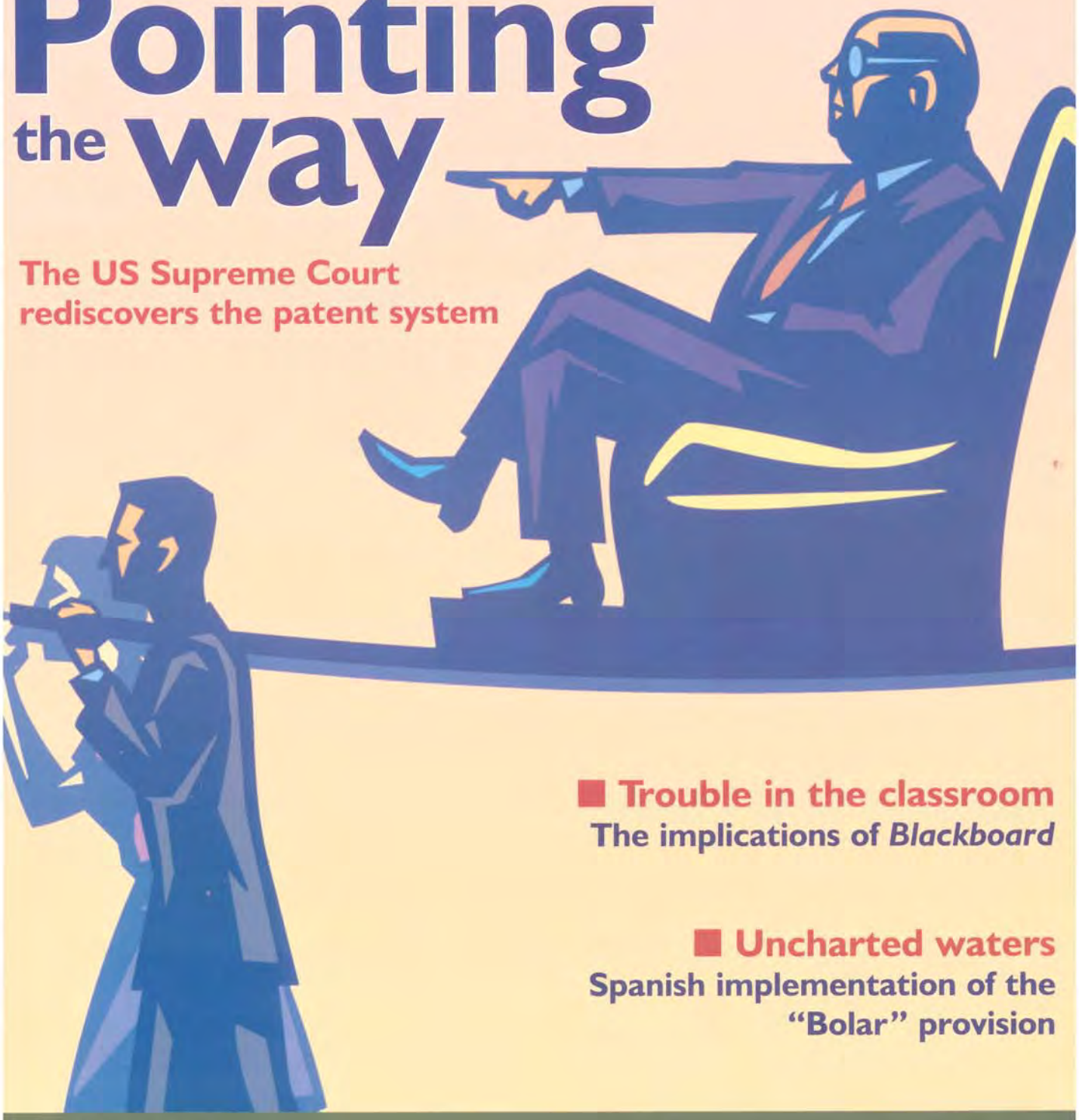
IP World

Serving patent specialists worldwide

March 2007 | Issue 190

Pointing the way

The US Supreme Court rediscovers the patent system



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In summary

– The United States patent system is growing exponentially. Since the first US patent in 1790, the United States Patent and Trademark Office has issued over seven million patents, and over two million of them were issued in the last 15 years

– This trend demonstrates that inventors and companies rely more than ever before on the US patent system to protect their ideas and innovations

– This article charts the involvement of the US Supreme Court in addressing patent issues

