



March 2009

**U.S. SUPREME COURT AND FEDERAL CIRCUIT PATENT CASES (2006-PRESENT)
JUDICIAL PATENT REFORM AT WORK**

When patent legislation was first introduced in 2005, advocates argued that the patent system was out of balance, with lax standards that yielded weak or overly broad patents and harsh remedies that gave so-called patent speculators too much bargaining power. Since that time, a series of U.S. Supreme Court and Federal Circuit decisions have unquestionably shifted the balance of power between patent holders and users, tightening standards of patentability and narrowing patent rights and remedies. The Innovation Alliance¹ urges Congress and the Administration to consider carefully the impact of these decisions before rushing to enact patent legislation that may further weaken our knowledge-based economy.

As reflected in the attached summary of judicial patent decisions, it is now more difficult for innovators to obtain and enforce patent rights (particularly in the case of software and business method inventions), and even after winning at trial, to secure injunctive relief and increased damages for willful infringement. At the same time, recent Supreme Court and Federal Circuit decisions have considerably improved the litigation landscape for patent users. Not only is it easier for patent users to defend against infringement claims and remedies, users are better able to avoid venue in the Eastern District of Texas and other districts that lack a meaningful connection to the case.

These judicial decisions have addressed virtually all of the substantive issues that originally prompted calls for patent legislation, including remedies, venue and patentability standards. When viewed as a whole, these decisions represent the most comprehensive package of court-made patent reforms in decades, eliminating the need for sweeping legislative changes.

In the wake of judicial patent reform, it would be a mistake to adopt radical changes to damages rules or impose a quasi-judicial system of post-grant opposition. These proposals, which were first introduced before the recent wave of judicial patent cases, were always of questionable justification and merit; but in today's economic environment they are clearly unnecessary and imprudent. Legislation of this type would discourage investment in innovative technologies and inflict serious collateral damage on the many thousands of legitimate patentees that drive job growth in today's economy. Further changes to our patent system should, instead, aim to heighten the fairness, predictability and efficiency of patent rules and procedures for all stakeholders. To that end, our innovation economy would be best served by measures designed to improve the quality, efficiency and procedural predictability of USPTO examination. We encourage Congress and the Administration to shift its collective focus to constructive reforms of this type.

¹ The Innovation Alliance is a coalition of companies seeking to enhance America's innovation environment by improving the quality of patents and protecting the integrity of the U.S. patent system. To learn more, visit www.innovationalliance.org.

SUMMARY OF U.S. SUPREME COURT AND FEDERAL CIRCUIT PATENT CASES (2006-PRESENT)

CASE	ISSUE/HOLDING	WHO BENEFITS - NATENT OWNERS OR USERS?
Supreme Court Decisions		
<p><i>eBay Inc. v. MercExchange LLC</i>, 547 U.S. 388 (2006) (reversing Federal Circuit)</p>	<p>Permanent injunctions: Rejected “categorical rules” favoring or disfavoring permanent injunctive relief following a nonappealable judgment of infringement. In all cases, courts must retain equitable discretion to consider the merits of a request for permanent injunctive relief based on the traditional “four factor” test.</p>	<p>Users: Lower courts have interpreted <i>eBay</i> as eliminating the presumption of irreparable harm that historically followed a nonappealable judgment that a patent is not invalid, enforceable and infringed. Moreover, some courts have refused to grant injunctive relief (whether permanent or preliminary) unless the patent owner manufactures a product, and the alleged infringer is a competitor. As a result, despite the Supreme Court’s clear rejection of categorical rules, such a rule has emerged in certain courts disfavoring injunctions for broad categories of non-manufacturing patent holders. This trend also threatens to increase significantly the prevalence of court-imposed compulsory licenses.</p>
<p><i>KSR v. Teleflex</i>, 550 U.S. 398 (2007) (reversing Federal Circuit)</p>	<p>Obviousness: Rejected, in part, the Federal Circuit’s “TSM test,” which conditioned obviousness on a specific finding of some motivation, teaching or suggestion to combine prior art teachings, in the particular manner claimed. The Supreme Court left intact the TSM test as a general standard for evaluating obviousness but held that TSM is not the exclusive test for establishing obviousness. Instead, the Court endorsed a flexible and expansive approach to the obviousness inquiry in lieu of any rigid or narrow formula.</p>	<p>Users: By making it easier to establish obviousness, <i>KSR</i> makes it more difficult to obtain patent protection in the first instance, and tougher to defend against invalidity challenges post-issuance.</p>
<p><i>MedImmune v. Genentech</i>, 549 U.S. 118 (2007) (reversing Federal Circuit)</p>	<p>Declaratory judgment suits by licensees: Held that a licensee need not terminate or breach a patent license agreement before it</p>	<p>Users: By facilitating declaratory judgment suits by licensed patent users, <i>MedImmune</i> permits licensees to “pay and sue”. As a</p>

