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## COLLATERAL ESTOPPEL AND *MARKMAN* RULINGS: THE CALL FOR UNIFORMITY

C. JOËL VAN OVER\*

### I. INTRODUCTION

Two recent cases have decided an issue of first impression important to patent litigants: whether a trial court's construction of patent claims pursuant to *Markman v. Westview Instruments, Inc.*,<sup>1</sup> collaterally estops the relitigation of the construction of the same patent claims in a subsequent suit. In *TM Patents, L.P. v. IBM Corp.*,<sup>2</sup> the Southern District of New York held that a patentee was barred by the doctrine of collateral estoppel from relitigating claim construction issues determined in an earlier case. The earlier case settled during trial. In *Graco Children's Products, Inc. v. Regalo International, LLC*,<sup>3</sup>

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\* © 2001, C. Joël Van Over. Ms. Joël Van Over is a senior counsel with the law firm Swidler Berlin Shereff Friedman, LLP where she specializes in litigation and intellectual property law. Ms. Van Over is currently studying for her L.L.M. in Intellectual Property at George Washington University Law School. The views expressed in this article reflect Ms. Van Over's views at this time. Ms. Van Over dedicates this article to her father, Harlan C. Van Over, Ph.D., Saint Louis University 1974; Professor Emeritus, University of Southern Indiana and Western New Mexico University; and her mother, Joan S. Van Over, who has encouraged her academic endeavors. Ms. Van Over also wishes to thank John R. Thomas, Assistant Professor of Law, George Washington University Law School, for his thoughtful review and helpful comments.

1. 517 U.S. 370 (1996).

2. *TM Patents, L.P. v. IBM Corp.*, 72 F. Supp. 2d 370 (S.D.N.Y. 1999). Since this paper was written, the court in *Abbott Labs., Inc. v. Dey, L.P.*, 110 F. Supp. 2d 667 (N.D. Ill. 2000), followed the reasoning of the *TM Patents* case, and distinguished the *Graco* case, holding that an earlier claim construction applies against the patentee in a later case where the earlier claim construction resulted in a finding of noninfringement. An interlocutory decision issued by the United States District Court for the district of Connecticut on June 4, 2001 in *Edberg v. CPI International, Inc.*, No. 3:98CV716(JBA) (Rulings on Cross-Motions for Summary Judgment) also follows the reasoning of *TM Patents*, holding that the same court's earlier claim construction was binding upon the plaintiffs even though the earlier action settled before trial. The author is co-counsel for defendant CPI International, Inc. in that case. The more recent cases noted here and *infra* note 3 further illustrate the divergent positions taken by the courts in *TM Patents* and *Graco*.

3. *Graco Children's Products, Inc. v. Regalo Int'l, LLC*, 77 F. Supp. 2d 660 (E.D. Pa. 1999). The most recent case to consider the preclusive effect of an earlier *Markman* ruling, *Kollmorgen Corp. v. Yaskawa Electric Corp.*, No. 7:99CV00308, 2001 WL 732012 (W.D. Va. July 29, 2001), held that an earlier *Markman* ruling does not estop the relitigation of claim

the Eastern District of Pennsylvania reached the opposite result. The *Graco* court held that the claim construction in an earlier case did not preclude relitigation of the same claim construction issues. The earlier case settled during an appeal of the trial court's judgment on a jury verdict finding infringement.

Although neither of these two recent cases fully explores the underpinnings of collateral estoppel and the policy implications of applying collateral estoppel to *Markman* rulings, the Federal Circuit will no doubt be asked to do so in the near future. As this Article argues, the Supreme Court and the Federal Circuit's sister circuits would seem to favor the application of collateral estoppel to *Markman* rulings, at least under the circumstances of both *TM Patents* and *Graco*. The Federal Circuit, however, has generally taken a conservative approach to collateral estoppel and one that would seem to support only a restrictive application of collateral estoppel to *Markman* rulings. If the Federal Circuit is to offer unifying guidance in this area, it must take a fresh look at the issue.

If the Federal Circuit fails to find sufficient policy interests in Supreme Court precedent to support a uniform approach to the collateral estoppel effect of *Markman* rulings, the result will be that some circuits mandate collateral estoppel effect for *Markman* rulings in most circumstances, while other circuits prohibit collateral estoppel effect in the same circumstances. Even though the Federal Circuit applies the law of the local circuit in reviewing a trial court's application of collateral estoppel,<sup>4</sup> the application of this doctrine to *Markman* rulings calls for uniformity. A split among the circuits on the question of the collateral estoppel effect of *Markman* rulings would almost certainly guarantee forum shopping. More basically, the policy goals of *Markman*, to promote uniformity in claim construction and to provide clear public notice of the meaning and scope of the patent grant, arguably would be dealt a severe blow.

This paper addresses to what extent collateral estoppel can and should be invoked in furthering uniformity of claim construction since *Markman*. I address this issue first within the context of the two recent district court cases reaching different results in their application of collateral estoppel to *Markman* rulings. I then review the Federal Circuit's historical perspective of collateral estoppel and its apparent readiness to reconsider collateral estoppel in light of the new *Markman* regime. I conclude with a discussion of Supreme Court

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construction issues where the earlier case was settled and thus not tested on appeal. The court in the first case denied a motion to vacate its *Markman* ruling even though settlement was conditioned upon vacatur. *Allen-Bradley Co., L.L.C. v. Kollmorgen Corp.*, 199 F.R.D. 316 (E.D. Wisc. 2001).

4. *Pharmacia & Upjohn Co. v. Mylan Pharmaceuticals, Inc.*, 170 F.3d 1373, 1381 n.4 (Fed. Cir. 1999).

precedent and policy issues and suggest, as I do throughout, that collateral estoppel should apply to *Markman* rulings as broadly as “fairness” permits.<sup>5</sup>

## II. TM PATENTS AND GRACO

The courts in both *TM Patents* and *Graco* recognized that *Markman* creates new issues concerning the collateral estoppel effects of *Markman* rulings on subsequent claim construction.<sup>6</sup> As the *TM Patents* court explained:

Prior to the Federal Circuit’s ruling [in *Markman*] in 1995, disputes concerning the meaning of patent claims were submitted to a jury along with questions about validity and infringement. Thus, until there was a final judgment after a jury verdict, there was no construction of claims [citation omitted], and hence, no finality for collateral estoppel purposes. However, after *Markman*, claim construction became a separate legal issue, for determination by the Court . . . . The jury is not free to override the Court’s construction of the disputed terms. It is hard to see how much more “final” a determination could be.<sup>7</sup>

While the *TM Patents* court was ultimately persuaded that the new *Markman* regime was decisive in expanding the role of collateral estoppel in claim construction matters, the *Graco* court was not. Before evaluating the respective merits of these apparently divergent decisions, it is first necessary to understand the issues presented to each court and each court’s respective analysis of these issues.

### A. *TM Patents*

The issue presented in *TM Patents* was whether a trial court’s earlier *Markman* ruling was binding on the patent holder in a second case where the earlier case settled during trial. The court in *TM Patents* applied a four-part test to determine whether a prior *Markman* ruling precluded relitigation of claim construction issues in a subsequent case.<sup>8</sup> The elements of this test are:

First, the issues raised in both proceedings must be identical. Second, the relevant issues must have actually been litigated and decided in the prior proceeding. Third, the party to be estopped must have had a full and fair opportunity to litigate the issues in that prior proceeding. And fourth, resolution of the issues must have been necessary to support a valid and final judgment on the merits.<sup>9</sup>

The parties in *TM Patents* agreed that the first and third prongs of the test had been met. They disagreed on the second and fourth prongs. The court

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5. *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 323 (1971).

6. *TM Patents*, 72 F. Supp. 2d at 376; *Graco*, 77 F. Supp. 2d at 662-63.

7. *TM Patents*, 72 F. Supp. 2d at 376.

8. *Id.* at 375.

9. *Id.* (citing *Central Hudson Gas & Elec. Corp. v. Emprea Naviera Santa S.A.*, 56 F.3d 359, 368 (2d Cir. 1995)).

found that the issue of finality (the fourth element) “subsumed” the question of whether the issue had actually been decided in the prior case (the second element).<sup>10</sup> Thus, the critical issue for the court was whether a *Markman* ruling could be considered “final” when the dispute over the meaning of claim terms was never reduced to final judgment “because the matter was settled before the jury had returned its verdict on the question of infringement.”<sup>11</sup> *TM Patents* argued that if there is no final, appealable judgment, there can be no “finality” for collateral estoppel purposes.<sup>12</sup>

The court flatly rejected this argument: “Unfortunately for *TM*, that is not the law in this Circuit (or any other, for that matter).”<sup>13</sup> The court relied on Judge Friendly’s “seminal opinion” in *Lummus Co. v. Commonwealth Oil Refining Co.*<sup>14</sup> In that opinion Judge Friendly explained that finality for purposes of collateral estoppel is not the same as finality under 28 U.S.C. § 1291, which speaks only to finality for purposes of appeal.<sup>15</sup> The *Lummus* test for finality in the collateral estoppel context, rather, depends upon

such factors as the nature of the decision (i.e., that it was not avowedly tentative), the adequacy of the hearing, and the opportunity for review. . . . ‘Finality’ in the context [of collateral estoppel] may mean little more than that the litigation of a particular issue has reached such a stage that a court sees no really good reason for permitting it to be litigated again.<sup>16</sup>

Relying upon a later decision decided under *Lummus*, the court pointed out that interlocutory orders, such as summary judgment decisions, may estop relitigation of issues decided by summary judgment.<sup>17</sup> Thus, collateral estoppel “does not require a ‘judgment which ends the litigation . . . and leaves nothing more for the court to do but execute the judgment’ . . . but includes many dispositions which, although not final in that sense, have nevertheless been fully litigated.”<sup>18</sup>

The *TM Patents* court had no difficulty in holding, under the teachings of *Lummus* and its progeny, that the patent holder was foreclosed from relitigating the meaning of claim limitations decided in the previous case’s

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10. *Id.*

11. *Id.*

12. *TM Patents*, 72 F. Supp. 2d at 375.

13. *Id.*

14. 297 F.2d 80 (2d Cir. 1961), *cert. denied*, 368 U.S. 986 (1962).

15. *Id.* at 89.

16. *TM Patents*, 72 F. Supp. 2d at 376 (quoting *Lummus*, 297 F.2d at 89).

17. *Id.* at 376 (citing *Georgakis v. Eastern Air Lines, Inc.*, 512 F. Supp. 330 (E.D.N.Y. 1981)).