Reigning supreme

More uniformity to patent laws

Kenneth R. Adamo and Susan M. Gerber* of Jones Day review the US Supreme Court's involvement in patent cases from a historical perspective

The United States Supreme Court (the "Supreme Court," or the "Court") has re-discovered the patent system, with a vengeance. Why is the Supreme Court taking such an interest in the patent system? While no one can know for sure, the increasing importance and commercial value of technology in today's society may be one reason for the Court's increased interest in patent issues. Further, the Court has shown a propensity for taking up those issues when the decisions from Court of Appeals for the Federal Circuit ("Federal Circuit") express diverging views leaving application of the patent laws uncertain. This intervention by the Court has brought more uniformity to the patent laws, which was Congress' intent when the Federal Circuit was created in 1982.

The United States patent system is growing exponentially. Since the day the first U.S. patent issued to Samuel Hopkins for a potash-making process on 31st July 1790, the United States Patent and Trademark Office has issued over 7 million patents, and over two million of them were issued in the last 15 years.[1] This trend, which will undoubtedly continue, plainly demonstrates that inventors and companies rely more than ever before on the United States patent system to protect their ideas and innovations.

Historical perspective

Before the creation of the Federal Circuit in 1982, patent appeals were decided by the regional circuit courts of appeals for the district where the patent suit had been litigated. During that time, the Supreme Court addressed patent issues relatively infrequently, but issued a number of key decisions, including, for example, *Graham v. John Deere* (1966) (setting forth the standard for § 103 obviousness, including consideration of objective "secondary considerations")[2]; *Lear, Inc. v. Adkins* (1969) (holding that a licensee is not estopped from attacking the validity of the licensed patent and, if successful, could avoid payment of royalties if the patent was declared invalid)[3]; *Blonder-Tongue v. Univ. of Illinois Foundation* (1971) (holding that a patentee is estopped from asserting validity of a patent that was declared invalid in a previous suit,

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* This paper reflects only the present considerations and views of the authors, which should not be attributed to Jones Day or to any of the authors' or Jones Day's former or present clients.

unless the patentee had been denied a full and fair opportunity to litigate the validity of the patent in that prior suit)[4]; *Gottshalk v. Benson* (1972) (addressing whether computer programs could be patented)[5]; and *Diamond v. Chakrabarty* (1980) (holding that a human-made microorganism could be patented).[6]

In the early eighties, Congress took action in response to the significant growth of the patent system. It established the Federal Circuit with the enactment of the Federal Courts Improvement Act ("FCIA"), vesting that court with the exclusive jurisdiction over appeals from final decisions of the federal district courts in patent cases where the trial court's jurisdiction was based, in whole or in part, on 28 U.S.C. § 1338.[7] According to one House Report, the central purpose of the legislation was to reduce the widespread lack of uniformity and uncertainty of legal doctrine that existed in the administration of patent law.[8] Similarly, one Senate Report noted the special need for uniformity in the area of patent law and stated that the FCIA provides a new forum for the definitive adjudication of selected categories of cases.[9]

Opponents of the legislation contended that the creation of a specialised court was not an appropriate solution to the problems associated with patent litigation.[10] Those critics argued that: (1) judges in a specialised court would take too limited a view toward the development of the law, *i.e.*, develop tunnel vision that would decrease development of new ideas; (2) judges would impose their own views of policy; (3) there would be a reduced incentive to produce persuasive and thorough opinions; (4) regional influence would be diluted; (5) judges could be influenced more readily by special interest groups and become pro-patent or anti-patent, with limited opportunities to correct any such bias because the decision-making power would be centralised; and (6) the creation of a specialised court would remove the patent system from the legal mainstream.[11]

"In the early eighties, Congress took action in response to the significant growth of the patent system"

While the creation of the Federal Circuit has brought some uniformity to the patent laws, events have shown that some of the critics' concerns may have been justified. The Supreme Court gave the Federal Circuit time to sort out controversial issues, but in time it became obvious that the judges of the Federal Circuit were irreconcilably divided on a number of key issues, and those divisions were having an impact on the lower courts. For example, in 1995, the Federal Circuit considered en banc the question of the jury's role in claim construction in the case of *Markman v. Westview Instruments, Inc.* The resulting decision was highly fractured.[12] The Supreme Court, in a unanimous decision, put the issue to rest, holding that claim construction is a matter of law for the judge (and not the jury) to decide and rejecting the idea that litigants have a Seventh Amendment right to a jury determination of patent claim construction.[13]

