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Supreme Changes in Patent Law

Friday, Sep 07, 2007 --- The last time that I can remember the patent community being this excited about U.S. Supreme Court jurisprudence was with respect to the Festo saga back at the turn of the century.

Yet while the Festo case only touched upon a minor esoteric aspect of the patent law, we recently have had four cases decided by the Supreme Court that affect the very fundamental tenets of patent practice.

In case you missed them, here's a brief summary of the issues and rulings and some recommendations for your technology business.

eBay v. MercExchange, 126 S. Ct. 1837 (2006) is a remedies case. What remedy is available to a patent plaintiff that prevails in an infringement litigation?

We know that the plaintiff is entitled to certain damages based on profits it lost and profits gained by its infringing competitor.

However, 35 U.S.C. § 283 also authorizes the granting of an injunction. Given the fact that a patent is a property right and a right to exclude, when is it appropriate to grant a prevailing patent plaintiff an injunction?

MercExchange brought a patent infringement lawsuit against eBay on a business method patent relating to auctioning of items on the Internet.

There was a finding that both the patent was valid and that eBay infringed. The question therefore was whether an injunction should be granted.

The District Court, Federal Circuit and Supreme Court all agreed that the standard for granting an injunction in a patent case, like any other case, is based on a four-part equity test.

The plaintiff must demonstrate: (1) that it has suffered an irreparable injury, (2) that monetary damages are inadequate to compensate for the injury; (3) the balance of hardships between the plaintiff and defendant favors the plaintiff; and (4) whether a public interest is served by the granting of the injunction.

The District Court said that since this was a noncommercializing patent owner (sometimes inappropriately called a "patent troll"), the four-part equity test should be weighed against it.

Conversely, the Federal Circuit ruled that since this is a patent case, the

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four-part equity test should automatically be weighed in favor of the plaintiff.

The Supreme Court's "unanimous decision" said such "categorical rules" were inappropriate and that certain plaintiffs such as university researchers or self-made inventors need not commercialize their inventions in order to enjoy the injunction benefit of a patent.

The "unanimous decision" was written by a single justice. A first concurrence including three justices stated that because a patent is a right to exclude and an infringer could be using the patent, two of the equity factors may automatically be implicated in favor of the patentee.

This sounds a lot like the Federal Circuit test but that appears to be contrary to the "no categorical rules" mandate in the "unanimous decision."

A second concurrence with four of the eight justices joining (almost a majority) indicated that when one is dealing with a noncommercializing patent holder, two of the factors are automatically implicated against it. This concurrence specifically denounced certain types of plaintiffs that simple buy patents to license and not to commercialize.

Query whether this relates to all purchased patents and how does one know when they've sufficiently "commercialized?"

The second concurrence went even further and stated that business method patents are inherently vague and have suspect validity and therefore their presence should affect the injunction calculus.

The eBay court, although issuing a "unanimous decision," gave us conflicting and confusing guidance on what to do with a noncommercializing patent owner.

Moreover, we have a statement that "business methods patents" (does that include software or a method of making a drug in the pharmaceutical market?) are vague and have suspect validity even though the validity of the patent in question had already been adjudicated.

If your company is involved in litigation, advocacy is available characterizing both the plaintiff and the type of patent.

An interesting follow up to the eBay case is CSIRO v. Buffalo Technologies, 492 F.Supp.2d 600 (E.D. Tex. 2007). This is a case from the Eastern District of Texas (a current hotbed of patent litigation) in which a prevailing noncommercializing patent owner won an injunction.

The court focused on the university researcher dicta found in the Supreme Court "majority" decision.

The primary logic was that the reputation of the research company would be harmed and therefore an injunction was necessary for its business.

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MedImmune v. Genentech, 127 S. Ct. 1746 (2007), is declaratory judgment case. When is there a sufficient case or controversy, as required by Article III of the U.S. Constitution, between a plaintiff and an alleged infringing defendant such that a court can adjudicate the parties' respective rights?

Frequently, when a patent owner wants a defendant to license its patent, the owner will send a letter requesting such a license. Upon receipt of such letter, the defendant may wish to bring a declaratory judgment action requesting an adjudication of its rights under the patent.

Suppose the defendant has a license to the pertinent patent already? In such a situation, the defendant may still be interested in an adjudication of its rights because it may no longer be infringing the patent, it may have found new prior art invalidating the patent, there be change in the marketplace that makes the current license unreasonable, etc.

MedImmune had a license for a certain patent and it continued to pay the license royalty while suing for a declaratory judgment of both noninfringement and for a declaration of its contract rights under the license because it felt it did not infringe.

This is an interesting tactic by MedImmune. Had MedImmune breached the contract and then sued for declaratory judgment, it is clearer that there would have been an Article III controversy, but it would have been subject to a breach of contract claim, the threat of an injunction (see eBay), treble damages and perhaps unfair licensing terms.

