

Supreme Court Patent Cases: Past And Pending

Law360, New York (January 5, 2011) -- On Nov. 29, 2010, the U.S. Supreme Court granted certiorari in *Microsoft v. i4i LP*, in which Microsoft asks the court to lower the standard for proving that a patent is invalid. The case is important because, if the court accepts Microsoft's position, a patent challenger can more easily prove invalidity where the U.S. Patent and Trademark Office issued a patent without considering the most relevant prior art.

Alleged infringers often find more relevant prior art than that which was considered by the USPTO, and a lowered standard would diminish the strength of many if not most patents that are litigated. Equally important is the Supreme Court's willingness, as demonstrated by its review of Microsoft and other patent cases over the last five years, to reexamine the most basic and, until now, most hallowed, principles on which patent rights are determined.

Historically the U.S. Supreme Court has shown little interest in disputes over patent rights. This lack of interest became more pronounced after 1982, the year Congress established the U.S. Court of Appeals for the Federal Circuit and gave it exclusive appellate jurisdiction over patent disputes.

For most of the 23 years following the Federal Circuit's creation, from 1982 to 2005, the Supreme Court seemed content to let the new patent appeals court have the final say. The Supreme Court issued only seven opinions construing substantive patent law issues during that period. Patent rights were generally strengthened by decisions of the Federal Circuit, and patent lawsuits in recent years have resulted in some of the country's largest damages awards and settlements.

The case of *NTP v. Research in Motion* got the Supreme Court's attention in 2005. Patent owner NTP Inc. sued Blackberry manufacturer Research in Motion Ltd. (RIM) for infringement of its wireless e-mail patents. NTP prevailed and was awarded \$53 million in damages.

Citing a "general rule" that courts should grant injunctions to prevailing patentees "absent exceptional circumstances," the Federal Circuit held that NTP was entitled to an injunction against further infringement by RIM. If implemented, the injunction would have brought Blackberry service to an immediate halt. RIM's efforts to stay the injunction failed in 2005 and early 2006.

Meanwhile, Blackberry users desperately sought alternatives and the U.S. Department of Defense warned that a shutdown would compromise national security. Service disruption was avoided when RIM agreed to pay \$612 million to settle in March 2006, over 10 times the amount of the district court's damages and attorneys' fee award.

The important commercial and national defense implications of *NTP v. Research in Motion* appear to have spurred the Supreme Court to take a more active role in shaping U.S. patent law. In June 2005, the court granted certiorari in the case of *Illinois Tool Works v. Independent Ink* and in November 2005 it granted certiorari in the case of *eBay Inc. v. MercExchange*.

The court was not asked to consider the test for injunctive relief in *NTP v. Research in Motion*, but when the Federal Circuit's test for injunctive relief was questioned in *eBay v. MercExchange*, the court took no time addressing the issue. It heard arguments within four months of granting cert and issued a decision rejecting the Federal Circuit's test on May 15, 2006.

The court's decisions in *Illinois Tool Works* and *eBay* marked the beginning of an exceptional five-year period in which the Supreme Court has issued an unprecedented seven opinions on patent law. Three more opinions are likely to issue next year.

The court's recent decisions have significantly changed the rights accorded patentees, including the right to demand injunctive relief, and they have markedly altered the test for patentability. The opinions of the court are summarized below.

Illinois Tool Works v. Independent Ink (2006)

Pro patentee holding: Courts should not presume that a patent confers market power when assessing claims of anti-competitive behavior under Section 1 of the Sherman Act.

ITW owned a patent for bar code technology, and it required that licensees of its technology purchase its unpatented ink. To show an actionable restraint of trade under Section 1, an accuser must show that the party accused of restraining trade possesses sufficient market power to accomplish the restraint.

ITW's accuser, relying on prior court decisions, had argued that ITW's power in the relevant market should be presumed from the existence of its patent. The Supreme Court disagreed. In a win for patentees, it held that such a presumption was unwarranted. The decision makes it more difficult for alleged infringers to show illegal restraints of trade based on a tying of patented and unpatented sales.

EBay v. MercExchange (2006)

Pro patent challenger holding: A plaintiff that proves patent infringement is not automatically entitled to a permanent injunction against future infringement.

Vacating the decision below by the Federal Circuit, the Supreme Court rejected the "general rule" that the Federal Circuit had relied upon and remanded the case in order for the district court to apply the traditional four-part test governing awards of injunctive relief.[1]

This decision issued within three months of the settlement in *NTP v. Research in Motion*, and overturned long-standing Federal Circuit precedent that had practically guaranteed a successful patentee permanent injunctive relief. The opinion effectively denies nonpracticing entities such as NTP and MercExchange the ability to use their patents to successfully demand enormous settlement or royalty payments by claiming an automatic right to shut down sales of infringing products and services.

KSR v. Teleflex (2007)

Pro patent challenger holding: A patent can be found invalid as obvious even when the prior art does not show an explicit teaching, suggestion or motivation to combine elements to make the invention.