At about the same time, the Federal Circuit addressed *en banc* in *Hilton Davis Chemical Co. v. Warner-Jenkinson, Inc.* the jury's role in applying the doctrine of equivalents to the infringement analysis, holding that infringement under the doctrine of equivalents was a question of fact for the jury.[14] Just as in *Markman*, the court was strongly divided.[15] The Supreme Court granted *certiorari* and reversed the Federal Circuit's *en banc Hilton Davis* decision. The Supreme Court's decision affirmed the continued viability of the doctrine of equivalents and defined the parameters for applying the doctrine.[16] Just five years later, the Supreme Court again took up the issue of the doctrine of equivalents, granting *certiorari* to address the Federal Circuit's *en banc* decision in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.* on the issue of prosecution history estoppel.[17] In *Festo*, the Federal Circuit held that prosecution history estoppel was a complete bar to the doctrine of equivalents in a decision that, again, evoked strong and opposing dissenting opinions.[18] The Supreme Court reversed the Federal Circuit's holding, and instead held that narrowing amendments or arguments made for a substantial reason related to patentability would give rise to a rebuttable presumption that prosecution history estoppel barred application of the doctrine of equivalents.[19]

More recent trends

In addition to these key decisions, in the last ten to 15 years, the Supreme Court has taken

up patent issues with increasing frequency; for example, *Cardinal Chemical v. Morton* (1993) (declaratory judgment jurisdiction)[20]; *Pfaff v. Wells* (1998) (on-sale bar under § 102(b))[21]; *Florida Prepaid v. College Savings Bank* (1999) (sovereign immunity)[22]; *J.E.M. v. Pioneer* (2001) (plants as patentable subject matter)[23]; and *Merck v. Integra* (2005) (holding that under certain circumstances the use of patented compounds in preclinical studies is protected by the safe harbor provision of 35 U.S.C. § 271(e)(1)).[24]

The Supreme Court's patience with the diverging and sometimes controversial views of the Federal Circuit appears to be running out. Twenty years after the creation of the Federal Circuit, Justice Stevens noted the downside of vesting exclusive jurisdiction in that court in his concurring opinion in *Holmes v. Vornado*[25]:

> *"An occasional conflict in decisions may be useful in identifying questions that merit this Court's attention. Moreover, occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias."*

In what may be an effort to reconcile the conflicting views within the Federal Circuit, the Supreme Court has stepped up its review of patent cases even more since 2002. Just this past term, the Court handed down three decisions touching on patent issues. These decisions address two substantive issues and one procedural issue brought in the context of a patent case: *Illinois Tool Works v. Independent Ink* (2006) (lack of *per se* market power in patent)[26]; *eBay v. Merc Exchange* (2006) (availability of permanent injunctive relief)[27]; and *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.* (2006) (requirement to move for new trial or judgment as a matter of law to preserve right to appellate review).[28] Moreover, the Court granted *certiorari* in an additional patent case, although it later dismissed the writ as improvidently granted.[29]

Not only has the Court given increased attention to patent issues coming from the Federal Circuit since 2002, its reversal rate has increased dramatically in recent years. From 1990-2001, the Court granted *certiorari* eight times, heard eight cases, and affirmed the Federal Circuit's decisions 50 percent of the time. In contrast, from 2002 until the present, the Court granted *certiorari* eleven times, heard eight cases, and did not affirm the Federal Circuit in any of the cases.

"Not only has the Court given increased attention to patent issues coming from the Federal Circuit since 2002, its reversal rate has increased dramatically in recent years"

All signs point to the Supreme Court's intention to continue its close marking of the Federal Circuit. For the current term, the Court granted *certiorari* in three patent cases. First, in *MedImmune, Inc. v. Genentech, Inc.*, the Court handed down a decision in January 2007 holding that the actual controversy requirement of the Declaratory Judgment Act does not require a patent licensee to refuse to pay royalties and breach the licence agreement before bringing a declaratory judgment action. Second, in *KSR International Co. v. Teleflex, Inc.* the Court has heard arguments and is considering whether an alleged invention satisfies the statutory requisite of non-obviousness when the prior art discloses the separate components of the combination claimed. (Interestingly, the Supreme Court granted *certiorari* in *KSR* even though Federal Circuit's three-judge panel unanimously disposed of the matter in an unpublished decision, thus reflecting the panel's apparent view that the decision did not present a significant issue of law.) Third, in *Microsoft Corp. v. AT&T Corp.*, upon completion of the briefing, the Court will consider whether infringing activity that takes place outside the boundaries of the United States can constitute infringement of a United States patent under 35 U.S.C. § 271(f). The Court's decision to take this case is indicative not only of the importance of the United States patent system to this country, but also the importance of the enforcement of U.S. patent rights to the global economy.