18. *Id.* at 376 (quoting *Zdanok v. Glidden Co., Durkee Famous Foods Div.*, 327 F.2d 944, 955 (2d Cir. 1964) (Friendly, J.) (holding a decision on liability that is affirmed on appeal is entitled to collateral estoppel effect even though damages phase of trial not complete and no judgment entered)).

*Markman* ruling.<sup>19</sup> In reaching this conclusion the court found that under the new *Markman* regime, courts typically require the parties to litigate claim construction disputes prior to trial so that the court can instruct the jury on the meaning of the patent prior to trial.<sup>20</sup> “Moreover, the Court limits itself to construing that which is necessary to the resolution of the questions of infringement and validity.”<sup>21</sup> As the jury is “not free to override the Court’s construction of disputed terms, [i]t is hard to see how much more ‘final’ a determination could be.”<sup>22</sup>

Concerning whether the parties were entitled to a “full and fair hearing,” the court found that the prior district court conducted a two-day *Markman* hearing, heard evidence, and issued a thorough ruling. The court then accepted further briefing and heard re-argument and made modifications to its ruling.<sup>23</sup> The ruling was a fully litigated determination.<sup>24</sup> Concerning finality, the court then instructed the jury on the ruling and gave each juror a copy of the instruction to guide them during the course of trial. As the *TM Patents* court found, “[a] verdict would not have changed anything about [the] *Markman* rulings. Nothing more remained to be adjudicated; nothing more remained to be decided on the issue of claim construction.”<sup>25</sup>

The *TM Patents* court concluded that

[a]fter *Markman*, with its requirement that the Court construe the patent for the jury as a matter of law, it is inconceivable that a fully-litigated determination after a first *Markman* hearing would not be preclusive in subsequent actions involving the same disputed claims under the same patent. The nature of the *Markman* proceeding is such that finality is its aim.<sup>26</sup>

If *TM Patents* was correct that a *Markman* ruling is a final determination of claim construction, at least at the trial court level, then once settlement occurs, the *Markman* ruling becomes final for all purposes. By relinquishing any right to appeal, the parties effectively waived any argument that the ruling was not final, as well as any argument that either party did not have a full and fair opportunity to litigate the first time.

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19. *Id.* at 379.

20. *Id.* at 376.

21. *TM Patents*, 72 F. Supp. 2d at 376.

22. *Id.*

23. *Id.*

24. *Id.* at 377.

25. *Id.*

26. *TM Patents*, 72 F. Supp. 2d at 377.

### B. *Graco*

The *Graco* court also considered the preclusive effect of a prior *Markman* ruling in a case that settled.<sup>27</sup> The *Markman* ruling in the prior case was issued following briefing and argument, and the case proceeded to trial. The jury in the prior case found that each of the patent claims at issue, as construed by the court, had been infringed under the doctrine of equivalents. However, during litigation of the meaning of disputed terms of the claims, the patent holder had argued for a broader interpretation of the claims than that adopted by the court. The accused infringer appealed and the patent holder filed a protective cross-appeal, but did not appeal claim construction. The case settled while the appeal was pending.

In the second case, the patent holder again urged a broad claim construction and the accused infringer argued that collateral estoppel barred the broader interpretation rejected during the prior *Markman* claim construction. The issue, as articulated by the *Graco* court, was whether collateral estoppel barred relitigation of the earlier claim construction when the patentee could not have appealed the claim construction as of right.

The *Graco* court cited the four-part test for determining the propriety of collateral estoppel, as enunciated by the Federal Circuit in *A.B. Dick Co. v. Burroughs Corp.*,<sup>28</sup> as follows:

- (1) the issue sought to be litigated is identical to one decided in a prior action;
- (2) the issue is actually litigated in the prior action; (3) resolution of the issue is essential to a final judgment in the prior action; and (4) the party against whom collateral estoppel is sought had a full and fair opportunity to litigate the issue in the first action.<sup>29</sup>

Rather than discussing this four-part test explicitly, the *Graco* court focused on two related issues: (1) whether the earlier claim construction had been essential to the judgment and (2) whether collateral estoppel could apply when the issue sought to be given preclusive effect was not itself appealable as of right.<sup>30</sup> These questions relate to prongs three and four of the collateral estoppel inquiry, respectively.

The *Graco* court found, as to the first issue, that issue preclusion does not apply unless the claim construction was “the reason for the loss” in the prior case.<sup>31</sup> Because *Graco* did not lose in the prior litigation, the *Graco* court

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27. *Graco Children’s Products, Inc. v. Regalo Int’l, LLC*, 77 F. Supp. 2d 660, 661 (E.D. Pa. 1999).

28. 713 F.2d 700, 702 (Fed. Cir. 1983).

29. *Graco*, 77 F. Supp. 2d at 662. This test is essentially the same as that used by the *TM Patents* court, although the statement of the third prong of the test in *Graco* differs slightly from the *TM Patents* recitation of that prong.

30. *Id.* at 664.

31. *Id.* (citing *In re Freeman*, 30 F.3d 1459, 1466 (Fed. Cir. 1994)).

reasoned that the earlier court's claim construction was "not essential to the final judgment in that case."<sup>32</sup> On the second issue, concerning whether the prior claim construction was itself appealable, the *Graco* court found that it was not.<sup>33</sup> *Graco* prevailed in the first infringement suit. Thus, even though *Graco* may have lost on the issue of claim construction, it could not have separately appealed this issue without this independent right to appeal claim construction, the *Graco* court held, and *Graco* was free to relitigate claim construction against a new defendant.<sup>34</sup> To support its conclusion, the *Graco* court relied on the Federal Circuit's pre-*Markman* decision in *Jackson Jordan, Inc. v. Plasser American Corp.*<sup>35</sup> *Jackson Jordan* held that collateral estoppel does not apply against a patentee that prevailed on the issue of infringement in a first action despite a narrow claim construction.<sup>36</sup> *Graco*, like *Jackson Jordan*, cited section 28(1) of the Restatement of Judgments,<sup>37</sup> which provides that issue preclusion does not apply when the party against whom collateral estoppel is invoked "could not, as a matter of law have obtained review of the judgment in the initial action."<sup>38</sup>

The *Graco* court was unpersuaded by the fact that, in the prior case, the infringer had appealed, and the patent holder had cross-appealed, but had declined specifically to appeal the issue of claim construction.<sup>39</sup> The court refused to look beyond the fact that *Graco* could not have appealed claim construction by itself in the first action.<sup>40</sup>

Finally, although the *Graco* court recognized that "uniformity in the treatment of a given patent" was one of the paramount reasons cited by the Supreme Court in *Markman* to support treating claim construction as an issue of law for the court, it found that this goal was insufficient to overcome what it perceived were precedential limitations to the application of collateral estoppel.<sup>41</sup>

### C. *TM Patents and Graco Compared*

Although the *TM Patents* and *Graco* courts reach different results, the first question is whether the different postures of the original actions merited these different results. The critical difference between the two cases is that in *TM*

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32. *Id.*

33. *Id.*

34. *Graco*, 77 F. Supp. 2d at 665. *Accord* *Kollmorgen Corp. v. Yaskawa Electric Corp.*, No. 7:99CV00308, 2001 WL 732012 (W.D. Va. July 29, 2001).

35. 747 F.2d 1567 (Fed. Cir. 1984).

36. *Id.*

37. RESTATEMENT (SECOND) OF JUDGMENTS § 28(1) (1982).

38. *Graco*, 77 F. Supp. 2d at 663-64; *Jackson Jordan*, 747 F.2d at 1576.

39. *Graco*, 77 F. Supp. 2d at 664.

40. *Id.*

41. *Id.* at 664-65.



*Patents* settlement occurred before the jury reached a verdict, while in *Graco* the settlement occurred after a verdict of infringement and during appeal.

As noted, the *Graco* decision turned on the court's finding that because the patent holder had no right to appeal an overly narrow claim construction, collateral estoppel did not apply. Although not cited, there is Third Circuit law that supports the proposition that collateral estoppel does not apply when the party against whom estoppel is asserted has no right to appeal the judgment in the original action.<sup>42</sup> The Federal Circuit's decision in *Jackson Jordan* is in accord.<sup>43</sup>

Arguably, the *Graco* court misapplied the general rule that collateral estoppel does not apply against a party that could not have appealed the issue to be precluded. In *Graco*, the infringer appealed the judgment of infringement and the patent holder cross-appealed. While the patent holder did not expressly appeal the issue of claim construction, it could have. Moreover, the issue of claim construction was in fact before the Federal Circuit as claim construction is a necessary component of the infringement analysis. When the Federal Circuit reviews a judgment of infringement, it always reviews the trial court's claim construction. As the Federal Circuit recently explained:

Analysis of patent infringement starts with "construction" of the claim, whereby the court establishes the scope and limits of the claim, interprets any technical or other terms whose meaning is at issue, and thereby defines the claim with greater precision than had the patentee. . . . On appeal the Federal Circuit is required to construe the claim *de novo*; thus we do so without deference to the rulings of the trial court.<sup>44</sup>

Thus, to preclude collateral estoppel when an appeal has been taken would seem to put form over substance, at least on the facts of *Graco*.

If claim construction issues were within the purview of appellate review, then the issue is whether the parties waived their rights to appellate review. As a general rule, when an appeal is mooted by settlement, the parties seeking review have "forfeited [their] legal remedy by the ordinary processes of appeal and certiorari . . ."<sup>45</sup> The issues decided by the trial court are, in this instance, final, and relitigation of the same issues is foreclosed.<sup>46</sup>

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42. See, e.g., *Powers v. Southland Corp.*, 4 F.3d 223, 234 (3d Cir. 1993) (holding issue preclusion does not attach if the party against whom preclusion is sought could not, as a matter of law, have obtained review of the judgment in the initial action).

43. *Jackson Jordan Inc. v. Plasser Am. Corp.*, 747 F.2d 1567 (Fed. Cir. 1984).

44. *Pall Corp. v. Hemasure Inc.*, 181 F.3d 1305, 1308 (Fed. Cir. 1999).

45. *Philips Elects. N. Am. Corp. v. Sears Roebuck & Co.*, No. 96-1426, 1997 WL 652399 (Fed. Cir. Sept. 30, 1997) (unpublished opinion) (denying vacatur when appeal mooted by settlement).

46. *Wellons, Inc. v. T.E. Ibberson Co.*, 869 F.2d 1166 (8th Cir. 1989) (collateral estoppel applies when the issue has been fully adjudicated, regardless of a subsequent settlement).

