

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

GRACO CHILDREN'S PRODUCTS, INC. : CIVIL ACTION
Plaintiff, :
 : NO. 98-434
v. :
 :
LOUIS M. KOHUS, :
EUGENE L. TIMPERMAN and :
KOHUS-TIMPERMAN PARTNERSHIP, :
Defendants. :

M E M O R A N D U M

BUCKWALTER, J.

April 2, 1998

I. INTRODUCTION

Currently pending in this patent dispute among Plaintiff Graco Children's Products, Inc. ("Graco") and Defendants Louis Kohus ("Kohus"), Eugene L. Timperman ("Timperman"), and the Kohus-Timperman Partnership ("the Partnership") are Graco's Motion for a Preliminary Injunction and Defendants' Motions to Dismiss, Stay or Transfer Plaintiff's Action for Declaratory Judgment.

Graco seeks an Order enjoining Defendants' lawsuit ("the Ohio litigation") against its customers in the United States District Court for the Southern District of Ohio (the "Southern District"). Graco seeks this relief so that this Court may entertain its suit for declaratory judgment on the issue of whether it infringed Patent Number 4,739,527 ("the '527 patent").

On March 23, 1998, the Court held a hearing on the preliminary injunction and related issues. For the reasons that follow, I will deny Graco's motion for injunctive relief and transfer this suit in its entirety to the Southern District of Ohio, which is presently hearing Defendants' previously-filed lawsuit involving the '527 patent.

II. BACKGROUND

Graco is a children's product manufacturer located in Elverson, Pennsylvania, in the Eastern District of Pennsylvania. Kohus is an inventor and designer of children's products, and a partner, along with Timperman, in the Kohus-Timperman Partnership. In 1986, Kohus entered into an agreement ("the Development Agreement," or "the 1986 Agreement") with Graco to develop the "Snappy Pen," a portable children's playyard. In 1994, Graco marketed its "Pack-N-Play" product, which Kohus contended incorporated aspects of the Snappy Pen. Because Graco did not pay Kohus royalties, he alleged that Graco had violated the 1986 Development Agreement.

Kohus sued for breach of the Agreement, and the parties settled in August 1996 ("The Settlement"). Under that Settlement, Graco paid Kohus \$1.5 million in exchange for Kohus agreeing:

not to participate, assist or otherwise cooperate with the prosecution, investigation or other pursuit of any claims, demands, actions, causes of action, cross-claims, counterclaims suits or litigation against Graco except by compulsion of a valid and enforceable subpoena or by compulsion of a valid order of a court or agency of competent jurisdiction or otherwise required by law.

Kohus also agreed to release Graco from:

any and all claims, demands, actions, causes of action, cross-claims, counterclaims, suits, debts, liens, contracts, agreements, promises, liabilities, judgments, orders, damages, losses, costs and expenses, (including any and all claims, demands, [etc.] assigned or otherwise conveyed to Kohus by any person or entity), whether fixed or contingent, whether choate or inchoate, whether known or unknown, whether suspected or unsuspected, and whether now or previously or hereafter recognized, at law or in equity, that previously existed or that now exist as of the effective date set forth in this Settlement Agreement and Release.

(Emphasis added).

Additionally, and of import to this case, Kohus was granted Patent Number 4,739,527 ("the '527 patent") on April 26, 1988, the rights to which were owned by the Sassy Company. The '527 patent lapsed in April 1996, before the August 1996 Settlement. On September 10, 1997, however, the Partnership obtained the rights to the '527 patent, and it successfully petitioned for its reinstatement. The Partnership then initiated the Ohio litigation in the Southern District against Graco and fifty unnamed John Doe Defendants, who were alleged to have made,

used and sold the Graco product at Graco's inducement. In other words, they were understood to be Graco's customers.

Citing the 1996 Settlement, Graco moved to dismiss the Partnership's claims against it. The Partnership did not oppose Graco's Motion to Dismiss, which was granted on January 23, 1998. Immediately thereafter, the Partnership amended its Complaint to name eight of Graco's customers as defendants. On January 27, 1998, Graco filed suit in this Court seeking a declaratory judgment that it has not infringed the '527 patent and alleging breach of contract, i.e., the Release. Defendants have moved to Dismiss, Stay or Transfer the action to the Southern District.

