

2009-1180

**United States Court of Appeals
FOR THE FEDERAL CIRCUIT**

SHIRE LLC,

Plaintiff-Appellee,

vs.

SANDOZ, INC.,

Defendant-Appellant.

*Appeal from the United States District Court for the District of Colorado in
Case No. 07-CV-00197, Judge Philip A. Brimmer*

**BRIEF OF AMICUS CURIAE
NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION
IN SUPPORT OF SHIRE LLC AND AFFIRMANCE**

CHARLES A. WEISS
Chair, Amicus Committee
NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION
Counsel of Record
c/o KENYON & KENYON LLP
One Broadway
New York, New York 10004-1007
(212) 425-7200

DALE L. CARLSON
President-Elect
NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION
c/o WIGGIN & DANA, LLP
One Century Tower
P.O. Box 1832
255 Church Street
New Haven, CT 06508-1832
(203) 498-4400

JULY 22, 2009

CERTIFICATE OF INTEREST

In accordance with Fed. Cir. R. 29(a) and 47.4, the undersigned counsel of record for amicus curiae New York Intellectual Property Law Association hereby certifies the following:

1. The name of every party or amicus curiae represented by me or by the other below-identified attorneys in connection with this proceeding is: New York Intellectual Property Law Association.

2. The name of the real party in interest (if such party is not named in the caption of this brief) is: New York Intellectual Property Law Association.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party represented by me are: None.

4. The names of all law firms and partners or associates that appeared for the parties or *amici* now represented by me in the lower tribunal or who are expected to appear in this Court are:

Charles A. Weiss
Chair, Amicus Committee
New York Intellectual
Property Law Association
c/o KENYON & KENYON LLP
1 Broadway
New York, NY 10004
(212) 425-7200

Dale L. Carlson
President-Elect
New York Intellectual
Property Law Association
c/o WIGGIN & DANA, LLP
One Century Tower
P.O. Box 1832
255 Church Street
New Haven, CT 06508-1832
(203) 498-4400

DATED: July 22, 2009

Charles A. Weiss / by John Hutchins

CHARLES A. WEISS *with permission*

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STATEMENT OF INTEREST OF AMICUS CURIAE

The New York Intellectual Property Law Association (“NYIPLA” or “the Association”) is a bar association of more than 1,600 attorneys whose professional interests and practices lie principally in the areas of patents, copyrights, trademarks, trade secrets and other forms of intellectual property. Since its founding in 1922, NYIPLA has committed to maintaining the integrity of the U.S. patent law and to the proper application of that law and the related bodies of contract and trade regulation law to commercial transactions involving patents.

The NYIPLA and its undersigned counsel represent that they have authored this brief, that no party or counsel for a party in this proceeding authored any part of the brief, and that no person other than the NYIPLA, its members or its counsel, including any party or counsel for a party, made any monetary contribution intended to fund the preparation or submission of the brief.

The arguments set forth in this brief were approved on or about July 22, 2009, by an absolute majority of the total number of officers and members of the Board of Directors (those who did not vote for any reason including recusal), but may not necessarily reflect the views of a majority of the members of the NYIPLA or of the organizations with which those members are affiliated. After reasonable investigation, the NYIPLA believes that no person who voted in favor of the brief, no attorney in the firms or companies with which such persons are associated, and

no attorney who aided in preparation of this brief represents a party in this litigation. Some such persons may represent entities that have an interest in other matters which may be affected by the outcome of this proceeding.

LEGAL ARGUMENT

An Interlocutory *Markman* Decision of a District Court—Rendered in a Case that Subsequently Settles—Should Not Generally be Preclusive of Claim-Construction Issues Against the Patentee

The question presented in this appeal is whether a Markman ruling of a district court made in a case that later settles is preclusive against the patentee in subsequent litigation against other parties. In the decision appealed from, the District of Colorado held that an earlier Markman ruling rendered by the District of Delaware was not binding against the patentee Shire.

The NYIPLA agrees with that decision and respectfully submits that in the usual circumstances, an interlocutory Markman ruling entered in a case that subsequently settles (i) should not be preclusive against the patentee but (ii) should be given careful consideration as nonbinding precedent. Because the legal issues have been thoroughly vetted in the parties' respective briefs, this amicus brief is largely devoted to consideration of the practical aspects presented by this appeal.

