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The Application of Collateral Estoppel to *Markman* Rulings: The Search for Logical and Effective Preclusion of Patent Claim Constructions

Timothy Le Duc*

INTRODUCTION

In *TM Patents, L.P. v. IBM Corp.*,¹ the Southern District Court of New York had the opportunity to promulgate the appropriate preclusion standard for patent claims interpreted in previous litigation.² Numerous district courts have found the creation of an effective and logical set of preclusion standards for prior *Markman*³ rulings an extremely difficult task. The *TM Patents* decision, which held that collateral estoppel applied to prior patent claim construction,⁴ was quickly criticized. For example, in *Graco Children's Products v. Regalo Int'l LLC*,⁵ the Eastern District Court of Pennsylvania refused to follow the reasoning or holding of the *TM Patents* court.⁶ The court in *Graco* held that to bind a party to a prior court ruling where that party did not have an opportunity or an incentive to appeal is unjust.⁷ This view sharply contrasts with the rationale behind the *TM Patents* decision, which defers to

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1. 72 F. Supp. 2d 370 (S.D.N.Y. 1999). The court held that the earlier resolution of specific patent claims by another court, during a *Markman* hearing in which the patent holder was afforded a full and fair opportunity to litigate the meaning of the claims, was binding on the patent holder in the subsequent litigation. It did not matter that the parties settled during trial. *See id.* at 375.

2. *See id.* at 375.

3. *See Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996). The Supreme Court held that the construction of a patent claim is a question of law to be determined by the judge, not a question of fact to be determined by a jury. *See id.* at 391. *See also infra* notes 50-52 and accompanying text.

4. *See TM Patents*, 72 F. Supp. 2d at 379.

5. 77 F. Supp. 2d 660 (E.D. Pa. 1999).

6. *See id.* at 663-65.

7. *See id.* at 664-65.

judicial economy and the mitigation of unnecessary litigation.⁸ The weighing of justice and judicial economy has rendered a divisive split between the lower courts concerning whether collateral estoppel should apply to *Markman* rulings.⁹

This Note seeks to support the Eastern District Court of Pennsylvania's holding in *Graco*,¹⁰ along with other recent rulings that support that court's reasoning and disagree with the *TM Patents* decision, and urges that the blanket application of collateral estoppel to patent claim construction of previous litigation is unjustified and illogical. Part I establishes the relevant background of issue preclusion and patent claim construction law. Part I also discusses the history and holdings of *TM Patents* and *Graco*. Part II analyzes the two holdings with respect to recent decisions. In addition, Part II discusses possible solutions to resolve the current, increasing division of authority.

Although *TM Patents* does contain significant policy justifications, this Note concludes that the *TM Patents* court has generated a significant legal controversy by promulgating ineffective and unjust law. If followed, *TM Patents* will increase rather than reduce litigation, further burdening the judicial system. This is exactly the opposite of that decision's objective. Accordingly, this Note encourages the adoption of the well-reasoned principles for which the *Graco* decision stands. The Note concludes that in order to strike an appropriate balance between judicial economy and fundamental fairness, collateral estoppel of *Markman* rulings should only apply if interlocutory appeals-of-right are available to the parties of the previous litigation.

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

9. See *Kollmorgen Corp. v. Yaskawa Elect. Corp.*, 147 F. Supp. 2d 464, 467-70 (W.D. Va. 2001) (district court rejected the *TM Patents* decision); *Louisville Bedding Co. v. Perfect Fit Indus.*, 2001 U.S. Dist. LEXIS 9599 at *11 and n.2 (W.D. Ky. June 25, 2001) (district court supported the *TM Patents* decision).

10. See *Graco Children's Prods.*, 77 F. Supp. 2d at 665 (holding that collateral estoppel will not apply to *Markman* rulings of prior litigation whose final decision was precluded by settlement).

I. BACKGROUND

A. THE DOCTRINE OF COLLATERAL ESTOPPEL

Issue preclusion, otherwise referred to as collateral estoppel, prevents parties from contesting matters litigated and decided during prior litigation.¹¹ There are four requirements that must be met before collateral estoppel applies. “First, the issues raised in both proceedings must be identical.”¹² Second, during the prior proceeding, the issue must have been fully litigated and decided.¹³ Third, the party against whom estoppel is to be applied must have had a full and fair opportunity to litigate the issue in a previous proceeding.¹⁴ Fourth, resolution of the issue must have been essential to a final and valid judgment on the merits.¹⁵ The doctrine is to promote judicial economy by precluding relitigation of previously decided issues,¹⁶ and the court has some discretion in determining whether issue preclusion is appropriate.¹⁷ However, the application of collateral estoppel is not proper where it would be unfair to either party.¹⁸

One of the leading patent claim construction cases dealing with collateral estoppel is *A.B. Dick Co. v. Burroughs Corp.*¹⁹ The court in *A.B. Dick* declined to give preclusive effect to statements it had made in previous litigation concerning the

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

12. *Id.*

13. See *id.*

14. See *id.*

15. See *id.* (citing *Cent. Hudson Gas & Elec. Corp. v. Empresa Naviera Santa*, 56 F.3d 359, 368 (2d Cir. 1995)).

16. See *Home Diagnostics, Inc. v. LifeScan, Inc.*, 120 F. Supp. 2d 864, 866 (N.D. Cal. 2000). Specifically, collateral estoppel “precludes a plaintiff from relitigating identical issues by merely ‘switching adversaries.’” *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 329 (1979) (citing *Bernhard v. Bank of Am. Nat’l Trust & Savings Ass’n*, 122 P.2d 892, 895 (Cal. 1942)). Additionally, a plaintiff is precluded “from asserting a claim that the plaintiff had previously litigated and lost against another defendant.” *Id.*

17. See *A.B. Dick Co. v. Burroughs Corp.*, 713 F.2d 700, 702 (Fed. Cir. 1983).

18. See *id.* “For example, offensive use of collateral estoppel, where a plaintiff seeks to estop a defendant from relitigating issues the *defendant* previously litigated and lost against another plaintiff, should not be allowed where it would be unfair to the defendant.” *Id.* (citing *Parklane Hosiery*, 439 U.S. at 331).

19. *Id.*

scope of a patent.²⁰ It reasoned that those statements were not essential to the previous litigation's outcome and therefore they should not be given preclusive effect in the subsequent action.²¹ The court was also convinced that it would be unfair to give a claim construction ruling, unessential to the final judgment, collateral estoppel effect.²² After completing a lengthy balancing test of various factors for and against issue preclusion of prior claim construction, the court concluded that judicial statements pertaining to the scope of the patent should be narrowly construed.²³ Additionally, the court stated that statements would be granted preclusive effect in subsequent litigation only if the determination of the breadth of the claims was essential to a final judgment, either on the question of infringement or validity, in that prior litigation.²⁴ Thus, broad statements regarding the scope of the patent that are inessential to a final judgment do not receive preclusive effect.²⁵

B. PATENT CLAIM CONSTRUCTION AND *MARKMAN* RULINGS

The question of whether the interpretation of a patent claim is a matter of law or fact was decided by the Supreme Court in the landmark decision *Markman v. Westview Instruments, Inc.*²⁶ Congress is empowered by the Constitution to further the progress of science by granting inventors the exclusive right to economically exploit their innovations for a limited time.²⁷ Accordingly, Congress exercised this authority

20. *See id.* at 704.