Even with the resolution of these issues currently before the Court, there remain controversial issues percolating in the lower courts and before the Federal Circuit. One such issue is apparent from the Federal Circuit's recent denial to rehear *en banc* the case of *Amgen v. HMR*.[30] In that case, the petitioner sought rehearing to allow the full court to reconsider its prior holding in *Cybor*[31] that claim construction should be reviewed *de novo* on appeal. The request for rehearing was denied, but the denial (consisting of six separate dissenting and concurring opinions) aptly demonstrates the internal conflict on this issue within the Federal Circuit. Four of the judges argued that the time has come to revisit the notion of *de novo* review for claim construction.[32] This case presents just one example of an issue that may be ripe for future Supreme Court review.

Third party interest and damages

When the Supreme Court takes up a patent issue, the case typically evokes strong views in many segments touched by the patent system – patent owners, trial lawyers, PTO practitioners, as well as other industry players. It is not uncommon for a large number of *amicus* briefs to be filed when patent issues come before the Court. This term is no exception: In the three cases pending, at least 49 *amicus* briefs have been filed by interested parties, including the United States, law professors, legal professional associations, industry representatives, and industry professional groups. This strong showing of third party interest in patent cases is telling.

The enforcement of the right to exclude conferred by a United States patent grant can have a significant economic impact on the patentee, on industry, and on the consuming public. As but one example, the damages in patent cases have grown exponentially in recent years. The highly publicised settlement of the *NTP v. RIM* patent dispute for $612.5 million is simply staggering.[33] An Eastern District of Texas jury recently handed down a $115 million verdict against software giant Microsoft to compensate Z4 Technologies for infringement of its patents.[34] This verdict follows a 2003 jury verdict that would have required Microsoft to pay patentee Eolas Technologies $500 million.[35]

In every patent case, significant and competing interests are presented. First, the patentee has an interest in excluding all others from infringing its intellectual property rights without paying fair compensation. The right to exclude often forms the basis for the millions of dollars invested to research and develop new technologies. Second, others in the relevant industry have a significant interest in gaining access to innovations that are commercially successful. If the patent right being asserted is not valid, others in that industry will be handicapped when competing in the marketplace. Third, the consuming public has a strong interest in having access to valuable inventions at an appropriate cost. When the technology at issue concerns advances in medicine, communications, or public safety, allowing the patentee to exercise its right to exclude may work to the detriment of the public good.

The Supreme Court's recent decision in *eBay* explicitly considers these competing interests. There, an injunction issued in favour of a patentee holding property rights to useful technology, but the patentee itself was not in a position to commercialise the invention. The Federal Circuit held that injunctive relief should be granted absent extraordinary circumstances, and, as a result, the public would have been denied access to that useful technology. These harsh results were avoided when the Court overruled what it characterised to be the Federal Circuit's mandatory injunction rule and replaced it with a traditional balancing of the equities. Balancing such competing interests is not easy: the dueling concurrences in the Supreme Court's decision demonstrate the Justices' struggle to direct the law in the glare of competing interests that impact the patent system, especially when facing technologies and issues not previously extant (as the Kennedy concurrence noted).

The addition of Chief Justice Roberts and Justice Alito to the Supreme Court, with the business focus and conservative bent they are viewed to bring to the table, presages continuing high patent activity before the Court for the foreseeable future.

