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USING A *PHILLIPS* CONSTRUCTION IN ALL PTAB TRIALS: THE IMPACT ON DISTRICT COURT PATENT ACTIONS AND PTAB PROCEEDINGS

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According to a final rule published in the Federal Register on October 11, 2018, the Patent Office will start using the *Phillips* (contextual ordinary meaning) standard to construe all patent claims in *inter partes* review ("IPR"), covered business method review ("CBM"), and post-grant review ("PGR") proceedings that are based on petitions filed on or after November 13, 2018.[1] This change may only rarely affect the claim constructions in these Patent Office trial proceedings,[2] but it likely will significantly expand the reach and impact of those constructions. By using the same *Phillips* standard used by district courts, the Patent Office constructions in these proceedings—particularly once accepted or modified on appeal—often will be adopted and applied by district courts under principles of *stare decisis* or issue preclusion.[3]

Before this change, the Patent Trial and Appeal Board ("PTAB") has used the *Phillips* standard in AIA post-grant proceedings only when construing claims in patents that have expired or will expire before the final decision deadline, and sometimes, upon request, in patents that "will expire within 18 months from the entry of the Notice of Filing Date Accorded to

1. Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board, 83 Fed. Reg. 51340, 51340–41 (Oct. 11, 2018); Phillips v. AWH Corp., 415 F.3d 1303, 1312–13 (Fed. Cir. 2005).

2. *See, e.g.*, Laura E. Dolbow, *A Distinction without a Difference: Convergence in Claim Construction Standards*, 70 VAND. L. REV. 1071, 1085 (2017); Paula Miller, et al., *Are There Really Two Sides of the Claim Construction Coin? The Application of the Broadest Reasonable Interpretation at the PTAB*, 17 CHI.-KENT J. INTELL. PROP. | PTAB BAR ASSOC. 43, 47 (2018).

3. Other legal principles outside the scope of this article, such as judicial estoppel, may also bind a party to a claim construction it has previously asserted. *See, e.g.*, SkyHawke Techs., LLC v. Deca Int'l Corp., 828 F.3d 1373, 1376 (Fed. Cir. 2016).

Petition."[4] Otherwise, it has applied the broadest reasonable interpretation[5]—a standard not used in district courts and therefore leading to constructions unlikely to be adopted by district courts under *stare decisis* or issue preclusion.

The Supreme Court in *Cuozzo* affirmed the agency's giving unexpired claims their broadest reasonable interpretation as within the authority delegated by Congress.[6] The Court declined to opine on whether the *Phillips* standard would be "a better alternative as a policy matter," noting that Congress left this determination "to the particular expertise" of the agency.[7] In its supplemental information accompanying the final rule, the Patent Office states that using the *Phillips* standard—as used by the district courts and the International Trade Commission—"could lead to greater uniformity and predictability of the patent grant" and "help increase judicial efficiency overall."[8]

In the final rule, the Patent Office has also "added a provision to its rules under which "the Office will consider any prior claim construction determination in a civil action or ITC proceeding if a federal court or the ITC has construed a term of the involved claim previously using the same standard, and the claim construction determination has been timely made of record in the IPR, PGR, or CBM proceeding."[9] As it does so, the PTAB will need to consider whether *stare decisis*, issue preclusion or principles akin thereto, apply.

This article briefly discusses the potential impact of these changes on both district court actions and PTAB proceedings in view of *stare decisis* and issue preclusion.[10]

4. Samsung Elecs. Co. v. Elm 3DS Innovations, LLC, No. IPR2016-00386, 2016 WL 8969948, at *1–2 (P.T.A.B. Aug. 11, 2016); 37 C.F.R. §§ 42.100(b), 42.200(b) (2016).

5. *Samsung Elecs. Co.*, 2016 WL 8969948, at *1–2.

6. Cuozzo Speed Techs., LLC v. Lee, 136 S. Ct. 2131, 2144 (2016).

7. *Id.* at 2146.

8. Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings before the Patent Trial and Appeal Board, 83 Fed. Reg. at 51340, 51342 (Oct. 11, 2018).

9. *Id.* at 51345.

10. This article does not comment on or otherwise address potential issues with the wording of the final rule. *See, e.g.*, James E. Brookshire, Federal Circuit Bar Association Comments on the Proposed Rule, USPTO (July 9, 2018), https://www.uspto.gov/sites/default/files/documents/comment-fcba.pdf. (identifying possible points of confusion in the language of the proposed rule).

