

# NAVIGATING ISSUE PRECLUSION IN PARALLEL PATENT PROCEEDINGS

BY SHARON A. ISRAEL

**A**MONG OTHER CHANGES TO THE PATENT STATUTE, the Leahy-Smith America Invents Act (AIA), Pub. L. No. 112-29, 125 Stat. 284 (2011), created administrative trial procedures, including *inter partes* review (IPR) proceedings, for challenging patents. Since these procedures became available on September 16, 2012, the U.S. Patent and Trademark Office's (USPTO's) Patent Trial and Appeal Board (PTAB) is now one of the most popular venues for deciding issues of patentability (validity) of issued patents. IPR proceedings take place before a panel of administrative patent judges of the PTAB and are designed to make for a faster, more efficient alternative to district court litigation. Approximately six months after a petitioner (the patent challenger) files an IPR petition, the PTAB will decide whether to institute a trial on the petition. Subject to limited exceptions, the PTAB will issue a final written decision within twelve (12) months from the date of institution. Today, around 125 IPR petitions are filed per month and over 85% involve patents that are the subject of co-pending district court litigation.<sup>1</sup> The institution rate for these administrative trial proceedings was around 87% in FY2013 and today is around 60-65%.<sup>2</sup> For instituted proceedings that reach a final written decision, petitioners have had great success, with 64% of all challenged claims being held unpatentable and only 19% of proceedings in which no claims are found unpatentable. *Id.* Needless to say, petitioners tend to do well challenging patentability of patent claims before the PTAB.

## Issue Preclusion Generally and in the Patent Context

While not unique to patent cases or to co-pending proceedings, a doctrine that likely will become more significant for patent proceedings is the common law doctrine of issue preclusion or collateral estoppel. This doctrine prevents a party from re-litigating an issue that was finally decided in an earlier proceeding involving the same party (or its privy). *See, e.g., Stephen Slesinger, Inc. v. Disney Enters., Inc.*, 702 F.3d 640, 644 (Fed. Cir. 2012). This requires (1) the issue in the earlier proceeding was identical, (2) the issue was actually litigated and adjudged, (3) the judgment necessarily required resolving the issue, and (4) the party being estopped was fully represented in the earlier proceeding. *Id.* While the U.S. Court

of Appeals for the Federal Circuit generally applies regional circuit law to procedural questions such as issue preclusion (*see Bayer AG v. Biovail Corp.*, 279 F.3d 1340, 1345 (Fed. Cir. 2002)), the basic elements are similar from court to court. When a patent is the subject of a civil or administrative judgment, parties to later proceedings may have opportunities to assert issue preclusion based on the earlier judgment and related patents or applications may be impacted, too. The application of issue preclusion may lead to surprising outcomes in some cases and it makes managing co-pending matters more challenging.

Issue preclusion in the patent context is not limited to ultimate issues such as invalidity; it may apply to subsidiary questions, like claim construction, *e.g., Nestle USA, Inc. v. Steuben Foods, Inc.*, 884 F.3d 1350 (Fed. Cir. 2018), or the public availability of a prior art reference, *e.g., VirnetX Inc. v. Apple, Inc.*, 2018 WL 6441123 at \*2 (Fed. Cir. Dec. 10, 2018). Furthermore, agency decisions—like court judgments—can have preclusive effect in later litigation. *B & B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293, 1303 (2015) (determining that issue preclusion may apply in the trademark context based on a prior determination of the USPTO's Trademark Trial and Appeal Board on the issue of likelihood of confusion). Even before the decision in *B & B Hardware*, the Federal Circuit held that “[t]he decision of an administrative agency may be given preclusive effect in a federal court when . . . the agency acted in a judicial capacity.” *Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1568 (Fed. Cir. 1996).

## Issue Preclusion: The Impact of District Court Decisions at the PTAB

The Federal Circuit also has addressed the impact of prior district court decisions on decisions of the PTAB, formerly called the Board of Patent Appeals and Interferences (BPAI). In *In re Baxter International, Inc.*, 678 F.3d 1357 (Fed. Cir. 2012), the Federal Circuit determined that its prior affirmance of a district court decision, in which the patent challenger had failed to meet its burden of proof under a clear and convincing evidence standard did not impact the USPTO's rejection of the same claims in a reexamination proceeding. “[B]ecause

the two proceedings necessarily applied different burdens of proof and relied on different records, the PTO did not err in failing to provide the detailed explanation now sought by Baxter as to why the PTO came to a different determination than the court system in the *Fresenius* litigation.” *Id.* at 1365. In *Baxter*, the Federal Circuit went on to note: “Lest it be feared that we are erroneously elevating a decision by the PTO over a decision by a federal district court, which decision has been affirmed by this court, the following additional comments must be made. When a party who has lost in a court proceeding challenging a patent, from which no additional appeal is possible, provokes a reexamination in the PTO, using the same presentations and arguments, even with a more lenient standard of proof, the PTO ideally should not arrive at a different conclusion.” *Id.*

Following *Baxter*, more recently, the Federal Circuit noted in *Novartis AG v. Noven Pharmaceuticals Inc.*, 853 F.3d 1289, 1293-94 (Fed. Cir. 2017), that prior district court and Federal Circuit decisions did not bind the PTAB’s determinations on patentability in *inter partes* review proceedings. “The PTAB determined that a ‘petitioner in an inter partes review proves unpatentability by a preponderance of the evidence (see 35 U.S.C. § 316(e)) rather than by clear and convincing evidence[] as required in district court litigation,’ meaning that the PTAB properly may reach a different conclusion based on the same evidence.” *Id.* at 1294 (citation omitted).