The more important question may be, however, whether the policies enunciated in the *Markman* decision itself are sufficient to merit a fresh look at collateral estoppel when a *Markman* ruling has construed the terms of a patent. The *TM Patents* court found that the policy goals relied upon by the Supreme Court in *Markman*—promoting uniformity in claim construction and public notice of the scope of patent claims—required such a fresh look.

The *Markman* ruling at issue for collateral estoppel purposes in *TM Patents* was the only arguably final ruling in the case. No judgment was issued because the parties settled during the trial. Thus, there was no prevailing party. This is significant because collateral estoppel is generally used, as it was in *Blonder-Tongue*, against the party that loses in the original action. It is the loser that has the right to appeal. However, when there is only a *Markman* ruling at issue for collateral estoppel purposes in a prior action because of settlement, the issue of who won or lost should not arise. Both parties waived their rights of appeal.<sup>47</sup>

The *TM Patents* court did not address the issue of whether the patent holder against whom estoppel was asserted had won or lost its claim construction position in the earlier suit. The court focused instead on the finality of the *Markman* ruling. If the ruling was final, it could be used for collateral estoppel purposes, period.

This approach seems sensible enough on the facts of *TM Patents* because the parties settled before a judgment could be reached. The *TM Patents* court assumed that the claim construction could have been appealed “but for” the settlement. It therefore relied on both parties’ relinquishment of appeal rights to bar the argument that there was no right of appeal.

In *Graco*, the court knew who won the ultimate judgment—the patent holder—despite a narrower than requested claim construction. Thus, the *Graco* decision faced directly the issue that the patent holder had no independent right of appeal. While the court could have decided the issue as in *TM Patents*, based upon the waiver of appeal by settlement, it did not. The court relied on pre-*Markman* collateral estoppel precedent rather than undertaking a thorough review of whether this precedent should apply post-*Markman*.

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47. It may also be reasonable to assume that the party against whom collateral estoppel is sought to be imposed has in some sense lost on the issue of claim construction. Moreover, this fact would generally be apparent from the *Markman* ruling itself, when a patent holder’s advocated construction is not wholly adopted in the ruling. As the Federal Circuit has recognized, a patent holder can lose on its position in claim construction, but win on the issue of infringement. *Jackson Jordan, Inc.*, 747 F.2d at 1577-1578 (“[A] party can be said to have ‘lost’ if it urged a broad scope of the claim, and the court upheld validity on a narrower interpretation”). The Federal Circuit in *Jackson Jordan* held that there is no collateral estoppel in this instance because the issue was not appealable. *Id.* at 1578.

The *Graco* Court also found that the *Markman* ruling in the first case was not essential to the final judgment in that case because the patent holder prevailed. This is wrong as a matter of law. Claim construction is always essential to final judgment of infringement, no matter whether the patent holder loses or prevails. As the *TM Patents* court aptly reasoned on this score, the claim construction issues actually litigated are those essential to the parties' dispute.<sup>48</sup>

In sum, *TM Patents* is the better reasoned opinion. The opinion balances the practical realities of the *Markman* ruling process in infringement litigation with the traditional elements of a collateral estoppel analysis. The opinion also gives due regard for the policies and purpose of *Markman* claim construction as set forth in the Supreme Court's *Markman* decision. The *Graco* opinion, on the other hand, takes an unduly restrictive view of the *Blonder-Tongue* test. *Graco's* superficial analysis ignores the fact that claim construction is always reviewed by the Federal Circuit in its review of a judgment of infringement, and misapprehends the impact of settlement. The *Markman* ruling at issue in *Graco* should have been accorded preclusive effect for this reason and the reasons set forth in *TM Patents*.

### III. THE FEDERAL CIRCUIT

If the Federal Circuit is to take a fresh look at the collateral estoppel effect of *Markman* rulings, as it may soon be asked to do if either *TM Patents* or *Graco* is appealed, it must be convinced that it can do so based upon its own and other precedents, and that it should do so based upon sound patent policy. These issues are explored in the next two sections.

For a *Markman* ruling to be granted preclusive effect under the four-part test most frequently used by the Federal Circuit and set forth here for reference, the issues are:

- (1) whether claim construction issues in the second suit are identical to those decided in the first action;
- (2) whether the claim construction subject to estoppel was actually litigated in the first action;
- (3) whether the claim construction issues decided in the first action were essential to final judgment in the first action; and
- (4) whether the party against whom estoppel is asserted had a full and fair opportunity to litigate in the prior court proceeding the issue he seeks to relitigate in the second action.<sup>49</sup>

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48. *TM Patents, L.P. v. IBM Corp.*, 72 F. Supp. 2d 370, 376 (S.D.N.Y. 1999).

49. While this four-part test is the similar in most respects to the tests employed by other circuits, it is not identical. *See, e.g., Security People, Inc. v. Medeco Security Locks, Inc.*, 59 F. Supp. 2d 1040, 1044 (N.D. Cal. 1999); *In re Freeman*, 30 F.3d 1459, 1465-67 (Fed. Cir. 1994).

A. *Whether Claim Construction Issues Are Identical to Those Decided in the First Action*

When the claims construed in the first action are the same as those construed in the second action, the inquiry of whether claim construction issues are identical, for purposes of collateral estoppel, is straightforward. The court applying collateral estoppel need only look to the terms of the claims construed in both actions to determine whether the issues presented are the same.<sup>50</sup> This was not an issue in either *TM Patents* or *Graco*.

The issue of identity of previously litigated issues arises most frequently when the first action concerns claim construction of the original patent, and the second action concerns a reissue patent or one that has been re-examined. The issue of identity also arises when a parent patent is the subject of the first suit, and a continuation patent is the subject of the second.

In *Gould v. Mossinghoff*, the issue was whether the Patent and Trade Office (PTO) had properly rejected continuation patent claims because the patentee had lost an earlier interference based upon his failure to adequately disclose his claimed invention.<sup>51</sup> The PTO argued that because the patent holder, Gould, had lost two interference proceedings based on findings that he had inadequately disclosed the claimed inventions, he should be estopped from asserting that a later continuation application adequately disclosed the covered invention. The continuation could be construed to cover the invention that had been determined in the earlier interference to be inadequately disclosed.<sup>52</sup>

The district court agreed with the PTO that the interference collaterally estopped the patentee's argument that it had adequately disclosed the invention claimed in the continuation application. Although the continuation application claimed an invention not previously litigated in the interference, the continuation could also be construed to cover the invention that the PTO had found to be inadequately disclosed in the interference.

The court of appeals denied collateral estoppel effect because the continuation application claimed an invention which was adequately disclosed in the parent application. The court found that it was immaterial that the claims in the continuation application also covered an invention that had been

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50. *See* *Molinaro v. Fannon/Courier Corp.*, 745 F.2d 651 (Fed. Cir. 1984); *Hilgraeve Corp. v. Symantec Corp.*, 90 F. Supp. 2d 850, 854 (E.D. Mich. 2000) (holding the proper construction of claims 1 and 18 is the identical issue previously adjudicated).

51. *Gould v. Mossinghoff*, 711 F.2d 396 (D.C. Cir. 1983).

52. *Id.* at 399. During the PTO's examination of the continuation application, the examiner refused to issue the patent because the claimed invention was inadequately disclosed. The examiner did not assert collateral estoppel based on the earlier interference proceedings. The PTO, however, argued collateral estoppel on appeal to the district court.

inadequately disclosed in the parent patent.<sup>53</sup> The court explained that “a claim can be sustained even if it covers other inoperative or inadequately disclosed forms of the invention.”<sup>54</sup> Thus, the court looked “to the claimed invention as the measure of issue identity.”<sup>55</sup> The appeals court did not find that the claimed invention was patentable, but rather remanded the ultimate issue to the district court to consider without the benefit of collateral estoppel. The court limited its holding as follows: “We simply hold that findings made in proceedings involving inventions different from the invention presently claimed do not conclusively bar [the patent applicant] from attempting to prove entitlement to [the filing date of the parent application].”<sup>56</sup>

The Federal Circuit also took a similar “claims level” approach in *Interconnect Planning Corp. v. Feil*.<sup>57</sup> In that case, a federal district court had found the claims of the original patent invalid for obviousness. The patentee sought and obtained a reissue patent and sued the same accused infringer on the reissue patent. The accused infringer asserted collateral estoppel based upon the earlier invalidity decision. To apply collateral estoppel in this context, the district court compared the original and reissue claims and then applied prior art only to the differences between these claims. The district court agreed that collateral estoppel applied, to the extent that the original and reissue claims were the same, and found the reissue claims invalid for obviousness.

The Federal Circuit rejected the district court’s approach of applying prior art only to the differences between an original and reissue claim, requiring instead an obviousness analysis on the entire reissue claim as a whole. Thus, at least in the obviousness context, it appears that the determination of whether an original claim and a reissue claim raises substantially identical issues cannot be determined by a comparison of the differences between the claims. If the claims differ at all, then the reissue claim must be evaluated without regard to collateral estoppel. As the Federal Circuit stated:

The issue here on appeal is the validity of the claims of the reissue patent, an issue that did not exist at the time of the decision on validity of the ‘282 patent claims. There is no estoppel against appellate review of all aspects pertinent to the decision on the reissue claims.<sup>58</sup>

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53. *Id.* at 400.

54. *Id.*

55. *Id.*

56. *Gould*, 711 F.2d at 400.

57. 774 F.2d 1132 (Fed. Cir. 1985).

58. *Id.* at 1136; *accord* *MSM Invs. Co. v. Carolwood Corp.*, 70 F. Supp. 2d 1044 (N.D. Cal. 1999) (holding collateral estoppel does not apply where differences in claim scope between claims of two related patents raise potentially determinative issues that have not been previously adjudicated when claims in earlier litigation were found anticipated).

In a post-*Markman* case, *Foster v. Hallco Manufacturing Co.*,<sup>59</sup> the Federal Circuit addressed whether a district court's claim construction in a first action precluded relitigation of the meaning of the same language in a second action on the reissue patent. The district court in the second action found that collateral estoppel did not apply. Although the original patent and the reissue patent used similar claim language, the court found that the reissue patent contained a more specific definition of the disputed claim term than the original patent.<sup>60</sup> The Federal Circuit held that collateral estoppel was properly denied because the issues in the two actions were not identical.

What is interesting about the *Foster* case is not its holding but rather the fact that it was the patentee that was advocating issue preclusion based upon the claim construction from the first action. Moreover, the patentee advocated issue preclusion even though it lost the first action, as several of the original claims were found invalid in that action. The patentee argued to the Federal Circuit that the second district court had erred by not adopting the "fixed" claim interpretation which had been adopted by the trial court in the first action.<sup>61</sup> Because the Federal Circuit found that the issues in the two actions were not identical, it did not reach the issue of whether *Markman* "requires that the first claim construction of a patent litigated to final judgment is the 'fixed' claim construction for that patent."<sup>62</sup> The Federal Circuit gave no indication of how it would have ruled had it reached this issue.

