

CANCELLATION OF PATENT CLAIMS IN AN INTERFERENCE AFTER THOSE CLAIMS
HAVE BEEN HELD NOT INVALID IN AN INFRINGEMENT ACTIONⁱ

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Introduction

In re Construction Equipment Co., 665 F.3d 1254, 100 USPQ2d 1922 (Fed. Cir. 2011), raises the question of whether a United States Patent and Trademark Office decision cancelling the claims of a patent can trump a parallel holding of an Article III court that the claims are not invalid. The majority affirmed the USPTO's cancellation of a patent's claims notwithstanding the fact that the Federal Circuit had previously affirmed the judgment of a district court that those same claims were not invalid.^{iv}

Judge Newman dissented with her customary vigor, casting the issue as one of separation of powers: "Neither the legislative nor the executive branch has the authority to revise judicial determinations."^v According to her:

This reexamination appeal raises a fundamental question—is a final adjudication, after trial and decision in the district court, and appeal and final judgment in the Federal Circuit, truly final? Or is it an inconsequential detour along the administrative path to a contrary result?^{vi}

We believe that the majority reached the correct conclusion because the district court's holding was simply that the defendant in that particular lawsuit failed to carry its burden to demonstrate that the claims at issue were invalid by clear and convincing evidence. Well established principles of issue preclusion mandate that the Article III court's decision should not

have had any preclusive effect in the subsequent Article I proceeding.

For *inter partes* reexaminations and the upcoming *inter partes* review proceedings, the statutory language provides for the circumstances in which issue preclusion is to apply. Section 315 of Title 35 provides that an *inter partes* reexamination will have preclusive effect on an unsuccessful requester after a “final determination” of validity. That provision has been interpreted to mean that the estoppel is triggered when all appeals have been exhausted.^{vii} The America Invents Act provides that a similar estoppel will be triggered when the Patent Trial and Appeal Board (“PTAB”) issues its final written decision, which must be within 18 months of the institution of the proceeding. Accordingly, the estoppel will apply several years earlier as compared to *inter partes* reexamination practice.

Left open by the statutory language is the question of whether a final adjudication by an Article III court will preclude a later finding of invalidity by the USPTO in an *inter partes* review. However, the statutory language provides a reasonably strong negative inference that Congress did not intend *inter partes* reviews to be derailed by Article III rulings because the question of civil action estoppel was addressed but no parallel provision was included to preclude USPTO *inter partes* reviews in the event of an earlier Article III holding.

We believe that the result is, or should be, similar for interference proceedings involving parallel litigation. Where a party fails to prove that the claimed subject matter is unpatentable in the USPTO interference proceeding, that issue may not be “re-litigated” in district court under the higher clear-and-convincing burden of proof. In the converse situation, no issue preclusion should attach because the burden of proof in the USPTO is substantially lower.

The Facts of the *Construction Equipment Case*

Construction Equipment Company (“CEC”) appealed from a decision in a reexamination proceeding in which the United States Patent and Trademark Office (“PTO”) rejected numerous claims sought by CEC. This appeal followed an earlier appeal from an infringement litigation involving the same patent in which the Federal Circuit affirmed the district court’s holding that many of the same claims were valid. The district court entered an injunction against the defendant in that case.

On the appeal from the reexamination, the Federal Circuit affirmed the PTO’s finding that the relevant claims were unpatentable. The Federal Circuit ruling thus could be said to have unwound the previous infringement litigation because the patent rights underlying that earlier verdict were nullified. The defendant can be expected at a minimum to move the court to lift the injunction.

Issue Preclusion Considerations

To understand the significance of the opinions in Construction Equipment on reexamination practice and to estimate their potential impact on interference practice, one should consider the particular issues that were decided by the courts in the infringement action, by what burden of proof the district court made its decisions, and by what rules the district court interpreted CEC’s claims. One should also consider the specific issues which were decided by the PTO in the ex parte reexamination, by what burden of proof the PTO made its decisions, and by what rules the PTO interpreted CEC’s claims.