### Issue Preclusion: The Impact of PTAB Determinations on Appeal

The Federal Circuit has applied issue preclusion in an expansive manner in appeals of co-pending PTAB determinations. In a recent case, the Federal Circuit reversed a PTAB judgment of nonobviousness because the same claims had been found obvious in an unrelated proceeding over different prior art. In *MaxLinear, Inc. v. CF Crespe LLC*, 880 F.3d 1373, 1376 (Fed. Cir. 2018), the petitioner MaxLinear appealed the PTAB’s final written decision upholding the patentability of challenged dependent claims, which depended from two independent claims. In a separate proceeding involving a different petitioner, but the same patent owner, the Federal Circuit had affirmed the unpatentability of the independent claims while the *MaxLinear* case was pending on appeal. The Federal Circuit vacated the *MaxLinear* decision and remanded, in light of the intervening decision. The court stated, “[w]

note that the collateral-estoppel effect of an administrative decision of unpatentability generally requires the invalidation of related claims that present identical issues of patentability.” *Id.* at 1377. The court stated that on remand the Board must determine whether the dependent claims at issue “present materially different issues that alter the question of patentability, making them patentably distinct from claims 1 and 17.” *Id.* at 1378.

Following *MaxLinear*, in *Nestle USA, Inc. v. Steuben Foods, Inc.*, 884 F.3d 1350 (Fed. Cir. 2018), the Federal Circuit applied issue preclusion based on a claim construction from a separate proceeding involving a related patent. The Federal Circuit vacated a determination that the challenged claims were not obvious, and remanded based on an intervening IPR determination. In *Nestle*, the Federal Circuit applied issue preclusion to claim construction positions concerning two

different, albeit similar-sounding, claim limitations from two different patents. In a first *inter partes* review proceeding, Nestle had appealed a PTAB claim construction of the term “aseptic”. The Federal Circuit vacated the PTAB’s construction of the term. In a second *inter partes* review proceeding, and the one at issue on appeal, Nestle appealed a

construction from a different patent, and on a different yet similar term: “aseptically disinfecting.” The two patents were not directly related and did not have identical specifications. However, they did share a single common inventor and they both claimed priority to the same provisional patent application. The Federal Circuit ruled that issue preclusion prevented Nestle from attempting to re-litigate the construction of “aseptically disinfecting,” because Nestle had litigated “aseptic” to a final decision in the previous case, despite the written descriptions of the two patents being different, and despite the two patents being related solely through a priority claim to the same provisional application.

### Issue Preclusion: Timing

*MaxLinear* also presents an interesting example of issue preclusion being raised late in a case. The earlier, preclusive judgment became final while the later, reversed judgment was pending on appeal, meaning the PTAB could not have considered the impact of the earlier judgment. This aspect of the *MaxLinear* case is consistent with Federal Circuit precedent. See *Mendenhall v. Barber-Greene Co.*, 26 F. 3d 1573, 1578 (Fed. Cir. 1994) (judgment of invalidity became final and preclusive during appeals from two judgments of

**In a recent case, the Federal Circuit reversed a PTAB judgment of nonobviousness because the same claims had been found obvious in an unrelated proceeding over different prior art.**

infringement). Other recent cases, however, have provided a framework for deciding whether an issue preclusion argument comes too late in a case.

In *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330 (Fed. Cir. 2013), the Federal Circuit addressed the effect of a reexamination on a final judgment in a district court. The *Fresenius* case arose from the same dispute as *In re Baxter International*, except *Fresenius* was an appeal from the district court litigation. Baxter, the patentee, had prevailed at trial and in an earlier appeal, and the case had been remanded for further determination of damages, from which *Fresenius* again appealed. During this second appeal, the reexamination decision cancelling claims became final. The Federal Circuit concluded that the infringement claims therefore had become moot.

