Bloomberg BNA

Patent, Trademark & Copyright Law Daily Bulletin™

Lead Report/Patents

Is Altering Patent Construction Review 'Worth the Candle'? Stakeholders Weigh In

■ ***Takeaway:*** *Reviewing oral argument at the Supreme Court, stakeholders debate whether a change to the Federal Circuit's claim construction review standard will have a meaningful effect.*

Oral arguments at the Supreme Court over whether the Federal Circuit should give more deference to district court's patent claim construction judgments, saw Justice Samuel A. Alito question what ''practical significance'' would be achieved by a change in the standard of review (200 PTD, 10/16/14).

Two days later, practitioners predicted that the court would compel the appeals court to review underlying factual determinations for clear error, but most joined Alito in questioning whether that will alter the outcome in most cases.

They differed, however, on whether a change is nevertheless ''worth the candle,'' citing a phrase repeated six times during the arguments.

Recap in Brief. The Federal Circuit's no-deference standard began in 1998 with *Cybor Corp. v. FAS Techs. Inc.*, 138 F.3d 1448, 46 U.S.P.Q.2d 1169 (Fed. Cir. 1998) (en banc), which interpreted the Supreme Court's decision in *Markman v. Westview Instruments, Inc.*, 116 S.Ct. 1384, 38 U.S.P.Q.2d 1461 (1996).

Complaints about the standard refer to the court's high reversal rates and the lack of finality in district court. Further, with a reversal of claim construction and then a remand, a trial may have to be repeated, causing the parties time and money.

Three options were presented to the Supreme Court through the case's briefing and the Oct. 15. argument:

■ Review the ultimate claim construction judgment for clear error.

■ Keep the de novo standard as is, arguably where Alito was going.

■ Review the ultimate judgment as a legal question—which *Markman* indisputably held—de novo, while applying the clear-error standard to ''underlying factual determinations.''

Conceivably, Justice Stephen G. Breyer made a case for the first option, but none of the commenters thought that was a possible outcome.

***Markman* Dictates Otherwise.** ''Everyone seems to concede that *Markman* has established that the ultimate interpretative decision of the claim is legal, and thus, the interpretation itself is subject to de novo review,'' C. Kyle Musgrove of Haynes & Boone LLP, Washington, said.

And no one suggested that this Supreme Court would reverse *Markman*.

But no one really believed the court would stick with option two, either, because of Rule 52(a)(6) of the Federal Rules of Civil Procedure, which states: ''Findings of fact, whether based on oral or other evidence, must not be set aside unless clearly erroneous, and the reviewing court must give due regard to the trial court's opportunity to judge the witnesses' credibility.''

No one suggested that the Supreme Court would exempt the Federal Circuit entirely from express language of Rule 52.

Therefore, the stakeholders commenting to Bloomberg BNA generally addressed the question of what would happen if option three became the standard.

''The proposal is that this would be similar to an obviousness-type determination, where the ultimate legal determination is subject to de novo review but the factual question of the level of skill in the art is a factual determination that must be shown to have been a source of clear error,'' Musgrove said.

''And, that fact is applied to determine whether, legally, the alleged invention would have been obvious to that factual person.''

Which Facts Are Facts? That leaves the question, though, of exactly what evidence in the record at the district court would be treated as an underlying fact.

Bradford J. Badke of Ropes & Gray, New York, noted that Breyer put weight on the district court judge hearing expert testimony.

''The most I can see happening here is the court will say if an expert was testifying, there should be deference to the district court as to what that testimony was.''

—Bradford J. Badke, Ropes & Gray

''The most I can see happening here is the court will say if an expert was testifying, there should be deference to the district court as to what that testimony was,'' Badke said. ''But most judges I know, it's the intrinsic record you need to go by. Most courts rely on extrinsic evidence [including expert testimony] only to the extent it does not conflict with intrinsic evidence.''

And all commenters expected the court to leave de novo review as the standard for intrinsic evidence—the claims, the specification and the prosecution history.

But Musgrove indicated that the court might well accept the government's view in this case, which is to treat all extrinsic evidence—including dictionary definitions, articles, etc.—as facts reviewed under a clear-error standard. And he was concerned that the court would not be clear on the issue.

''Guidance on how to treat intrinsic vs. extrinsic evidence is very important whether it comes from the Supreme Court or the district courts and the Federal Circuit,'' he said. ''Additionally, whether the ordinary meaning is subject to de novo review or is going to be a potential battle of the experts subject to deferential review is also a significant question.''