A. The preclusive effect of prior district court *Markman* rulings should be determined as a matter of Federal Circuit law

Under current Federal Circuit precedent, issues of preclusion are generally governed by regional circuit law. See, e.g., RF Delaware, Inc. v. Pacific Keystone

Techs., Inc., 326 F.3d 1255, 1261 (Fed. Cir. 2003). Although there does not seem to be much variation among the circuits' general articulation of the test for issue preclusion, the interests of consistency and certainty nevertheless suggest the desirability of this certified appeal being decided as a matter of Federal Circuit law. See Vardon Golf Co. v. Karsten Mfg. Corp., 294 F.3d 1330, 1336 (Fed. Cir. 2002) (Dyk, J., concurring); see also Dana v. E.S. Originals, Inc., 342 F.3d 1320, 1327 (Fed. Cir. 2003) (Dyk, J., concurring).

First, although issue preclusion in general is not a question unique to patent law, the specific question presented here is both unique to patent law and not one that will ever reach the regional circuits. Nor, given the relatively recent development of the general law of nonmutual offensive collateral estoppel (as compared to the creation of the Federal Circuit) and the even more recent practice of resolving disputes over claim construction apart from the issue of infringement, is there any meaningful body of regional circuit law available for review if the task is viewed as predicting how the issue would be resolved by the different regional circuits.

Second, although the standards for issue preclusion articulated by the regional circuits are generally in harmony, the Federal Circuit's resolution of the question under the law of one circuit (here, the Tenth Circuit) would leave lingering doubts (or at least room for argument) as to the applicability of the

holding in other circuits under subtly different regional circuit precedent. This would create unnecessary work for the courts as the issue is litigated at the district courts and again appealed to the Federal Circuit from district courts located outside the Tenth Circuit.

Third, the possibility of different outcomes in different circuits would drive forum shopping because the issue of preclusion, when it comes up, can be clearly outcome dispositive. See Vardon Golf, 294 F.3d at 1336 (Dyk, J., concurring).

Fourth, the issue at bar does not implicate matters of local practice or procedure such that application of a Federal Circuit rule would complicate the orderly litigation of cases by requiring district courts to depart from their usual ways of managing civil litigation.

B. *Markman* rulings that are not refined or clarified by application to a specific accused product or item or prior art are often insufficiently final to merit preclusive effect

Interlocutory Markman rulings that are largely divorced from concrete issues of infringement or validity—which are common in the many districts that schedule early Markman proceedings either by local rule or by practice of the individual judges—often require amplification, refinement, or modification at later stages of proceedings as the issues become more concrete. See, e.g., Tyco HealthCare Group, LP v. Applied Medial Resources Corp., C.A. No. 9:06-CV-151, Slip Op., 2009 WL 1883423, *9-*10 (E.D. Tex. June 30, 2009) (court clarified its earlier

claim construction after initial Markman order to address dispute that subsequently developed based on the parties' expert reports); Medtronic Vascular, Inc. v. Advanced Cardiovascular Sys., Inc., No. C 06-1066 PJH, 2008 WL 2050914 (N.D. Cal. May 13, 2008) (court granted second motion for reconsideration to clarify its earlier claim construction). It is not uncommon for each side to contend, even when the nature of the accused product is largely undisputed, that it prevails on the question of infringement under such Markman rulings, thus requiring the district court to “construe the construction” despite its reluctance to reconsider its ruling in a formal sense. See, e.g., Aztrazeneca Pharmaceuticals, LP v. Mayne Pharma, Inc., No. 02 Civ. 7936 WHP, 2005 WL 2864666, *6-*8 (S.D.N.Y. Nov. 2, 2005) (after court construed “edetate” to mean “EDTA as well as compounds structurally related to EDTA . . .” parties disputed meaning of “structurally related to EDTA”).

Even if the district court declines to reconsider its Markman ruling and announces its firm intention to stick with its decision, that ruling is still open to refinement and supplementation as the facts related to infringement and validity are developed and presented. The increasingly typical practice of early Markman proceedings that are conducted largely in the abstract brings into sharp focus the lack of finality in several respects.

First, as illustrated above, the district court may have to construe the construction when parties disagree on the meaning of the construction and would

otherwise argue effectively different constructions at trial. Even when a district court provides a reasoned opinion in support of its construction, there is often controversy as to the exact meaning of the construction and how much of the opinion is to be imported into the construction. These characteristics are not indicative of an adjudication that is sufficiently final for application of issue preclusion.

Second, the conduct of Markman proceedings at an early stage of litigation means that constructions are often sought and rendered for terms that ultimately are not in actual contention for issues of infringement or validity. Often, as the litigation progresses towards trial and issues are focused and narrowed, some constructions become devoid of importance, negating the interest of the parties to continue arguing them even if they do not agree with them in the abstract.