21. *See id.* Furthermore, the court noted that “[e]xcept 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.” *Id.*

22. *See id.*

23. *See id.*

24. *See id.*

25. *See id.*

26. *See Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996). The main issue was whether the legal construction of a patent claim, the “portion of the patent document that defines the scope of the patentee’s rights, is a matter of law reserved entirely for the court, or subject to a Seventh Amendment guarantee that a jury will determine the meaning of any disputed term of art about which expert testimony is offered.” *Id.*

27. *See id.* at 373. “The Constitution empowers Congress [t]o promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive right to their respective Writings and

in 1790 by granting “inventors ‘the right to exclude others from making, using, offering for sale, selling, or importing the patented invention’ in exchange for full disclosure of an invention.”²⁸

In general, a patent must define the exact scope of an invention and its manufacture. This is designed to secure for the inventor all to which he is entitled and to provide the public with notice of what subject matter is still available for the taking.²⁹ These dual objectives have come to be served by two separate components of a patent document.³⁰ First, the specification of a patent describes the invention in clear and concise language such that one skilled in the art is able to make the same invention.³¹ Second, a patent document includes one or more claims which specifically detail the subject matter that the prospective patentee regards as the innovation.³² The claims define the scope of the patent grant and forbid the precise copying of an invention.³³ Also forbidden as infringement are products that make trivial changes so that they effectively duplicate the previous invention without copying the literal language of the previous claim.³⁴ Patent lawsuits normally charge infringement. To obtain relief, the patent holder must prove that his “patent claim covers the alleged infringer’s product or process.”³⁵ Thus, in order to prove infringement, it is necessary to first determine the meaning and the scope of the claim language.³⁶

The Court in *Markman* addressed whether patent claim construction is a question of law or fact.³⁷ Previously, “issues of claim construction were submitted to a jury.”³⁸ The right of trial by jury, guaranteed by the Seventh Amendment, existed during the colonial era under English common law.³⁹ Finding

Discoveries.” *Id.* (quoting the U.S. CONST. Art. I, § 8, cl. 8).

28. *Id.* (quoting H.Schwartz, PATENT LAW AND PRACTICE 33 (2d ed. 1995)).

29. See *McClain v. Ortmayer*, 141 U.S. 419, 424 (1891).

30. See *Markman*, 517 U.S. at 373.

31. See 35 U.S.C. § 112 (1994).

32. See *id.*

33. See *Markman*, 517 U.S. at 373.

34. See *id.* at 373-74. This is known as the doctrine of equivalents.

35. *Id.* at 374.

36. See *id.*

37. See *id.* at 377.

38. *Graco Children’s Prods.*, 77 F. Supp. 2d at 663.

39. See *Markman*, 517 U.S. at 370. The “Seventh Amendment right of

“no exact antecedent”⁴⁰ in old English common law for modern patent claim construction, the Court determined that the best eighteenth century analogue was the old practice for the construction of patent specifications.⁴¹ The limited number of patent cases available from that period do not reveal a well-established jury practice of specification interpretation that would allow one to conclude that modern claim construction should be a guaranteed jury issue.⁴² A judge, more than a jury that may capriciously construe or refine the patent,⁴³ is qualified with his legal training and experience to properly construct extremely technical patents.⁴⁴ Finally, the Court stressed that the consistent and uniform treatment of a particular patent was significant enough to independently justify claim interpretation as an issue of law.⁴⁵ The Court also noted that to encourage such uniformity, Congress established the Federal Circuit Court of Appeals as the sole appellate court

trial by jury is the right which existed under the English common law when the Amendment was adopted.” *Id.* The Court reasoned that the answer to the question of if the issue were one of law or fact depends “on whether the jury must shoulder this responsibility as necessary to preserve the ‘substance of the common-law right of trial by jury.’” *Id.* at 377 (quoting *Colgrove v. Battin*, 413 U.S. 149, 157 (1973) (internal citation omitted)).

40. *Id.* at 378.

41. *See id.* at 379. The Court compared “the modern practice to earlier ones whose allocation to court or jury we do know” of and sought to draw “the best analogy . . . between an old and . . . new” practice. *Id.* at 378.

42. *See id.* at 379-380. The Court found a “mere smattering of patent cases” available from that period. *Id.*

43. *See id.* at 383. Also, the judge “is in a better position to ascertain whether an expert’s proposed definition fully comports with the instrument as a whole.” *Id.* at 371. The patent, “like other written instruments, . . . must be interpreted as a whole . . . and the legal deductions drawn therefrom must be conformable with the scope and purpose of the entire document.” *Brown v. Huger*, 62 U.S. 305, 318 (1858).

44. *See id.* at 371.

45. *See Markman*, 517 U.S. at 390. The Court focused on “the importance of uniformity in the treatment of a given patent as an independent reason to allocate all issues of construction to the court.” *Id.* The Court reasoned that the “limits of a patent must be known for the protection of the patentee, the encouragement of inventive genius of others and the assurance that the subject of the patent will be dedicated ultimately to the public.” *Id.* (quoting *General Elec. Co. v. Wabash Appliance Corp.*, 304 U.S. 364, 369 (1938)). The Court also noted otherwise a “zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims would discourage invention only a little less than unequivocal foreclosure of the field.” *Id.* (quoting *United Carbon Co. v. Binney & Smith Co.*, 317 U.S. 228, 236 (1942)). Also, the “public [would] be deprived of rights supposed to belong to it, without being clearly told what it is that limits these rights.” *Id.* (quoting *Merrill v. Yeomans*, 94 U.S. 568, 573 (1877)).

for patent litigation⁴⁶ and observed that greater uniformity would strengthen the patent system by fostering industrial innovation and technological growth.⁴⁷ Therefore, the Court concluded that the extensive interpretive skill of judges, policy considerations, and existing precedent all supported the allocation of modern claim construction to the court.⁴⁸ Thus, the Court held that claim construction is a question of law, solely for the court to determine, while the issue of infringement remains a question of fact.⁴⁹

After the *Markman* decision, patent claim construction became a question of law to be determined by the court.⁵⁰ Normally, the parties litigate the claim interpretation issues before trial,⁵¹ which allows the court, at the outset of the suit, to instruct the jury as to the scope of the patent claims.⁵² A court's decision on the construction of the patent claims is now appropriately known as a *Markman* ruling or order.

C. *TM PATENTS, L.P. v. IBM CORP.*

In *TM Patents, L.P. v. IBM Corp.*,⁵³ the plaintiffs were successors-in-interest to the patent estate of Thinking Machines Corporation (TM), "a developer and manufacturer of computers and peripheral computer equipment."⁵⁴ The plaintiffs brought suit against defendant IBM, alleging infringement of three of TM's patents by IBM products.⁵⁵ Two of the patents related to computer data storage technologies and data error detection and correction.⁵⁶ The third patent dealt with a communications routing strategy in parallel

46. *See id.*

47. *See id.* (referring to H.R. Rep. No. 97-312, at 20 (1981)).

48. *See id.* at 371.

49. *See id.* at 370-71. The Court held that the "construction of a patent, including terms of art within its claim," is a question of law, "exclusively within the province of the court." *Id.* at 370. However, the issue of "whether infringement occurred, is a question of fact for a jury." *Id.* at 371.

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

51. *See id.*

52. *See id.*

53. 72 F. Supp. 2d 370 (S.D.N.Y. 1999).

54. *Id.* at 374.

55. *See id.*

56. *See id.* (United States Patent No. 4,899,342 (the '342 patent) and United States Patent No. 5,202,979 (the '979 patent)).

processors.⁵⁷

The district court recognized that the action against IBM was not the first infringement action pertaining to the patents-in-suit to reach the point of a *Markman* hearing.⁵⁸ Previously, TM had sued EMC Corporation, a competitor of IBM, in the District Court for the District of Massachusetts, a case heard by Chief Judge William G. Young.⁵⁹ In a *Markman* hearing, Chief Judge Young construed some, but not all, of the disputed claims.⁶⁰ After a two day hearing, Judge Young issued his ruling.⁶¹

IBM asserted in the case against TM that TM was collaterally estopped from relitigating the previous claim interpretation.⁶² TM, on the other hand, argued that the previous *Markman* ruling, although substantially correct, should not “be accorded former adjudication effect.”⁶³ TM reasoned that this was the correct result because a settlement was reached during trial in the prior case, rendering that *Markman* ruling not “sufficiently final” to be accorded preclusive effect.⁶⁴

The court in *TM Patents* concluded that IBM was correct, while also recognizing that the case raised an issue of first impression.⁶⁵ The court held that Judge Young’s *Markman* ruling, which occurred after the patentee “had a full and fair opportunity to litigate the meaning” of the disputed terms, was binding during the subsequent litigation.⁶⁶ In reaching the conclusion that *Markman* rulings have preclusive effect, the *TM Patents* court focused on the fourth and final element of collateral estoppel: that the determination of the issues must

57. *See id.* (United States Patent No. 5,212,773 (the ‘773 patent)).