Notes

1 Interestingly, it took about 120 years for the Patent Office to issue the first million patents.
2 *Graham v. John Deere Co.*, 383 U.S. 1 (1966).
3 *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).
4 *Blonder-Tongue Labs., Inc. v. Univ. of Illinois Found.*, 402 U.S. 313 (1971).
5 *Gottschalk v. Benson*, 409 U.S. 63 (1972).
6 *Diamond v. Chakrabarty*, 447 U.S. 303 (1980).
7 28 U.S.C. § 1295(a)(1).
8 H.R. Rep. No. 97-312 at 23 (1981).
9 S. Rep. No. 97-275 at 4 (1981).
10 *Id.* at 40-41.
11 Jack Q. Lever, Jr., The New Court of Appeals for the Federal Circuit (Part I), 64 J. of Patent Off. Soc'y 178, 202-04 & nn.72, 73 (Apr. 1982) (citing various portions of legislative history of H.R. 3806, H.R. 2405, S. 677 and S. 678).
12 *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995). Eight judges joined the majority opinion written by Judge Archer. Two judges (Mayer and Rader) concurred in the result on different grounds, and one judge (Newman) dissented.
13 *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996). See also Kenneth R. Adamo, "Reforming Jury Practice In Patent Cases: Suggestions Towards Learning To Love Using An Eighteenth Century System While Approaching The Twenty-First Century" 78 J. Pat. & Trademark Off. Soc'y 345 (May 1996); Kenneth R. Adamo, Get on Your Marks, Get Set, Go: Or "And Just How Are We Going to Effect Markman Construction in this Matter, Counsel?, in PLI's Seventh Annual Institute for Intellectual Property Law 183, 286 (2001).
14 *Hilton Davis Chemical Co. v. Warner-Jenkinson, Inc.*, 62 F.3d 1512 (Fed. Cir. 1995).
15 Six judges joined in a majority per curiam opinion (Cowen, Clevenger, Mayer, Michel, Rader, and Schall). This included three judges (Clevenger, Michel and Schall) that were in the majority in *Markman*. Five judges (Archer, Lourie, Nies, Plager and Rich) vigorously dissented in three different dissenting opinions on the ground that the doctrine of equivalents was an equitable doctrine for the court, and one judge (Newman) concurred, lamenting generally the inconsistencies resulting from Federal Circuit decisions under the doctrine of equivalents.
16 *Warner-Jenkinson Co., Inc. v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997); *see also* Kenneth R. Adamo, "The Waiting at the (Patent) Bar is Over-The United States Supreme Court Decides Hilton Davis," Patent World (May 1997).
17 *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722 (2002). *See also* Kenneth R. Adamo, "Back to the Future: Festo, Equivalents and Presumptive Prosecution History Estoppel," 716 Pli/Pat 147 (2002).
18 *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 234 F.3d 558 (Fed. Cir. 2000). Four judges dissented in four separate opinions.
19 *Festo*, 535 U.S. at 735-737.
20 *Cardinal Chem. Co v. Morton Int'l, Inc.*, 508 U.S. 83 (1993).
21 *Pfaff v. Wells Elec., Inc.*, 525 U.S. 55 (1998).
22 *Florida Prepaid Postsecondary Education Expense Bd. v. College Savings Bank*, 527 U.S. 627 (1999).
23 *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124 (2001).
24 *Merck KGAA v. Integra Lifesciences I, Ltd.* 545 U.S. 193 (2005).
25 *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826 (2002).
26 *Illinois Tool Works Inc. v. Independent Ink, Inc.*, U.S., 126 S.Ct. 1281 (2006).
27 *eBay, Inc. v. MercExchange L.L.C.*, U.S., 126 S.Ct. 1837 (2006).
28 *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, U.S., 126 S.Ct. 980 (2006).
29 *Laboratory Corp. of Am. Holdings v. Metabolite Labs., Inc.*, U.S., 126 S.Ct. 2921 (2006).
30 *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 469 F.3d 1039 (Fed. Cir. 2006).
31 *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448 (Fed. Cir. 1998).
32 Judges Michel, Newman, Rader and Moore filed dissenting opinions. *Amgen*, 469 F.3d at 1039.
33 http://www.msnbc.msn.com/id/11659304/.
34 *z4 Technologies, Inc. v. Microsoft Corp.*, Civil Action No. 6:06-CV-00142-LED (E.D. Tex. 2006) (J. Davis). In addition to the jury's award, the district court added attorneys fees and an enhancement for wilfulness to make total award nearly $142 million.
35 *Eolas Tech. Inc. v. Microsoft Corp.*, Civil Action No. 1:99CV00626 (N.D. Ill. 2003) (J. Zagel). Final disposition of the 2003 judgment has not been resolved. In 2005, the Federal Circuit found that the district court improperly granted JMOL in Eolas' favour on Microsoft's anticipation and obviousness defences and improperly rejected Microsoft's inequitable conduct defence, vacating the district court's decisions and remanding for further proceedings on those issues. *Eolas Technologies Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005). Most recently, the Federal Circuit ordered that the case be reassigned to a different district court judge to preside over the case on remand. *Eolas Technologies, Inc. v. Microsoft Corp.*, 457 F.3d 1279 (Fed. Cir. 2006).