I. PRECLUSIVE EFFECT OF FEDERAL CIRCUIT DECISIONS ON CLAIM CONSTRUCTION ISSUES

A. Stare Decisis

A precedential Federal Circuit *Phillips* claim construction on appeal of a PTAB, ITC, or district court decision extends to later PTAB, ITC, or district court proceedings applying the same claim construction standard, as Federal Circuit claim constructions have nationwide *stare decisis* effect.[11] The Supreme Court indicated in *Markman* that one advantage of its decision to treat claim construction as a "purely legal" issue is that it would "promote (though it will not guarantee) intrajurisdictional certainty through the application of *stare decisis*."[12]

"Under the doctrine of *stare decisis*, where a court has in one case decided a question of law it will in subsequent cases in which the same question of law arises ordinarily decide it in the same way."[13] *Stare decisis* applies only to precedential opinions.[14] The doctrine of *stare decisis* "is not rigidly applied, and a court will sometimes overrule its prior decisions."[15] But the Federal Circuit has indicated that it "follows the claim construction of prior panels absent exceptional circumstances."[16] Therefore, once the *Phillips* standard is applied to all PTAB trial proceedings, all Federal Circuit precedential claim constructions on appeal from such proceedings will settle that construction for all district court proceedings on that patent absent exceptional circumstances.

Given the PTAB's one-year deadline to reach a final decision in AIA proceedings,[17] an AIA proceeding can proceed relatively quickly from petition to final decision to appeal,[18] resulting in *stare decisis* on claim construction issues in parallel and subsequent actions and proceedings.

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11. *See, e.g.*, Key Pharma. v. Hercon Labs. Corp., 161 F.3d 709, 716 (Fed. Cir. 1998).

12. Markman v. Westview Instruments, Inc., 517 U.S. 370, 391 (1996).

13. Ottah v. Fiat Chrysler, 884 F.3d 1135, 1140 (Fed. Cir. 2018) (quoting Restatement (First) of Judgments § 70, cmt. a (Am. Law Inst. 1942)).

14. Deckers Corp. v. United States, 752 F.3d 949, 956 (Fed. Cir. 2014).

15. *Ottah*, 884 F.3d at 1140

16. *Id.* (quoting Brady Const. Innovations, Inc. v. Perfect Wall, Inc., 290 F. App'x 358, 363 (Fed. Cir. 2008)); *see also* Phonometrics, Inc. v. Choice Hotels Int'l, Inc., 21 F. App'x 910, 911–12 (Fed. Cir. 2001) (indicating sanctions would likely be merited if a fourth appeal on the same claim interpretation were filed).

17. 35 U.S.C. § 316(a)(11) (2012); 35 U.S.C. § 326(a)(11) (2012); Leahy-Smith America Invents Act ("AIA"), Pub. L. No. 112-29 § 18(a)(1), 125 Stat. 284 (2011).

18. Kerry Taylor, et al., *IPR Appeals in 2017: The Pendency and Success Rates*, LAW360 (Jan. 16, 2018), https://www.law360.com/articles/1000442/ipr-appeals-in-2017-the-pendency-and-success-rates.

B. Issue Preclusion

Federal Circuit *Phillips* claim constructions—even those in non-precedential decisions—may be binding in later proceedings involving the same or related patents under the doctrine of issue preclusion.[19] The general rule for issue preclusion—which is subject to certain exceptions—is that "[w]hen an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim."[20] Issue preclusion can also be asserted against a party to a prior action by a non-party to that prior action.[21]

While different circuit courts of appeal apply different tests for issue preclusion, the Federal Circuit has indicated that issue preclusion is appropriate if:

> (1) the issue is identical to one decided in the first action; (2) the issue was actually litigated in the first action; (3) resolution of the issue was essential to a final judgment in the first action; and (4) the party against whom estoppel is invoked had a full and fair opportunity to litigate the issue in the first action.[22]

With regard to claim construction specifically, it has held that "judicial statements regarding the scope of patent claims are entitled to collateral estoppel effect in a subsequent infringement suit only to the extent that determination of scope was essential to a final judgment on the question of validity or infringement" and that "such statements should be narrowly construed."[23] A Rule 36 decision has issue-preclusive effect to the extent that the decision necessarily affirmed an issue.[24] Thus, even though a Federal Circuit non-precedential decision or decision under Federal Circuit

19. *In re* Freeman, 30 F.3d 1459, 1469 (Fed. Cir. 1994) (affirming determination by Board of Patent Appeals and Interferences that issue preclusion barred re-litigation of claim construction dispute decided by district court and affirmed by the Federal Circuit); Nestle USA, Inc. v. Steuben Foods, Inc., 884 F.3d 1350, 1351–52 (Fed. Cir. 2018) (finding issue preclusion applied to claim construction of term in related patent based on prior PTAB decision which had been affirmed by the Federal Circuit); *see also* Ohio Willow Wood Co. v. Alps S., LLC, 735 F.3d 1333, 1342 (Fed. Cir. 2013) ("Our precedent does not limit collateral estoppel to patent claims that are identical. Rather, it is the identity of the *issues* that were litigated that determines whether collateral estoppel should apply.")(emphasis in original).