While these cases in no way indicate that the Federal Circuit will apply an overly restrictive "issue identity" standard in the claim construction context, other cases indicate that the Federal Circuit will have to divorce itself from pre-*Markman* statements that claim construction depends in some fashion on the nature of the accused device.

The Federal Circuit's philosophy, as articulated in its more frequently cited cases on the subject, is that claim construction depends in some way upon the particular accused device at issue. In *Pfaff v. Wells Electronics, Inc.*,<sup>63</sup> the Federal Circuit summarized its position on collateral estoppel in the infringement context as follows: "[J]udicial statements regarding the scope of patent claims are hypothetical insofar as they purport to resolve the question of whether . . . products not before the court would . . . infringe the patent claims."<sup>64</sup>

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59. No. 96-1399, 1997 WL 419391 (Fed. Cir. July 14, 1997).

60. *Id.* at \*4.

61. *Id.*

62. *Id.*

63. 5 F.3d 514 (Fed. Cir. 1993).

64. *Id.* at 517 (quoting *A.B. Dick Co. v. Burroughs Corp.*, 713 F.2d 700, 704 (Fed. Cir. 1983)).

And, in the same vein: “A device not previously before the court, and shown to differ from those structures previously litigated, requires determination on its own facts.”<sup>65</sup>

The origin of these statements is the Federal Circuit’s decision in *A.B. Dick Co. v. Burroughs Corp.*<sup>66</sup> In *A.B. Dick Co.*, the Federal Circuit considered collateral estoppel of a prior claim construction decided in a declaratory judgment action. The accused infringer, the declaratory judgment plaintiff, raised issues of invalidity and noninfringement. The declaratory judgment court construed certain patent claims and held that the patent was “limited in scope to oscillographic recording.”<sup>67</sup> The question in *A.B. Dick* was whether this statement collaterally estopped the patentee in a later infringement action. In the later action, the trial court granted summary judgment to the accused infringer on the basis of this statement. The Federal Circuit reversed, finding that the statement was not necessary to the final judgment in the first case. The Federal Circuit went further, however, arguably displaying the court’s general discomfort with collateral estoppel. The accused product at issue in the declaratory judgment action and the accused product before the Federal Circuit in *A.B. Dick* functioned quite differently, but neither was an “oscillograph.”<sup>68</sup> Notwithstanding this similarity and the earlier court’s judgment that the patent did not cover “oscillographic equipment,” the Federal Circuit stated:

Except in the context of validity or infringement, judicial statements regarding the scope of patent claims are hypothetical insofar as they purport to resolve the question of whether prior art or products not before the court would, respectively, anticipate or infringe the patent claims. Regardless of whether the *Mead* court had jurisdiction to rule on the abstract scope of patent claims, we are persuaded that it would be unfair to give such a ruling collateral estoppel effect.<sup>69</sup>

The Federal Circuit’s statements in *A.B. Dick* and its progeny limiting the preclusive effect of claim construction in a later action because the later action involved a different product may have been supportable on pragmatic grounds pre-*Markman*. Pre-*Markman*, issues of claim construction and infringement were both decided by the fact finder, and were thus intertwined. This is not the case post-*Markman*. A determination of infringement today involves a two-step process in every sense: first, the patent claims must be given their proper legal construction, and only then can the properly construed claims be compared to the accused device.<sup>70</sup> Since *Markman*, the first step is decided by

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65. *Id.* (quoting *Del Mar Avionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 1324 (Fed. Cir. 1987)).

66. 713 F.2d 700 (Fed. Cir. 1983).

67. *Id.* at 702.

68. *Id.* at 703.

69. *Id.* at 704.

70. *ATD Corp. v. Lydall, Inc.*, 159 F.3d 534, 539-40 (Fed. Cir. 1998).

the court as a final matter, and the second step is performed by the fact finder, most typically the jury. Moreover, the first step is performed without regard to the accused device.<sup>71</sup>

*B. Whether the Claim Construction Subject to Estoppel was Actually Litigated in the First Action*

As the *TM Patents* court found, in the context of a *Markman* claim construction ruling, the issue of whether claim construction was actually litigated in a prior action is subsumed by the issue of finality, meaning, whether the determination of claim construction was litigated in a manner sufficiently final for collateral estoppel purposes.<sup>72</sup> Thus, the *TM Patents* court assumed that the *Markman* hearing in the first action was sufficient to satisfy the “actually litigated” requirement as long as the claim construction ruling was final and no opportunity to relitigate claim construction existed in the first action.<sup>73</sup> The Federal Circuit has provided consistent guidance on the “actually litigated” requirement.

The Federal Circuit addressed the issue of what constitutes actual litigation of a claim construction issue in prior litigation in *In re Freeman*.<sup>74</sup> In that case the district court in the first action construed the meaning of a critical term and found no infringement based upon that construction.<sup>75</sup> The Federal Circuit affirmed, finding that the district court’s construction of the critical term was not erroneous.<sup>76</sup> The patentee then sought re-examination in an attempt to redefine the critical term so as to avoid the district court’s construction. The PTO examiner rejected certain claims of the re-examination application on the ground that these claims impermissibly sought to broaden the claim in a re-examination proceeding.<sup>77</sup> The patentee appealed the rejection to the Board. The Board did not agree with the interpretation of the reissue claims by the district court in the first action but nevertheless affirmed the examiner because “it found itself to be ‘constrained to accept the court’s interpretation of the claim language of the reissue claims.’”<sup>78</sup> The patentee then appealed to the Federal Circuit.

71. PPG Indus. v. Guardian Indus. Corp., 156 F.3d 1351, 1355 (Fed. Cir. 1998).

72. TM Patents, L.P. v. IBM Corp., 72 F. Supp. 2d 370, 375 (S.D.N.Y. 1999).

73. *Id.* The *Graco* court did not question that the claim construction at issue had been actually litigated in the first action but denied collateral estoppel effect because the patentee had no right to appeal that construction. Graco Children’s Products, Inc. v. Regalo Int’l, LLC, 77 F. Supp. 2d 660, 664 (E.D. Pa. 1999).

74. 30 F.3d 1459 (Fed. Cir. 1994).

75. *Id.* at 1462.

76. *Id.* at 1463.

77. *Id.* at 1461.

78. *Id.* at 1464.



The Federal Circuit addressed the issue of whether the Board was bound by the district court's interpretation of the claim language at issue in the re-examination.<sup>79</sup> The Federal Circuit noted that "[t]he underlying rationale of the doctrine of issue preclusion is that a party who has litigated an issue and lost should be bound by that decision and cannot demand that the issue be decided over again," and after finding that the same claim language was at issue before the district court and the examiner on re-examination, the Federal Circuit reached the issue of whether the issue had been "actually decided."<sup>80</sup>

The Federal Circuit stated that "[t]he requirement that the issue have been actually decided is generally satisfied if the parties to the original action disputed the issue and the trier of fact decided it."<sup>81</sup> The court found that the claim language at issue in the re-examination had been disputed by the parties before the district court, and that, in fact, "most of the trial involved interpreting this [language]."<sup>82</sup> The district court resolved the meaning of this language and did so in favor of the accused infringer.<sup>83</sup>

If as found in *Freeman*, "actually litigated" in a claim construction context means "disputed" and "decided" at the trial court level, then all *Markman* rulings would necessarily reflect that the claim construction issues addressed were "actually litigated." Thus, as *TM Patents* found, the "actually litigated" requirement will generally be subsumed by the finality requirement. The only issue arising in the context of a *Markman* ruling should be whether the claim construction issues decided in a *Markman* ruling are sufficiently final to be granted preclusive effect.

C. *Whether Claim Construction Issues Decided in the First Action Were Essential to Final Judgment in the First Action*

Under Federal Circuit cases, the requirement that collateral estoppel apply only to issues that were essential to a final judgment would seem to imply two concepts: essentiality and finality.<sup>84</sup> In the context of *Markman* ruling collateral estoppel, these concepts arguably merge. The *TM Patents* court found that *Markman* rulings are always essential to a final judgment because parties litigate only those claim construction issues that are relevant to the merits of their claims and defenses.<sup>85</sup> Thus, the claim construction issues

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79. *Freeman*, 30 F.3d at 1465.

80. *Id.* at 1466.

81. *Id.*

82. *Id.*

83. *Id.*

84. This issue of finality also arises in answering the last question of the collateral estoppel inquiry: whether the issue to be precluded was fully and fairly litigated the first time, discussed *infra* Section III.D.

85. *TM Patents*, 72 F. Supp. 2d at 376 ("the Court limits itself to construing that which is necessary to the resolution of the questions of infringement and validity").

litigated are by definition “essential” to any final judgment. There is much more to be said, however, on the issue of finality.

In virtually every case where the Federal Circuit has granted preclusive effect to an issue decided in a previous case, the prior issue was the subject of a final appealable judgment.<sup>86</sup> The Federal Circuit has denied preclusive effect to a final interlocutory ruling when it has not been certified for appeal.<sup>87</sup> Thus, under the Federal Circuit’s current case law, the court would not grant preclusive effect to a *Markman* ruling in a later case where the first case settled before a final judgment was entered. As the *TM Patents* court pointed out, this is contrary to Judge Friendly’s seminal Second Circuit opinion in *Lummus* and decisions in other circuits that have reached the issue. Most courts hold that an issue that has been fully adjudicated and decided by a final interlocutory order is entitled to preclusive effect.<sup>88</sup> When the parties settle following the court’s entry of a final interlocutory order, an even stronger case can be made.<sup>89</sup> Parties that settle willingly relinquish their rights to appeal.<sup>90</sup> The parties voluntarily relinquished their right to have the interlocutory order become final and appealable.<sup>91</sup>

The Supreme Court in *U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership*<sup>92</sup> embraced this concept when it held that lower court judgments should not be vacated when the parties settle while an appeal is pending,

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86. See, e.g., *Interconnect Planning Corp. v. Feil*, 774 F.2d 1132 (Fed. Cir. 1985). There are arguably two exceptions. In *Hartley v. Mentor Corp.*, 869 F.2d 1469 (Fed. Cir. 1989), the Federal Circuit granted preclusive effect to a final ruling on patent invalidity even though a stipulated judgment had been entered following settlement. The Federal Circuit held that the invalidity judgment precluded relitigation of this issue because the loser voluntarily relinquished his right of appeal. The second case, *Pharmacia & Upjohn Co. v. Mylan Pharmaceuticals, Inc.*, 170 F.3d 1373 (Fed. Cir. 1999), is discussed *infra* text accompanying notes 118-126.