Third, the court may construe a term in a manner that is less favorable than that proposed by the patentee but acceptable in light of the accused infringing product. The patentee that wisely focuses its continued efforts on other issues and does not impose on the district court to rehear issues that are not of importance to the case at bar should not be burdened with preclusion as to that term.

By contrast, when construction of a term is applied at trial or on summary judgment and the result is a determination of noninfringement, the resulting judgment will usually be sufficiently final to make that construction—as elucidated

by its application to the accused infringing product—sufficiently final to warrant preclusion.¹ In that case, the losing patentee will also have the ability to appeal, and the task of deciding if the decision is sufficiently final for purposes of issue preclusion will be less subject to dispute.²

Although application of issue preclusion always involves some degree of tension between the goals of (i) conserving judicial resources and promoting finality and (ii) reaching a legally correct result and avoiding the propagation of error, the above-described aspect of Markman rulings as they are commonly rendered by the district courts poses an unacceptable risk of reaching an erroneous result if such rulings are given preclusive effect. Cf. Rambus Inc. v. Hynix

¹ Cf. Vanderveer v. Erie Malleable Iron Co., 238 F.2d 510, 514 (3d Cir. 1956) (precluding infringement suit against licensee based on state-court judgment in breach-of-contract case that royalties were not due on accused product, and noting that even though claim construction is a matter of law the ultimate issue of infringement is one of fact).

² For a discussion on finality for collateral estoppel purposes, see Rachel Marie Clark, Note, Collateral Estoppel of Claim Interpretation After Markman, 86 MINN. L. REV. 1581, 1615-1624 (2002). Additionally, there is a rich literature on the application of collateral estoppel to claim construction. See, e.g., id.; see also Lee Carl Bromberg & Judith R.S. Stern, Multiple-Venue Patent Litigation: Navigating Among Alternative Rulings, ABA Section of Litigation Annual Conference (2005); Jonas McDavit, Putting the Cart Before the Horse: Obstacles to Using Issue Preclusion in a Post-Markman World, 34 AIPLA Q.J. 45 (2006); James P. Bradley & Kelly J. Kubasta, Issue Preclusion as Applied to Claim Interpretation, 10 TEX. INTELL. PROP. L.J. 323 (2002); Timothy Le Duc, Note, The Application of Collateral Estoppel to Markman Rulings: The Search for Logical and Effective Preclusion of Patent Claim Constructions, 3 MINN. INTELL. PROP. REV. 297 (2002).

Semiconductor Inc., 569 F. Supp. 2d 946, 967 (N.D. Cal. 2008) (discussing balance between final and correct resolution of claim construction).

Further, if such rulings are nominally given preclusive effect, a subsequent court compelled to adopt as preclusive the early-stage ruling of the first court will either (i) be constrained from engaging in the often-important task of refining the early-stage ruling when it comes time to apply that ruling to concrete issues of infringement or validity, with the result that disputes best treated as issues of claim construction will devolve to trial testimony of experts and resolution by the jury, or (ii) be subject to criticism or reversal for negating the preclusive effect of the previous construction when it refines or expands on that ruling in the face of the specific facts presented to it. And the issue presented on appeal will not be “was the claim construction correct,” but “was the second district court faithful to what the first district court intended by its early-stage ruling.”

When there is legitimate disagreement concerning the meaning of the first construction, or substantial work to be done in refining that construction given the different factual context of the second case, the nominal application of issue preclusion may not lessen the second court’s burden at all. Such circumstances are recognized as weighing against a strict rule of preclusion. 18 Charles A. Wright, et al., Federal Practice and Procedure § 4424 at 640-42 (2d ed. 2002) (hereafter

“Wright & Miller”) (noting that application of issue preclusion despite need to try closely related issues may save little or no judicial effort, and that untoward results of preclusion may not be outweighed by its benefits).

Recognition of the potentially limited value of applying preclusion to early-stage Markman rulings in settled cases is more satisfactory than relying on the exception to preclusion that applies when a litigant was denied a “full and fair” opportunity to be heard. Here, for example, Shire states that it was denied the opportunity to present expert testimony and that the district court in Delaware limited the scope of oral argument (Br. at 6-7 and 21-22). But there is no indication that Shire was afforded less of an opportunity than what was warranted under the circumstances, or that the court’s approach to the proceedings was anything other than the routine control by a district court to focus the parties on what mattered. Because the limitations imposed on Shire were neither undue nor uncommon, the lack of preclusion should be based on the inherent limitations of many early-stage Markman rulings and not burdened with a need for litigants to argue in one district court that they were denied a fair hearing in another. See Wright & Miller § 4424 at 641 (noting limitations of the “full and fair opportunity test” because of the “common reluctance to challenge directly the adequacy of a prior action”).

