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KEY IDEAS:

NEW LOOK AT DE NOVO: SUPREME COURT TACKLES DE NOVO REVIEW OF CLAIM CONSTRUCTION

De novo review of claim construction will get a fresh look from the U.S. Supreme Court as it considers "[w]hether a district court's factual finding in support of its construction of a patent claim term may be reviewed *de novo,* as the Federal Circuit requires . . . or only for clear error, as Rule 52(a) requires."[1]

On certiorari, petitioner Teva Pharmaceuticals, Inc. challenges "the Federal Circuit's long-standing unwillingness to apply in patent cases the standard of review that [the Supreme Court] has prescribed in the Federal Rules of Civil Procedure."[2] Teva claims that the "wrong headed rule has imposed billions of dollars in litigation costs on patentees and infringement defendants alike . . ."[3]

Teva's position is at odds with a recent Federal Circuit opinion where a divided en banc court confirmed the current de novo standard of review. The case is before the Supreme Court and may confirm the Federal Circuit's 15-year-old rule requiring de novo review of district court claim-construction rulings. Or it may establish a new standard that is more deferential to lower court decisions. In either event, the Court's decision can be crucial for patent litigators and their clients.

Rule 52(a)

Teva's challenge to de novo review is predicated on Rule 52 of the Federal Rules of Civil Procedure. Rule 52(a)(1) requires that, "[i]n an action tried on the facts without a jury or with an advisory jury, the court must find the facts specially and state its conclusions of law separately. . . ."[4]

Rule 52(a)(6) provides that, on appeal, "[f]indings of fact, whether based on oral or other evidence, must not be set aside unless clearly erroneous, and the reviewing court must give due regard to the trial court's opportunity to judge the witnesses' credibility."[5]

Teva argues that the district court made express findings of fact in its case, but then those facts were improperly reviewed de novo by the Federal Circuit.[6]

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1 *Petition for Writ of Certiorari, Teva Pharms. USA, Inc. v. Sandoz, Inc.*, Case No. 13-854, 2014 WL 230926, at *I (U.S. Jan. 10, 2014).
2 *Id.* at *2.
3 *Id.* at *16.
4 Rule 52(a)(1), Fed. R. Civ. P.
5 Rule 52(a)(6), Fed. R. Civ. P.
6 *Petition for Writ of Certiorari, Teva Pharms. USA, Inc. v. Sandoz, Inc.*, Case No. 13-854, 2014 WL 230926, at *3-4 (U.S. Jan. 10, 2014).

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De Novo Review in the Federal Circuit

Markman I[7]

An en banc Federal Circuit first addressed the standard of review of district court claim-construction rulings in *Markman I*. Recognizing that prior opinions had been "inconsistent," the court wanted to clarify whether claim construction is a legal, factual or mixed issue.[8]

After a detailed review of Supreme Court precedent and policy rationale, the Federal Circuit concluded that construction of a patent claim "is a matter of law exclusively for the court."[9] Hence, factual findings underlying claim construction *must* be "reviewed *de novo* on appeal."[10]

Markman II[11]

The Supreme Court granted *certiorari* in *Markman*. The Court addressed the question of whether claim construction "is a matter of law reserved entirely for the court" or subject to a Seventh Amendment right to a jury determining "the meaning of any disputed term of art about which expert testimony is offered."[12] Affirming the Federal Circuit, the Court decided "that the construction of a patent, including terms of art within its claim, is exclusively within the province of the court."[13]

In its opinion, the Court described claim construction as a "mongrel practice,"[14] while concluding that trial judges would do a better job than juries of resolving often-complicated evidentiary issues presented by claim construction.[15]

The Court did not, however, directly address appellate court review of district courts' claim-construction rulings.[16] In fact, neither the Supreme Court nor the Federal Circuit referenced Rule 52(a).

Cybor Corp. v. FAS Techs., Inc.[17]

Before the Federal Circuit's en banc decision in *Cybor,* some Federal Circuit panel decisions applied a "clearly erroneous" standard to findings of fact incidental to district court claim-construction decisions.[18] The en banc Federal Circuit decided *Cybor* to resolve the conflict.[19]

In *Cybor*, the Federal Circuit completed a detailed analysis of *Markman II* and decided that the standard of review laid down in *Markman I* was unchanged by the Supreme Court's decision in *Markman II*.[20] Thus, as "a purely legal question," claim-construction rulings are reviewed de novo on appeal, "including any allegedly fact-based questions relating to claim construction."[21] Again, the Federal Circuit made no mention of Rule 52(a).