What the district court held (affirmed on appeal by a panel of the Federal Circuit) was that Powerscreen had failed to prove by clear and convincing evidence that the subject matter defined by certain specific claims (interpreted in the fashion that claims are interpreted in

infringement litigation) in CEC’s patent would have been obvious over certain specific prior art. Similarly, what the examiner held (affirmed on appeal by the BPAI, which in turn was affirmed on appeal by the majority of a panel of the Federal Circuit) was that it was more likely than not that the subject matter defined by an overlapping but not identical group of claims (interpreted in the very different fashion that claims are interpreted in ex parte reexaminations) in that same CEC patent would have been obvious over an overlapping but not identical group of prior art references. Thus, the two adjudicatory entities decided distinct and different issues.^{viii}

The doctrine of issue preclusion provides 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.” Restatement, Second, Judgments § 27, “Issue Preclusion – General Rule.” The Restatement specifically enumerates the following “[e]xceptions to the general rule of issue preclusion”:

Although an issue is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, relitigation of the issue in a subsequent action between the parties is not precluded in the following circumstances:

* * *

(4) The party against whom preclusion is sought had a significantly heavier burden of persuasion with respect to the issue in the initial action than in the subsequent action....

Restatement, Second, Judgments § 28, “Exceptions to the General Rule of Issue Preclusion.”

Applying these principles to the facts of the Construction Equipment case, the majority appears to have reached the correct result.

Identity of the Parties

The subsequent reexamination was not an adversary process in which Powerscreen had a continuing right to participate. Accordingly, it was not “an action between the parties” as set forth in the Restatement.

Powerscreen had been the defendant in the infringement action, and it initiated the reexamination. However, the reexamination was an *ex parte* administrative proceeding. That means that Powerscreen wasn’t a party to the reexamination. Rather, the parties which had a right to participate and appeal were CEC and the PTO.

Issue preclusion is intended to prevent a party from “relitigating an issue” which the party previously had “a full and fair opportunity to litigate.” Restatement, Second, Judgments § 29, “Issue Preclusion in Subsequent Litigation with Others.” Here, Powerscreen had an opportunity to fully and fairly litigate the validity issue in the district court, but Powerscreen was not, strictly speaking, attempting to litigate the issue again when it filed the request for *ex parte* reexamination. Rather, Powerscreen was asking another entity, the PTO, to enter an adversary proceeding with the patent holder. 35 USC 302, “Request for reexamination,” provides that:

Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited under the provisions of section 301 of this title. [Emphasis supplied.]

The reexamination proceeding was conducted “by the Office” and, consistent with that premise, Powerscreen had no right or ability to participate in the *ex parte* reexamination proceeding.

Accordingly, the dissent’s proposed holding runs afoul of the requirement that the parties in two adversary actions be identical. Here they were not.

The Different Burdens of Proof

The similarity or dissimilarity of the burdens of proof in the two proceedings is often the most important single factor in issue preclusion cases. Here, the challenger's burden of proof was substantially higher in the earlier proceeding. In the infringement litigation Powerscreen's burden of proof on the validity issue was clear and convincing evidence.^{ix} In initiating the *ex parte* reexamination, Powerscreen's burden (whether it be called a burden of proof or a burden of persuasion) was only to put forth a substantial new question of patentability^x—and, once the reexamination was declared, the examiner's burden (again, whether it be called a burden of proof or a burden of persuasion) was only to prove unpatentability by a preponderance of the evidence.^{xi}

The doctrine of issue preclusion leaves room for a later proceeding – even one between the same parties – in which the same argument is advanced but under a lower burden of proof. As noted by the majority, a finding that the later reexamination proceeding was precluded by the decision in the earlier infringement action “would...[have been] a dramatic expansion of the concept of non-mutual offensive collateral estoppel.”^{xii}

The Federal Circuit Correctly Held that the Later Reexamination Was not Collaterally Estopped

The majority reached the correct conclusion. The district court simply held that the defendant failed to carry its burden to demonstrate that the claims at issue were invalid by clear and convincing evidence. This should have no effect on the later proceeding between the PTO and the patent holder in which the burden of proof is substantially lower.

Circumstances in which Issue Preclusion May Apply to Inter Partes Review and Reexamination Proceedings

The Patent Act, as amended by the America Invents Act, sets forth various circumstances in which issue preclusion is to apply for *inter partes* reexaminations and the upcoming *inter partes* review proceedings. Section 315 of Title 35 states that an *inter partes* reexamination will prevent an *inter partes* reexamination requester from later litigating validity if the reexamination results in a “final determination” of validity, which is deemed to occur after exhaustion of all appeals and issuance of the reexamination certificate. The America Invents Act amended Section 315 to provide that a similar estoppel will be triggered when the PTAB issues a final written decision in an *inter partes* review, even though that decision could still be appealed to the Federal Circuit. Given that the PTAB final decision must be issued within 18 months of the institution of the proceeding, this estoppel will apply several years earlier as compared to that arising from *inter partes* reexamination practice.

