Rethinking Claim Construction

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In Lava Trading, Inc. v. Sonic Trading Mgmt., LLC, Nos. 05-1177, 05-1192, Slip Op. (Fed. Cir. April 19, 2006), the Federal Circuit announced that it was in the "awkward position" of having to construe claims without "a meaningful comparison of the accused products to the asserted claims" and while "defendants' counterclaims of invalidity and unenforceability are still pending before the trial court." Despite being "troubled" by this "awkward position," which the district courts routinely face as part of the typical claim construction process, the Federal Circuit nonetheless accepted what was in effect an interlocutory appeal and took jurisdiction. The Federal Circuit, as it does in as much as 50% of the cases before it, reversed the claim construction and remanded the case for further proceeding. In sum, the Federal Circuit, for perhaps the first time, issued an interlocutory opinion addressing claim construction. Judge Mayer dissented from this decision on the grounds that the Court should not have taken jurisdiction in such a circumstance, and lamented that the Supreme Court in Markman, and the Federal Circuit in Phillips and Cybor, continue to find claim construction to be a question of law for the Federal Circuit to decide de novo, without any deference to the finder of fact.

Putting aside the substantive claim construction issues presented in Lava Trading, this case is interesting based on the procedural posture of the case which presented the Federal Circuit with its "awkward position." After the district court in Lava Trading issued its claim construction ruling, the parties stipulated to non-infringement based on the district court's claim construction ruling and convinced the district court to issue a Rule 54(b) certification. The remaining invalidity and unenforceability defenses remained pending while the appeal proceeded. Thus, Lava Trading presents the fundamental question of when during the litigation process should the parties be entitled to present their claim construction disputes to the Federal Circuit. If Judge Mayer had his way and the Federal Circuit had declined to hear the appeal, how much more money and effort would the parties have been required to spend litigating the validity and enforceability of the patent-in-suit, only to learn that the claim construction under which the parties were operating under was wrong? On the other hand, if Judge Mayer had gotten his way, and the Federal Circuit had before it a better understanding of the accused product and the invalidating prior art, would the district court's claim construction, which is not supposed to significantly depend upon such things, have been reversed?

Lava Trading thus squarely raises the issue whether it should become the norm for the Federal Circuit to address the claim construction issues on an interlocutory appeal after the District Court determines its claim construction. It also raises questions as to how claim construction is being resolved under the current laws.

Since the 1996 Markman Decision, the Federal Circuit has become the ultimate arbitrator of claim construction disputes, with a reversal rate estimated, depending upon the study cited, to be between 25% and 50%. This unusually high reversal rate for an inquiry that is supposed to be a question of law, and one that any reasonable competitor should be able to resolve simply by reading the claims of the patent, in light of its specification, prosecution history and cited art, is frightening. To make matters more difficult for the average accused infringer, the Federal Circuit has routinely refused to take interlocutory appeals to address what have ultimately been determined in up to 50% of the presented cases to be erroneous claim constructions. Thus, the parties are required to go through the added expense of applying erroneously construed claims to the accused devices and identified prior art, only to learn, millions of dollars later, that the first and critical step in the analysis was wrong. This is especially the case where the district court determines infringement based on a wrong construction. In such cases, the patentee can force undeserved settlements based on the risk of an injunction pending appeal being entered. Since no one appears to know what a claim really means until the Federal Circuit provides its construction of the claim, many would think that claim construction is the perfect example of a decision which should be raised on interlocutory appeal.

The problem is that if all claim construction issues were raised on interlocutory appeal, every case would be subject to a one-year hiatus, and the Federal Circuit may quickly become overwhelmed with “awkward” situations of incomplete records, which in Judge Mayer’s words “portends chaos.” Moreover, without a clear application of the construed claim to the accused device and/or prior art, the Court will not be able to distinguish between the real claim construction disputes which are dispositive of the case from the arguments merely over semantics. Since not every claim construction dispute is dispositive, not every claim construction dispute is necessarily worthy of interlocutory appeal and resolution. Moreover, while a litigation progresses, it is not uncommon for a district court to modify or adapt its claim construction in light of an additional factual record, as it develops. Thus, if an appeal is allowed to go forward merely upon issuance of a claim construction ruling, the Federal Circuit may not be presented with the district court’s best thinking on the subject. Thus, the Federal Circuit will be forced to render a decision, which after the full record is developed and its implications are better understood by the Court, may require further reconsideration, and even more wasted resources.

Based on these differing concerns it is not surprising that the Federal Circuit has, to date, been reluctant to hear interlocutory appeals raising claim construction disputes. Perhaps, as Judge Mayer continues to suggest, the problem lies with the fiction that claim construction is a question of law which is ultimately decided by the Federal Circuit de novo. However, perhaps the problem really lies in that the claim construction procedures generally adopted in the district courts around the country, based on the teachings of the Federal Circuit, present claim construction issues divorced from the real disputes of how those claim constructions are applied against the accused devices and relevant prior art. Lava Trading attempts to address the second potential source of the problem by inviting parties to let the Court better understand the implications of its claim construction determinations as part of the claim construction process. It may be time for the district courts to accept this invitation and have the parties explain as part of the standard claim construction process what the significance of the dispute

is, so the Judge is not the only one in the room who does not know what is going on. Maybe with a better record of where the real disputes lie before the claims are construed, the District Courts will be in a better position to render sensible, real-world claim construction decisions, and the Federal Circuit will not feel as awkward, and be more willing to hear interlocutory appeals in the right case, so as to save the parties and the Court system a lot of time and money.

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