EXHIBIT 2

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To: PersonalWeb, LLC

From: Wesley Monroe

Re: Potential Effects of prior Amazon Litigation and Dismissal with Prejudice

Date: January 3, 2018

Facts:

On December 8, 2011, PersonalWeb sued Amazon.com, Inc. and Amazon Web Services LLC ("Amazon") for infringement of 8 Farber patents[1]. The complaint did not specify any specific claims of any of the patents and asserted infringement generally by Amazon's Simple Storage Service (S3) and Amazon ElastiCache. Amazon filed counterclaims seeking declaratory relief of non-infringement, invalidity, and unenforceability. While there was briefing and an order on claim construction, no infringement or invalidity contentions were filed with the court. While PersonalWeb's infringement claim was regarding the multi-part upload capability of Amazon's S3 service, I could not find any reference to this in the publicly available court filings. On June 9, 2014, by stipulation, but without a settlement agreement, the case was dismissed with prejudice except that Amazon "retain[ed] the right to challenge validity, infringement, and/or enforceability of the patents –in-suit via defense or otherwise, in any future suit or proceeding." The district court entered final judgment pursuant to the dismissal stipulation on June 11, 2014.

PersonalWeb is contemplating suing a number of customers of Amazon's S3 service under one or more of the 8 patents asserted against Amazon.

[1] U.S. Patent Nos. 5,978,791, 6,415,280, 6,928,442, 7,802,310, 7,945,539, 7,945,544, 7,949,662, and 8,001,096.

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Questions and Short Answers:

1) Does **claim preclusion** (aka res judicata) **prevent** PersonalWeb from asserting its patents against Amazon's S3 customers:
    a. for activity on or before the June 11, 2014 final judgment based on the dismissal ***with*** prejudice of PersonalWeb's prior suit against Amazon?
        A: Unlikely, but somewhat unclear. There is case law going both ways on whether claim preclusion can be based only on a dismissal with prejudice, but there is also case law that supports applying claim preclusion only to alleged infringement before the *filing* of the prior case (although this case law is not entirely conclusive). In any case, though, it appears that the indemnity clause in the Amazon AWS User Agreement excludes the infringement alleged by PersonalWeb and without an indemnity relationship, Amazon's customers are unlikely to be found to be in privity with Amazon, as required for claim preclusion.
    b. for activity after June 11, 2004?
        A: Unlikely. Even if the Amazon dismissal is found sufficient to support claim preclusion and Amazon's, it should only apply to infringement before that dismissal.
2) Does **issue preclusion** (aka collateral estoppel) **prevent** PersonalWeb from asserting its patents against Amazon's S3 customers?
    A: No.
3) Does the **Kessler Doctrine prevent** PersonalWeb from asserting its patents against Amazon's S3 customers?
    A: Less likely than not, as non-infringement was not actually litigated in the Amazon case, but this issue is very likely to be raised by the defendants. However, even if the Kessler Doctrine were to be applied, it is very possible it will be applied for the entire damages period (i.e., before the Amazon dismissal).

Discussion:

1) Claim Preclusion

"In its simplest construct, [claim preclusion bars] the relitigation of a claim, or cause of action, or any possible defense to the cause of action which is ended by a judgment of the court." *Nystrom v. Trex Co., Inc.*, 580 F.3d 1281 (2009) (quoting *Foster v. Hallco Mfg. Co.,* 947 F.2d 469, 476 (Fed.Cir.1991)). Claim preclusion "applies whether the judgment of the court is rendered after trial and imposed by the court or the judgment is entered upon the consent of the parties." *Id*.

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Further, "[t]he general concept of claim preclusion is that when a judgment is rendered in favor of a party to litigation, the plaintiff may not thereafter maintain another action on the same 'claim,' and defenses that were raised or *could have been* raised by the defendant in that action are extinguished. *See Restatement (Second) of Judgments,* §§ 18, 19 & comments." *Id*. At 478 (emphasis added by court).

In determining whether claim preclusion applies in a patent infringement case, the Fed. Cir. generally applies the law of the regional circuit in which the underlying case is pending, but uses Fed. Cir. law if an issue in the analysis involves substantive patent law. *Acumed LLC v. Stryker Corp.*, 525 F.3d 1319, 1323 (Fed. Cir. 2008).

While the various circuits differ in minor ways, claim preclusion generally involves three prongs:

a) The prior litigation was terminated by a final judgment on the merits;
b) The prior litigation involved the same claim or cause of action as the later suit; and
c) The same parties or their privies were involved in the prior litigation.