C. The treatment of prior district court *Markman* rulings as nonbinding authority entitled to respectful consideration is sufficient to promote consistency and conserve judicial resources but leaves room for the correction of error

The goals of promoting consistency and conserving judicial resources are adequately met by treatment of a district court Markman ruling in a settled case as authority that is entitled to respectful consideration as the work of a court of coordinate jurisdiction. District courts are commonly presented with decisions of other district judges, courts of appeals outside their circuit, or state courts that are not preclusive or binding but still considered for their persuasive value. Treatment of Markman decisions in settled cases in this manner is consistent with the way that courts consider nonbinding precedent in other areas of law. The respectful consideration of previous constructions for their persuasive value will promote uniformity and consistency, but unlike a rule of strict preclusion will also permit the Federal Circuit to review the construction on the merits if that becomes necessary. Cf. Rambus, 569 F. Supp. 2d at 965-67 (noting in context of stare decises argument that “additional litigation can refine and sharpen the courts’ understanding of an invention and that a second court should not defer to a prior court’s claim construction without questioning its accuracy” and concluding that “while ‘most’ matters benefit from being settled rather than being settled right, claim construction appears to be an exception, at least among district courts”); In

re AM Int’l, Inc., 203 B.R. 898, 905 (D. Del. 1996) (concluding that prior bankruptcy court ruling was not binding precedent but “deserves some deference on the basis of consistency and common sense”).

D. Because subsequent defendants might not benefit from an earlier *Markman* ruling that rejected the patentee’s construction and remain free to urge a different construction, a rule of preclusion will not guarantee uniformity of construction

As illustrated in the case at bar, where the Impax and Colony courts rendered different constructions, even a rule that gives preclusive effect to district court Markman rulings in settled cases will not guarantee uniformity of constructions. In some circumstances, a second defendant may not want to adopt a construction urged and won by the first defendant in an earlier case, and thus will argue its own preferred construction instead of asking a subsequent court to adopt the earlier ruling.

For example, if the first defendant obtained a relatively narrow construction of a claim element that excluded its product, but the second defendant was relying on a different element to avoid infringement and otherwise pursuing an invalidity defense, the construction obtained by the first defendant—even though decided adversely to the patentee—would nevertheless be contrary to the second

defendant's interests.³ Because the first construction cannot bind the second defendant (who was not a party to the first case), the second defendant is quite properly free to urge a different construction.

If the second defendant prevails on its construction and then settles, would the patentee be bound by both constructions, with the result that a third defendant would be entitled to pick either the first or the second depending on its own strategy? The prevailing view would be “no,” under the rule that inconsistent adjudications mean that neither is preclusive. See Gaston v. American Transit Insurance Co., 901 N.E.2d 743, 744 (N.Y. 2008) (where bus accident resulted in multiple cases concerning the question of insurance coverage with two cases resolving coverage issue against insurer and third case ending in its favor, conflicting results barred application of collateral estoppel against insurer) (citing Restatement (Second) of Judgments § 29(4) (1982)). Thus, even a rule that interlocutory Markman rulings in settled cases are preclusive against the patentee would not give nonparties seeking to design-around the patent based on such a ruling any real degree of comfort, because the preclusive effect could be negated by a second case in which another defendant pursued (and prevailed on) a different construction.

³ NYIPLA does not intend to suggest that this was the reason for different constructions in the Impax and Colony cases, but gives this example in purely hypothetical terms.

The potentially contrary interests of different defendants on the issue of claim construction also distinguishes this issue from the preclusive effect of an invalidity judgment under Blonder-Tongue Labs. v. University of Illinois Foundation, 402 U.S. 313 (1971), because all potential defendants have the same legal interest in having a patent declared invalid.

E. A rule of preclusion is neither necessary nor sufficient to curb the potential for abusive litigation conduct by patentees

To the extent that concerns expressed by others about patentees playing fast-and-loose with the system by serially suing and settling are substantial, a rule of preclusion for interlocutory Markman decisions is not the way to address them. As recognized by *Sandoz* (Br. at 30), district courts can vacate their rulings. The decision to vacate or not is committed to the district court's discretion, and experience with the more substantial question of vacating judgments of invalidity suggests that many district courts are highly receptive to joint requests to vacate judgments in support of settlement.⁴ A result as serious as preclusion should not turn on the individual views of a district court on the wisdom of facilitating settlement by vacating its rulings. By contrast, even if a Markman ruling is

⁴ NYIPLA expresses no view as to the desirability of such receptivity, the standards to be applied to such requests, or the effect (if any) of a vacated judgment of invalidity in subsequent cases.

vacated in support of a settlement, it would still be available for its persuasiveness in future cases.