Philips v. AWH Corp.[22]

In *Phillips*, the Federal Circuit en banc asked the parties to brief whether it would be appropriate for the court to accord any deference to any aspect of trial court claim-construction

Recognizing prior opinions had been "inconsistent," the court wanted to clarify whether claim construction is a legal, factual or mixed issue ... [concluding] ... factual findings underlying claim construction must be "reviewed de novo on appeal."

Affirming the Federal Circuit, the [Supreme] Court decided "that the construction of a patent, including terms of art within its claim, is exclusively within the province of the court."

... the [Supreme] Court described claim construction as a "mongrel practice," concluding that trial judges would do a better job than juries of resolving often-complicated evidentiary issues presented by claim construction ... [However,] neither the Supreme Court nor the Federal Circuit referenced Rule 52(a).

7 *Markman v. Westview Instruments, Inc.,* 52 F.3d 967 (Fed. Cir. 1995) (en banc) (*Markman I*).
8 *Markman I,* 52 F.3d at 976.
9 *Id.* at 970-71.
10 *Id.* at 979.
11 *Markman v. Westview Instruments, Inc.,* 517 U.S. 370 (1996) *(Markman II), aff'g, Markman I.*
12 *Markman II,* 517 U.S. at 372.
13 *Id.*
14 *Id.* at 378.
15 *Id.* at 390.
16 *See Cybor Corp. v. FAS Techs., Inc.,* 138 F.3d 1448, 1456 (Fed. Cir. 1998) (en banc).
17 138 F.3d 1448 (Fed. Cir. 1998) (en banc).
18 *Id.* at 1454.
19 *Id.* at 1454-55.
20 *Id.* at 1456.
21 *Id.*
22 *Philips v. AWH Corp.,* 415 F.3d 1303 (Fed. Cir. 2005) (en banc).

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rulings.[23] Without explanation, the court advised: "[W]e have decided not to address that issue at this time."[24] The en banc *Cybor* decision thus remained undisturbed.[25]

Lighting Ballast Control LLC v. Phillips Elecs. N. Am. Corp.[26]

In its recent order granting rehearing en banc in *Lighting Ballast,* the Federal Circuit asked the parties to file briefs addressing three questions regarding de novo review, including, "Should this court overrule *Cybor*?"[27]

Writing for the majority, Judge Pauline Newman applied the *stare decisis* principles to confirm *Cybor,* saying:

> After fifteen years of experience with *Cybor,* we conclude that the court should retain plenary review of claim construction, thereby providing national uniformity, consistency, and finality to the meaning and scope of patent claims. The totality of experience has confirmed that *Cybor* is an effective implementation of *Markman II,* and that the criteria for departure from *stare decisis* are not met."[28]

After fifteen years of experience with *Cybor*, we conclude that the court should retain plenary review of claim construction, thereby providing national uniformity, consistency, and finality to the meaning and scope of patent claims ... *Cybor* is an effective implementation of *Markman II*, and that the criteria for departure from *stare decisis* are not met."

In reaching its conclusion, the *Lighting Ballast* majority:

- Divided the 38 amici curiae into three groups: discard *Cybor;* create a "fusion or hybrid" review of factual aspects using the clearly erroneous standard and the final conclusion as a matter of law; or confirm *Cybor* as reasonable and correct under the doctrine of *stare decisis*.[29]
- Said that the question before it was not whether to adopt a new de novo standard of review, but whether to change the de novo standard adopted 15 years ago in *Cybor.*[30]
- Referenced and relied on the purposes of consistency and stability that underlie *stare decisis* and the rule that courts should *not* depart from the doctrine without compelling justification.[31]
- Examined in depth *Cybor* and the experience with its application since 1998 and concluded that the proponents of overruling *Cybor* failed to meet the "demanding standard" of *stare decisis.*[32]

The majority included a lengthy and detailed rebuttal to the dissent.[33] Judge Alan Lourie joined the majority and wrote a concurring opinion to raise additional reasons to retain *Cybor*.[34]

In a vigorous dissent, Judge Kathleen O'Malley, joined by Chief Judge Randall Rader and Judges Jimmie Reyna and Evan Wallach, said that considerations of *stare decisis* do not justify maintaining the rule in *Cybor.*[35]

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Teva Pharms. USA, Inc. v. Sandoz, Inc.

While *Lighting Ballast* was pending, *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.* was under consideration.

