Mentor Graphics Corporation certifies:

1. This brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B)(i) and 28.1(e)(2)(B)(i). This brief contains 5285 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii) and Federal Circuit Rule 32(b).

2. This brief complies with the typeface requirements of Fed. R. App. P. 32 (a)(5) and the typestyle requirements Fed. R. App. P. 32(a)(6). This brief has been prepared in a proportionally spaced typeface using Word 2010 in 14-point Times New Roman font.

Dated: February 18, 2016

Respectfully submitted,

/s/ *Mark E. Miller*

Mark E. Miller
O'Melveny & Myers LLP
Two Embarcadero Center, 28th Floor
San Francisco, California 94111
Telephone: (415) 984-8700
Facsimile: (415) 984-8701
markmiller@omm.com

Counsel for Appellee and Cross-Appellant
Mentor Graphics Corp.