

Sea Changes In Our Patent System: Has The Pendulum Reversed? – Part I

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Among the concerns with our patent system have been deterioration in the quality of patents issued by the U.S. Patent and Trademark Office ("PTO") and the degree of uncertainty in patent litigation. Although the Court of Appeals for the Federal Circuit ("Federal Circuit"), created in 1982 with nationwide jurisdiction to hear all appeals in patent cases, has provided a measure of stability and national patent law precedent, its decisions have sometimes been inconsistent or otherwise criticized.

These concerns are being addressed on several fronts. The Supreme Court has increased its focus on patent law in the past few years. It has taken and has made significant corrections in some of the Federal Circuit's decisions. The quality of issued patents is the subject of intense legislative efforts in Congress. The PTO has proposed changes in the examination and processing procedures. Considered together, these efforts are making major changes to our patent system that will have long-ranging and broad effect.

This is Part I of a two-part examination of these changes. It focuses on the impact of recent Supreme Court patent cases. Part II will consider legislative and administrative changes.

Tougher Rules For Obtaining And Sustaining Validity Of Patents

KSR Int'l Co. v. Teleflex, Inc., No. 04-1350 (April 30, 2007)

Under our current patent laws, enacted in 1952, patentability requires not only that the invention must be (a) new, and (b) useful, but also that it (c) would not have been obvious, at the time the invention was made, to a person having ordinary skill in the art. Non-obviousness issues arise constantly in the PTO, in patent litigation and in transactional contexts involving evaluations of inventions and patents. Non-obviousness is the essence of patentability. Typically, it involves consideration of whether it would have been obvious to one of ordinary skill to have combined two or more items of prior art in the same way as claimed in the patent application or patent.

The Federal Circuit has been a pro-patent court, particularly with respect to determination of non-obviousness issues.¹ Seeking to resolve questions of obviousness with more uniformity and consistency, it adopted an approach referred to as the "teaching-suggestion-motivation" ("TSM") test under which a patent claim is only proved obvious if "...some motivation or suggestion to combine the prior art teachings can be found in the prior art, the nature of the problem, or the knowledge of

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a person having ordinary skill in the art." The TSM test was said to guard against the use of hindsight reasoning.

The Supreme Court's *KSR v. Teleflex* decision raised the bar for determining non-obviousness and will affect nearly every patent case, patent prosecution and patents issued under the preexisting standard. Although it did not reject the TSM test itself, it rejected the Federal Circuit's "rigid approach" in applying it, characterizing the test merely as "helpful insight." The Court faulted the Federal Circuit for not following the "flexible and expansive approach" and "broad inquiry" to determine obviousness that had been set forth in the Supreme Court's earlier cases. The Court found error in the Federal Circuit's focus on the specific problem the patentee was trying to solve instead of a broader range of needs or problems in the patentee's field, or even in other fields of endeavor that might provide a reason for making the combination claimed. It also nullified the Federal Circuit's prohibition of relying on an "obvious-to-try" analysis, indicating that an invention can be shown to have been obvious when there is a design need or market pressure to solve a problem and there are a number of known, predictable solutions that would have been obvious to try. And while recognizing the evil in hindsight reasoning, the Court rejected the notion that rigid rules were necessary to prevent it.

Of some concern is the Court's statement that enactment of Section 103 of the patent law did not "...[disturb] this Court's earlier instructions concerning the need for caution in granting a patent based on the combination of elements found in the prior art" and the citation of *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147 (1950). That appears to be at odds with the recollection of one of the collaborators of Section 103, that concern over the vagueness of the A&P case provided impetus for acceptance of the language of the section.² Reference to the A&P case raises the specter of years past when determination of non-obviousness was chaotic and highly unpredictable. Other references to "recourse to common sense" and "[retarding] progress" by granting patents for "...advances that would occur in the ordinary course without 'real innovation'" only heighten that concern.

It can be expected that it will be more difficult to demonstrate non-obviousness in the PTO and the courts. Challengers to patent validity will be able to rely on an expanded range of arguments and prior art. More detailed evidence regarding the level of skill in the art, including peripheral skills or knowledge from other fields that might be transferable or available to one skilled in the immediate field of endeavor, can be expected to play a greater role. Arguments to overcome obviousness challenges will require more creativity than under the TSM test.

Injunctive Relief For Infringement Now Is Less Certain

eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006)

The Supreme Court also has curtailed the pro-patent position of the Federal Cir-



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cuit of applying a "general rule," unique to patent disputes, "that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."³ In vacating the grant of an injunction, the Supreme Court held that there was no such "general rule" and that the traditional four-factor test for permanent injunctive relief must be applied.⁴ This decision should lower the risk in defending against those litigious patent holders whose sole purpose is to exact exorbitant settlements. For other patent litigants, the issue of an injunction will add to the complexity and cost of the case.