District Court Opinion[36]

In Teva, the district court rejected the defendants' arguments that claims of the asserted patents containing the term "average molecular weight" were "insolubly ambiguous" and, therefore,

23 *Id.* at 1328.
24 *Id.*
25 *Id.*
26 *Lighting Ballast Control LLC v. Phillips Elecs. N. Am. Corp.*, 744 F.3d 1272 (Fed. Cir. 2013).
27 *Id.* at 1277.
28 *Id.*
29 *Id.* at 1277-81.
30 *Id.* at 1281.
31 *Id.* at 1281-82.
32 *Id.* at 1286.
33 *Id.* at 1286-92.
34 *Id.* at 1292-95.
35 *Id.* at 1296-1317.
36 *Teva Pharms. USA, Inc. v. Sandoz, Inc.*, 810 F. Supp. 2d 578 (S.D. N.Y. 2011).

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invalid.[37] In doing so, the court relied on and credited the opinion of defendant's expert that a person of ordinary skill in the art would understand what "average molecular weight" means in the context of the patent.[38]

Federal Circuit Opinion[39]

Applying the *Cybor* standard of de novo review, the Federal Circuit reversed the district court's opinion and held that claims containing the phrase "average molecular weight" were "insolubly ambiguous" and invalid as indefinite.[40] The Federal Circuit rejected the expert testimony proffered by the defendant, concluding that a person of ordinary skill would not understand the meaning of "average molecular weight" in the context of the patents-in-suit.[41]

Teva petitioned for a writ of certiorari, arguing that *Cybor* contravenes Rule 52(a)(6).[42] Sandoz resisted the petition by arguing, in part, that the district court held no evidentiary hearing and observed no live testimony before deciding the case.[43]

Order Granting *Certiorari*

On March 31, the Court granted Teva's petition for writ of certiorari.[44] On April 18, Chief Justice John Roberts denied Teva's application to recall the Federal Circuit's mandate, citing the availability of money damages if Teva prevails and the patent is held valid.[45] Argument is expected in fall 2014.

Conclusions

What Standard?

As the Federal Circuit outlined in *Lighting Ballast*, three broad alternatives exist for appellate review: discard *Cybor;* create a "fusion or hybrid" standard of review; or confirm *Cybor*.[46]

Given the Supreme Court's decision to take the case on certiorari, and because it is the approach the United States favors as amicus in *Lighting Ballast*,[47] the Court may adopt the hybrid standard. Given the depth of the disagreement surrounding *Cybor* and the potential for undesirable consequences if *Cybor* is reversed outright, a hybrid approach seems plausible.

Consequences?

If the Court rejects *Cybor* in favor of a Rule 52(a)(6) "clearly erroneous" standard, the choice of venue may become a pivotal decision in patent infringement cases. The possibility of unanticipated consequences seems high.

If the Court confirms the *Cybor* standard of de novo review, there will be certainty on this issue. The debate will subside, but litigators'—and clients'—perceptions about excessively high reversal rates and increased costs of litigation will linger. Calls for greater access to interlocutory review of claim-construction opinions could ensue.

Adoption of a "hybrid" standard of review might be cumbersome initially, but the Federal Circuit's jurisprudence would eventually provide uniformity and greater certainty. At the same time, a "hybrid" standard would assign greater credit to the hard work done by district courts.

37 *Id.* at 587.
38 *Id.* at 590.
39 *Teva Pharms. USA, Inc. v. Sandoz, Inc.*, 723 F.3d 1363 (Fed Cir. 2013).
40 *Id.* at 1368, 1369.
41 *Id.* at 1369.
42 *Petition for Writ of Certiorari, Teva Pharms. USA, Inc. v. Sandoz, Inc.*, Case No. 13-854, 2014 WL 230926, at *I (U.S. Jan. 10, 2014).
43 *Brief of Respondents in Opposition, Teva Pharms. USA, Inc. v. Sandoz, Inc.*, Case No. 13-854, 2014 WL 507332, at *2 (U.S. Feb. 5, 2014).
44 *Teva Pharms. USA, Inc. v. Sandoz, Inc.*, Case No. 13-854, 2014 WL 199529 (U.S. Mar. 31, 2014).
45 *Teva Pharms. USA, Inc. v. Sandoz, Inc.*, Case No. 13-854, 2014 WL 1516642 (U.S. Apr. 18, 2014).
46 *Lighting Ballast Control LLC v. Phillips Elecs. N. Am. Corp.*, 744 F.3d 1272, 1277-81 (Fed. Cir. 2013).
47 *Id.* at 1278.