These statutory provisions do not address whether a final adjudication by an Article III court will preclude a later finding of unpatentability by the USPTO in an *inter partes* review. However, the statutory scheme creates a plain negative inference that Congress did not generally intend *inter partes* PTO proceedings to be prevented by earlier civil actions.

By way of background, the circumstances in which an *inter partes* proceeding may preclude a later civil action estoppel is expressly addressed in the America Invents Act amendments to Section 315 of the Patent Act:

(e)(2) CIVIL ACTIONS AND OTHER PROCEEDINGS.—The petitioner in an *inter partes* review of a claim in a patent under this chapter that results in a final written decision under section 318(a), or the real party in interest or privy of the petitioner, may not assert either in a civil action arising in whole or in part under section 1338 of title 28 or in a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930 that the claim is invalid on any ground that the petitioner raised or

reasonably could have raised during that inter partes review.

However, no parallel provision was included to preclude any type of USPTO *inter partes* proceedings in the event of an earlier civil action holding. Accordingly, a party to an *inter partes* review cannot later assert in litigation a validity defense that could have been raised in the inter partes review.

Conversely, *inter partes* review proceedings are only expressly precluded when the petitioning party was previously a party to an earlier *inter partes* review in which the issue could have been raised or previously filed a “an action challenging the validity of the patent”:

(a)(1) INTER PARTES REVIEW BARRED BY CIVIL ACTION.—An inter partes review may not be instituted if, before the date on which the petition for such a review is filed, the petitioner or real party in interest filed a civil action challenging the validity of a claim of the patent.

(a)(3) TREATMENT OF COUNTERCLAIM.—A counterclaim challenging the validity of a claim of a patent does not constitute a civil action challenging the validity of a claim of a patent for purposes of this subsection.

(e)(1) PROCEEDINGS BEFORE THE OFFICE.—The petitioner in an inter partes review of a claim in a patent under this chapter that results in a final written decision under section 318(a), or the real party in interest or privy of the petitioner, may not request or maintain a proceeding before the Office with respect to that claim on any ground that the petitioner raised or reasonably could have raised during that inter partes review.

In other words, the only circumstance in which an earlier civil action will preclude a later *inter partes* review is where the petitioner previously filed a complaint for a declaratory judgment of invalidity.

This statutory scheme is generally consistent with the principles of issue preclusion discussed above. The *inter partes* PTO reviews will involve a lower burden of proof than a civil action, which militates in favor of a finding that later *inter partes* PTO reviews should not be

precluded by earlier civil actions. The America Invents Act comes close to this result in that earlier litigation bars a later *inter partes* review only where the earlier litigation is filed by the petitioner and seeks a declaratory judgment of invalidity.

We do not expect that the Federal Circuit will “[expand] the concept of non-mutual offensive collateral estoppel” beyond these boundaries. As set forth above, the differences in the burdens of the burdens of proof between the two proceedings should prevent the application of issue preclusion to cases in which a party first counterclaims for invalidity in a civil action and later petitions for *inter partes* review of the same patent claims.

Potential Applications of the Same Rule in Interferences

We have been unable to find a reported opinion of a case in which a claim previously held not invalid in an infringement litigation has subsequently been canceled in an interference.^{xiii} The situation obviously could arise. 35 USC 135(a) says that, “Whenever an application is made for a patent which, in the opinion of the Director, would interfere with...any unexpired patent, an interference may be declared....” There is nothing there that limits the Director from being of the opinion that such a situation exists despite the fact that the target claims have previously been held not invalid in an infringement litigation. Moreover, 35 USC 135(a) also says that “A final judgment adverse to a patentee from which no appeal or other review has been or can be taken or had shall constitute cancellation of the claims involved in the patent....” Again, there is nothing there that precludes cancellation of a claim that has previously been held not invalid in an infringement litigation.

What we have found is the converse of the situation under discussion here. That situation has been litigated numerous times.^{xiv} In recent years, the leading opinion is Meritor Transmission Corp. v. Eaton Corp., 81 USPQ2d 1357 (W.D.N.C. 2006),^{xv} which holds that a

party that loses an interference on the ground that its claims are unpatentable (based on a preponderance-of-the-evidence standard) is estopped to argue that those claims are not invalid (based on a clear-and-convincing-evidence standard) in a subsequent infringement action brought by the party that won the interference against the party that lost the interference. In essence, the only issues open to the party that lost the interference in the “second round” (i.e., the infringement litigation) are whether it infringes, the quantum of damages, and whether an injunction should issue.

