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## INSIGHT: *Coakwell v. United States* is Still Good Law!



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In *Certain Network Devices*, Inv. No. 337-TA-945, Commission Opinion at 12 - 13 (U.S.I.T.C. Aug. 16, 2017), the International Trade Commission wrote that “The Federal Circuit has explained that a finding of invalidity by a federal district court has immediate preclusive effects upon the continued vitality of Commission remedial orders . . . . In contrast . . . , the instant situation concerns a PTAB final written decision, which . . . has no collateral estoppel effect on the Commission Proceeding.” The Commission cited *SSIH Equip. S.A. v. Int’l Trade Comm’n*, 718 F.2d 365, 370, 218 U.S.P.Q.2d 678, 682-84 (Fed. Cir. 1983), in support of that assertion.

The authors disagree. We believe that *Coakwell v. United States*, 292 F.2d 918, 920-21, 130 U.S.P.Q. 231, 234 (Ct. Cl. 1961) (opinion by Judge (later Mr. Justice) Whitaker for a panel also consisting of Judges Durfee, Laramore, Madden, and Jones), is the relevant authority. *Coakwell* is, of course, binding precedent in the Federal Circuit under *South Corp. v. United States*, 690 F.2d 1368, 215 U.S.P.Q. 657 (Fed. Cir. 1982) (en banc), and it long precedes *SSIH Equip.*

**What *Coakwell* Held** *Coakwell* was a 28 U.S.C. § 1498 infringement action against the United States rather than a 35 U.S.C. § 281 infringement action against a private party. However, we do not believe that this distinction has any relevance to the point under consideration here.

Although there is a great deal of pre-*Coakwell* precedent concerning what we today call the issue-preclusion effect of decisions of administrative agencies in general and the decisions of the boards of the entity now known as the Patent and Trademark Office in particular, Judge Whitaker treated the issue as if it were a new one easily decided by resort to basic principles. According to Judge Whitaker:

It is obvious that a decree of the District Court [pursuant to 35 U.S.C. § 146] upholding the action of the Patent Office . . . would be a final adjudication of the question [of priority] and would be *res adjudicata* in all other courts, and defendant would not be heard to say in this court that plaintiff was not the first inventor. Where the losing party [in the board proceeding] fails to effectively review the Patent Office action in one of the courts and it becomes final, it is equally binding on the parties.

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[The United States, which was the assignee of the losing interferent] has had “its day in court.” It had the opportunity to present before the Patent Office [in the administrative proceeding] and the District Court [in a 35 U.S.C. § 146 proceeding] all the facts and advance all the arguments presented here. It is this opportunity that is the basis for the rule of *res adjudicata*. We think it should be applied here. Defendant should not be permitted to relitigate an issue already litigated and finally decided. [292 F.2d at 920-21, 130 U.S.P.Q. at 234.]

**How the Board Has Treated *Coakwell*** In the opinion of the authors, it is quite clear from *Coakwell* that the board’s decisions on patentability issues in any of the various inter partes proceedings before the board in which such issues can be raised do have issue-preclusive effect in parallel infringement litigations unless court review of those decisions is timely sought. However, subject only to the same limitation, do the decisions of the district courts on validity issues in patent infringement actions have issue-preclusive effect in a parallel inter partes board proceeding?

According to the board, the answer is no. In *Rosenthal v. Mowrey-McKee*, 50 U.S.P.Q.2d 1863 (PTO-BPAI 1999) (non-precedential) (opinion by APJ Schafer for a panel also consisting of APJs McKelvey and Lee), the panel vacated a previously entered stay of an

application-patent interference despite the facts (1) that the applicant's assignee was raising the same invalidity arguments in a parallel infringement action and (2) that the patentee's assignee argued that the interference should remain stayed because the court's holdings on the validity issues would be binding on the board. In response, the panel ruled that the court's resolution of those issues would *not* be binding on the board. That ruling followed from § 28 of the *Restatement (Second) of Judgments*, which reads in relevant part as follows:

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

\* \* \*

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

Of course, the burden of persuasion on a party challenging the validity of a claim in an infringement action (clear and convincing evidence) is significantly heavier than the burden of persuasion on a party challenging the patentability of a claim in an inter partes proceeding before the board (preponderance of the evidence). It follows that the decision of a district court in a patent infringement action that a claim is not invalid (on either priority or conventional patentability grounds) is not entitled to issue-preclusion effect in a parallel inter partes proceeding before the board. On the other hand, the decision of a district court in a patent infringement action that a claim is invalid (on either priority or conventional patentability grounds) is entitled to issue-preclusion effect in a parallel inter partes proceeding before the board.