20. B&B Hardware, Inc. v. Hargis Indus., Inc., 135 S. Ct. 1293, 1303 (2015) (quoting Restatement (Second) of Judgments § 27, p. 250 (1980)).

21. Parklane Hosiery Co. v. Shore, 439 U.S. 322, 328 (1979).

22. Innovad Inc. v. Microsoft Corp., 260 F.3d 1326, 1334 (Fed. Cir. 2001).

23. A.B. Dick Co. v. Burroughs Corp., 713 F.2d 700, 704 (Fed. Cir. 1983).

24. Phil-Insul Corp. v. Airlite Plastics Co., 854 F.3d 1344, 1355–57 (Fed. Cir. 2017).

Rule of Practice 36 cannot have *stare decisis* effect on claim construction issues, it may have issue-preclusive effect.[25]

II. PRECLUSIVE EFFECT OF ITC AND DISTRICT COURT DECISIONS ON PTAB CLAIM CONSTRUCTIONS

The Federal Circuit has held that ITC claim constructions "have no preclusive effect in other forums," based on the legislative history of the Trade Reform Act of 1974.[26]

This Section discusses how the PTAB may (or may not) be bound—under issue preclusion—by a district court claim construction, even if that construction was not appealed to the Federal Circuit or an appeal is still pending.

The Federal Circuit, in an appeal from a reexamination proceeding, stated broadly that "the board is not generally bound by a prior judicial construction of a claim term."[27] In that setting, because the Patent Office (against whom the prior construction was asserted) had not been a party to the prior district court proceeding, the basic requirements of issue preclusion were not met.[28]

In AIA proceedings, by contrast, the PTAB may be bound to follow a prior district court construction, to the extent the construction is considered to be asserted against a patentee or petitioner, as opposed to the Patent Office. The Patent Office's unique role in these proceedings, however, such as its ability to proceed to a final decision even if a petitioner withdraws and its ability to intervene in an appeal,[29] may provide the PTAB with more flexibility in declining to follow a prior construction asserted against a petitioner. For example, in *Cuozzo*, the Patent Office intervened to defend its decision after the petitioner withdrew.[30] Because the Patent Office can

25. Phonometrics, Inc. v. Econ. Inns of Am., 349 F.3d 1356, 1363 n.3 (Fed. Cir. 2003); *see* Federal Circuit Internal Operating Procedure No. 9.8 (Nov. 14, 2008), http://www.cafc.uscourts.gov/sites/default/files/IOPs122006.pdf ("Nonprecedential opinions and orders and Rule 36 judgments shall not be employed as binding precedent by this court, except in relation to a claim of res judicata, collateral estoppel, or law of the case."); Federal Circuit Rules of Practice Nos. 32.1(c–d), 36 (Dec. 2017), http://www.cafc.uscourts.gov/sites/default/files/rules-of-practice/MASTERFederalCircuitRulesOfPractice-12.1.17.pdf.

26. Texas Instruments Inc. v. Cypress Semiconductor Corp., 90 F.3d 1558, 1568–69 (Fed. Cir. 1996).

27. Power Integrations, Inc. v. Lee, 797 F.3d 1318, 1326 (Fed. Cir. 2015) (citing *In re* Trans Tex. Holdings Corp., 498 F.3d 1290, 1298 (Fed. Cir. 2007)); *see also* SkyHawke Techs., LLC v. Deca Int'l Corp., 828 F.3d 1373, 1376 (Fed. Cir. 2016)).

28. *In re* Trans Texas Holdings Corp., 498 F.3d at 1298; *see also In re* Constr. Equip. Co., 665 F.3d 1254, 1259–60 (Fed. Cir. 2011).

29. 35 U.S.C. § 143 (2012) (right to intervene); 35 U.S.C. § 317 (2012) (ability to proceed without petitioner).

30. Cuozzo Speed Techs., LLC v. Lee, 136 S. Ct. 2131, 2144 (2016).

play a role in AIA proceedings similar to a party, this may impact the application of issue preclusion in these proceedings.

