

PATENT LITIGATION ALERT

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SETTLEMENT OF A PATENT INFRINGEMENT CASE BEFORE TRIAL DOES NOT NECESSARILY AVOID APPLICATION OF AN ADVERSE MARKMAN RULING IN SUBSEQUENT LITIGATION

Many patent infringement cases settle after a Markman hearing that results in the claims of the patent-in-suit being construed adversely to one party's position. Aside from the cost and risk involved in litigating the infringement and validity issues, a substantial motivation for settlement is the patentee's often incorrect belief that by settling the case before any adverse final judgment on the merits, the patentee can avoid being bound by the adverse claim construction in future litigation. However, significant authority exists to support the conclusion that the patentee is bound by the adverse claim construction after a Markman hearing, even if the case settles before a final judgment on the merits of the infringement claim.

The purpose of this Alert is twofold: (a) to discuss the evolution of the case law supporting the finality of Markman rulings and (b) to suggest possible steps to take to avoid the ramifications of an adverse Markman

ruling in subsequent litigation without sacrificing a potentially beneficial settlement.

Blonder-Tongue Laboratories v. University of Illinois Foundation

In *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 402 U.S. 313 (1971), the U.S. Supreme Court (the Court) abandoned the rule requiring mutuality of estoppel in patent cases and held that once a patent has been declared invalid, the patentee is collaterally estopped from relitigating the validity of the patent in subsequent litigation against a different defendant, unless it is demonstrated that the patentee did not have a full and fair opportunity to litigate the issue in the prior litigation. While *Blonder-Tongue* addressed the application of collateral estoppel to previously litigated issues of validity, the federal circuit has made it clear that *Blonder-Tongue* applies with equal vigor to issues of claim construction. See *A.B. Dick v. Burroughs Corp.*, 713 F.2d 700, 704 (Fed. Cir. 1983); see also *Jackson Jordon, Inc. v. Plasser American Corp.*, 747 F.2d 1567, 1576 (Fed. Cir. 1984).

Collateral Estoppel in Patent Cases

When considering whether to estop a patentee from relitigating issues previously decided, the federal circuit requires that four factors be established:

- The issue sought to be litigated is identical to the one decided in a prior proceeding
- The issue was actually litigated in the first action
- Determination of the issue was essential to the final judgment in the first action
- The party against whom estoppel will be invoked had a full and fair opportunity to litigate the issue in the first action.

The most common source of disagreement arises out of the last two items.

Analysis of whether the issue determined was essential to the final judgment has as its starting point the first court's conclusion. With respect to claim construction issues, any claim interpretation made by the court that is not essential to its judgment on infringement or validity issues is dicta, and may not provide the basis for collateral estoppel. Note, however, that a "final judgment" does not imply finality as in a final appealable judgment under the federal rules. Instead, a decision is sufficiently final for collateral estoppel purposes if it was fully litigated and decided in a prior action. Thus, for example, collateral estoppel may be applied to preclude relitigation of factual or legal findings made in a summary judgment opinion.

The fourth factor, "full and fair opportunity to litigate," does not necessarily mean a full-blown trial on the merits. As long as the litigant was provided the opportunity to submit evidence or to argue under procedural rules similar to those available in the second

litigation, the litigant had a full and fair opportunity to litigate the issue. Thus, courts have rejected claims by the patentee in the second litigation that it did not have a full opportunity to litigate an issue because (a) additional arguments or facts available but not presented in the first litigation would be presented in the second litigation or (b) the first litigation was resolved on summary judgment or by motion. Finally, the federal circuit has made it clear that in assessing whether collateral estoppel should apply, the second court may not consider the merits of the first court's decision. Thus, whether the first court's decision was correct is not an appropriate inquiry.

Markman v. Westview Instruments, Inc.