58. *See id.* at 375.

59. *See id.* (referring to *TM Patents v. EMC Corp.*, Civil Action No. 98-10206 (D. Mass. Jan. 27, 1999)).

60. *See id.*

61. *See id.*

62. *See id.* IBM argued that TM was “either collaterally or judicially estopped to relitigate the claims that Judge Young construed – with which constructions IBM (a non-party to the EMC action) is in substantial (though not total) agreement.” *Id.*

63. *Id.*

64. *Id.*

65. *See id.*

66. *Id.* “Judge Young’s resolution of the meaning of certain disputed patent terms following a *Markman* hearing, at which TM had a full and fair opportunity to litigate the meaning of those terms, is binding on the Plaintiffs in this action.” *Id.*

have been essential to support a final and valid judgment.⁶⁷ TM argued that the dispute with EMC regarding the claim interpretation was never elevated to final judgment status because the action resulted in a settlement before a jury returned a verdict on the issue of infringement.⁶⁸ TM asserted that there was no finality for former adjudication purposes because a final, appealable judgment did not exist.⁶⁹ However, the court definitively denied that as being the law in any circuit.⁷⁰ The court cited *Lummus Co. v. Commonwealth Oil Refining Co.*⁷¹ for the proposition that, although a judgment is not final as defined by 28 U.S.C. § 1291, it can still be considered final in the sense that the issues actually litigated should be granted preclusive effect.⁷² As the court noted, the question of whether a court will consider a ruling final depends on numerous factors, including the opportunity for review.⁷³ The court also concurred with the view expressed by the *Lummus* court that the entire decision may simply boil down to whether the litigation of a particular matter has reached such a point that there remains no compelling reason to litigate it any further.⁷⁴

The court pointed to the *Georgakis v. Eastern Air Lines, Inc.*⁷⁵ decision as an illustration of the *Lummus* principle.⁷⁶ That case involved a plaintiff who sued the defendant airline for injuries resulting from an airplane crash.⁷⁷ The plaintiff sought summary judgment against the airline's affirmative

67. *See id.*

68. *See id.*

69. *See id.*

70. *See id.* The court strongly asserted "that is not the law in this Circuit (or any other, for that matter)." *Id.*

71. 297 F.2d 80, 89 (2d Cir. 1961).

72. *See TM Patents*, 72 F. Supp. 2d at 375-76 ("[I]t has been settled that a judgment that is not 'final' in the sense of 28 U.S.C. § 1291 can nonetheless be considered 'final' in the sense of precluding further litigation of issues that were actually determined in such a judgment."). Appellate courts have "jurisdiction of appeals from all final decisions of the district courts." 28 U.S.C. § 1291 (1994).

73. *See id.* at 376. "Whether a ruling is sufficiently final turns on '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.'" *Id.* (quoting *Lummus*, 297 F.2d at 89).

74. *See id.*

75. 512 F. Supp. 330 (E.D.N.Y. 1981).

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

77. *See Georgakis*, 512 F. Supp. at 330.

defense that plaintiff's damages were limited to \$75,000 by the Warsaw Convention.⁷⁸ However, in prior litigation arising from the same crash, but involving a different passenger, this same court granted summary judgment against the airline on the same affirmative defense.⁷⁹ In the subsequent *Georgakis* suit, the plaintiff invoked collateral estoppel against the airline.⁸⁰ The airline argued that the interlocutory nature of the previous decision precluded application of collateral estoppel.⁸¹ However, the *Georgakis* court took an expansive view of collateral estoppel. It stated "collateral estoppel does not require a judgment 'which ends the litigation . . . and leaves nothing for the court to do but execute the judgment,' . . . but includes many dispositions which, though not final in that sense, have nevertheless been fully litigated."⁸²

The *TM Patents* court noted that, after the *Markman* decision, claim construction became a question of law for the court to determine.⁸³ Frequently, the *Markman* hearing occurs before the trial so at the outset of the case the court can instruct the jury on the scope of the patent.⁸⁴ During the *Markman* hearing, the court will limit itself to construing only portions of the claims that are vital to the determination of the issues of validity and infringement.⁸⁵ Afterward, the jury must adhere to the court's interpretations of any disputed terms.⁸⁶ Thus, the *TM Patents* court reasoned that it is "hard to see" how a determination can be much more final than a *Markman* ruling.⁸⁷

The court found that TM and EMC were "ably represented" during the previous litigation concerning the *Markman* hearing.⁸⁸ The litigants identified the claim limitations in dispute.⁸⁹ The court heard sufficient evidence to properly

78. *See id.* at 330-31.

79. *See id.* at 331-33.

80. *See id.* at 333.

81. *See id.* at 334.

82. *Id.* (quoting *Zdanok v. Glidden Co.*, Durkee Famous Foods Div., 327 F.2d 944, 955 (2d Cir. 1964) (internal citations omitted)).

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

84. *See id.*

85. *See id.*

86. *See id.*

87. *Id.*

88. *Id.*

89. *See id.* ("The parties identified certain claim limitations on whose meaning they could not agree, and Judge Young heard whatever evidence he

construe the disputed limitations and issue a detailed ruling,⁹⁰ after which the court permitted reargument and made several modifications to the claim construction.⁹¹ Then, at the beginning of the trial in a preliminary jury instruction, Judge Young read his claim interpretation to the jury.⁹² Judge Young also used his construction to guide evidentiary rulings.⁹³ Additionally, copies of the claim construction were available to the jurors during the course of the trial.⁹⁴ The *TM Patents* court concluded that a verdict would not have altered the previous *Markman* rulings of Judge Young.⁹⁵ The court reasoned that nothing remained between the parties to adjudicate on the question of claim interpretation, as the actual application of the properly construed claim to the accused device was immaterial to the finality of Judge Young's prior *Markman* ruling.⁹⁶ The *TM Patents* court stated that under *Lummus*, the timing of the ruling was of no consequence.⁹⁷ Therefore, under existing precedent, the court considers *Markman* rulings sufficiently final such that they are to be accorded preclusive effect.⁹⁸

To support its holding, the *TM Patents* court noted that one of the Supreme Court's rationales for upholding the *Markman* decision was to promote uniform claim construction.⁹⁹ The

thought necessary to interpret those limitations.”).

90. *See id.*

91. *See id.*

92. *See id.*

93. *See id.* at 376-77.

94. *See id.* at 377.

95. *See id.*

96. *See id.* (“Nothing more remained to be adjudicated; nothing more remained to be decided on the issue of claim construction. The application of the claim to the product was immaterial to the finality of Judge Young's determinations.”).

97. *See id.* at 378.

98. *See id.* at 377. The court stated, “under *Lummus* and its progeny, the results of the *Markman* hearing in the *EMC* action were sufficiently ‘final’ to permit application of collateral estoppel – even though the matter to which they were necessary was never reduced to a final judgment after verdict.” *Id.* The court also cited RESTATEMENT (SECOND) OF JUDGMENTS § 13, cmt. e (1980) (“A judgment may be final in a res judicata sense as to part of an action although the litigation continues as to the rest.”); *Sherman v. Jacobson*, 247 F. Supp. 261, 268 (S.D.N.Y. 1965) (noting that a judgment “may be final as to some matters, even though the litigation continues as to others”).

Id. (italics omitted).