The Federal Circuit agreed with Baxter that a final judgment cannot be reopened as a result of later administrative action, but concluded that the judgment in *Fresenius* was not yet final. A final judgment, the court explained, is one that “ends the litigation on the merits and leaves nothing for the court to do but execute the judgment.” *Id.* at 1341 (quoting *Mendenhall*, 26 F.3d at 1580). The Federal Circuit applied this test again recently in *WesternGeco L.L.C. v. ION Geophysical Corp.*, \_\_\_ F.3d \_\_\_, 2019 WL 166173 (Fed. Cir. Jan. 11, 2019), where it found the case was final. Unlike in *Fresenius*, the parties in *WesternGeco* had entered into a compromise agreement and stipulated to a final judgment on all issues in the case besides a lost profits damages award. *Id.* at \*3. Thus, the judgment was final as to the reasonable royalty damages awarded, despite a final judgment of unpatentability in an IPR relating to the same patent. Accordingly, procedures to make part of a judgment final may be available in some cases, even if other aspects of the case are appealed.

#### Issue Preclusion: Essentiality

In *VirnetX Inc. v. Apple, Inc.*, 2018 WL 6441123 (Fed. Cir. Dec. 10, 2018), *VirnetX* disputed that a summary affirmance under Federal Circuit Rule 36 was sufficient to meet the issue preclusion requirement of whether the “issue was necessary or essential to the judgment” in the previous case. *VirnetX Inc.*, 2018 WL 6441123 at \*2. In a previous case, *VirnetX* had challenged whether a particular document was a printed publication. The Federal Circuit held that the Rule 36 affirmance in the first case, the question of whether the document was a printed publication was necessary to the first decision, and therefore collateral estoppel prevented *VirnetX* from re-litigating the question of printed publication status. Although a Rule 36 affirmance often is not sufficient to

trigger issue preclusion, because the Rule 36 judgment itself is merely an affirming opinion without enough details to know whether an issue was necessary to the previous judgment, in this instance, the Federal Circuit noted that *VirnetX* counsel “conceded during oral argument that the printed publication issue was a threshold issue in *VirnetX I.*” *Id.* (citing to oral argument transcripts at the Federal Circuit website).

#### Changing Claim Construction Standard at the PTAB

While the standards of proof still differ for proving unpatentability before the PTAB (preponderance of the evidence) and invalidity in district court (clear and convincing evidence), the underlying claim construction determination, which is ultimately a question of law, may have a preclusive effect on co-pending proceedings. Both *Nestle* and *MaxLinear* considered the preclusive effect of one PTAB judgment on a later PTAB judgment, but the Federal Circuit might well use the same reasoning to apply issue preclusion in a district court case based on an earlier PTAB judgment. This is more likely to occur, at least for claim construction issues, now that the PTAB applies the same standard district courts apply.<sup>3</sup>

Previously, the PTAB applied the “broadest reasonable interpretation” standard—the same standard applied by patent examiners in the patent application process—for all unexpired patents. Now the PTAB applies the same standard that district courts apply: claims shall be construed using “the same claim construction standard that would be used to construe the claim in a civil action under 35 U.S.C. § 282(b), including construing the claim in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent.” 37 C.F.R. § 42.100(b). Further, the rule states, “[a]ny prior claim construction determination concerning a term of the claim in a civil action, or a proceeding before the International Trade Commission, that is timely made of record in the inter partes review proceeding will be considered.” *Id.* In making this rule change, the USPTO noted: “Minimizing differences between claim construction standards used in the various fora will lead to greater uniformity and predictability of the patent grant, improving the integrity of the patent system. In addition, using the same standard in the various fora will help increase judicial efficiency overall.”

#### Conclusion

With IPRs becoming a normal part of patent litigation, the opportunities for issue preclusion have grown. Practitioners and patent owners should understand which proceedings might have preclusive effects on others and what impact those proceedings might have. As explored above, the impact issue

preclusion might have is not always immediately apparent, but it can sometimes narrow the issues in a litigation or end it. Moreover, a litigation victory on one issue could have far-reaching implications on a patentee's prosecution strategy for its portfolio well beyond the case at hand. Parties on all sides of patent disputes should understand these stakes, carefully manage proceedings, and prepare accordingly.

*Sharon A. Israel is a partner in the Houston office of Shook, Hardy & Bacon L.L.P., where she focuses on IP litigation before district courts, the Patent Trial & Appeal Board and the Federal Circuit. She is a past president of the American Intellectual Property Law Association and a past chair of the Intellectual Property Law Section of the State Bar of Texas. This article was prepared with the assistance of Kyle E. Friesen and Michael W. Gray, both Of Counsel with Shook, Hardy & Bacon L.L.P. ★*

---

<sup>1</sup> See "Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board," *Federal Register* 83, No. 197 (October 11, 2018): 51340, 51342 <https://www.govinfo.gov/content/pkg/FR-2018-10-11/pdf/2018-22006.pdf> (amending claim construction standard, effective November 13, 2018).

<sup>2</sup> See [https://www.uspto.gov/sites/default/files/documents/trial\\_statistics\\_201812.pdf](https://www.uspto.gov/sites/default/files/documents/trial_statistics_201812.pdf).

<sup>3</sup> See "Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board," *Federal Register* 83, No. 197 (October 11, 2018): 51340 <https://www.govinfo.gov/content/pkg/FR-2018-10-11/pdf/2018-22006.pdf> (amending claim construction standard, effective November 13, 2018).