The Federal Circuit has not clearly delineated the circumstances when a district court's claim construction is accorded issue-preclusive effect.[31] In one case, it held that a district court's partial summary judgment on claim construction was not sufficiently final to have issue-preclusive effect in another district court action where (a) there was no indication an evidentiary hearing was conducted, and so it was questionable whether the parties were fully heard on the issues, (b) the district court did not put the parties on notice that the order could have issue-preclusive effect, and (c) the record did not show that the district court had entered a final order approving the parties' settlement.[32]

But that decision indicates that at times a district court's claim constructions are to be accorded issue-preclusive effect.[33] Courts applying this precedent have reached varying conclusions about the circumstances under which that occurs. For example, in one ITC case, the administrative law judge found issue preclusion applied when a district court's claim construction was issued in "a *Markman* opinion based on full briefing, expert testimony, and a *Markman* hearing, followed by a summary judgment order and preliminary injunction where the claim construction at issue was not appealed."[34] Conversely, in an infringement suit, a district court declined to accord issue-preclusive effect to another district court's claim constructions issued after a *Markman* hearing, where the other action was still ongoing.[35] As these cases demonstrate, whether issue preclusion will apply to a prior construction may depend on a variety of factors, including the status of the prior action and the thoroughness with which the claim construction was litigated.

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31. *See, e.g.*, Powervip, Inc. v. Static Control Components, Inc., No. 1:08-CV-382, 2011 WL 2669059, at *3 (W.D. Mich. July 6, 2011) ("[T]here is an ongoing debate as to the preclusive effects of a *Markman* ruling. With little guidance from the Federal Circuit on the issue, district courts have split on whether a *Markman* claim construction ruling has preclusive effects in subsequent litigation involving the same patent, especially where the prior litigation settled before a final judgment was entered, the ruling has otherwise yet to be applied in a final judgment regarding infringement or validity, or where the ruling has not undergone Federal Circuit review.").

32. RF Delaware, Inc. v. Pac. Keystone Techs., Inc., 326 F.3d 1255, 1262 (Fed. Cir. 2003); *see* Rachel Clark Hughey, *RF Delaware, Inc. v. Pacific Keystone Technologies, Inc.: The Federal Circuit Has Finally Spoken on Collateral Estoppel of Claim Interpretation*, 20 SANTA CLARA COMPUT. & HIGH TECH. L.J. 293 (2004).

33. *RF Delaware, Inc.*, 362 F.3d at 1261–62.

34. Certain Electronic Devices with Multi-Touch Enabled Touchpads and Touchscreens, Inv. No. 337-TA-714, USITC Order No. 16, 2010 WL 4783834, at *5 (Sept. 28, 2010) (Initial Determination Finding Complainant Collaterally Estopped from Certain Pleadings).

35. *Powervip, Inc.*, 2011 WL 2669059, at *6.

III. PRECLUSIVE EFFECT OF PTAB DECISIONS AT DISTRICT COURTS AND THE ITC

A PTAB *Phillips* claim construction—even if unreviewed by the Federal Circuit—may have preclusive effect in district courts or the ITC. The Supreme Court, in *B&B Hardware*, explained that "[o]rdinary preclusion law teaches that if a party to a court proceeding does not challenge an adverse decision, that decision can have preclusive effect in other cases, even if it would have been reviewed *de novo*."[36] In discussing whether a Trademark Trial and Appeal Board ("TTAB") decision could have issue-preclusive effect, the Court rejected the conclusion of some courts that "Congress does not want unreviewed TTAB decisions to ground issue preclusion."[37] The Court found that issue preclusion can arise from TTAB decisions so long as the issue preclusion requirements are met.[38] There is no apparent reason why a different conclusion would be reached for the PTAB.

In *RF Delaware*, the Federal Circuit stated that regional circuit case law governs whether a prior claim construction ruling binds a district court.[39] Thus, although the various regional circuit standards on issue preclusion are similar,[40] whether a district court is bound to follow an unreviewed PTAB claim construction may depend on that court's circuit.

A pending Federal Circuit appeal of a PTAB claim construction—or the ability of an appeal to still be filed—may prevent a PTAB claim construction from being given issue-preclusive effect. A recent Federal Circuit case suggests that an IPR decision "became final" for issue preclusion purposes when it was affirmed on appeal by the Federal Circuit.[41] But, the Federal Circuit has also stated that the pendency of an appeal of a district court's decision would not impact the issue-preclusive effect of that court's decision on a Merit Systems Protection Board proceeding.[42] In that opinion, the court noted that "[t]he law is well settled

36. B&B Hardware Inc. v. Hargis Indus. Inc., 135 S. Ct. 1293, 1305 (citing Restatement (Second) of Judgments § 28 cmt. a, illus. 1 (1982); Federated Dep't Stores, Inc. v. Moitie, 452 U.S. 394, 398 (1981))(emphasis in original).