In *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), the Court held that construction of the claims of a patent is an issue of law to be decided by the court. The underlying rationale of *Markman* is the Court's recognition of the need for uniformity in interpretation of patent claims so that the patentee and its competitors would know, and be able to rely upon, the scope and interpretation to be given to the patent claims. The Court reasoned that by deciding claim construction issues as a matter of law, uniformity would necessarily follow, because under *Blonder-Tongue*, patentees would be collaterally estopped from relitigating previously determined claim construction issues and non-parties would be bound by a prior claim construction through principles of *stare decisis*. Thus, the Court encouraged application of collateral estoppel to preclude relitigation of the meaning and scope of patent claims.

TM Patents, L.P. v. International Business Machines Corp. and Its Progeny

In *TM Patents, L.P. v. International Business Machines Corp.*, 72 F. Supp. 370 (S.D.N.Y. 1999), a case of first impression, the court considered whether the patentee should be precluded from relitigating a prior court's construction of certain claims of a patent, where the parties settled after a *Markman* hearing, but before the court rendered any judgment on the merits of the infringement issue. The court held that *Markman's* call for uniformity, coupled with the fact that *TM Patents* had a full and fair opportunity to litigate the claim construction issues in a *Markman* hearing, required application of collateral estoppel to preclude the patentee from relitigating claim construction issues decided by another court. Thus, the fact that the parties settled the case did not relieve the patentee from its adverse claim construction. Similarly, in *Abbott Laboratories v. Dey, L.P.*, 110 F. Supp. 2d 667 (N.D. Ill. 2000), the court held that the patentee was collaterally estopped from relitigating claim construction issues decided in an earlier case against a different defendant, even though the earlier case was pending on appeal.

The only case reaching a contrary result is *Graco Children's Products, Inc. v. Regalo International, LLC*, 77 F. Supp. 2d 660 (E.D. Pa. 1999), in which the court held that because the patentee lost on claim construction issues, but won on the issue of infringement after a jury trial in the first litigation, and therefore had no right to appeal the adverse claim construction, the patentee would not be estopped from

relitigating the claim construction issues. None of these cases was appealed to the federal circuit.

The conclusion to draw from these cases, at least before the federal circuit addresses these issues, is that a party may be collaterally estopped from relitigating issues decided in a *Markman* hearing if through settlement it voluntarily relinquishes its right to appeal those rulings.

How to Avoid an Adverse Markman Ruling Short of Trial and Appeal

Markman clearly establishes the Court's view that the role of the court in construing patent claims is to provide final notice upon which the world may rely on the scope and meaning of the claims of a patent. Thus, if a case settles and leaves a *Markman* ruling intact, the settlement should not adversely affect the notice function of that ruling. However, as *TM Patents* and numerous federal court opinions—including those of the federal circuit—recognize, the federal rules recognize a procedure for vacating prior rulings and judgments of the court. Thus, as part of the settlement, the parties may make the settlement contingent upon the court's approval of the parties' joint motion to vacate the prior judgment or ruling. The court's order vacating the prior judgment or ruling is publicly available and provides notice to the world that its ruling on claim construction issues is not sufficiently final for collateral estoppel purposes and that the public may not rely upon that ruling. A judgment that has been vacated has no preclusive effect in a subsequent proceeding under principles of collateral estoppel or *stare decisis*.

Conclusion

The Court has made it clear that claim construction issues, once decided, should not be litigated again. This mandate should not affect litigants' willingness or incentive to settle patent claims after adverse Markman rulings, but it does affect the details and structure of the settlement agreement. To avoid being permanently bound by an adverse claim construction, the settlement should be contingent upon public vacatur of the court's adverse claim construction. This contingency is not likely to destroy a settlement, since most courts gladly would grant a joint motion to vacate a judgment or

ruling if it would facilitate settlement of a patent case. The alleged infringer may protect itself from repeat litigation of the same patent claims by demanding a clause in the settlement agreement stating that the parties to the agreement and their successors agree to be bound by the court's Markman construction in any future litigation of the patent claims, even though the ruling has been vacated. This ensures that the patentee is contractually bound to a claim construction favorable to the alleged infringer and would be barred by contract from relitigating the issues already decided.

IF YOU HAVE ANY QUESTIONS OR COMMENTS ABOUT ANY OF THE FOREGOING, PLEASE CONTACT:

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