CASE	ISSUE/HOLDING	WHO BENEFITS - NATENT OWNERS OR USERS?
	can bring suit to obtain a declaratory judgment that the patent is invalid, unenforceable or not infringed. The Court rejected Federal Circuit precedent that a patent licensee in good standing cannot seek a DJ without first repudiating its license agreement.	result, this case could undermine the enforceability of license agreements and encourage litigation.
Microsoft v. AT&T , 550 U.S. 437 (2007) (reversing Federal Circuit)	Extraterritorial enforcement of U.S. patents: Held that a master software disk that is exported and then used by foreign computer manufacturers to install software at the point of assembly is not a component within the meaning of Section 271(f) of the Patent Act. Section 271(f) allows the holder of a U.S. patent to block the export from the United States of components that can be assembled abroad to produce an infringing product, even though the patent is not enforceable in the place where that assembly takes place.	Users: By narrowing the scope of Section 271(f), the Supreme Court's decision will make it harder for U.S. patent holders to prevent infringing uses abroad without a global portfolio of foreign patent rights.
Quanta Computer v. LG Electronics (2008) (reversing Federal Circuit)	Scope of patent exhaustion defense: Held that the patent exhaustion defense applies (i) to patented method claims, and (ii) when the authorized/licensed sale of a product substantially embodies a patented invention.	Users: By eliminating important exceptions to the patent exhaustion defense, <i>Quanta</i> potentially limits a patentee's ability to enforce its rights against downstream users.
Federal Circuit Decisions		
In re Seagate Technology , 497 F.3d 1360 (Fed. Cir. 2007)	Willfulness standard: Abandoned long-standing Federal Circuit precedent imposing an affirmative duty of care on accused infringers, and held that willful infringement requires at least a showing of objective recklessness.	Users: <i>Seagate</i> heightens the standard for proving willful infringement and eliminates any affirmative obligation to obtain an opinion of counsel.

CASE	ISSUE/HOLDING	WHO BENEFITS - NATENT OWNERS OR USERS?
<p><i>In re Bilski</i>, 88 USPQ2d 1385 (Fed. Cir. 2008)</p>	<p>Subject matter eligibility of software/business methods: Narrowed the scope of patent-eligible software/business method patents under Section 101 to methods that are either tied to a particular machine or apparatus or that transform a particular article into a different state or thing (the “machine or transformation test”). However, the court refused to adopt a broad categorical exclusion for software or business method patents or to overrule <i>State Street Bank</i>.</p>	<p>Users: By narrowing the scope of patent-eligible software/business methods, <i>Bilski</i> will make it more difficult to obtain patents for such methods and tougher to defend method patents against invalidity challenges.</p>
<p><i>In re TS Tech</i>, Misc. No. 888 (Fed. Cir. 2008)</p>	<p>Venue: Ordered transfer of venue from the Eastern District of Texas to the Southern District of Ohio. The fact that vehicles containing the allegedly infringing article are sold in the Eastern District of Texas does not provide a meaningful connection with the venue since such vehicles are sold throughout the United States.</p>	<p>Users: <i>TS Tech</i> will facilitate transfer of venue in infringement actions that lack any meaningful connection to the Eastern District of Texas (or other disputed venues), other than evidence of national product sales. Since product sales are often the sole basis for asserting venue in the Texas rocket docket, the case may also discourage plaintiffs from filing suit in this district.</p>