III. DISCUSSION

A. Injunctive Relief

I am initially confronted with an ambiguity in the controlling Federal Circuit law regarding my discretion to enjoin a patent action in another court. Rather than look to the familiar standards for granting injunctive relief -- a reasonable likelihood of success on the merits; irreparable harm; the balance of hardships; and the public interest -- it appears that, where a party seeks to enjoin concurrent patent litigation, I must resolve the "primary question" of whether "the issues and parties are such that the disposition of one case would be dispositive of the other." Katz v. Lear Siegler, Inc., 909 F.2d 1459, 1463 (Fed. Cir. 1990). Even under this vague standard of

uncertain application and doubtful adherence by other courts, I find that Graco's request for injunctive relief should be denied, primarily because it had the chance to address all issues in the Ohio litigation which it now seeks to enjoin.¹

B. Motion to Dismiss, Stay or Transfer.

Considerations of the public interests underlying Graco's request for injunctive relief necessarily overlap with an evaluation of Defendants' Motion to Dismiss, Stay or Transfer this action. For the same reasons that I find that the public interest would not be served in enjoining the Ohio litigation, I will transfer Plaintiffs' action for declaratory judgment and breach of contract to the Southern District.² Whether to

1. Application of the traditional standard would also compel denial of injunctive relief, as Graco's showing of a likelihood of success on the merits is dubious; I am not blind to the gamesmanship which has been practiced by both sides, but the simple fact is that when the parties executed the Release, Kohus had no rights to the '527 patent, which he did not then own, nor apparently, did anyone or any entity, as the patent had lapsed. As the acts of infringement are alleged to have occurred after the 1996 Release, I do not believe that, under the literal terms of the Settlement, Kohus could have signed away rights that he did not have to pursue claims that did not exist. For similar reasons, I find weak Graco's claim that the 1996 Settlement operated as a license to it under the '527 patent, as it seems that Kohus had no rights in the '527 patent to grant. More importantly, Graco's showing of harm cannot warrant relief. See Instant Air Freight Co. v. C.F. Air freight, Inc., 882 F.2d 797, 801 (3d Cir. 1989); Manganaro v. Interoptec Corp., 874 F.Supp 660, 662 (E.D. Pa. 1995) (harm to the customer relationship, including loss of sales and damage to reputation, are harms which can be legally remedied and do not support injunctive relief). My determination of where the public interest lies mirrors my discussion of the customer suit exception infra.

2. Graco has argued several other factors in support of litigating the case here: Graco personnel with knowledge pertinent to the litigation are in the Eastern District, as are many of the relevant Graco documents; its principal place of business is in the Eastern District and a statistical analysis indicates that the parties can expect faster resolution of their dispute in this forum than in the Southern District. I find none of these sufficient to overcome the strong presumption in favor of the Ohio suit as the first-filed,
(continued...)

transfer or entertain Graco's suit hinges upon the application of the customer suit exception.

Courts are generally reluctant to stay already-filed lawsuits, see Kahn v. General Motors Corp, 889 F.2d 1078, 1083 (Fed. Cir. 1989), and, as a general rule in patent infringement suits, the first-filed suit takes precedence over later suits. See Genentech v. Eli Lilly & Co., 998 F.2d 931, 937 (Fed. Cir. 1993). Here, Defendants first filed suit in the Southern District. "Exceptions, however, are not rare, and are made when justice or expediency requires . . ." Id. The exception relevant to this case is the "customer suit exception," which applies "where the first suit is filed against a customer who is simply a reseller of the accused goods, while the second suit is a declaratory action brought by the manufacturer of the accused goods." Kahn, 889 F.2d at 1081. Although Graco's action fits into the second category, I believe that the best exercise of my discretion, Genentech, 998 F.2d at 938; Kahn, 889 F.2d at 1081-82, will be to transfer Graco's action to the Southern District.