The Federal Circuit had required that, to show obviousness, an alleged infringer needed to show some teaching, suggestion or motivation to combine elements to make the invention. The Supreme Court acknowledged that this so-called "TSM" test could provide useful guidance when assessing obviousness, but rejected the idea that such a showing was required. In addition, the Supreme Court critiqued Federal Circuit law on obviousness and, on balance, called for more rigorous testing of obviousness in the USPTO and in the courts.

In the wake of the KSR opinion, the allowance rate for U.S. patent applications dropped and the number of district court decisions invalidating patents rose. But more recent decisions of the Federal Circuit have moderated KSR's impact, especially for inventions in the less predictable fields of invention, such as chemistry, biology and pharmaceuticals.

MedImmune v. Genentech (2007)

Pro patent challenger holding: A licensee is not required to terminate or breach its license agreement before seeking a declaratory judgment of patent invalidity, unenforceability or noninfringement.

In the past a licensee was required to breach the agreement before seeking declaratory relief. If the licensee's request for declaratory relief was denied, the patentee was then entitled to claim damages and possibly attorneys' fees for the period of the licensee's breach.

As a result of MedImmune, alleged infringers can challenge the validity of patents while maintaining their rights under patent licenses. The decision limits their damages exposure and makes it more likely that some licensees will challenge patentees who license their patent rights.

Microsoft v. AT&T (2007)

Pro patent challenger holding: Notwithstanding that Section 271(f) of the U.S. Patent Act allows a U.S. patent owner to block the export of components that can be assembled abroad to produce an infringing device, a manufacturer does not violate a U.S. patent by exporting a master software disk that is used abroad to install software on computers at the point of assembly.

AT&T had accused Microsoft of infringing its software patent by exporting a master disk and using it to install software on computers that were being manufactured in Europe. According to the Supreme Court, because Microsoft only exported a master disk and not the software copies that were actually added to the infringing computers, Microsoft did not export "components" of those computers, as would have been necessary to constitute infringement under Section §271(f).

The opinion allows U.S. companies an effective way to avoid infringement of a U.S. software patent when installing copies of the patented software in devices that are manufactured abroad. The opinion may also, by extension, allow companies to avoid infringement in other technologies. For example, the reasoning in this opinion may apply to a situation in which a DNA fragment, which is a component of a patented invention, is created in the U.S., exported to and replicated in a foreign country, and then combined abroad with other components to form the invention.

Quanta v. LG Electronics (2008)

Pro patent challenger holding: The doctrine of patent exhaustion applies to method patents, and the owner's right to exclude using a method patent is "exhausted" upon making the first sale of equipment that practices the method.

In this case, patent owner LG granted its licensee the right to use its patented method for managing computer memory, and therefore authorized the licensee's sale of computer parts that practiced the patented method. Under the exhaustion doctrine, the Supreme Court decided that LG had no right to complain when the purchaser, Quanta, used the licensed parts to make and sell a computer system that practiced LG's method.

In re Bilski (2010)

Pro patentee holding: Business methods can constitute patentable subject matter.

While there is no bright-line test for patentability, a patentable business method must be more than a mere abstract idea, and examples of business methods that generally qualify as patentable subject matter include: A business method combined with a machine for performing that method, or a method that transforms an article to a different state or thing.

Some had expected that the Supreme Court would prevent or severely restrict the availability of business method patents on the grounds that they generally obstruct rather promote technological advances. Instead, by a 5-4 vote, the court ensured the viability of properly crafted business method patents for the foreseeable future.

Additional Supreme Court decisions on patent law can be expected in the next year. The decisions may change the standard for proving inducement to infringe, the ownership of patent rights that result from government-sponsored research, and the presumption of validity where the USPTO issued a patent without considering the most relevant prior art:

Global-Tech Appliances v. SEB (Certiorari Granted Oct. 12, 2010)

Question raised: Is the level of intent required to support a claim of inducing patent infringement one of "deliberate

indifference of a known risk” of infringement, or is it instead one of “purposeful, culpable expression and conduct” to encourage infringement?

Many believe the Federal Circuit went too far when it relaxed the level of proof needed to establish liability for inducement to infringe, and held that the requisite intent can be shown merely by proving deliberate indifference to potential patent rights. Global-Tech wants the Supreme Court to require evidence of a purposeful, culpable expression and conduct by the defendant encouraging infringement.

If the court adopts Global-Tech’s view, some patent owners may find it more difficult to extract value for their patents. For example, if a company recklessly but not purposefully encourages its customers to practice a patented process, that company could escape liability for inducement to infringe, while it could be impractical and/or unwise for the patent owner to sue the customers.

Stanford v. Roche (Certiorari Granted Nov. 1, 2010)

Question raised: Who has original rights to an invention developed in whole or in part using federal funding — the recipient of the government grant or an inventor employed by the recipient?

The U.S. Constitution gives inventors rights in their inventions, and on that basis the Federal Circuit ruled that Roche had received good title to an invention assigned to it by a Stanford University scientist who had developed the invention using government grants. Stanford argues, however, that the Bayh-Dole Act provides that Stanford, as the recipient of the grant, held the original rights to that invention, and that the assignment to Roche therefore had no effect.