But, by paying the royalty, is there a case or controversy? The Supreme Court focused on the contract claim. The contract required that MedImmune pay a license for products that would "infringe" claims of the patent. The Court drew on an analogy for governmental actions and stated that one does not have to first commit a crime to challenge it.

Private coercion is, according to the Supreme Court, equivalent. A plaintiff need not "bet the farm" before it can seek a declaration of its legally contested rights. Therefore, the court had jurisdiction to hear a declaratory judgment action in this case.

Prior to MedImmune, the test for declaratory judgment jurisdiction was: Does the defendant have a reasonable apprehension of suit? In Sandisk Corporation v. STMicroelectronics, Inc., 2007 U.S. App. Lexis 7029 (Fed. cir. 2007), decided after MedImmune, the Federal Circuit explicitly stated that the reasonable apprehension of suit test was abolished by the Supreme Court.

The Sandisk Court went even further and said that if a patentee asserts its rights and another party contends that it doesn't need a license, then there is an Article III controversy.

We learn from MedImmune that a licensee does not have to breach its

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contract to sue for declaratory judgment and the reasonable apprehension of suit test has been abolished. Moreover, when drafting contracts, avoid tying a royalty to a legal conclusion such as infringement or validity.

AT&T v. Microsoft is an infringement case. In general, infringement of a U.S. patent is limited to acts committed in the United States. An exception is delineated in 35 U.S.C. § 271(f), which defines an act of infringement when components of a patented invention are "supplied" outside the United States and when combined, that "combination" would infringe.

The question decided by the AT&T Court was the applicability of this section to software. In AT&T, the patent claim was for an apparatus capable of certain signal processing. The parties agreed that a computer running Microsoft Windows would infringe that claim.

Microsoft shipped a single golden disc containing Windows overseas, that golden disc was copied, and then those copies were loaded onto a computer. The Supreme Court went through hyper-technical analysis to determine what may infringe.

A computer alone would not infringe; there is no relevant signal processing. The golden disc that was shipped overseas would not infringe because it must first be installed into a computer to do anything. Windows code in the abstract could not infringe because the statute requires that the components be "combinable" and abstract code would not suffice.

So here, the only thing that was "supplied" overseas was the golden disc and that disc was never "combined" to form an apparatus that infringes. Therefore, Microsoft did not infringe under 35 U.S.C. § 271(f).

The lessons we learn from AT&T are that, where possible, attempt to get patents overseas; make sure you have method claims; and if you want to avoid infringing a software patent, the Supreme Court has articulated a set of instructions on how to do so.

KSR v. Teleflex is a patentability case and comments on the standard for nonobviousness (i.e., 35 U.S.C. § 103). Patents are only granted for inventions that are new to the world.

When a claimed invention is not explicitly found in a single prior art reference, what is the appropriate test for combining multiple references? If a college-level textbook describes inductors, capacitors and resistors, has that textbook now rendered obvious, and therefore unpatentable, all circuits comprising those components?

In KSR, the patent claim related to the combination of an adjustable pedal sensor and an electronic throttle control all on a single support. No single piece of prior art showed all of these elements in a single housing.

Prior to KSR, the test for combining references to determine obviousness

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was generally: Is there a teaching, suggestion or motivation in the prior art to combine the references to produce the claimed invention.

The Supreme Court dictated the use of a more "expansive and flexible" approach and suggested that the test should be whether there is an apparent reason to combine the known elements in the fashion claimed to produce the patent at issue.

With that test in mind, and the expansive and flexible policy, the Supreme Court enumerated a long list of factors to consider when analyzing obviousness, including design incentives, market forces and interrelated teachings of patents.

Certain guidelines were mentioned, such as a patent for a combination of old elements with no changes in their respective functions is obvious, a known problem may produce a known solution, etc.

The KSR Court went further and said that if a prior art reference is first brought up during litigation and it was not before the patent examiner, the rationale behind the presumption of validity of an issued patent is substantially diminished.

The KSR case affects all aspects of patent practice. Patent filing strategies are affected in that, as it may be harder to acquire a patent, one may consider filing less often or for fewer new features.

A prior art search may be advisable for many patent applications and marketplace incentives should probably not be mentioned.

In litigation, one should be especially careful when characterizing a person of ordinary skill in the art and when new prior art is uncovered, defendants have arguments available against the presumption of validity.

In technology transfer transactions, consider performing market research to see if there are marketplace motivators that may affect the obviousness of certain patents.

In summary, the test for an injunction in a patent case is the four-part equity test and special advocacy is available for certain plaintiffs and certain types of patents.

Declaratory judgment actions are easier to commence.

Software patents are slightly weaker and it is even more desirable to file such patents overseas. The requirements for nonobviousness are higher and more subjective. Overall, it is easier to get involved in a patent litigation and more advocacy is available.

--By Steve Rubin

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