87. *Pharmacia & Upjohn*, 170 F.3d 1373 (Fed. Cir. 1999). There, the Federal Circuit held that collateral estoppel applies, and “[f]inality should attach for claim preclusion purposes at the time of entry of judgment” despite an unresolved motion for JMOL/new trial. *Id.* at 1381. The Federal Circuit went on to say, however, the if the judgment was reversed, the district court could modify its judgment accordingly. *Id.* at 1382.

88. *TM Patents*, 72 F. Supp. 2d at 375-76. Following *Lummus*, courts have held that issues decided in interlocutory summary judgment orders may have preclusive effect. See, e.g., *Georgakis v. Eastern Air Lines*, 512 F. Supp. 330, 334 (E.D.N.Y. 1981); *John Morrell & Co. v. Local Union 304A*, 913 F.2d 544 (8th Cir. 1990) (holding that a jury verdict not immediately appealable because damages phase incomplete is preclusive for collateral estoppel purposes); *Miller Brewing Co. v. Jos. Schlitz Brewing Co.*, 605 F.2d 990, 995 (7th Cir. 1979), *cert. denied*, 444 U.S. 1102 (1980) (an interlocutory appeal from a preliminary injunction “will be given preclusive effect if it is necessarily based upon a determination that constitutes an insuperable obstacle to the plaintiff’s success on the merits.”).

89. See, e.g., *Wellons, Inc. v. T.E. Ibberson Co.*, 869 F.2d 1166 (8th Cir. 1989).

90. See *Carpenter v. Young*, 773 P.2d 561 (Colo. 1989) (en banc) (plaintiffs waived right of review when they settled following summary judgment).

91. *Id.*

92. 513 U.S. 18 (1994).

absent exceptional circumstances.<sup>93</sup> The Court found that where a court's judgment is mooted by the parties' voluntary action, it is not in the public interest to permit a "secondary remedy of vacatur as a refined form of collateral attack on the judgment . . ."<sup>94</sup> Such a collateral attack "would—quite apart from any considerations of fairness to the parties—disturb the orderly operation of the federal judicial system."<sup>95</sup> The Court further noted, in often quoted language, that "[j]udicial precedents are presumptively correct and valuable to the legal community as a whole. They are not merely the property of private litigants and should stand unless a court concludes that the public interest would be served by a vacatur."<sup>96</sup>

Significantly, the Supreme Court was not persuaded by the argument that district court judgments should be vacated more readily than appellate decisions "since district-court judgments are subject to review as of right."<sup>97</sup> The Court rejected this argument, stating that it is inappropriate to vacate a judgment "on the *basis* of assumptions about the merits."<sup>98</sup>

The *Bonner Mall* case supports the argument that a final *Markman* claim construction ruling should not be erased simply because the parties have settled. If the ruling is a final determination of the meaning of a patent claim by the district court, the fact that it is interlocutory should not be decisive. The *TM Patents* court essentially found just this. If a *Markman* ruling is final for all purposes at the district court level, it is every bit as final as a final judgment. As the *TM Patents* court explained:

After *Markman*, with its requirement that the Court construe the patent for the jury as a matter of law, it is inconceivable that a fully-litigated determination after a first *Markman* hearing would not be preclusive in subsequent actions

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93. *Id.* at 29.

94. *Id.* at 26.

95. *Id.*

96. *Id.* (citation omitted).

97. *Bonner Mall*, 513 U.S. at 28. It seems well settled that the correctness of a judgment is not at issue when determining the preclusive effect of that judgment unless the error is so egregious as to amount to a failure of the opportunity to fully and fairly litigate an issue. *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 333-34 (1971); *Bates v. Union Oil Co. of Cal.*, 944 F.2d 647, 651 (9th Cir. 1991), *cert. denied*, 503 U.S. 1005 (1992) (not unfair to apply collateral estoppel even though the judgment may not be free of legal error). Although the Federal Circuit acknowledged this rule in *Pharmacia & Upjohn Co.*, 170 F.3d at 1380, it expressly reserved for the district court the opportunity to modify its reliance on collateral estoppel if there was a reversal in the prior action. *Id.* at 1382.

98. *Bonner Mall*, 513 U.S. at 27 (emphasis added); *see also* *Federated Dep't Stores v. Moitie*, 452 U.S. 394 (1981) (an unappealed judgment is entitled to preclusive effect regardless of whether it was wrongly decided).

involving the same disputed claims under the same patent. The nature of the *Markman* proceeding is such that finality is its aim.<sup>99</sup>

A recent case, *Security People Inc. v. Medeco Security Locks, Inc.*,<sup>100</sup> explores the distinction between “finality” for issue preclusion purposes and finality for purposes of appeal. In that case, the court held that an interlocutory summary judgment order deciding claim construction and infringement issues should be final for collateral estoppel purposes. The court found that “[a] disposition by summary judgment is a decision on the merits, and it is as final and conclusive as a judgment after trial.”<sup>101</sup>

As the *Security People* court explained:

to be ‘final’ for collateral estoppel purposes, a decision need not possess ‘finality’ in the sense of 28 U.S.C. § 1291. Instead, a final judgment for purposes of collateral estoppel is any prior adjudication of an issue in another action that is determined to be ‘sufficiently final’ to be accorded preclusive effect.<sup>102</sup>

The factors for determining whether a decision is sufficiently firm to be accorded preclusive effect are: “(1) whether the decision was not avowedly tentative, (2) whether the parties were fully heard, (3) whether the court supported its decision with a reasoned opinion, and (4) whether the decision was subject to an appeal.”<sup>103</sup> Under these factors, an independent *Markman* ruling or a *Markman* ruling made within the context of a summary judgment order should be considered sufficiently final for collateral estoppel purposes, at least when the parties have settled under the circumstances of either the *TM Patents* or *Graco* cases. The first three factors are satisfied in virtually every *Markman* ruling. The fourth factor, whether the decision was subject to appeal, would present the only open issue. In cases like *TM Patents* and *Graco*, where the parties have settled, this factor has been met. When the parties have settled they elect the point at which finality attaches. Settling parties have, by definition, forfeited any right of appeal. When the parties have not settled, and thus waived their right to appellate review, moreover, issue preclusion would arguably still be appropriate.

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99. *TM Patents, L.P. v. IBM Corp.*, 72 F. Supp. 2d 370, 377 (S.D.N.Y. 1999). The *TM Patents* court relied upon *United States v. McGann*, 951 F. Supp. 372, 381 (E.D.N.Y. 1997) (“*Lummus* has been consistently followed by every circuit which has had occasion to address the issue” (citations omitted)). See also *Sackman v. Liggett Group, Inc.*, 189 F.R.D. 58 (E.D.N.Y. 1999) (adverse discovery orders not vacated where intensely litigated and should be part of the developing decisional law in this area).

100. 59 F. Supp. 2d 1040 (N.D. Cal. 1999).

101. *Id.* at 1045.

102. *Id.*

103. *Id.* Note that under this test, whether the decision is subject to appeal is only one factor, and thus alone is not necessarily decisive.

As the *Lummus* and *TM Patents* courts held, the issue of finality for collateral estoppel purposes properly focuses upon whether the issue decided in the first case was considered final for purposes of that litigation. If one imposes the additional finality inquiry concerning whether the decision was subject to appeal, the issue is whether a final interlocutory order is appealable. While most interlocutory orders are not subject to appeal as of right, an interlocutory *Markman* ruling, like a summary judgment order, may be appealed if a district court certifies the issue for appeal *sua sponte*, or upon request of a party.<sup>104</sup> A *Markman* ruling, therefore, is subject to appeal as a final interlocutory order, at least in theory. Practically, however, the Federal Circuit has consistently refused to review interlocutory *Markman* rulings.<sup>105</sup> The Federal Circuit's practice does not square with the policies of *Markman*, and the Federal Circuit's own recognition that claim construction is usually dispositive of the patent holder's claim of infringement.<sup>106</sup> The practice of refusing to review interlocutory *Markman* rulings does not serve the interest of judicial economy.<sup>107</sup>

The Federal Circuit's reluctance to review interlocutory *Markman* rulings, however, should not determine the issue of finality. If a circuit court's policy on denying interlocutory appeals was decisive, no interlocutory order would be considered final for purposes of collateral estoppel. This, of course, is not the law in most circuits. As noted earlier, finality is more properly viewed as finality from the point of view of the trial court. If the trial court views an interlocutory decision as final, it should be viewed as final for purposes of

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104. 28 U.S.C. § 1292(b), (c)(1) (1994).

105. *See, e.g.*, *Arthrocare Corp. v. Ethicon, Inc.*, No. 555, 1998 WL 568690 (Fed. Cir. Aug. 20, 1998); *Microchip Tech., Inc. v. Scenix Semiconductor, Inc.*, Nos. 558, 559, 1998 WL 743923 (Fed. Cir. Sept. 8, 1998). It should be noted in this regard that the Federal Circuit could change its current policy of declining to review *Markman* rulings prior to final judgment on the merits. Moreover, the Supreme Court has held that a prevailing party on the merits may appeal an adverse collateral ruling if it retains a stake in the controversy. *Deposit Guaranty Nat'l Bank v. Roper*, 445 U.S. 326 (1980). Such collateral rulings are appealable after final judgment. *Id.* at 334. It would certainly seem that a patent holder who loses on claim construction, but wins on infringement, retains a sufficient stake in the controversy concerning the proper scope of his patent rights. If he is sufficiently aggrieved, he may appeal. This avenue would dispose of the *Graco* court's concern (and the Federal Circuit's concern in pre-*Markman* decisions) that a patent holder that loses in the *Markman* ruling, but prevails on the merits, has no right of appeal.

106. *Eastman Kodak Co. v. Goodyear Tire & Rubber Co.*, 114 F.3d 1547, 1552 (Fed. Cir. 1997), *holding abrogated by* *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448 (Fed. Cir. 1998).

107. The Federal Circuit's summary denials of *Markman* ruling appeals do not explain the reasons for the denial. Judge Newman's concurring opinion in *Cybor*, 138 F.3d at 1478-81, suggests that the Federal Circuit prefers to review claim construction in a fully developed record. However, the Federal Circuit routinely reviews claim construction on appeals from preliminary injunctions without a fully developed record. *See, e.g.*, *Sofamor Danek Group, Inc. v. DePuy-Motech, Inc.*, 74 F.3d 1216 (Fed. Cir. 1996).

collateral estoppel.<sup>108</sup> The *Markman* court's policy justification for treating claim construction as an issue of law for the courts—to promote uniformity and public notice functions—would also appear to support treating *Markman* claim construction as a “final” interpretation of claims even when the *Markman* ruling is interlocutory. This interlocutory finality would also accord with the majority view of finality under *Lummus*.