A Lowered Standard For Obtaining Declaratory Judgment Will Affect More Than Licensing Practices

MedImmune, Inc. v. Genentech, et al., 127 S. Ct. 764 (2007)

This decision rejected the long-standing "reasonable apprehension of suit" test that had been applied by the Federal Circuit in patent cases to determine whether a court had subject-matter jurisdiction of a case seeking a declaratory judgment. The case arose in the context of a patent license in which MedImmune, a licensee of Genentech, took the position that its principal product, Synagis, was not covered by Genentech's patent, that the patent was invalid and that no royalties were due. MedImmune, however, was unwilling to accept the risk of a breach of contract or infringement suit with consequent damages and an injunction against its main product. Thus, MedImmune paid the demanded royalties "under protest" and sued for declaratory relief.

The Federal Circuit affirmed the district court's dismissal of the complaint on the ground that a patent licensee in good standing had no "reasonable apprehension of suit" and, therefore, did not present a justiciable controversy. The Supreme Court reversed, holding that MedImmune was not required to violate its license before seeking a declaratory judgment as to the validity, infringement or enforceability of the underlying patent. The Court drew an analogy to cases challenging governmental action and seeking declaratory relief, noting that "...we do not require a plaintiff to expose himself to liability before bringing a suit to challenge the basis for the threat—for example, the constitutionality of a law threatened to be enforced." The Court also noted that lower federal courts have long accepted declaratory judgment jurisdiction in cases in which the plaintiff's self-avoidance of imminent injury was coerced by threatened enforcement action of a private party rather than a government.

Sandisk Corporation v. ST Microelectronics, Inc., (Fed. Cir., No. 05-1300, March 26, 2007)

Soon after *MedImmune*, the Federal Circuit expanded on it. In *Sandisk*, the Federal Circuit vacated and remanded a district court dismissal of declaratory judgment claims of noninfringement and invalidity. Here, the parties had been negotiating a cross-license of their flash memory patents. While each party stated that it would not sue the other, repeated and extensive references to infringement issues had been made during the negotiations. Sandisk eventually filed suit for infringement of its patents, also seeking declaratory relief with respect to ST's patents. In vacating the dismissal and remanding to

the district court, the Federal Circuit, relying on *MedImmune*, spoke in broad terms applicable to any patent-related factual context:

We hold only that where a patentee asserts rights under a patent based on certain ongoing or planned activity of another party, and where that party contends that it has a right to engage in the accused activity without license, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its rights.

MedImmune and *Sandisk* unquestionably change the rules with respect to discussions of potential issues between existing licensees as well as patent holders and potential licensees. Before *MedImmune* and *Sandisk*, a patent holder could notify a third party of the existence of his patent and offer or suggest a license without fear of initiation of a declaratory judgment action. Now, depending on the circumstances, such a letter could create declaratory judgment jurisdiction, enabling the third party to seek declaratory relief in a venue of his choosing.

The ramifications of this decision are potentially far-reaching. It will have a chilling effect on patent holders, who will have to exercise great caution in discussing their patents with others. In some circumstances, it may be possible for the parties to agree to a standstill agreement that would provide disincentives for the third party to seek declaratory relief. And in other circumstances, the only way for the patent holder to avoid the risk of a declaratory judgment action may be to file suit for infringement in a venue of his choosing before discussing licensing or settlement.

Conclusion

Since its creation, the Federal Circuit has developed its patent-friendly jurisprudence with little involvement by the Supreme Court. That has changed and the Court is applying what appear to be more restrictive views potentially inhospitable to patent holders and applicants. While it remains to be seen how the Federal Circuit and the district courts respond to what appears to be the new order, clearly caution is in the wind. Moreover, these changes are occurring in parallel to legislative and administrative efforts to reform the patent statutes and practices in profound ways, including changing to a first-to-file system and adopting a post-grant review system, among others. Changes from these sources will dovetail, for example, in the manner in which the PTO will handle examination under the rule of *KSR*. The PTO and legislative directions will be discussed in Part II of this article.

¹ M. D. Henry and J. L. Turner, *The Court of Appeals for the Federal Circuit's Impact on Patent Litigation*, *The Journal of Legal Studies*, vol. 35 (2006), pp. 85-117.

² *Al-Site Corp. v. VSI Int'l, Inc.*, 174 F.3d 1308 (Fed. Cir. 1999).

³ Hon. G. S. Rich, *Congressional Intent—or, Who Wrote the Patent Act of 1952?*, *Patent Procurement and Exploitation*, pp. 61-78 at p. 70, BNA 1963.

⁴ *eBay, Inc. v. MercExchange L.L.C.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

⁵ The factors include (1) irreparable injury to the patentee, (2) no adequate remedy at law, (3) a balance of hardships warranting injunctive relief and (4) the public interest would not be disserved by the permanent injunction.

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