99. *See id.* (“[O]ne of the Supreme Court's rationales for upholding the Federal Circuit's ground-breaking decision in *Markman* was the promotion of

court additionally recognized that prior to *Markman*, in *Pfaff v. Wells Electronics, Inc.*,¹⁰⁰ the “Federal Circuit had held that determination of the scope of a patent claim in a prior infringement action *could* have collateral estoppel effect against the patentee in a subsequent case.”¹⁰¹ The *TM Patents* court felt that the *Markman* decision had swung the pendulum even farther. Therefore, the court concluded that, after *Markman*, it was inconceivable that a fully litigated *Markman* ruling would not be accorded collateral estoppel in subsequent suits involving the same disputed claims¹⁰² given that the ultimate goal of a *Markman* proceeding is finality.¹⁰³

D. *GRACO CHILDREN’S PRODUCTS V. REGALO INT’L LLC*

In *Graco Children’s Products v. Regalo Int’l LLC*,¹⁰⁴ the plaintiffs claimed infringement of their patent on an invention for an easily transportable child’s playpen.¹⁰⁵ In a previous suit, Graco claimed Century Products Company infringed the same patent by making and selling the Fold ‘N Go.¹⁰⁶ In that suit, the trial judge held a hearing and issued a ruling pursuant to *Markman*.¹⁰⁷ In the ensuing jury trial, the jury found infringement by the accused device under the doctrine of equivalents.¹⁰⁸ Century appealed to the Federal Circuit Court of Appeals,¹⁰⁹ and Graco filed a cross-appeal to the Federal

uniformity in the meaning to be given to a patent claim.” (citing *Markman*, 517 U.S. at 390-91)).

100. 5 F.3d 514 (Fed. Cir. 1993).

101. *TM Patents*, 72 F. Supp. 2d at 377 (citing *Pfaff*, 5 F.3d at 517-18).

102. *See id.* “[I]t 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.” (emphasis added). *Id.*

103. *See id.*

104. 77 F. Supp. 2d 660 (E.D. Pa. 1999).

105. *See id.* at 661 (the patent-in-suit was United States Patent No. 4,811,437).

106. *See id.*

107. *See id.*

108. *See id.* The “jury also found that the Fold ‘N Go did not literally infringe the ‘437 patent, that the infringement under the doctrine of equivalents was not willful, and [sic] that the ‘437 patent is not invalid for obviousness or lack of specificity.” *Id.* at 661-62. Also, the “court held that the ‘437 patent was not unenforceable due to inequitable conduct.” *Id.* at 662.

109. *See id.* at 662.

Circuit.¹¹⁰ However, both the appeal and the cross-appeal were dismissed when the parties reached a settlement.¹¹¹

In the subsequent *Graco* litigation, Regalo requested that the court grant preclusive effect to the prior claim construction of the patent-in-suit that resulted from the previous litigation involving Graco.¹¹² On November 29, 1999, the court concluded that Graco was not bound by the previous claim interpretation.¹¹³ In doing so, the court reasoned that the previous parties lacked an adequate incentive to fully litigate the claim construction because a settlement was reached before the possibility of appellate review.¹¹⁴ Shortly thereafter, counsel for Graco advised the court of the recent *TM Patents* decision issued by the United States District Court for the Southern District of New York, which held that a *Markman* ruling possessed preclusive effect despite a subsequent settlement.¹¹⁵ Accordingly, Regalo requested that the court reconsider its order in light of the *TM Patents* decision.¹¹⁶

The court in *Graco* recognized that whether a patentee who is the beneficiary of a favorable verdict in an infringement action should be bound to that court's claim construction was an issue of first impression.¹¹⁷ The court began by analyzing *Jackson Jordan, Inc. v. Plasser American Corp.*,¹¹⁸ in which the district court erred in granting preclusive effect to a decision from a previous infringement case.¹¹⁹ The Federal Circuit recognized that if a district court construed the claims

110. *See id.*

111. *See id.*

112. *See id.* Regalo requested that the court "find Graco to be bound by issue preclusion to the prior claim interpretation from *Graco I* of the term 'unitary central hub member' found in claim 1 of the '437 patent." *Id.*

113. *See id.*

114. *See id.*

115. *See id.*

116. *See id.*

117. *See id.* The court requested that the parties provide "supplemental briefing on the applicability of the first exception to the general rule of issue preclusion, found in § 28 of the Restatement (Second) of Judgments, to the case at hand. In addition, the parties were asked to examine *Jackson Jordan, Inc. v. Plasser American Corporation* . . . and its effect on the instant action." *Id.* at n.3. The court realized that it was ruling on "an issue of first impression regarding whether a party who receives a favorable verdict in a patent infringement suit should be bound by the trial court's interpretation of a term within the claim of the patent at issue that becomes the subject of a subsequent litigation." *Id.*

118. 747 F.2d 1567 (Fed. Cir. 1984).

119. *See Graco Children's Prods.*, 77 F. Supp. 2d at 663.

narrower than the patentee urged, that party could be said to have effectively lost on that issue.¹²⁰ However, in its application of the Restatement (Second) of Judgments § 28(1), the Federal Circuit noted that when a claim is ruled valid and infringed on the basis of a narrow claim interpretation, the patentee cannot appeal that construction.¹²¹ Hence, in *Jackson Jordan* there was no opportunity for review of the claim construction because the patentee won on both the question of validity and infringement.¹²² Hence, issue preclusion was not applicable.¹²³

The parties in *Graco* agreed that *Jackson Jordan* stands for the proposition that the first exception to the Restatement (Second) of Judgments § 28 is appropriate where a patentee won an infringement action but remains convinced that the claim interpretation was construed too narrowly.¹²⁴ And, having won, the patentee has no incentive to appeal.¹²⁵ However, the parties disputed whether, after *Markman*, *Jackson Jordan* was still good law and specifically identified the *TM Patents* decision as the only court that had previously addressed the topic.¹²⁶

The court in *Graco* noted that the *TM Patents* court had reviewed the pre-*Markman* Federal Circuit decisions cited by TM and concluded that the analysis of those suits was rendered irrelevant in light of the goal of *Markman* hearings.¹²⁷ The *Graco* court realized the significance of uniform and consistent treatment of a particular patent.¹²⁸ However, it also strongly argued that *Markman* did not stand for the proposition that the application of issue preclusion would be guaranteed in every instance, as the circumstances of a specific case may dictate a

120. See *Jackson Jordan, Inc.*, 747 F.2d at 1577.

121. See *id.* at 1578.

122. See *id.* The court concluded that “under the first exception to issue preclusion noted in Restatement § 28(1) (availability of review), Canon could not invoke an estoppel against Plasser since Plasser won on both validity and infringement.” *Id.*

123. See *id.*

124. See *Graco Children’s Prods.*, 77 F. Supp. 2d at 663.

125. See *id.*

126. See *id.*

127. See *id.*

128. See *id.* There is “no question that, by instructing courts to decide issues of claim construction in patent cases, the Court in *Markman* recognized the importance of uniformity in the treatment of a given patent.” *Id.*

different result.¹²⁹ Additionally, the court cited *Cybor Corp. v. Fas Technologies, Inc.*¹³⁰ for the proposition that *Markman* solely addressed the respective trial roles of judge and jury.¹³¹ The court also pointed out that the Restatement (Second) of Judgments § 28 specifically provides:

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:

- (1) The party against whom preclusion is sought could not, as a matter of law have obtained review of the judgment in the initial action[.]¹³²

With respect to Graco's opportunity or incentive to appeal the initial claim construction, Regalo pointed to the fact that "Century did file an appeal prior to the settlement agreement."¹³³ This created an opportunity that would have allowed Graco to file a cross-appeal on the issue of claim construction. However, they chose not to.¹³⁴ "The subsequent appeal was dismissed after a settlement was reached."¹³⁵ Still, the court disagreed with Regalo and concluded that collateral estoppel was not applicable to the claim construction issue that Graco lost because that issue could not be appealed by itself as Graco won on its infringement claim.¹³⁶ The court relied on *Hartley v. Mentor Corp.*¹³⁷ for the proposition that, where a "party wins on claim, but loses on issue, no issue preclusion attaches to [the] lost issue which could not by itself be appealed."¹³⁸ Moreover, the court cited *In re Freeman*¹³⁹ to argue that former adjudication effect should only be granted to

129. *See id.* The *Markman* decision "did not guarantee that collateral estoppel would apply in every case, and this Court will not extend the Supreme Court ruling to mean as much, especially where, as here, the circumstances of the instant action require that a different result be reached." *Id.*

130. 138 F.3d 1448 (Fed. Cir. 1998).