While at first blush it might be thought that there is a public policy interest in having validity/patentability issues determined "at the highest level" (i.e., by an Article III judge or by a jury), that consideration is overbalanced by the specialized expertise of the members of the board. As the Commissioner wrote in *Lin v. Fritsch*, 14 U.S.P.Q.2d 1795, 1801 (Comm'r 1989), "Congress has determined [in 35 U.S.C. § 135(a)] that the Commissioner in the first instance should resolve interferences. . . ." The reason that Congress so decided, obviously, is that the Commissioner and his delegees (i.e., the members of the board) have special expertise in these matters and have developed specialized rules for conducting the proceedings before the board. Thus, it is much more efficient (and more likely to lead to correct results) for validity and patentability issues to be decided in the first instance by administrative patent judges than it is for them to be decided in the first instance by a district court judge or a jury. Although post grant procedures like inter partes review and post grant review under the AIA make it optional to evaluate validity before the PTAB instead of the district court, the estoppel provisions in the AIA implicitly recognize Congress's confidence in having validity and patentability issues decided in the first instance by administrative patent judges.

**How the District Courts Have Treated *Coakwell*** Various district courts have followed *Coakwell*, finding that decisions by the boards of the Patent and Trademark Office are entitled to issue-preclusion effect. For example,

in *Meritor Transmission Corp. v. Eaton Corp.*, the court cited *Coakwell* for the proposition that a ruling made by the board has preclusive effect on further litigation. 2006 U.S. Dist. LEXIS 95409, \*6, \*7, 81 U.S.P.Q.2d 1357, 1359 (W.D.N.C. Sept. 26, 2006), *aff'd* on other grounds, 258 Fed. Appx. 320, 2007 U.S. App. LEXIS 28909 (Fed. Cir. 2007).

In *Meritor*, the board had resolved an interference in favor of the plaintiff Meritor (in actuality, the plaintiff's predecessors Rockwell International Corporation and Detroit Diesel Corporation) involving U.S. Patent No. 5,573,477 ("the '477 patent"). *Id.* at \*2, 81 U.S.P.Q.2d at 1358. In two separate phases, Eaton attempted to cancel the claims in the '477 patent, first by challenging the patentability of those claims based on anticipation and obviousness over conventional prior art and second based on priority of invention. *Id.* at \*2, \*3, 81 U.S.P.Q.2d at 1358. The board rejected Eaton's assertions and awarded judgment to Meritor. *Id.* at \*3, \*4, 81 U.S.P.Q.2d at 1358. Eaton elected not to appeal the ruling to the Federal Circuit or use Section 146 to initiate a civil suit in a district court to challenge the board's ruling. *Id.* at \*4, 81 U.S.P.Q.2d at 1358.

Meritor subsequently brought suit against Eaton for patent infringement. *Id.* at \*4, \*5, 81 U.S.P.Q.2d at 1358. Through summary judgment, Meritor sought to prevent Eaton from raising new questions of validity. *Id.* at \*5, 81 U.S.P.Q.2d at 1358. Citing *Coakwell*, the court in *Meritor* held that issue preclusion regarding validity was appropriate because Eaton had "had its day in court and had a full opportunity to litigate the contested issues." *Id.* at \*7, \*8, 81 U.S.P.Q.2d at 1359. Since Eaton conducted discovery, proffered expert and witness testimony, submitted documentary evidence including affidavits and written declarations, and briefed its position before the board, Eaton had ample opportunity to litigate its position. *Id.* at \*11, \*12, 81 U.S.P.Q.2d at 1360. And, by failing to appeal the board's ruling, that ruling had become final. *Id.* at \*12, 81 U.S.P.Q.2d at 1360.