Although the Federal Circuit has flirted with the notion that an order need not be appealable to be accorded finality for collateral estoppel purposes, it has not held that collateral estoppel applies to any such interlocutory order. Judge Newman recognized in *Interconnect Planning*<sup>109</sup> that a prior decision need not be final in the sense of 28 U.S.C. § 1291 pertaining to the appealability of final orders, but that the prior adjudication, if “sufficiently firm,” may be accorded conclusive effect.<sup>110</sup> She then went on, however, to hold that an interlocutory order of patent invalidity was not entitled to preclusive effect because the court failed to direct entry of final judgment pursuant to Federal Rule of Civil Procedure 54(b).<sup>111</sup> This distinction is unsound, however, as Rule 54(b) is to the same effect as 28 U.S.C. § 1291.<sup>112</sup>

In sum, the *TM Patents* and *Security Peoples* approach to finality best reflects the policies of *Markman* and the majority view that finality does not require a final appealable judgment, as long as the patentee has had a full and fair opportunity to litigate claim construction issues, as discussed below.

*D. Whether the Party Against Whom Estoppel Is Asserted Had A Full and Fair Opportunity to Litigate In the Prior Court Proceeding*

In the *TM Patents* case there was no doubt that the parties had a full and fair opportunity to litigate claim construction issues before the first district court. All parties were given the opportunity to brief the issues fully and the court held a hearing and received testimony before issuing its *Markman* ruling.<sup>113</sup> In *Graco*, whether the parties had a full and fair opportunity to litigate claim construction at the district court level was not an issue except to

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108. The court in *Allen-Bradley Co., L.L.C. v. Kollmorgen Corp.*, 199 F.R.D. 316, 320 (E.D. Wisc. 2001), refused to vacate its *Markman* claim construction following settlement, noting that the law on the preclusive effect of its *Markman* ruling is unsettled, but that the court's claim construction “serves a valuable systemic purpose” and “might be of some yet undefined assistance to other judges and litigants in the future.” *Id.*

109. *Interconnect Planning Corp. v. Feil*, 774 F.2d 1132 (Fed. Cir. 1985).

110. *Id.* at 1135.

111. *Id.* at 1135-36.

112. *Security People, Inc. v. Medeco Security Locks, Inc.*, 59 F. Supp. 2d 1040, 1045 (N.D. Cal. 1999).

113. *TM Patents, L.P. v. IBM Corp.*, 72 F. Supp. 2d 370, 376-77 (S.D.N.Y. 1999).

the extent that the patentee had the “opportunity or incentive to appeal.”<sup>114</sup> This issue arose because the patentee apparently lost on the issue of claim construction but won on the issue of infringement.<sup>115</sup> The court was troubled that in these circumstances the patentee could not appeal the *Markman* ruling as of right. Relying on pre-*Markman* Federal Circuit case law, the *Graco* court declined to permit an accused infringer to bind the patentee to the claim construction decided in the prior case. The *TM Patents* court considered the same case law but found it inconsistent with *Markman* and rejected it for this reason.<sup>116</sup>

Setting aside the correctness of the *Graco* holding, the *Graco* case raises the important issue of whether a patent holder should be bound by a *Markman* ruling in a subsequent case, regardless of the outcome of the earlier case. If the patent holder loses the first case, there is clearly a full and fair opportunity to litigate, as the patent holder has a right to appeal and to seek correction of any error. When the patent holder loses on claim construction in the first case—where the court rejects the claim construction advocated by the patentee—is it fair nevertheless to bind the patentee holder to the first claim construction in later cases.<sup>117</sup>

Two Federal Circuit cases inform this inquiry. First, in *Pharmacia & Upjohn Co. v. Mylan Pharmaceuticals, Inc.*,<sup>118</sup> the Federal Circuit affirmed a district court’s grant of collateral estoppel on the issue of a patent’s invalidity and unenforceability as by a jury verdict in a prior case. At the time collateral estoppel was applied, however, the jury’s verdict in the first case was the subject of a pending JMOL/new trial motion. There was thus no final appealable judgment, and the patentee had no right of appeal at that point. The Federal Circuit held that “the district court did not err in applying collateral estoppel. Collateral estoppel, also known as issue preclusion, shields a defendant from having to litigate issues that have been fully and fairly tried in a previous action and decided adversely to a party.”<sup>119</sup>

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114. *Graco Children’s Products, Inc. v. Regalo Int’l, LLC*, 77 F. Supp. 2d 660, 664 (E.D. Pa. 1999).

115. *Id.*

116. *TM Patents*, 74 F. Supp. 2d at 378-79.

117. It is important to distinguish that this was not the issue in *Graco*. In *Graco*, an appeal was taken on the first case and the parties settled before the Federal Circuit ruled on the appeal. When an appeal is taken on the issue of infringement, the Federal Circuit reviews claim construction de novo as part of the two step test for infringement. Infringement cannot be determined except on properly construed claims. Thus, the issue of claim construction was before the court in *Graco* and will always be before the court in any appeal. Thus, the *Graco* court should have decided the application of collateral estoppel on the same reasoning as the *TM Patents* court. Upon settlement, both parties to the appeal voluntarily relinquished their rights to review.

118. 170 F.3d 1373 (Fed. Cir. 1999).

119. *Id.* at 1379.

The Federal Circuit noted that the district court qualified its holding “by stating that a judgment of invalidity will have no collateral estoppel effect if the patentee can show that it did not have a full and fair opportunity to litigate.”<sup>120</sup> Thus, it appears that the district court at the very least invited the patentee to show that it had not been given a full and fair opportunity to litigate the first time.<sup>121</sup> The patentee pressed one such argument before the Federal Circuit. It argued that the jury in the first case “failed to grasp the subject matter” of the invention.<sup>122</sup> The Federal Circuit rejected this argument, finding that the first court’s “comprehensive Opinion and Order . . . leaves no question that, as a matter of law, Upjohn was in fact accorded a full and fair opportunity to litigate.”<sup>123</sup>

The Federal Circuit went further, however, finding that “our role is limited to reviewing the district court’s application of collateral estoppel, not the correctness of the jury verdict in [the first case].”<sup>124</sup> The Federal Circuit explained:

Under *Blonder-Tongue*, a district court’s inquiry into whether the plaintiff was afforded a full and fair opportunity to litigate is quite narrow and does not involve a judgment on the merits: it is clear from the case law that has developed since *Blonder-Tongue* that an inappropriate inquiry is whether the prior finding of invalidity was correct; instead, the court is only to decide whether the patentee had a full and fair opportunity to litigate the validity of his patent in the prior unsuccessful suit.<sup>125</sup>

The Federal Circuit’s opinion suggests, appropriately, that it is the district court that decides whether the application of collateral estoppel is proper, and it is the district court that should undertake the inquiry concerning whether the patentee was accorded a full and fair opportunity to litigate in the first case.<sup>126</sup>

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120. *Id.*

121. *Id.* at 1380.

122. *Id.*

123. *Pharmacia & Upjohn*, 170 F.3d at 1380.

124. *Id.*

125. *Id.* (citation omitted).

126. A case decided shortly after *Blonder-Tongue* illustrates the correct analysis. In *Blumcraft of Pittsburgh v. Kawneer Co.*, 482 F.2d 542 (5th Cir. 1973), the Fifth Circuit was faced with two prior decisions concerning the validity of the same patent. The first decided case (district court) found the patent valid. The second decided case (on appeal), but actually the first case filed, found the patent invalid. The accused infringer in a third action invoked collateral estoppel based upon the earlier determination of invalidity. The Fifth Circuit upheld collateral estoppel noting that contrary decisions in the first decided case did not create an exception to *Blonder-Tongue* collateral estoppel. *Id.* at 548. The question of the ultimate merits of the invalidity decision was not itself at issue. Rather, the issue was whether the patentee had a full and fair opportunity to litigate. The contrary decisions simply signaled that the court considering estoppel should carefully apply the “full and fair criteria.” *Id.* at 548-49. The prior contrary



Under *Blonder-Tongue*, this inquiry is quite substantive, as it is meant to be a “safeguard” against the improvident use of collateral estoppel.<sup>127</sup> Before collateral estoppel applies, the patentee (or party against whom estoppel is asserted) “must be permitted to demonstrate, if he can, that he did not have a fair opportunity procedurally, substantively, and evidentially to pursue his claim the first time.”<sup>128</sup>

The Supreme Court mentioned several factors that come into play in determining whether a patentee had a full and fair opportunity to litigate the first time. In addition to whether the patentee litigated in his chosen forum, and had an incentive to fully litigate, a court may consider: (a) whether the first court made the pertinent legal inquiries; (b) whether opinions filed in the first case (including a reviewing court’s opinion, if any) indicates whether the prior case was one of those rare instances where the courts failed to grasp the technical subject matter and issues in suit; and (c) whether without fault of his own the patentee was deprived of crucial evidence or witnesses in the first litigation.<sup>129</sup>

In the claim construction context, a court considering collateral estoppel can readily make these inquiries. The court will have before it the written record supporting a first court’s claim construction, comprised generally of briefs, affidavits, hearing transcripts, and a written opinion considering the record and construing the claims.<sup>130</sup> Given the fact that a second court will have the tools at hand to determine whether a patentee was accorded a full and fair opportunity to litigate claim construction matters, there would seem to be no justification for not permitting a second court, whether a trial court or the Federal Circuit, from allowing the collateral estoppel effect of a *Markman* ruling after a *Blonder-Tongue* inquiry. If interlocutory orders that reflect a trial court’s final decision on the matter may be accorded preclusive effect on the issues decided—which is the majority rule—then a *Markman* ruling likewise should be permitted preclusive effect if there was a full and fair opportunity to litigate.

The closest the Federal Circuit has come to granting preclusive effect to an issue considered final by the trial court is the court’s recent holding in *Pharmacia & Upjohn Co. v. Mylan Pharmaceuticals, Inc.*<sup>131</sup> In *Pharmacia*, the court held that collateral estoppel barred relitigation of an earlier invalidity

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decision did not “undermine the numerous policy reasons expounded in *Blonder-Tongue* in favor of applying estoppel.” *Id.* at 549.

127. *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 329 (1971).

128. *Id.* at 333.

129. *Id.*

130. See *Kaiser Indus. Corp. v. Jones & Laughlin Steel Corp.*, 515 F.2d 964 (3d Cir. 1975) (applying *Blonder-Tongue* factors when deciding collateral estoppel effect of earlier invalidity judgment).