131. *See Graco Children's Prods.*, 77 F. Supp. 2d at 663.

132. *Id.* at 663-64 (citing RESTATEMENT (SECOND) OF JUDGMENTS § 28(1) (1980)).

133. *Id.* at 664.

134. *See id.*

135. *Id.*

136. *See id.*

137. 869 F.2d 1469, 1472 (Fed. Cir. 1989).

138. *Graco Children's Prods.*, 77 F. Supp. 2d at 664.

139. 30 F.3d 1459 (Fed. Cir. 1994).

prior claim constructions if the interpretation was the reason for losing on the question of infringement in the previous action.¹⁴⁰ The court stated, “Graco did not lose the previous litigation, but, instead, obtained a jury verdict in its favor based on the doctrine of equivalents, making the court’s interpretation of the term within the patent claim not essential to the final judgment.”¹⁴¹ For further support of that proposition, the court cited *A.B. Dick Co. v. Burroughs Corp.*,¹⁴² finding that the court would give preclusive effect to judicial statements pertaining to the scope of the claims only if the resolution of the scope was essential to a final judgment.¹⁴³

Furthermore, Graco’s argument convinced the court that granting collateral estoppel effect to claim constructions would discourage settlements and encourage appeals.¹⁴⁴ This would result because a plaintiff who obtained a favorable outcome would remain compelled to appeal an unacceptable, narrow claim interpretation rather than be content with a winning verdict or a profitable settlement.¹⁴⁵ The court dismissed the defendant’s contention that those concerns give way to the larger policy considerations behind the *Markman* decision. Primarily, the public is entitled to know the scope of a patent claim, and secondly, the relitigation of previously decided issues results in an unnecessary burden on the judicial system.¹⁴⁶ The court reasoned that such countervailing considerations were absent in the case at hand. The prior action involved only the interpretation of a single term in a single claim and the previous litigants did not dispute the broader meaning of any claim in its entirety.¹⁴⁷ Furthermore, the court cited *In re Freeman* for the proposition that a court

140. See *id.* at 1466. The court stated, “to apply issue preclusion to a claim interpretation issue decided in a prior infringement adjudication, ‘the interpretation of the claim had to be the reason for the loss [in the prior case] on the issue of infringement.’” *Id.* (quoting *Jackson Jordan, Inc. v. Plasser Amer. Corp.*, 747 F.2d 1567, 1577).

141. *Graco Children’s Prods.*, 77 F. Supp. 2d at 664.

142. 713 F.2d 700 (Fed. Cir. 1983).

143. See *id.* at 704. The court stated that “[j]udicial 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.” *Id.*

144. See *Graco Children’s Prods.*, 77 F. Supp. 2d at 664.

145. See *id.*

146. See *id.*

147. See *id.*

has some discretion to decide whether a particular case is appropriate for the application of issue preclusion because the doctrine is premised on the principle of fairness.¹⁴⁸ Consequently, the court held that regardless of the importance of uniform claim construction, the given circumstances of the case at hand prevented preclusive effect from being applied to the *Markman* ruling of the previous court.¹⁴⁹

II. AN APPROPRIATE PROCEDURAL SOLUTION TO RESOLVE THE SPLIT OF AUTHORITY

Because of the drastically different holdings of *TM Patents* and *Graco*, the lower federal courts have split on the issue of the preclusive effect of prior claim constructions. While more courts have begun to cite the two cases,¹⁵⁰ there are two recent cases from other districts squarely on point. The United States District Court for the Western District of Kentucky wholeheartedly supported the *TM Patents* decision in *Louisville Bedding Co. v. Perfect Fit Industries*.¹⁵¹ However, the United States District Court for the Western District of Virginia firmly asserted that *Graco* embodied the correct analysis and result in *Kollmorgen Corp. v. Yaskawa Electric Corp.*¹⁵² In these more recent cases, the patent holders had settled previous litigation after a *Markman* ruling was issued.¹⁵³ The *Louisville Bedding* court gave preclusive effect to the prior ruling,¹⁵⁴ while the

148. *See id.*

149. *See Graco Children's Prods.*, 77 F. Supp. 2d at 665. The court stated that despite the "importance of uniformity in the treatment of a given patent, circumstances may exist where, as here, despite a previous court having held a hearing on the claim construction of a patent pursuant to *Markman*, collateral estoppel will not apply to such decisions." *Id.*

150. *See eg.* *Edberg v. CPI-The Alternative Supplier, Inc.*, 156 F. Supp. 2d 190 (D. Conn. June 4, 2001); *Allen-Bradley Co. v. Kollmorgen Corp.*, 199 F.R.D. 316 (E.D. Wis. 2001); *Abbott Labs. v. Dey, L.P.*, 110 F. Supp. 2d 667 (N.D. Ill 2000).

151. 2001 U.S. Dist. LEXIS 9599 (W.D. Ky. June 25, 2001). That court stated that "[i]t is not for this court to judge the correctness of a previous judge's claim interpretation in determining its preclusive effect." *Id.* at *7.

152. 147 F. Supp. 2d 464 (W.D. Va. 2001).

153. *See Louisville Bedding Co.*, 2001 U.S. Dist. LEXIS 9599. *See also Kollmorgen Corp. v. Yaskawa Elec. Corp.*, 147 F. Supp. 2d 464, 470 (W.D. Va. 2001).

154. *See Louisville Bedding Co.*, 2001 U.S. Dist. LEXIS 9599 at *14 (stating that the "application of collateral estoppel is an issue to be determined on a case-by-case basis. This court has applied the law regarding issue preclusion to the circumstances of this case and finds it appropriate.").

Kollmorgen court did not.¹⁵⁵

A. THE POLICY BEHIND *MARKMAN* AND PATENT CLAIM CONSISTENCY

One of the central issues in dispute in this debate is whether a *Markman* ruling is “essential” to the final judgment when the alleged “final judgment” is actually a consensual settlement between the litigants. The policy behind the *Markman* decision supports the proposition that a *Markman* ruling followed by a settlement should not be accorded preclusive effect where an actual final judgment is not reached.¹⁵⁶ *TM Patents* correctly noted that the uniform treatment of specific patent claims was one of the foundations of the Court’s reasoning in *Markman*.¹⁵⁷ Indeed, there is no question that a desire to provide the public with consistent claim interpretations significantly factored into the Court’s decision.¹⁵⁸ Those who promote the application of collateral estoppel to *Markman* rulings support the notion that the preclusion will advance the goal of uniform and consistent patent claim constructions. Yet, it is “extremely ironic”¹⁵⁹ that in the cases mentioned above, the plaintiff patent holder had no realistic opportunity, nor incentive, to have the *Markman* ruling reviewed. After a settlement, the Federal Circuit is deprived of jurisdiction over the matter and lacks the power to review the *Markman* ruling, unless an interlocutory appeal is certified.¹⁶⁰ However, even if a district court judge certifies an interlocutory appeal, the Federal Circuit consistently declines review of claim interpretations.¹⁶¹ Despite the Federal Circuit’s strong inclination to refuse to entertain interlocutory appeals, when the Federal Circuit does review a district court claim construction, almost forty percent of the rulings are either

155. See *Kollmorgen Corp.*, 147 F. Supp. 2d at 470. The court concluded that “[c]ourts need not blindly apply the doctrine of collateral estoppel to a prior *Markman* ruling that construes a patent’s scope and claim.” *Id.*

156. See *id.* at 467.

157. See *TM Patents, L.P. v. IBM Corp.*, 72 F. Supp. 2d 370, 377 (S.D.N.Y. 1999).

158. See *Kollmorgen Corp.*, 147 F. Supp. 2d at 467.

159. *Id.*

160. See *id.*

161. See *id.*

changed or overturned.¹⁶² Given the fact that nearly half of the claim constructions reviewed by the Federal Circuit are either changed or overturned, it is extremely difficult to explain why the Federal Circuit generally declines to entertain interlocutory appeals pertaining to patent claim construction.

