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Patent Law: Appellate Review of Claim Construction

Supreme Court Holds That Federal Circuit Must Review Factual Findings on Claim Construction for Clear Error, Not *De Novo*

SUMMARY

In *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.*,¹ the Supreme Court reversed a ruling by the United States Court of Appeals for the Federal Circuit that invalidated a patent based on its *de novo* review of the district court's construction of the patent's claims. The Court held that the Federal Circuit must apply a deferential "clear error" standard when reviewing factual determinations made by district courts in construing patent claims. The decision is likely to shift the focus of litigants and district courts to the evidentiary aspects of claim construction, and result in fewer Federal Circuit reversals where fact-finding is employed by the district court.

BACKGROUND

This case arises from a claim by Teva that Sandoz infringed a Teva patent. Sandoz contended that the patent was invalid because the relevant patent claim failed to comply with the patent laws' requirement that a claim inform someone skilled in the art about the scope of the invention. After considering conflicting expert evidence, the district court concluded that the claim was sufficiently definite because, in context, a skilled artisan would understand how to interpret the claim. On appeal, the Federal Circuit, following its own precedent, reviewed *de novo* all aspects of the district court's claim construction, including the district court's resolution of the conflicting expert evidence, and concluded that the claim was indefinite and the patent was thus invalid.

THE SUPREME COURT'S DECISION

In a 7-2 opinion written by Justice Breyer, the Supreme Court reversed. The Court held that, when reviewing a district court's "subsidiary factual findings" made in the course of its construction of a patent claim, the Federal Circuit must apply a "clear error," not a *de novo*, standard of review.² The Court found that, although the ultimate construction of the claim is a legal conclusion that the appellate court can review *de novo*, the appellate court must accept the district court's resolution of an underlying factual dispute unless it finds that the district court made a clear error.³

The Court's opinion was based on Rule 52(a)(6) of the Federal Rules of Civil Procedure, which states that a court of appeals "must not . . . set aside" a district court's "[f]indings of fact" unless they are "clearly erroneous."⁴ The Court held that this Rule applies to both subsidiary and ultimate facts.⁵ The Court also held that the application of the clearly erroneous standard is further supported by precedent and practical considerations, observing that clear error review is "particularly" important in patent cases because a district judge who has presided over the entire proceeding has a comparatively greater opportunity to gain the necessary familiarity with specific scientific problems and principles than an appeals court judge. For various reasons, the Court did not find compelling Sandoz's argument that separating "factual" from "legal" questions may be difficult and that it is simpler for the appellate court to review the entirety of the district court's claim construction *de novo* than to apply two separate standards.

Turning to how its ruling should be applied, the Court made clear that a trial court's construction of a claim based solely on evidence intrinsic to the patent (*i.e.*, the patent document and prosecution history) remains a determination of law to be reviewed *de novo*. However, the Court noted that where the district court needs to consult extrinsic evidence, such as prior art or expert testimony, in order to understand, for example, the background science or the meaning of a term in the relevant art, and where those subsidiary facts are in dispute, it must make subsidiary factual findings about the extrinsic evidence before interpreting the claim. It is these factual determinations that are subject to clear error review by the Federal Circuit.

The Court remanded the case to the Federal Circuit for reconsideration of the patent's validity in accordance with the clear error standard of review. Justice Thomas filed a dissenting opinion, in which Justice Alito joined, writing that claim construction does not involve findings of fact as that term is used in Rule 52(a)(6), and thus that rule does not apply to patent claim construction.

IMPLICATIONS

Prior to yesterday's decision, most litigants had not been concerned about the fact/law distinction in claim construction because all aspects of claim construction were reviewed *de novo* on appeal. Moreover, because of the applicability of full *de novo* review and the Federal Circuit's ability (and practice) of overturning district court claim constructions in many cases, many litigants looked at the district court

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claim construction as only a non-dispositive first step, an attitude that encouraged appeals and reduced settlement at the district court level. The Court's decision may reduce the number of appeals and increase the likelihood of settlement following district court claim construction, particularly in cases that turn on expert or other extrinsic evidence disputes.

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ENDNOTES

- ¹ No. 13–854 (Jan. 20, 2015).
- ² No. 13–854 (Jan. 20, 2015), slip op. at 1-2.
- ³ *Id.* at 13.
- ⁴ *Id.* at 4.
- ⁵ *Id.*

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