131. 170 F.3d 1373 (Fed. Cir. 1999).

judgment even though that judgment was, at the time, the subject of post-trial motions and a subsequent appeal. The Federal Circuit found that the patentee had a full and fair opportunity to litigate the issue of validity, as evidenced by the first trial court's "comprehensive Opinion and Order."<sup>132</sup> The possibility of an appeal does not rob the judgment of its collateral estoppel effect.<sup>133</sup> The Federal Circuit also noted that "the law is well settled that the pendency of an appeal has no effect on the finality or binding effect of a trial court's holding."<sup>134</sup> Thus, under *Pharmacia*, a trial court's judgment has preclusive effect from the point at which it is entered despite pending pretrial motions, the possibility of appeal or the pendency of an appeal.

The final Federal Circuit case of note is *Burke, Inc. v. Bruno Independent Living Aids, Inc.*<sup>135</sup> In that case, the patentee sued accused infringer A in a first action. The Federal Circuit reversed the first trial court twice, in nonprecedential opinions, on claim construction of both the original patent and then a reissue patent. The patentee then sued accused infringer B on the reissue patent and the second trial court granted collateral estoppel on claim construction based on the first trial court's construction of the reissue patent. On appeal of the second trial court's decision of non-infringement, the Federal Circuit held that its nonprecedential opinion rule, Fed. Cir. R. 47.6(b), "does not unconditionally prohibit citation of nonprecedential opinions but instead permits citation of such opinions for limited purposes."<sup>136</sup> Relying on *Markman*, the court continued: "[i]n this case, the interest of consistency in the construction of patent claims would be ill served by interpreting Rule 47.6(b) to preclude consideration of a prior claim construction rendered as a matter of law by this court."<sup>137</sup> While the Federal Circuit did not use the term collateral estoppel, its decision clearly employs this doctrine with regard to its earlier claim construction opinion.<sup>138</sup> In construing claim one of the reissue patent, the Federal Circuit noted "this court previously construed the term 'floor pan' in *Burke II*."<sup>139</sup> The Federal Circuit then adopted this construction against the accused infringer in the second case, despite the fact that the accused infringer had never litigated the issue in the trial court because the trial court had relied upon collateral estoppel. The Federal Circuit was not reviewing the trial court's claim construction. Rather, the Federal Circuit simply gave collateral estoppel effect to its earlier construction in a case against a different defendant.

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132. *Id.* at 1380.

133. *Id.* at 1381.

134. *Id.*

135. 183 F.3d 1334 (Fed. Cir. 1999).

136. *Id.* at 1337.

137. *Id.*

138. *Id.* at 1341.

139. *Id.*

This case suggests that at least when the Federal Circuit has construed a patent claim, it views this construction as the proper one for all purposes.

The *Burke* and *Pharmacia* cases, taken together, support an affirmation of the *TM Patents* case and a reversal of the *Graco* case, should either reach the Federal Circuit on the issue of collateral estoppel. The only issue left open by these two cases is the finality of an interlocutory *Markman* ruling when the parties settle. The Supreme Court's decision in *Bonner Mall* suggests that settlement imparts finality to an otherwise final *Markman* ruling, at least on the facts of both *TM Patents* and *Graco*. Under *Bonner Mall*, settlement constitutes a waiver of any right of appeal, and the issues finally decided prior to settlement should have preclusive effect if the ultimate *Blonder-Tongue* requirement, a full and fair opportunity to litigate the first time, is met.

#### IV. POLICY CONSIDERATIONS

Extending the collateral estoppel effect to *Markman* rulings when the parties have settled implicates three sets of interests: those of the litigants, the public and third parties. These interests likewise implicate significant policies: protecting patent rights, fostering competition in technologies not protected by patents, providing competitors and inventors with notice of the scope of patent rights, encouraging settlement and conserving private and judicial resources.

Patentees would arguably disfavor extending collateral estoppel effect to *Markman* rulings because prior *Markman* rulings would be asserted against them. Patentees would most often prefer to freely litigate claim construction against each new defendant without constraint for several reasons. First, a patentee would prefer to tailor its claim construction arguments to most directly capture the accused device at issue. Second, if a patentee is the financially stronger party, the patentee may gain an advantage from forcing an accused infringer to expend the substantial sums necessary to litigate claim construction. The patentee is generally more familiar with its patent, has its experts in place, and has learned the strengths and weaknesses of its case in prior litigation. An accused infringer, in contrast, must evaluate the claims (often with significant time pressures), retain experts, perhaps conduct tests, and generally focus its corporate and legal resources on the critical task of claim construction.

A patentee would also prefer to evaluate the merits of settling its first infringement suit without regard to the potential collateral estoppel effect of a *Markman* ruling. A patentee would argue that its incentive to settle based upon the merits and economics of a particular case would be distorted if the patentee must also consider the collateral estoppel effect of a *Markman* ruling. An accused infringer might well agree if the patentee's willingness to settle was negatively influenced by the potential collateral estoppel effect of the *Markman* ruling.

Future accused infringers—third parties to the *Markman* ruling at issue—would favor a broad application of collateral estoppel to prior *Markman* rulings. If the prior *Markman* ruling was advantageous to the accused infringer, the accused infringer would assert collateral estoppel. If the prior *Markman* ruling was not advantageous, the accused infringer would be free to argue it was in error if the patentee raised the *Markman* ruling in support of its proposed claim construction.<sup>140</sup>

The accused infringer in the second action would also favor collateral estoppel because of the significant cost advantages. By relying upon the earlier *Markman* ruling, the accused infringer could greatly reduce his defense costs, permitting him to focus upon a comparison of the accused device to the earlier claim construction and other defenses. Moreover, the duration of the case would be shortened and the opportunity for an early summary judgment ruling enhanced if a second *Markman* ruling could be avoided. The accused infringer would also argue that the likelihood of settlement would increase as most if not all claim construction issues would have been determined, and thus the respective strengths and weaknesses of each party's case would be evident earlier in the case.

Between these opposing interests lies the public interest. Patent policy favors the protection of patent rights. While patents are presumed valid, however, no such presumption attaches to claim construction. Rather, the public interest favors a clear delineation of the scope of the patent grant, and claim construction advances this interest. Thus, it would seem that if a patentee has been given a full and fair opportunity to litigate claim construction, the public interest would be served by adhering to that claim construction so as to put competitors and inventors practicing in the same field of art on notice of the legitimate scope of patent rights and thus the inventions from which they are foreclosed. Such notice would also arguably encourage competitors to seek a license rather than risk litigation, thus protecting the patentee's legitimate interests.

The public interest is also served by a rule that conserves private and judicial resources as long as the rule does not unfairly burden other interests. The modulating principle here, again, is that parties must be given a full and fair opportunity to litigate their claims. It is through this safeguard that the public can gain confidence that the protection of patent rights and notice of the scope of those rights remain paramount interests.

The public interest in fostering settlement is arguably premised most basically upon the conservation of private and judicial resources. Private and judicial resources are used most efficiently when directed to disputes that the

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140. To the extent that a patentee found an earlier claim construction advantageous, it would cite the earlier *Markman* ruling for its persuasive effect.

parties cannot themselves resolve. A policy favoring settlement therefore encourages the most efficient use of judicial and private resources.

Lastly, the public interest favors finality. Like other policy interests, the interest in finality must balance the interest of the efficient use of private and judicial resources with the interest in according litigants the opportunity to fully and fairly litigate their claims. When litigants have been accorded such a full and fair opportunity to litigate, a second bite at the same claims is not warranted. A policy of finality encourages litigants to use the judicial system efficiently to determine their respective rights and obligations based upon the expectation that finality is the goal. This expectation of finality discourages plaintiffs from bringing strategic or weak cases and encourages an early settlement of cases that for some reason do not merit full advocacy. Full and fair advocacy also serves the social utility of judicial decision-making and results in decisions that can be relied upon by third parties.

The Supreme Court has examined these interests in two significant cases that bear on the application of collateral estoppel to *Markman* rulings when the parties have settled: *Blonder-Tongue* and *Bonner Mall*. In *Blonder Tongue*, the Supreme Court held that a patentee whose patent has been held invalid in a first action may not relitigate the issue of validity in a second action against a different defendant unless the patentee can show that he “did not have a fair opportunity procedurally, substantively and evidentially to pursue his claim the first time.”<sup>141</sup> In reaching this conclusion, the Supreme Court examined patent policy, the economic costs of permitting relitigation of a decided question of patent validity, and the burden on the courts of permitting relitigation of a previously decided invalidity determination.<sup>142</sup>

The Court recognized the congressional purpose of rewarding inventors through the patent system and the presumption of validity that attaches to an issued patent.<sup>143</sup> The Court further acknowledged the complexity of patent litigation and the uncertainty that may attach to judicial decisions because of the difficult issues often presented in such litigation.<sup>144</sup> As the Court aptly noted, however, there is no reason to expect that a second district court would decide an issue more accurately than the first.<sup>145</sup> Nor are most issues related to a patent more difficult than issues arising in other areas which are routinely decided by the federal courts.<sup>146</sup> Finally, as the Court noted, if the patentee is the plaintiff in the first action, he chose the time and place to sue, and was presumably prepared to litigate to the finish. The patentee would have every

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141. *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 333 (1971).

142. *Id.* at 330.

143. *Id.* at 331, 335.

144. *Id.* at 331.

145. *Id.* at 331-32.

146. *Blonder-Tongue*, 402 U.S. at 332.

incentive to put before the court in the first action all relevant evidence and argument on his claims and defenses.<sup>147</sup>

Thus, the Supreme Court found nothing in patent policy, or the nature of patent litigation itself, that would counsel against applying collateral estoppel to a patent validity determination. This same conclusion holds equally for a judicial determination of claim construction resulting from a *Markman* ruling.

A *Markman* ruling determines the proper scope of a patent, rather than its validity. Thus, the statutory presumption of validity does not apply. However, like a validity determination, claim construction deals with the proper scope of patent protection. The underlying policy issues are the same as to both determinations. Only a properly construed claim defining the scope of invention should be protected by the patent laws. Competition should be restrained only to the extent of a properly construed claim, and the public as well as competitors have an interest in testing not only the validity of a patent but also its proper scope.<sup>148</sup> As the Supreme Court stated in *Blonder-Tongue*: “[t]he patent is a privilege. But it is a privilege which is conditioned by a public purpose. It results from invention and is limited to the invention which it defines.”<sup>149</sup>

Establishing the scope of patent claims is clearly in the public interest and serves fundamental patent policy. Thus, a decision on the scope of the patent claims at issue in a first suit deserves binding effect to the same extent as a decision on invalidity.