The *TM Patents* proposition, that it is *inconceivable* not to accord preclusive effect to a fully-litigated prior *Markman* ruling,¹⁶³ “contradicts logic.”¹⁶⁴ It is obvious that the desired need for uniformity of patent claims and scope provided the basis for the Supreme Court’s reasoning in *Markman*.¹⁶⁵ However, the Court’s analysis presumes that a district court’s claim interpretation is accurate.¹⁶⁶ It is highly unlikely that the Court’s keen interest in consistency and uniformity outweighs the greater interest in obtaining proper claim interpretation.¹⁶⁷ Furthermore, the Supreme Court took an extreme interest in patent uniformity in noting that the Federal Circuit Court of Appeals was created to be the exclusive avenue for review of patent suits.¹⁶⁸ Clearly, with the Federal Circuit acting as the ultimate interpreter on the issue of claim construction, the desired uniformity was more realistically obtainable.¹⁶⁹ Additionally, although the *TM Patents* court correctly stated that the Federal Circuit, even before *Markman*, had held that collateral estoppel could apply to claim constructions of previous infringement actions,¹⁷⁰ it neglected to recognize that the determinative word is “could,” not “should” or “will,” have collateral estoppel effect. Furthermore, while *Markman* strongly and unquestionably supports the promotion of uniformity in patent claim interpretation, it should not be viewed to stand for the proposition that patent interpretations will be blindly adopted as complete and accurate without the opportunity to undergo the rigorous review of the Federal

162. See *TM Patents*, 72 F. Supp. 2d at 378.

163. See *supra* note 102 and accompanying text.

164. *Kollmorgen Corp. v. Yaskawa Elec. Corp.*, 147 F. Supp. 2d 464, 468 (W.D. Va. 2001).

165. See *supra* note 99 and accompanying text.

166. See *Kollmorgen Corp.*, 147 F. Supp. 2d at 468.

167. See *id.* The court stated that “[s]urely no judicial scholar would argue the Supreme Court’s interests in uniformity is mutually exclusive to an interest in a proper patent claim construction.” *Id.*

168. See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996).

169. See *Kollmorgen Corp.*, 147 F. Supp. 2d at 468.

170. See *supra* text accompanying note 101.

Circuit.¹⁷¹ This is the only sensible approach in light of the disturbing fact that nearly half of all the patent claim constructions the Federal Circuit reviews are either revised or overturned.¹⁷²

B. *MARKMAN* RULING NOT ESSENTIAL TO A FINAL JUDGMENT OF PATENT INFRINGEMENT

The *Markman* ruling must be essential to final judgment for collateral estoppel to be applicable.¹⁷³ In *TM Patents*, the court held that the claim constructions of the prior case were sufficiently “final” to be granted preclusive effect even though they were not reduced to a final judgment by way of a jury verdict.¹⁷⁴ The court admitted that it is not insignificant that the Federal Circuit never reviewed the previous claim constructions.¹⁷⁵ However, that court also concluded that the fact that the case settled was the sole reason that the *Markman* ruling was not reviewed on appeal.¹⁷⁶ It continued to definitively state that a “party who cuts off his right to review by settling a disputed matter cannot complain that the question was never reviewed on appeal.”¹⁷⁷ Finally, that court held that the *Markman* rulings possessed preclusive effect for two reasons.¹⁷⁸ First, the settlement did not vacate the rulings.¹⁷⁹ Second, a *Markman* ruling possessed a unique finality.¹⁸⁰

Admittedly, the *Markman* decision ushered in a new standard for patent claim interpretation.¹⁸¹ However, it did not obliterate the fact that all of the appeals originating from patent litigation are heard by the United States Court of Appeals for the Federal Circuit.¹⁸² The court in *TM Patents*

171. See *Kollmorgen Corp.*, 147 F. Supp. 2d at 468.

172. See *supra* text accompanying note 162.

173. See *supra* text accompanying note 15.

174. See *supra* text accompanying note 1.

175. *TM Patents, L.P. v. IBM Corp.*, 72 F. Supp. 2d 370, 378 (S.D.N.Y. 1999).

176. See *id.*

177. *Id.*

178. See *id.*

179. See *id.*

180. See *id.* at n.2.

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

182. See *supra* text accompanying note 46.

misinterpreted the *Markman* decision as nullifying Federal Circuit precedent regarding issue preclusion.¹⁸³ Although *Markman* clearly specified that patent claim interpretation is a question of law to be determined by a judge, and not a question of fact to be determined by a jury, “it did not single-handedly redefine ‘finality’ for collateral estoppel purposes.”¹⁸⁴ The rule set forth in *Jackson Jordan*, that before preclusive effect would be given to a prior claim construction, claim interpretation “had to be the reason for the loss [in the prior case] on the issue of infringement,”¹⁸⁵ remains good law and should be followed. A settlement cannot be blindly classified as a “loss.” At the very least, an extensive balancing test of the items gained versus conceded would have to be performed. Also, in at least one sense, both sides actually win from a settlement as the time and expense of further litigation are no longer expended.

The *TM Patents* court argued that a party who agrees to a settlement cannot complain that the opportunity for appellate review is lost.¹⁸⁶ This concept does not withstand scrutiny. There are numerous reasons why parties have an incentive to negotiate and reach a settlement, many of which have nothing to do with the validity or the strength of an opponent’s cause of action. For example, the goal of a settlement may simply be to avoid the time and expense intertwined with further litigation. Other reasons include prevention of a negative public image and the accompanying economic ramifications of such an image, and the desire to create or maintain a mutually beneficial business relationship with the opponent. Numerous other practical economic goals of a settlement also exist. Yet, the *TM Patents* court failed to consider the possibility of their existence. Because of the above pragmatic analysis, a “consensual settlement”¹⁸⁷ should not be considered a final judgment because a settlement cannot be classified as a “loss” of previous litigation. Therefore, the doctrine of collateral estoppel is inappropriate.¹⁸⁸

183. See *Kollmorgen Corp. v. Yaskawa Elec. Corp.*, 147 F. Supp. 2d 464, 467 (W.D. Va. 2001).

184. *Id.*

185. *In re Freeman*, 30 F.3d 1459, 1466 (Fed. Cir. 1994) (quoting *Jackson Jordan, Inc. v. Plasser Amer. Corp.*, 747 F.2d 1567, 1577); see also *supra* text accompanying note 140.

186. See *TM Patents*, 72 F. Supp. 2d at 378.

187. *Kollmorgen Corp.*, 147 F. Supp. 2d at 467.

188. See *id.*

C. THE NEGATIVE EFFECT PRECLUSION WOULD CAST OVER
POSSIBLE FUTURE SETTLEMENTS

The application of the doctrine of collateral estoppel to an unappealable order would certainly have a negative and dramatic effect on settlements.¹⁸⁹ The reasoning of *TM Patents* was that since a settlement precludes review, a party to that settlement should not be allowed to argue that the issue never appealed.¹⁹⁰ However, as the court in *Graco* noted, appeals would be encouraged and settlements discouraged by the blind application of collateral estoppel to *Markman* rulings.¹⁹¹ The court correctly reasoned that despite the existence of a favorable verdict, a patentee would remain compelled to appeal the narrow claim interpretation rather than be satisfied with the result of the lawsuit.¹⁹² It is unquestionably unfair to deny a party an opportunity to appeal a potentially preclusive *Markman* ruling. The court in *TM Patents* disregarded the fact that the Federal Circuit consistently refuses to entertain the review of claim interpretations on interlocutory appeal.¹⁹³ The Federal Circuit revises or overturns more than forty percent of all *Markman* rulings. It follows, then, that nearly half of the district courts err while constructing patent claims. Logically, before claim constructions can be accorded preclusive effect, the Federal Circuit should grant the litigants the opportunity to seek its review and the litigants should be given the opportunity to seek the review of the Federal Circuit¹⁹⁴ to correct erroneous rulings and promote justice. The application of collateral estoppel will significantly hinder, if not completely eliminate, settlements during patent litigation¹⁹⁵ as the party on the receiving end of a damaging *Markman* ruling has little incentive to settle, if it knows that the district court's patent

189. *See id.* at 468.