During the Oct. 15 oral argument, the respondents' attorney in the case, Carter G. Phillips of Sidley Austin LLP, Washington, said, ''It's not worth the candle'' to make a change, essentially acknowledging that there are fact questions that could be reviewed for clear error, but the debate over what is or isn't reviewed that way would incur a cost to counter the gain.

''I agree with Carter in the short term, but I'm going to be optimistic that in the long term that will work itself out,'' Jeffrey C. Morgan of Barnes & Thornburg, Atlanta, said. He suggested it would take 5-10 years litigating whether something is a fact or legal issue.

Panel More Important. Justice Alito referred to an article by Thomas W. Krause and Heather Auyang that, he said, analyzed whether ''the difference between de novo review and clear error review of factual questions by the Federal Circuit made a difference in the outcome.'' He said, ''they couldn't find any case in which this fascinating legal debate had a practical significance.''

Essentially, the authors' point is that the makeup of the panel hearing the appeal is far more case-determinative than the standard of review.

''I agree with those authors,'' Ropes & Gray's Badke said. ''The panel is much more important.''

''A bright line ruling from the Supreme Court that findings of fact are entitled to a clearly erroneous standard of review will likely decrease intra-panel discrepancies and lead to a more focused review of the legal conclusions that flow from the factual findings.''

—Douglas J. Sorocco, Dunlap Codding P.C.

He gave as an example a canon of claim construction that appears to divide panels with some frequency—one should not import limitations from the specification into the claims.

''Everybody knows that and says they agree with it,'' Badke said, ''but importing limitations into the claim is in the eye of the beholder.'' He said some judges refer to the specification and say it is only ''guiding my understanding of the claim,'' but there is no question that the limitation ends up being imported.

Further, he said, ''The difference between de novo review and review for clear-error is likewise in the eye of the beholder.'' He said that even with a change to a deference standard, ''It's conceivable that the Federal Circuit may not, among themselves, have a test for whether they are, in fact, reviewing for clear error.''

Douglas J. Sorocco of Dunlap Codding P.C., Washington, agreed to an extent.

''Many of the panel discrepancies appear to be based on the amount of deference each judge is willing to give to the district court,'' he said. ''Many of the newer panelists appear to be quite deferential while those who have been serving for longer are less.''

However, Sorocco contended that that difference only presented an argument for the Supreme Court to be explicit.

''A bright line ruling from the Supreme Court that findings of fact are entitled to a clearly erroneous standard of review will likely decrease intra-panel discrepancies and lead to a more focused review of the legal conclusions that flow from the factual findings,'' he said.

Playing Field Change: Inter Partes Review. Another consideration is whether the current litigation environment has changed sufficiently to make the standard of review change of less significance than it once was. Specifically, the America Invents Act enabled challenges to patents at the Patent and Trademark Office after the infringement complaint is filed.

Thus, the alleged infringer can file a petition for inter partes review, get a stay of the litigation and get the IPR determination—patent claims cancelled or upheld—from the Patent Trial and Appeal Board within 18 months. The loser can appeal that decision directly to the Federal Circuit, preventing a drawn-out trial from ever happening.

 ISSN 0000-0000

''In today's landscape of IPRs, it is much less expensive for the parties to litigate the issue of invalidity all the way through appeal without having to incur the very significant cost of litigation,'' Barnes & Thornburg's Morgan said. ''And both plaintiffs and defendants should be grateful for that.''

Sorocco was not convinced, though.

''There are still a significant number of situations where counterclaims or other allegations must still proceed to trial,'' Sorocco said.

''Proceeding to the Federal Circuit where both parties believe there is a more-likely-than-not chance that the claim construction will be set aside is a deterrent to settlement, an inefficient use of legal resources, inflicts lost opportunity costs on the parties, and creates further ambiguity or opaqueness within the technology landscape,'' Sorocco said.

Instead, with a clear-error standard, ''The parties will focus more on creating a factual record and less on posturing for future Federal Circuit reversal,'' he said. And, ''it will motivate the parties to settle earlier in the case knowing that the Federal Circuit was less likely to overturn district court rulings.''

BY TONY DUTRA

Argument transcript at http://pub.bna.com/ptcj/13854trans.pdf.