Allowing and enabling a defendant in one forum to avoid litigating or otherwise thwart previously-filed litigation is an

2. (...continued)

and I note that the parties agreed in the 1996 Settlement that Ohio law would control; and that Kohus himself, who instigated the litigation, is located in the Southern District of Ohio. I find that "[Graco]'s asserted convenience is not sufficient reason to invoke the court's discretionary power to stay the first-filed action." Kahn, 889 F.2d at 1083. Moreover, Kohus has asserted that the Southern District will dispose of this case expeditiously and I have no reason to doubt that assertion.

unusual remedy and should only be granted to serve the two clear policies animating the customer suit exception: "the manufacturer's presumed greater interest in defending its actions against charges of patent infringement; and to guard against possibility of abuse." Id. at 1081. Accordingly, I agree with Kohus that the customer suit exception is better-suited for situations where, unlike here, the first suit was brought against customers only, and the manufacturer files the second suit to protect its customers. Codex Corp. v. Milgo Electronics Corp., 553 F.2d 735, 737 (1st Cir. 1977) ("[A]n exception . . . has developed in patent litigation where the earlier action is an infringement suit against a mere customer . . .").³ This is because the manufacturer is the "true defendant" in a patent infringement suit, and it should be given the opportunity to fully and actively contest the infringement issue. Id. at 737-38.⁴ Here, however, it cannot be disputed that Graco had that opportunity in the Ohio litigation and did not seize it. Graco was a defendant there but sought to avoid defending that suit on the grounds that the 1996 Release shielded it from defending suits filed by Kohus. Although the Partnership did not expressly

3. I do not base my decision to transfer this action on what Defendants argue to be the second "prong" of the customer suit exception, that is, that, as a requirement for application of the exception, the first suit must have been filed in a forum in which the manufacturer could not be sued. I agree with Defendants, however, that Codex is still good law.

4. Moreover, Kohus asserts that defendant Toys'R'Us is not just a customer, but also an importer of the infringing Pack'n Play devices, and therefore a primary infringer. See Katz, 909 F.2d at 1464.

name the eight customer defendants until after Graco's exit from the suit, the fifty John Doe defendants in the original Complaint were clearly Graco's customers, and Graco cannot have been surprised to see them expressly named. I find that Graco's avoidance of the Ohio litigation reduces the weight that I should assign to its stated concern for its customer relationships, and this neutralizes the main policy concern animating the customer suit exception; where a manufacturer could have raised the same issues and defended its customers in the first litigation but opted out, its entitlement to benefit from that exception is considerably lessened.

Turning to other factors suggested by the Federal Circuit, Kahn, 889 F.2d at 1082-83, I find that the balance of conveniences weighs against Graco, largely because it absented itself from the Ohio forum. Graco lamely argues that while it is difficult to calculate the harm and damages to it, if Kohus should be wrongfully enjoined, it will be easier to compensate it for damages. I do not believe, as Graco suggests, that all factors are equal, but rather that Graco has a heavy burden of demonstrating to this court that it should enjoin, supplement or otherwise interfere with ongoing litigation in Ohio involving the same core dispute, especially where it will be fully able to propound both its defenses and counterclaims in that forum.

An Order follows.

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EUGENE L. TIMPERMAN and	:	
KOHUS-TIMPERMAN PARTNERSHIP,	:	
Defendants.	:	

O R D E R

AND NOW, this 2nd day of April 1998, upon consideration of Plaintiff's Motion to Enjoin Defendants' patent infringement action in the Southern District of Ohio (Dkt. # 2); Defendants' filing in opposition thereto, and in support of their Motion to Dismiss, Transfer or Stay this action (Dkt. # 9); and Plaintiff's Response thereto (Dkt. # 16); and, upon consideration of the parties' supplemental pleadings and their arguments at a March 23, 1998 hearing, it is hereby **ORDERED** that:

(1) Plaintiff's Motion to Enjoin Defendant's lawsuit in the Southern District of Ohio is **DENIED**; and

(2) Defendants' Motion to Dismiss, Stay or Transfer this Action is **GRANTED**, to the extent that this action is **TRANSFERRED IN ITS ENTIRETY** to the United States District Court for the Southern District of Ohio. 18 U.S.C. § 1404 (a).

This case shall be marked **CLOSED**.

BY THE COURT:

RONALD L. BUCKWALTER, J.