190. *See supra* text accompanying note 177.

191. *See Graco Children's Prods.*, 77 F. Supp. 2d at 664.

192. *See id.* The court concluded that "[u]nder such circumstances, a plaintiff who obtains a favorable verdict would still be compelled to file an appeal rather than be content with winning the lawsuit or settling the case in order to correct what they perceive as unduly narrow claim construction." *Id.*

193. *See supra* text accompanying note 162. The *TM Patents* decision seems to "ignore the reality that the Federal Circuit consistently refuses to review lower court's patent claim constructions on interlocutory appeal." *Graco Children's Prods.*, 147 F. Supp. 2d at 468.

194. *See id.*

195. *See id.*

claim construction will become “final” and hence unappealable. Thus, there is little incentive for parties to settle if *Markman* rulings are granted preclusive effect in future litigation as the rulings would become virtually unreviewable as a result of a settlement before a truly final judgment.¹⁹⁶

D. THE APPROPRIATE WEIGHT TO BE AFFORDED PRECEDENCE REGARDING CLAIM CONSTRUCTION AND COLLATERAL ESTOPPEL

The *TM Patents* decision seemed to ignore any precedence before *Markman* pertaining to collateral estoppel as it considered the decisions inapplicable after taking into account the rationale of *Markman* rulings.¹⁹⁷ Yet, the *Kollmorgen* court reached the opposite conclusion and afforded pre-*Markman* decisions precedential weight as their analysis of patent disputes were quite relevant.¹⁹⁸ In both *TM Patents* and *Graco*, the central question was whether, under the doctrine of collateral estoppel, the determination of the issue in the previous litigation was essential to a final judgment.¹⁹⁹ In *Pfaff v. Wells Electronics*, the Federal Circuit held that where a previous case determined the scope of the patent’s claims and that decision was essential to resolving the question of infringement, there is preclusive effect²⁰⁰ for the claim interpretations in subsequent litigation. Additionally, in *A.B. Dick Co. v. Burroughs Corp.*, the Federal Circuit stated that judicial comments concerning the breadth of the patent claims are accorded former adjudication effect only if the resolution of the scope was necessary to obtain a final judgment with respect to either infringement or validity.²⁰¹ Thus, the application of collateral estoppel is only appropriate if the *Markman* ruling was essential to a final judgment.²⁰² Also, in *Comair Rotron, Inc. v. Nippon Densan Corp.*,²⁰³ the Federal Circuit stated that a court may examine the particular circumstances of a given case

196. See *id.*

197. See *Graco Children’s Prods.*, 77 F. Supp. 2d at 663.

198. See *Kollmorgen Corp. v. Yaskawa Elec. Corp.*, 147 F. Supp. 2d 464, 468 (W.D. Va. 2001).

199. See *A.B. Dick Co.*, 713 F.2d at 702.

200. See *Pfaff*, 5 F.3d at 517.

201. See *supra* note 143 and accompanying text.

202. See *Kollmorgen Corp.*, 147 F. Supp. 2d at 469.

203. 49 F.3d 1535 (Fed. Cir. 1995).

before concluding whether “justice, expediency, and the public interest are served” by the application of collateral estoppel.²⁰⁴ Therefore, even when all the elements of collateral estoppel are present in a given scenario, it is still within the court’s power to decline to apply the doctrine.²⁰⁵

After a settlement, the litigation between the parties ends. In patent cases, a settlement means that neither a court nor a jury ever determined whether a defendant infringed upon the patent holder’s patent. Thus, it is fair to say that the court never reached a final judgment on the issue of infringement or validity.²⁰⁶ *TM Patents* cites *Lummus Co.* for the proposition that whether a decision is considered “final” depends upon such factors as the adequacy of the hearing, the availability of appellate review, and the nature of the decision.²⁰⁷ However, as the court in *Kollmorgen* succinctly and accurately described the situation, the absence of “any realistic opportunity for Federal Circuit review greatly outweighs the adequacy of the hearing and the nature of the *Markman* Order.”²⁰⁸ The fact that any claim construction remains highly uncertain until the Federal Circuit reviews it seriously reduces the incentive to settle.²⁰⁹ Although *Markman* desired claim interpretation uniformity and consistency,²¹⁰ the almost absolute inability to have the *Markman* ruling reviewed after settlement should be fatal to the application of issue preclusion.

E. POSSIBLE REMEDIES TO THE CURRENT SPLIT OF AUTHORITY

Obviously, there is more than one solution to the current dilemma of whether or not to give preclusive effect to *Markman* rulings in suits that conclude with a settlement agreement. One could follow the holding of *TM Patents* and always give

204. *Id.* at 1538.

205. *See Kollmorgen Corp.*, 147 F. Supp. 2d at 469 (citing *Abbott Lab. v. Dey, L.P.*, 110 F. Supp. 2d at 670).

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

207. *See Lummus Co. v. Commonwealth Oil Refining Co.*, 297 F.2d 80, 90 (2d Cir. 1961).

208. *Kollmorgen Corp.*, 147 F. Supp. 2d at 869.

209. *See Cybor Corp. v. Fas Technologies, Inc.*, 138 F.3d 1448, 1476 (Fed. Cir. 1998).

210. *See Kollmorgen Corp.*, 147 F. Supp. 2d at 469.

preclusion effect to *Markman* rulings in the name of finality and judicial economy, even if there is no true “final” judgment due to a settlement. Yet, in cases similar to *TM Patents*, injustice would result despite the court claiming that it had reviewed the particular circumstances of the case and found no good reasons for relitigation. However, the court’s review in *TM Patents* was rather cursory, and the rationale for affording preclusive effect is, at the very least, unpersuasive.

One could follow the extreme opposite route. The *Graco* decision would have us conclude that preclusive effect should almost never be granted to *Markman* rulings followed by a settlement agreement. The reasoning, of course, would be that due process outweighs the negative impact on the scarce available judicial resources. Additionally, while such waste may seem apparent on the face of the matter, as having numerous *Markman* rulings on the same patent at the district court level is inefficient, a more in-depth analysis leads one to the inevitable conclusion that following the *TM Patents* approach would result in an even larger drain of judicial resources. The drain on judicial resources would occur as the incentives to reach settlement agreements were overcome by the realization that an unfavorable, unreviewable *Markman* ruling would be given preclusive effect.

However, a middle ground would appease both sides in their quests for judicial economy and due process, respectively. After a *Markman* ruling is given, it should immediately become appealable as-of-right. This would create the much-needed due process for either side in the patent dispute that felt that the claim construction was erroneous. It is particularly true in this situation, given the astonishing fact that nearly forty percent of all patent claim constructions are either revised or reversed by the Federal Circuit after review.²¹¹ The immediate appeal would allow the Federal Circuit to rule on the claim construction such that it would indeed become the final and ultimate determination of the claims. Given the final patent claim construction and the significant impact it has on patent litigation, each party can make a fresh assessment of the legal strengths and weaknesses of their respective positions. The probability of success or failure in the litigation will appropriately affect each party’s motivation to settle and the concessions gained or given in any possible agreement. With

211. See *supra* text accompanying note 162.

the claim construction known, each party's likelihood of success during the impending trial becomes significantly more clear. Accused infringers facing broad constructions are more likely to settle. Additionally, patent holders receiving narrow constructions are also more inclined to settle or, at the extreme, no longer pursue the suit. In either scenario, the chance of further litigation decreases.