Addressing the scope of preclusion, the court held that, "once an issue is raised and determined, it is the entire issue that is precluded, not just the particular arguments raised in support of it in the first case." *Id.* at \*16, 81 U.S.P.Q.2d at 1361 (quoting *Yamaha Corp. of America v. United States*, 961 F.2d 245, 254-55 (D.C. Cir. 1992)). Citing multiple decisions finding validity to be a single issue for purposes of collateral estoppel (i.e., issue preclusion), the court granted Meritor's summary judgment motion and precluded Eaton from raising invalidity on any grounds including grounds not raised during the interference on the theory that Eaton could have made those arguments during the interference. *Id.* at \*17-\*21, 81 U.S.P.Q.2d at 1361-62.

The district courts have also emphasized that the preclusive effect of *Coakwell* applies only after a final decision. In *Abbott GmbH & Co., KG v. Centocor Ortho Biotech*, a Massachusetts district court similarly addressed whether Abbott could preclude Centocor from raising an invalidity defense after Abbott had previously defeated Centocor in an interference proceeding. 870 F. Supp. 2d 206, 220 (D. Mass. 2012). However, in contrast to Eaton in *Meritor*, Centocor had availed itself of Section 146 to initiate a proceeding at the district court. The court recognized that, since the statutory scheme of Section 146 creates the possibility of a *de novo* trial to resolve both conventional validity and pri-

ority issues based on new evidence including live testimony, the decision of the board when subjected to district court review is not yet a binding final judgment. *Id.* at \*222-23.

In addition to evaluating the finality of a ruling by the board, district courts also evaluate other conditions before imposing the issue-preclusion effect of *Coakwell*. Federal Circuit precedent sets forth four requirements for issue preclusion: (1) the issue must be identical to an issue previously adjudicated; (2) the issue must have been actually litigated; (3) the determination of the issue must have been necessary to the prior judgment; and (4) the party against whom preclusion is now asserted must have had a full and fair opportunity to litigate the issue. *In re Freeman*, 30 F.3d 1459, 1465, 31 U.S.P.Q.2d 1444, 1449 (Fed. Cir. 1994).

The Delaware district court considered these requirements in selectively granting issue preclusion in *Evonik Degussa GmbH v. Materia Inc.*, 53 F. Supp. 3d 778 (D. Del. 2014). Specifically, the court addressed whether issue preclusion applied to priority and conventional validity questions. After winning the interference, Evonik amended its claims to be broader than the claims considered in the interference. *Id.* at 789. Because Evonik could not show that the counts (actually, the claims) considered by the board were identical to or substantially the same as the claims asserted in the patent infringement action, the court found that the issues raised in the infringement actions were not identical to the issues litigated in the interference. *Id.* at 790-91. The court therefore denied application of issue preclusion to the board's decision. *Id.* at 791. (The Delaware district court's decision is, therefore, irreconcilable with the North Carolina district court's decision and the cases that it cites on the issue of the breadth of the issue preclusion effect of a decision by the board.)

The Delaware district court also drew a surprising distinction between invalidity based on Section 112 and

invalidity based on Sections 102 and 103. Materia raised Section 112 as its sole validity defense during the interference proceeding. *Id.* at 794. According to the court, a new issue of patent validity exists with respect to whether the subsequent patent claim is properly enabled under Section 112 if the scope of a subsequent patent claim differs from that of a prior patent claim. *Id.* at 791-92. For the same reasons as discussed in the previous paragraph, the court held that issue preclusion did not apply to Materia's Section 112 validity defense. *Id.* at 792. However, with respect to Section 102 and 103, since Materia raised a prior art validity challenge in the interference proceeding and, according to that court, validity over conventional prior art is a single issue, the court held that Materia could not later assert additional validity challenges under alternative theories based on prior art. *Id.* at 794.

**THE SILENCE OF THE FEDERAL CIRCUIT** At this point, the Federal Circuit has never ruled on this issue preclusion effect of decisions by the PTO's boards in the patent context. However, it did so in the trademark context in *Jet Inc. v. Sewage Aeration Systems*, 223 F.3d 1360, 55 U.S.P.Q.2d 1854 (Fed. Cir. 2000). The Federal Circuit's decision in *Jet Inc.* likely presages how the court will rule when it finally confronts the issue in the patent context. Accordingly, the authors of this article commend that opinion to the attention of those faced with the issue in the patent context.

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