If the Supreme Court decides for Roche, Stanford and other research institutions will need to check and revise their agreements to ensure that their researchers are contractually committed in advance to assign all invention rights to the institutions. In the case of existing contracts, like the one at issue, the researchers may be unavailable or unwilling to revise the agreements.

Microsoft v. i4i (Certiorari Granted Nov. 29, 2010)

Question raised: How much deference must a court give to the USPTO’s decision to grant a patent?

Under U.S. patent law an issued patent is presumed to be valid, and in this case the Federal Circuit held — in keeping with an unbroken line of precedent dating back to 1984 — that Microsoft was required to prove invalidity by “clear and convincing evidence,” even though the prior art relied upon by Microsoft to challenge i4i’s patent in court had never been considered by the USPTO.

Microsoft, supported by 11 amicus curiae briefs, seeks to overturn a \$290 million damages judgment against it by convincing the Supreme Court to require only that an alleged infringer prove invalidity by a “preponderance of the evidence” where, as is often the case, the USPTO has not considered the most relevant prior art. The requested change in the law would significantly diminish the strength of many patents where more relevant prior art is discovered during litigation.

Several of the Supreme Court decisions issued over the last five years can be viewed as reducing the strength of patents, especially eBay v. MercExchange, and KSR v. Teleflex. Fortunately for patent owners, the impact of eBay is tempered by the fact that they can continue to demand an accounting for future royalties, and the impact of KSR has been reduced, especially in less predictable arts, by subsequent Federal Circuit decisions as discussed above.

Partly as a result, the overall statistics for patent prosecution and patent litigation have not markedly changed since 2006. The number of patent applications has continued to increase (from 296,000 in 2000 to 391,000 in 2005 to 456,000 in 2009). The number of issued patents has also increased (from 157,000 in 2000 to 144,000 in 2005 to 167,000 in 2009).[2]

The allowance rate for patent applications declined in the three years after KSR, from 70 to 80 percent in 2007, to 48 percent in 2009, but that rate has rebounded to 65 percent in 2010.[3] According to Price Waterhouse Coopers, the number of patent lawsuits was off 6 percent in 2009, but the median damages award was about \$9 million in 2009, not much less than the all-time high of \$10.5 million in 2001 when adjusted for inflation.[4]

Recommendations

What does it all mean? In the years since RIM and its Blackberry customers dodged the bullet in 2006, U.S. patent law has been in a state of flux. Changes to the law have affected the scope of patent rights and the chances of success in patent litigation, and strategies that made sense in the past may no longer make sense in the future. A decision in *Microsoft v. i4i* could have important ramifications for most patent cases.

In this unsettled environment, technology-based companies need to be especially mindful of the changes in the law and how they have affected patentability and enforcement options — and thus the scope and value of patent rights. Companies that pay attention will be able to implement strategies to compensate for or overcome disadvantages that these changes to the law might bring. We recommend the following:

1. Make sure those involved in your company's patent policies and procedures are aware of the recent changes in the law. Patent counsel for companies with substantial technology concerns should be willing to present periodic patent tutorials designed for inventors and management.
2. For patent applicants, help ensure that you satisfy the tests for nonobviousness under a post-KSR analysis by making a more thorough presentation of objective evidence of nonobviousness during prosecution, or by presenting such evidence to the U.S. District Court for the District of Columbia for de novo review (35 USC §145). Also during prosecution, present prior art and arguments in a way that any resulting patent may withstand a challenge under the "preponderance of the evidence" test that is being considered by the Supreme Court in *Microsoft v. i4i*.
3. For manufacturers and service providers, exercise reasonable care when recommending that customers use products or services in a certain way. If there is a concern that recommendations or advertising may cause customers to infringe a competitors' patent, resolve the concern before going forward.
4. For companies that have entered into patent assignments or licenses, consider whether the recent opinions affect the ownership of or licensed rights in those patents, and ensure that corrections are made to ensure the integrity of the company's position.
5. Whether a patentee or an alleged infringer benefits from these changes in the law, it's important to know the score. Understand recent developments before deciding whether it's worth investing in patent protection, buying or selling patent rights, or enforcing or resisting enforcement of claims of patent infringement.

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The opinions expressed are those of the author and do not necessarily reflect the views of the firm, its clients, or Portfolio Media, publisher of Law360.

[1] The traditional test requires that a plaintiff seeking equitable relief must demonstrate: 1) that it has suffered an irreparable injury; 2) that remedies available at law, such as monetary damages, are inadequate; 3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and 4) that the public interest would not be disserved by a permanent injunction.

[2] See "U.S. Patent Activity, 1790 to Present," www.uspto.gov/web/offices/ac/ido/oeip/taf/h_counts.htm.

[3] See Patently-O law blog, May 21, 2010, "USPTO Rising Allowance Rate," www.patentlyo.com/patent/2010/05/uspto-rising-allowance-rate.html.

[4] Price Waterhouse Coopers, "2010 Patent Litigation Study," www.pwc.com/us/en/forensic-services/publications/assets/2010-patent-litigation-study.pdf.