Id. (applying 9th Cir. Law).

a) Final Judgment on the Merits

There are many Fed. Cir. cases that hold that a consent judgment is a final adjudication on the merits for claim preclusion purposes. See, e.g., *Nystrom*, 580 F.3d at 1285, *Foster*, 947 F.2d at 476 (citing *Lawlor v. National Screen Serv. Corp.,* 349 U.S. 322, 327, 75 S. Ct. 865, 868, 99 L. Ed. 1122 (1955)), *Hartley v. Mentor Corp.,* 869 F.2d 1469 (Fed. Cir. 1989). The cases discussing whether a dismissal with prejudice operates as a final adjudication are much fewer.

The issue was raised, though, in a very early Fed. Cir. case, *Young Engineers, Inc. v. U.S. Intern. Trade Com'n*, 721 F.2d 1305 (1983). In this case, the patent owner sued for patent infringement and the defendant filed a counterclaim seeking declaratory judgment of noninfringement and invalidity. After discovery, but before trial, the patent owner moved to dismiss the case under F.R. Civ. P. 41(a)(2) asserting "that the industry had greatly deteriorated during pendency of the suit, that TYE's infringement of the patents did not justify the expense of the trial." *Id.* at 1308. The court dismissed the infringement claims with prejudice and dismissed the counterclaims without prejudice. *Id.*

Nearly a decade later, the patent owner initiated a §337 investigation with the ITC against the prior defendant and five customers. The Fed. Cir. initially noted that claim preclusion "may apply even though a judgment results by default, consent, or dismissal with prejudice although care must be taken to insure the fairness in doing so." *Id*. (citing Wright &

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Miller). Id. at 1314. The *Young Engineers* court then declined to rule whether the dismissal with prejudice was a final judgment for claim preclusion purposes, but rather found no claim preclusion because the devices in the ITC proceedings were not the same as in the prior litigation. *Id.* at 1316.

This issue was revisited in *Hallco Mfg. Co., Inc. v Foster*, 256 F.3d 1290 (Fed. Cir. 2001). In *Hallco*, there was a prior infringement case in which the trial court granted summary judgment of infringement. Before trial on invalidity, the parties then entered into a settlement agreement (not filed with the court) which included the defendant paying ongoing royalties on the accused device and the case was dismissed with prejudice. *Id*. at 1293. The defendant redesigned their product and filed a declaratory suit against the patent owner for a determination of non-infringement and invalidity. *Id.* 1297.

In decisions before *Hallco*, the Federal Circuit had held that while a consent judgment of validity of an asserted patent barred a defendant from raising validity in a subsequent suit involving the same products as in a prior case, it did not bar raising validity if the products in the subsequent suit are not "essentially" the same. In *Hallco*, though, the defendant did not consent to a judgment of validity, but rather did not contest validity before the case was dismissed with prejudice pursuant to a license. In addressing the defendant's argument that the prior dismissal with prejudice was not a consent judgment, the Federal Circuit stated: "In this regard, there is no legally dispositive difference for claim preclusion purposes between a consent judgment based on a settlement (which, in *Foster,* included a provision dismissing the case), and a dismissal with prejudice which is based on a settlement. *See Lawlor v. Nat'l Screen Serv. Corp.,* 349 U.S. 322, 327, 75 S. Ct. 865, 99 L. Ed. 1122 (1955)." *Id*. At 1297.

In rendering its decision, the *Hallco* court also noted that the defendant did not reserve the right to pursue the invalidity defense in later litigation between the parties. Absent such an express reservation, the right to raise invalidity depends on whether the devices in the two cases are essentially the same. *Id.*

The major distinction between PersonalWeb's case and *Hallco* is that in *Hallco* there was a settlement agreement coinciding with the dismissal in which the defendant agreed to pay an ongoing royalty and the precluded claim was invalidity. In such a case, accepting an ongoing royalty is an outward sign that the defendant accepted the validity of the patent on a prospective basis. There is no analogous express forfeiture of future rights in PersonalWeb's dismissal of Amazon with prejudice. Nevertheless, the *Hallco* decision may be problematic.

A few months before *Hallco* was decided, however, the Supreme Court made a contradictory statement in *Semtek Intern. Inc. v. Lockheed Martin Corp.*, 531 U.S. 497 (2001). While not discussed in the Fed. Cir. cases, F.R. Civ. P. 41(b) provides that "any dismissal not

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