



COMMENTARY

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Patents at the High Court

By John Hillery

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Last year, the Supreme Court heard two major cases on U.S. patent law and has now accepted two more for the upcoming year. Such a pattern is unique in the Court's history; after the creation of Court of Appeals for the Federal Circuit (CAFC) expressly for patent appeals in 1982, the Supreme Court has generally not intervened in patent issues. Why the sudden change of heart?

Media coverage of "patent trolls run amok" may be one cause. Or could the Court's confidence in the CAFC and the patent office be waning? Although the Roberts' Court has accepted more business-related cases than its predecessor, it is not the conservatives but rather the more liberal justices on the Court who are most concerned about the state of patent rights.

The court has taken up major, fundamental issues in the patent system, but so far has provided narrowly tailored rulings.

eBay v. MercExchange

Last session, in the case of *eBay v. MercExchange*, the Court looked at the issue of injunctions. The case involved MercExchange's infringement suit against eBay for technology related to its "Buy It Now" feature. The crux of the issue before the Court was whether CAFC had erred in holding that injunctions should be automatic when infringement is found. MercExchange had received the injunction order against eBay from the CAFC after the district court had declined to issue it. The district court's refusal included the suggestion that MercExchange's status as a troll rendered an injunction unnecessary.

The Court's unanimous ruling held that the injunction decisions should follow explicit rules (which the district court failed to do), but that injunctions need not be automatic. This ruling rebuked the decision of CAFC and will likely result in a weakening of patent trolls' ability to blackmail companies into a settlement. The decision was a slight disappointment to software firms, which had hoped the Court would explicitly permit judges to consider trolls as unworthy of injunctions. Despite their unanimity overall, the justices disagreed: Chief Justice Roberts said judges should follow precedent by favoring injunctions, but Justice Anthony Kennedy suggested that courts should look warily at firms which rely on suing for royalties as a business model (i.e., trolls) rather than producing products.

LabCorp v. Metabolite

In another significant case last session, *LabCorp v. Metabolite*, the Court faced a decision on what is patentable. This too, had resonance with patent trolls because they benefit from pushing the boundaries of the patentability standards, particularly in software.

Although the case involved biotech companies, it was widely seen as having implications for software patents because similar issues of novelty and patentability have been raised in the software space. LabCorp argued that Metabolite's patent (for which LabCorp was being pressured to pay royalties) was a natural phenomenon and therefore not patentable.

The court, however, sidestepped a major decision by finding that the case was improvidently granted. Five justices decided that LabCorp had engaged in "sandbagging," by raising the un-patentability issue late in the appeals' process; the Supreme Court tailors its reviews narrowly to issues raised in lower courts but does not hear new claims. Three justices, (Stevens, Souter, and Breyer) wanted to hear the case and would have found the patent invalid, they said in a dissent.

MedImmune v. Genentech

In an upcoming case for the October term, *MedImmune v. Genentech*, the Court will examine the rights of licensees to press claims of invalidity against patentees while still using the licensed technology. The case has significance for all patent licensing firms and licensees. Licensing of technologies has grown increasingly important to firms as they externalize their innovation and product development processes.

In a 1969 decision, *Lear v. Atkins*, the Supreme Court held that any licensee can reject the license in order to use information acquired under it to challenge the validity of the underlying patent. In deciding *Lear*, the Court said it was balancing the need to eradicate weak patents from the system with the need for stability in license contract agreements.

Now MedImmune, in this case the licensee, is asking the Court for the option to keep the contract in place while suing for patent invalidity. This would remove more risk that the licensee had under the *Lear* regime. Major patent holders with significant licensing portfolios (e.g., IBM) are likely to follow the outcome of this case closely. In their view, expanding licensee rights to assail patents will reduce licensing incentives and make it difficult to price license agreements to incorporate the risk that the licensee will sue.

KSR International v. Teleflex

Also in the October term, the Court will hear a case involving standards of obviousness that has implications for software patents, the open source movement, pharmaceutical drugs, and business method patents.

The case involves two brake pedal manufacturers, KSR International and Teleflex. The two firms are arguing whether Teleflex has patented the right to put electronic sensors on brakes. Under the USPTO's rather soft standards, a combination may be considered nonobvious (a key requirement for patentability) unless it is explicitly proven there was "teaching, suggestion, or motivation that would have led a person of ordinary skill in the art to combine the relevant prior art teachings in the manner claimed." In other words, combinations are non-obvious unless it is shown that the combination was previously envisioned.

This standard made possible substantial growth in software and business method patents as well as combination pharmaceutical drugs, which generic drug manufacturers argue keeps them unfairly out of the market. Open source developers believe that the ease of patenting combinations of ideas makes them vulnerable to law suits alleging infringement of software patents.

The Supreme Court is likely to reference its 1966 decision, *Graham v. John Deere*, in which the standard for non-obviousness was articulated. If the Court finds that the USPTO and lower courts have let the standard slide too far and patenting has grown too expansive as a result, it may craft a ruling that significantly reigns in the patentability requirements.

Common Threads

The issues in these cases—injunctions, patentability, licensee/licensor rights, obviousness—suggest that the Court has heard the buzz about general problems with excessive litigation, poor quality patents and behaviors by some actors that run counter to the Constitutional intent for the patent system. Witnesses at hearings on Capitol Hill have suggested that lower courts are making numerous errors in IP cases and are being manipulated by IP litigants. Others have suggested that the patent office is granting too many bad and broad patents, which serve not to promote but rather to stymie markets and make "work-around" technologies nearly impossible.

The two upcoming cases again provide an opportunity for the Court to provide clarity to aspects of the patent system. The Court's decision in *Metabolite* left the issues unresolved, while in *eBay* the Court took a half-step against patent trolls. US firms will be carefully watching to see if the Court's next decisions will have a bolder imprint on the patent system.