Professor Craig Allen Nard of the University of Illinois has noted that the Federal Circuit serves a unique role in the promotion of patent certainty and uniformity.²¹² However, he argues the Federal Circuit is trying to have it "both ways"²¹³ by refusing to entertain interlocutory appeals solely regarding claim construction, while simultaneously employing a de novo standard of review for all final judgments.²¹⁴ Furthermore, the acceptance of interlocutory appeals would promote early certainty and foster settlement negotiations.²¹⁵ Professor Nard recommended that, with respect to their sister courts' claim constructions, the district courts apply the doctrine of collateral estoppel when the circumstances warrant its use.²¹⁶ The application of collateral estoppel would "promote uniformity at the district court level, and couple with interlocutory review, would [also] promote early certainty."²¹⁷ Both of these concepts are "modern patent law mantras"²¹⁸ because of their effect on claim construction and ultimately the scope of the patent.²¹⁹

To promote early certainty, the Federal Circuit has a procedural choice.²²⁰ The court can continue to utilize a de novo standard of review after final judgment and commence entertaining interlocutory appeals or change to significantly narrower standard of review.²²¹ However, as Professor Nard pointed out, the Federal Circuit could not employ both effectively.²²² Additionally, Professor Nard concluded that the

212. See Symposium, *Intellectual Property Challenges in the Next Century: Process Considerations in the Age of Markman and Mantras*, 2001 U. ILL. L. REV. 355, 355 (2001) [hereinafter *Intellectual Property Challenges*].

213. *Id.*

214. *See id.*

215. *See id.*

216. *See id.*

217. *Id.* at 356.

218. *Intellectual Property Challenges*, *supra* note 212, at 356.

219. *See id.*

220. *See id.* at 376.

221. *See id.*

222. *See id.*

Federal Circuit is not about to alter the narrow standard of review of final judgments, because, after the *Cybor* decision, de novo review is the unquestionable standard the Federal Circuit intends to apply.²²³ Therefore, Professor Nard proposed that the Court, pursuant to the Rules Enabling Act, should promulgate a new procedure pertaining to *Markman* rulings.²²⁴ The rule would make *Markman* decisions appealable either as-a-matter-of-discretion or as-a-matter-of-right.²²⁵

The first option, to make *Markman* rulings appealable as-a-matter-of-discretion, envisioned a rule allowing the Federal Circuit to entertain an interlocutory appeal specifically on the issue of claim construction.²²⁶ The rule would be different from the current § 1292(b)²²⁷ in that it would only apply to *Markman* rulings.²²⁸ However, even Professor Nard admitted that this proposition might appear to be a questionable solution to the problem.²²⁹ Yet, he maintained that the proposal would exert pressure on the Federal Circuit to actually entertain the appeal because of the specific language of such a rule.²³⁰ The proposed rule would apply only to claim constructions and its creation was in direct response to the unwillingness of the Federal Circuit to entertain interlocutory appeals solely dealing with *Markman* rulings.²³¹ Finally, Professor Nard strongly asserted that the continuing persistence of the Federal Circuit in refusing to grant interlocutory appeals provided reformers with firmer ammunition upon which to debate that the court's discretion with respect to this issue should be limited or even removed.²³²

Professor Nard's stronger and more justifiable position is that *Markman* rulings should be made appealable as-of-right.²³³ This proposal would be an "exception to the final judgment rule in patent law,"²³⁴ which held that a patent infringement

223. *See id.*

224. *See Intellectual Property Challenges, supra* note 212, at 377.

225. *See id.*

226. *See id.* at 378.

227. *See* 28 U.S.C. § 1292(b) (1992).

228. *See Intellectual Property Challenges, supra* note 212, at 378.

229. *See id.* at 379. Professor Nard stated it "may seem like a wishy-washy response." *Id.*

230. *See id.*

231. *See id.*

232. *See id.*

233. *See id.* at 377.

234. *Intellectual Property Challenges, supra* note 212, at 377.

decision is final only after an accounting takes place.²³⁵ On its face, the as-of-right proposal might appear to be a “radical” solution.²³⁶ However, as Professor Nard pointed out, an exception to the final judgment rule already exists in § 1292(c)(2),²³⁷ which allows, before the completion of an accounting, judgment on the issues of patent validity and infringement to be appealed as-of-right.²³⁸ The rationale for this exception is the avoidance of economic waste, as the expenditures associated with accountings was immense and if the determination of liability were reversed, the resources spent to resolve the issue would be irretrievable.²³⁹ Promoting the as-a-matter-of-discretion interlocutory appeals, versus initially lobbying for as-of-right interlocutory appeals, may actually prompt the appropriate rulemaking authorities to establish such a novel rule in the first place.²⁴⁰ This result may occur because the judges belonging to the various committees, which possess the power to enact procedural change, would not be limiting or removing the discretion currently enjoyed by their colleagues.²⁴¹ However, eventually the as-of-right interlocutory appeals may be required due to the reluctance of the Federal Circuit to entertain claim construction interlocutory appeals.²⁴²

CONCLUSION

The controversial *TM Patents* decision started this ongoing discussion as to whether or not collateral estoppel should apply to *Markman* rulings subsequently followed by a settlement agreement. Some federal district courts have followed that decision, agreeing that the Court’s finality goal expressed in *Markman* and judicial economy outweigh any possible appearance of unfairness to the litigants, as they previously have had their day in court to litigate the matter fully and fairly.²⁴³ However, the court in *Graco* and others have strongly

235. *See id.*

236. *Id.*

237. *See* 28 U.S.C. § 1292(c)(2) (1992).

238. *See Intellectual Property Challenges, supra* note 212, at 377.

239. *See id.*

240. *See id.* at 378.

241. *See id.*

242. *See id.*

243. *See e.g., Louisville Bedding Co. v. Perfect Fit Industries*, 2001 U.S.

asserted their disapproval of that reasoning.²⁴⁴ These courts believe that giving preclusive effect to prior *Markman* rulings subsequently followed by settlement results in a violation of due process. They pointed out that the litigants in the previous suit did not have an opportunity, and in some situations lacked an incentive, to appeal the prior *Markman* ruling. Over forty percent of *Markman* rulings are revised or reversed on appeal. Hence, in theory, the application of collateral estoppel to an unappealable *Markman* ruling would give preclusive effect to an erroneous decision in almost half of the cases. This qualifies as a “really good reason” to relitigate the claim construction.²⁴⁵ Additionally, the preclusive effect to *Markman* rulings in this situation would decrease the number of settlements and increase the average length of litigation. The result would be a larger negative impact on judicial resources than the advantage gained from the application of collateral estoppel to start with. Furthermore, the Court in *Markman* did not abolish all prior precedent on the application of collateral estoppel to claim constructions. A settlement is not a final decision on the question of validity or infringement. Thus, it should not be viewed as such for collateral estoppel purposes.²⁴⁶ Opponents of the application of collateral estoppel have more well-reasoned arguments to support their conclusion. Therefore, until a procedural change occurs, preclusive effect should not be afforded.

The procedural change that would correctly solve the problem is to make *Markman* rulings appealable as-of-right. This would satisfy the primary concern of both sides in this debate. The collateral estoppel supporters would receive their finality of the *Markman* ruling before trial and in subsequent trials, and thus achieve their much desired elimination of the wasteful use of limited judicial resources. The opponents’ primary concern of a violation of due process would also be alleviated, as every *Markman* ruling would be subject to the Federal Circuit’s rigorous review. Therefore, collateral estoppel effect should not be granted to *Markman* rulings subsequently followed by a settlement agreement unless the rulings become

Dist. LEXIS 9599 (W.D. Ky. June 25, 2001).

244. See e.g., *Kollmorgen Corp. v. Yaskawa Elec. Corp.*, 147 F. Supp. 2d 464, 470 (W.D. Va. 2001).

245. *Lummus Co. v. Commonwealth Oil Refining Co.*, 297 F.2d 80, 89 (2d Cir. 1961).

246. See *Jackson Jordan, Inc. v. Plasser Amer. Corp.*, 747 F.2d 1567, 1567.

subject to interlocutory appeals as-of-right.