The facts that the burden of proof to prove invalidity is higher in an infringement action than the burden of proof to prove unpatentability in an interference and that the claims are interpreted completely differently in an infringement action and in an interference should give rise to a simple, four-square matrix:

- (1) If the infringement action is decided first and a claim is held invalid, that determination is not entitled to issue preclusion effect in a subsequent decision in an interference because the two tribunals are not deciding the same issue.
- (2) If the infringement action is decided first and a claim is held not invalid, that determination is not entitled to issue preclusion effect in a subsequent decision in an interference, not only because the two tribunals are not deciding the same issue, but because the second tribunal is employing a lower burden of proof.
- (3) If the interference is decided first and a claim is held unpatentable, the proceedings in the infringement action become moot because the claim is cancelled with retroactive effect.
- (4) If the interference is decided first and a claim is held not unpatentable, that determination is entitled to issue preclusion effect for two reasons--not only is the

board interpreting the claim more broadly than the district court (making more prior art available against it), but the board is also applying a lower burden of proof, making it easier to hold against the patentee.^{xvi xvii}

Conclusion

Holdings in civil actions regarding validity generally should not have preclusive effect on later interferences or *inter partes* review proceedings. However, decisions in an interference or *inter partes* review finding a claim not unpatentable will generally preclude a party to that proceeding from (re)litigating the issue in a civil action. This comports well with long-established principles of issue preclusion.

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^{iv} Constr. Equip. Co. v. Powerscreen Int'l Distrib. Ltd., 45 USPQ2d 1206 (D. Or. 1997), aff'd without op., 243 F.3d 559 (Fed. Cir. 2000), cert. denied, 531 U.S. 1148 (2000).

^v 665 F.3d at 1258, 100 USPQ2d at 1925.

^{vi} 665 F.3d at 1257, 100 USPQ2d at 1924.

^{vii} See, e.g., Bettcher Indus. v. Bunzl USA, 661 F.3d 629 (Fed. Cir. 2011).

^{viii} The majority disagreed with Judge Newman's dissent for much the same reason, relying on In

re Swanson, 540 F.3d 1368, 88 USPQ2d 1196 (Fed. Cir. 2008), for its holding that, because “the district court’s judgment was not that the patent was valid per se, but that the accused infringer had failed to carry his burden to prove it invalid[.]. . . [t]here was . . . no contradiction between the affirmed litigation judgment and the Examiner’s rejection during reexamination.” 665 F.3d at 1256, 100 USPQ2d at 1924.

^{ix} Microsoft Corp. v. i4i L.P., ___ U.S. ___, 98 USPQ2d 1857 (2011).

^x 37 CFR 1.510(b)(1).

^{xi} Bruning v. Hirose, 161 F.3d 681, 687, 48 USPQ2d 1934, 1940 (Fed. Cir. 1998), discussed in Gholz, A Critique of Recent Opinions of the Federal Circuit in Patent Interferences, 81 JPTOS 241 (1999) § X.C. See also Gholz, The Decisions of the Board in an Interference Are Entitled to Issue-Preclusive Effect in a Parallel Patent Infringement Action but not Vice Versa, 6 Intellectual Property Today No. 8 at page 8 (1999).

^{xii} 665 F.3d at 1256 n.3, 100 USPQ2d at 8 n.3.

^{xiii} If any reader of this article is aware of such a case, we would very much appreciate it if that reader would take the time to give us a cite to it!

^{xiv} See Gholz, Collateral Estoppel Effect of Decisions by the Board of Patent Interferences, 30 DePaul L. Rev. 789 (1981), 65 JPOS 436 (1983), for a review of the pre-Federal Circuit opinions—including one by one of the Federal Circuit’s predecessors in jurisdiction (the Court of Claims) holding that determinations of the then Board of Patent Interferences are entitled to what we now call issue preclusion effect in subsequent infringement actions.

^{xv} Mr. Gholz testified as an expert witness for the prevailing party, and of course he relied on the opinions discussed in his article cited in backnote 13.

^{xvi} See, e.g., Streck, Inc. v. Research & Diagnostic systems, Inc., 665 F.3d 1269, ___, 101

USPQ2d 1225, 1240 (Fed. Cir. 2012).

^{xvii} If this matrix makes the efforts of the district court on the validity issue seem to be what Judge Newman called “an inconsequential detour along the administrative path to a contrary result,” then Mr. Gholz submits that the judges of the district court should more uniformly stay infringement actions pending the decisions of the board in interferences involving the same patents. That district courts often (but not always) stay infringement actions in this situation is discussed in Gholz, Should a Patent Infringement Action Be Stayed Pending Resolution of an Interference Involving the Patent Asserted in the Infringement Action?, 17 Intellectual Property Today No. 8 at page 22 (2010).