37. *B&B Hardware Inc.*, 135 S. Ct. at 1305.

38. *Id.* at 1310.

39. RF Delaware, Inc. v. Pac. Keystone Techs., Inc., 326 F.3d 1255, 1261 (Fed. Cir. 2003).

40. *See, e.g.*, Stephen C. DeSalvo, *Invalidating Issue Preclusion: Rethinking Preclusion in the Patent Context*, 165 U. PA. L. REV. 707, 710–12 (2017).

41. MaxLinear, Inc. v. CF CRESPE LLC, 880 F.3d 1373, 1376–77 (Fed. Cir. 2018).

42. Rice v. Dep't of Treasury, 998 F.2d 997, 999 (Fed. Cir. 1993).

that the pendency of an appeal has no effect on the finality or binding effect of a trial court's holding."[43]

Certain characteristics of PTAB trial proceedings may argue against giving unreviewed PTAB claim construction decisions issue-preclusive effect. A PTAB proceeding usually includes no evidentiary hearings or separate briefing specifically dedicated to claim construction issues,[44] the parties are limited in the arguments they can make by word counts, and the Board has a statutory deadline to complete its review.[45] In addition, claim construction disputes sometimes only become evident at later stages of PTAB proceedings, when parties are even more limited in presenting evidence or argument.[46] Consequently, PTAB claim construction rulings may not provide the "full and fair opportunity to litigate" required to impose issue preclusion. These and other considerations will lead some petitioners and patent owners to argue in district court that they were not fully heard on the claim construction issues.

CONCLUSION

As the PTAB switches to the *Phillips* claim construction standard in all trial proceedings, the construction of patent claims in district court may often be effectively decided by the PTAB—by application of *stare decisis* or issue preclusion. But, much remains to be settled on the potential preclusive effect of unreviewed PTAB decisions, and, in the other direction, under what circumstances the PTAB will be bound to follow a district court's prior claim construction.

This new regime will have substantial practical and strategic impacts. The expanded impact of PTAB claim constructions may increase the likelihood of a district court staying an action pending a PTAB trial proceeding, as the PTAB decision may further decrease the work to be done by the district court when the action resumes. On the other hand, this

43. *Id.* (citing SSIH Equip. S.A. v. U.S. Int'l Trade Comm'n, 718 F.2d 365, 370 (Fed. Cir. 1983)); *see also,* O'Leary v. Liberty Mut. Ins. Co., 923 F.2d 1062, 1066 n.6 (3d Cir. 1991) (noting that unexhausted appeals do not impact the finality of a judgment for issue preclusion purposes); Robi v. Five Platters, Inc., 838 F.2d 318, 327 (9th Cir. 1988).

44. Some have suggested that the PTAB adopt an early-stage claim construction process, similar to most district courts, but the PTAB has made no indication that it intends to adopt such an approach.

45. *See, e.g.*, 37 C.F.R. § 42.24; 35 U.S.C. § 316(a)(11); 35 U.S.C. § 326(a)(11); Leahy-Smith America Invents Act ("AIA"), Pub. L. No. 112-29, 125 Stat. 284 (2011), § 18(a)(1).

46. *See, e.g.*, Ericsson Inc. v. Intellectual Ventures I LLC, Case No. 2017-1521, slip op. at 7–9 (Fed. Cir. Aug. 27, 2018) (remanding for PTAB to consider reply brief arguments regarding certain claim terms in a proceeding where "neither party [initially] requested construction of these terms, the Board construed these terms under the broadest reasonable interpretation standard . . . Following institution, [appellee] argued for the first time in its Response that the claims must be construed under Phillips" and the PTAB "adopt[ed] these new constructions").

change may also significantly decrease the number of PTAB trial petitions filed. Today, a petitioner generally is free to assert a broad "broadest reasonable interpretation" in its PTAB trial petition with sufficient confidence that this breadth will not boomerang against it when denying infringement in the district court. For example, it is not uncommon for petitioners in IPR to argue that a broad construction proposed by a patent owner in litigation is encompassed by the broadest reasonable interpretation, while simultaneously arguing in district court that the same construction is improperly broad under *Phillips*. Or, a petitioner can argue to the PTAB that a claim term does *not* trigger a 35 U.S.C. § 112(f) construction under its broadest reasonable interpretation, but then argue to the district court that it *does* trigger Section 112(f) under *Phillips*. Such strategies will no longer be available once the PTAB applies the same *Phillips* standard as district courts.

In sum, while the switch to *Phillips* will not affect many PTAB claim constructions, it promises to significantly affect PTAB strategies and related district court patent litigations.