Economic considerations also favor according collateral estoppel effect to *Markman* rulings. Patent litigation is extraordinarily expensive.<sup>150</sup> The costs of defending a patent infringement suit can be staggering, especially to a small business.<sup>151</sup> The cost alone of marshaling a defense creates an incentive to settle. Thus, an accused infringer may find settlement the only practical option, even when the merits of the suit are questionable.<sup>152</sup> Permitting an accused infringer the benefit of a prior claim construction determination would

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147. *Id.*

148. *Lear, Inc. v. Adkins*, 395 U.S. 653, 664-67 (1969) (licensees may challenge the validity of the licensed invention; competition should not be repressed by worthless patents).

149. *Blonder-Tongue*, 402 U.S. at 344. The Supreme Court further emphasized the importance of finality of invalidity determinations in *Cardinal Chemical Co. v. Morton International*, 508 U.S. 83, 100 (1993). In that case, the Supreme Court held that the Federal Circuit’s routine practice of vacating a district court’s determination on patent invalidity (or validity) as moot when the Federal Circuit finds noninfringement was in error. This practice, the Court found, creates a potential for wasteful relitigation and imposes ongoing burdens on competitors who are convinced that a patent has correctly been found invalid. *Id.* at 100-01. Relying upon *Blonder-Tongue*, the Court also emphasized the importance to the public at large of resolving questions of patent validity. *Id.* at 100.

150. *Blonder-Tongue*, 402 U.S. at 334-39.

151. *Id.* at 334.

152. *Id.* at 334-35.

greatly reduce the cost of litigation and encourage a decision on the merits. A patentee, likewise, would save the litigation costs associated with relitigating claim construction issues. The time and dollars saved could arguably be allocated to a more productive use, such as research and development.<sup>153</sup>

In a similar vein, the Supreme Court was concerned in *Blonder-Tongue* with the incentive a patentee might have to extract royalties from competitors absent collateral estoppel of a previous invalidity determination.<sup>154</sup> Some alleged infringers would elect to pay royalties to avoid costly litigation even when a patent had been declared invalid. Those accused infringers would be placed at a competitive disadvantage compared with those who could afford to litigate or who had obtained a judgment of invalidity.<sup>155</sup> Consumers would be burdened with higher costs for products sold by those companies paying forced royalties or engaging in needless litigation challenging a patent already declared invalid.<sup>156</sup> This reality would also create barriers to entry for new firms, especially smaller ones, faced with the prospect of higher entry costs that again would ultimately be borne by consumers.<sup>157</sup>

These economic considerations apply with equal force to claim construction. If a patent has been construed by a court to grant narrower rights than advocated by the patentee, the patentee that seeks through repeated litigation to expand his patent rights creates the same potential for market distortion and foreclosure as the patentee that seeks to relitigate an invalidity determination.

The Supreme Court considered the final policy issues, balancing the public interest in promoting settlement and finality in *Bonner Mall*. There, the Court brought an end to the appellate court practice of vacating district court opinions when the parties settled while an appeal was pending.<sup>158</sup> The Court held that when parties moot an appeal by settling, they voluntarily relinquish any right of appeal and surrender any right to equitable vacatur, except in exceptional circumstances.<sup>159</sup>

The Supreme Court began its policy analysis in *Bonner Mall* by noting that “[j]udicial precedents are presumptively correct and valuable to the legal community as a whole.”<sup>160</sup> Thus, the practice of vacating a district court decision merely because its appeal is mooted by settlement erases a

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153. *Id.* at 338.

154. *Id.* at 345-46.

155. *Blonder-Tongue*, 402 U.S. at 346.

156. *Id.*

157. *Id.* at 347.

158. *U.S. Bancorp Mortgage Co. v. Bonner Mall P’ship*, 513 U.S. 18, 29 (1994).

159. *Id.* at 24-26, 28-29.

160. *Id.* at 26 (citing *Izumi Seimitsu Kogyo Kabushiki Kaisha v. U.S. Philips Corp.*, 510 US 27, 40 (1993) (Stevens, J., dissenting)). The *Izumi* case presented the same issue decided in *Bonner Mall*, but was dismissed by the Supreme Court on technical grounds.

presumptively correct legal precedent and with it the potential collateral estoppel effect of issues decided by the district court.<sup>161</sup> While the Supreme Court did not directly discuss the effect of vacatur on collateral estoppel, it noted that “vacatur clears the path for future relitigation of the issues. . .”<sup>162</sup> The court was very much aware of the relationship. The year before it decided *Bonner Mall*, the Court was presented with virtually the same question decided by *Bonner Mall*, but in a different context: where vacatur denied a plaintiff in another case the benefit of collateral estoppel.<sup>163</sup>

The Court found it contrary to the public interest to permit the parties to obtain vacatur of an otherwise final decision by the district court simply because they had waived their right to appeal. This would amount to a “refined form of collateral attack on the judgment” and “disturb the orderly operation of the federal judicial system.”<sup>164</sup> Commentators have gone farther in this regard, arguing strongly that the practice of routine vacatur allows disappointed parties to control the direction and content of judicial precedent, weeding out the negative precedent and preserving the positive.<sup>165</sup> The practice threatens the fairness of judicial decision-making by enabling litigants with deep pockets who are repeat players on the same issues to purchase favorable legal rulings.<sup>166</sup> Such litigants can sue new defendants until the desired result is reached, expunging through settlement adverse rulings along the way.<sup>167</sup>

The petitioner in *Bonner Mall* argued that vacatur was justified because it would facilitate settlement. The Supreme Court was unconvinced. While the Court acknowledged that vacatur might encourage settlement after an appeal was filed or certiorari granted, it could deter settlement at an earlier stage.<sup>168</sup>

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161. *Id.* at 26-27; U.S. Philips Corp. v. Sears Roebuck & Co., 55 F.3d 592, 598 (Fed. Cir. 1995). *But see* Bates v. Union Oil Co. of Cal., 944 F.2d 647 (9th Cir. 1991), *cert. denied*, 503 U.S. 1005 (1992) (vacatur alone does not bar preclusive effect of issues decided in vacated decision).

162. *Bonner Mall*, 513 U.S. at 22.

163. *Izumi Seimitsu Kogyo Kabushiki Kaisha v. U.S. Philips Corp.*, 510 U.S. 27 (1993). Both the parties and the Court focused in depth upon this issue. *See* Appellant’s and Respondent’s briefs, 1993 WL 289863; 1993 WL 289867; 1993 WL 625899; Transcript of Oral Argument, 1993 WL 757650.

164. *Bonner Mall*, 513 U.S. at 27.

165. J. Resnick, *Whose Judgment? Vacating Judgments, Preferences for Settlement, and the Role of Adjudication at the Close of the Twentieth Century*, 41 UCLA L. REV. 1471, 1491-92 (1994).

166. A. Tulumello, *Shopping for Legal Precedent Through Settlement-Related Vacatur*, 1 HARV. NEGOT. L. REV. 213 (1994).

167. *Id.* at 220.

168. *Bonner Mall*, 513 U.S. at 27-28.



Encouraging settlement at the earliest stages of litigation promises the greatest judicial economies.<sup>169</sup>

The policy interests considered in *Bonner Mall* weigh in favor of according collateral estoppel effect to *Markman* rulings when parties settle. A *Markman* ruling, fully and fairly litigated at the district court level, is a final resolution of claim construction. If the parties settle after this final determination, the *Markman* ruling, like a final judgment, is not reviewable at the parties' election. Whatever precedential or collateral estoppel effect it may have should be determined in the discretion of a later case, and upon a *Blonder-Tongue* inquiry, if collateral estoppel is at issue. The *Markman* ruling is not erased by settlement.

If the parties to an infringement suit do not wish to risk the future collateral estoppel effect of a *Markman* ruling, they have two options. First, they may settle before a *Markman* ruling is issued. Alternatively, they may request that the district court vacate the ruling. The Supreme Court in *Bonner Mall* expressly acknowledged this option. Rule 60 of the Federal Rules of Civil Procedure permits a district court to relieve a party from a final order for good cause.<sup>170</sup>

#### V. CONCLUSION

This paper argues that both policy and precedent favor extending collateral estoppel to *Markman* rulings under the circumstances presented in both *TM Patents* and *Graco*. A more difficult question is presented when the patentee prevails in the district court and the parties do not settle and the infringer does not appeal. In these instances, there is arguably no avenue through which the patentee can obtain review of the district court's claim construction. However, if the Federal Circuit changed its current policy of never reviewing an interlocutory *Markman* ruling, an avenue for review would emerge. Alternatively, if a patentee loses on claim construction but wins on infringement, it could be argued that the *Markman* ruling in this instance is analogous to an invalidity determination. The patentee has lost the scope of patent protection to which he believes he is entitled. Under the teachings of *Cardinal Chemical*, a patentee might argue that there is a sufficient case or controversy to merit an appeal of an adverse *Markman* ruling.<sup>171</sup> Thus, a patentee that forgoes the opportunity to appeal either an interlocutory *Markman* ruling or the *Markman* ruling independently following final

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169. *Id.* at 28.

170. *Id.* at 29.

171. *See, e.g., Ashley v. Boehringer Ingelheim Pharmaceuticals (In re DES Litigation)*, 7 F.3d 20, 23 (2d Cir. 1993) (holding a prevailing party aggrieved by the collateral estoppel effect of a district court's rulings may appeal the rulings if the judgment in the prior action was dependent upon those rulings).

judgment, should reasonably be bound by that *Markman* ruling in future litigation.

Whatever the posture of the case that ultimately presents the issue of *Markman* ruling collateral estoppel to the Federal Circuit, the Federal Circuit will be faced with both a challenge and opportunity to offer guidance to all district courts. The *Markman* ruling follows closely, in terms of importance, to a determination of patent invalidity in the lexicon of patent precedent. The question of the collateral estoppel effect of these rulings deserves the same attention and invokes the same policy considerations as did the issue of the preclusive effect of a prior invalidity determination considered in *Blonder-Tongue*. If the Federal Circuit is to provide the unifying guidance needed in this area, it must undertake a more searching analysis than is evident in its current precedent. Arguably, the Federal Circuit must broaden its scope, returning to Supreme Court precedent and policy under the guidance of *Markman*, *Blonder-Tongue*, *Bonner Mall*, and perhaps *Cardinal Chemical*. If the Federal Circuit accepts the opportunity to offer its far-reaching guidance, either *TM Patents* or *Graco* may soon become a seminal case.

