

Failure to Raise Patent Validity Challenges in Breach of License Suit Precludes Later Invalidity and Misuse Claims

Article By:

Shaun B. Hawkinson

Addressing the *res judicata* effect of prior licensing litigation on a subsequent patent case, the U.S. Court of Appeals for the Federal Circuit affirmed the lower court in finding that the *res judicata* bar extends beyond matters actually decided to cover every defense and counterclaim that could have been raised in the earlier suit. *Cummins Inc. v. TAS Distributing Co.*, Case No. 10-1134 (Fed. Cir., Dec. 5, 2012) (Reyna, J.).

TAS owns patented technology relating to diesel engines. Cummins, a truck engine manufacturer, entered into a license agreement with TAS granting Cummins the co-exclusive right to use the TAS technology in return for a \$1 million royalty to be paid over five years plus an ongoing royalty based on the number of Cummins' products sold containing the licensed technology. Under the agreement, Cummins also agreed to maximize royalties by making "reasonable efforts to market and sell" products involving TAS's technology.

TAS sued Cummins for breach of contract (TAS I), alleging that Cummins failed to make reasonable efforts to market and sell products containing the TAS technology. The court found for Cummins, but also ruled that Cummins was obligated to make continuing, per unit royalty payments for any ongoing sales involving TAS's technology. TAS sued again (TAS II) claiming that Cummins failed to pay those royalties.

The scope of TAS's patents became an issue, and Cummins deposed the sole inventor, who admitted that a version of the TAS technology was sold to another engine manufacturer before the critical dates of the TAS patents. Cummins then turned around and sued TAS (TAS III), seeking, among other things, to dismiss TAS II, invalidate the TAS patents and declare the license agreement void for patent misuse. The court granted TAS's summary judgment motion barring all of Cummins' claims based on the doctrine of *res judicata*. The court noted that the validity of the contracts was an operative fact in TAS I, and Cummins certainly could have contested, as either a defense or a counterclaim, the validity of the contracts and the patents. The court found the two cases related, stating that "a decision on the validity of the underlying contract would have conformed to standard expectations in a breach of contract dispute." Cummins appealed.

The Federal Circuit applied Illinois principles of *res judicata* as described in *River Park*, which stated that "[t]hree conditions must pertain before Illinois state courts will bar a later suit based on *res*

judicata: a court of competent jurisdiction must have rendered a final judgment on the merits in an earlier suit; the earlier and later suits must involve the same causes of action; and the two suits must involve the same parties or their privies.” Cummins admitted the first and third prongs of this test were satisfied (that TAS I represented a final judgment on the merits and that there is no dispute as to the parties). The crux of this case is the second prong: whether the causes of action in TAS I and TAS III are the same.

To determine if two causes of action are the same under this second prong, Illinois courts have adopted the “transactional test.” Under this test, “separate claims [are] considered the same cause of action for purposes of *res judicata* if they arise from a single group of operative facts, regardless of whether they assert different theories of relief.” Cummins argued the operative facts of each case were distinct, since TAS III deals with patent invalidity and misuse whereas TAS I dealt with enforcing the “reasonable effort” clause in the licensing agreement. The Federal Circuit found *River Park* controlling, stating that “‘operative facts’ are not just those supporting the first judgment, but all ‘facts that give rise to plaintiffs’ right to relief.’” The Federal Circuit agreed with the district court that Cummins could have and should have brought up patent invalidity and unenforceability in TAS I. If those patents were found to be invalid or unenforceable in TAS I, found the Court, the license agreement would have been affected as well, and Cummins would have prevailed as against TAS.

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