Further, a strategy of bringing questionable infringement actions seriatim in different districts, with the intent of avoiding the negative effect of adverse Markman rulings by settling, is already difficult, risky, and expensive. Apart from the ability of district judges to see through such conduct, the usual remedies for unfounded litigation (plus the ability of a district court to adopt as its own a previous Markman ruling based on its persuasive value) should be sufficient to minimize such conduct to the extent permitted by Fed. R. Civ. P. 11, 35 U.S.C. § 285, Fed. R. Civ. P. 56(g), 28 U.S.C. § 1927, and the courts' inherent authority. And so long as the claims are legitimate and brought in good faith, it is not abusive of the system for a patentee who settles a case following a disappointing ruling to seek out a different district for its next case with the hope that a fresh look by another judge will help it obtain a more favorable result. Cf. 18 Wright & Miller § 4424 at 639 (“The availability of issue preclusion may distort in undesirable ways the general freedom to influence the irrationalities of adjudication by choosing court, time, and adversary.”)

F. The potential benefits of a rule of preclusion are outweighed by the burden it would impose on settlement

The proposition expressed by Sandoz (Br. at 38-39) that a rule of preclusion is desirable to prevent weak cases from being filed in the first place is not

convincing. The decision to bring a case, like the decision to settle, is largely economic. A patentee that perceives a potential case as weak may still bring that case for any number of reasons, some legitimate and some not. But the added “risk” of a preclusive adverse Markman ruling flowing from a potential settlement of a prospective case that the patentee already perceives as weak would likely be so far down the list of things to worry about as to have no real effect, especially given the opportunities to settle before a Markman ruling is rendered or to seek vacatur of an adverse ruling in support of settlement. See Wright & Miller § 4425 at 647 (noting in discussion of issue preclusion applied to pure questions of law the undesirable effect of possibly forcing appeals in cases that do not necessarily warrant appeal).

Moreover, it assumes too much to consider any settlement after the patentee does not fully prevail on a Markman ruling to have been a loss for the patentee. For example, the court may reject the patentee’s construction but adopt a narrower construction under which the defendant still likely infringes. A settlement that follows with an admission of infringement is on the whole favorable to the patentee. If the parties are willing to settle on such terms, the settlement should not be jeopardized by a rule that automatically binds the patentee to that construction in future cases, nor should the parties be required to condition settlement on the district court’s willingness to vacate its Markman ruling. This is similar to a

situation in which the patentee prevails at trial on the issues of infringement and validity and thus has no right to appeal the Markman ruling even though it was not entirely favorable. Jackson Jordan, Inc. v. Plasser Am. Corp., 747 F.2d 1567, 1577-78 (Fed. Cir. 1984) (prevailing party not bound by issue preclusion on adverse interlocutory rulings that cannot be appealed).

CONCLUSION

For the reasons set forth above, the NYIPLA respectfully submits that interlocutory Markman rulings in settled cases should generally not be afforded preclusive effect against the patentee, and that the interest of consistency is adequately served by such rulings being given respectful consideration in subsequent cases as persuasive but not binding precedent.

Respectfully submitted,

NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION

DATED: July 22, 2009

By: Charles A. Weiss / by John Hutchins
CHARLES A. WEISS *with permission*
Chair, Amicus Committee
c/o KENYON & KENYON LLP
1 Broadway
New York, NY 10004-1007
Tel. 212-425-7200

CERTIFICATE OF SERVICE
Shire LLC v. Sandoz, Inc., 2009-1180

I, John C. Kruesi, Jr., being duly sworn according to law and being over the age of 18, upon my oath depose and say that:

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On the **22nd Day of July 2009**, I caused 2 copies of the within **Brief for *Amicus Curiae*** to be served upon:

Edgar H. Haug
Frommer Lawrence & Haug LLP
745 Fifth Avenue
New York, New York 10151
(212) 588-0800
Attorneys for Plaintiff-Appellee

Keith D. Parr
Locke Lord Bissell & Liddell LLP
111 South Wacker Drive
Chicago, IL 60606
(312) 443-0700
Attorneys for Defendant-Appellant

R. Carl Moy
William Mitchell College of Law
875 Summit Avenue
St. Paul MN 55105
(651) 290-63444
Attorney for Amicus Curiae William Mitchell College of Law Intellectual Property Inst.

via Federal Express, overnight delivery.

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