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PRACTICE NOTE

RECENT SUPREME COURT PATENT DECISIONS: THE TREND TO LIMIT THE POWER OF PATENT HOLDERS

Peter O. Huang*

I. INTRODUCTION

Several striking trends have emerged from the Supreme Court's recent review of a number of patent cases: First, the Court has consistently found against patent holders in its most recent cases. Second, these unfavorable decisions have been remarkably free of dissent. Finally, there has been a significant increase in the number of patent cases reviewed by the Court.

These important cases limit the once-formidable clout of patent holders, suggesting that appellate counsel for patent defendants can leverage the recent cases to protect their clients and eliminate undesirable patents. On the other hand, these new cases indicate that counsel for patent holders will face serious challenges in their attempt to reverse this trend in the law (but likely will reap significant rewards if they overcome those challenges). On either side, appellate practitioners have a chance

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to make a major difference in this important area of commercial law.

II. THE IMPORTANCE OF THE PATENT APPEAL

Patent law is generally regarded as an esoteric specialty, which raises the question of why the appellate community should care about the Supreme Court's patent decisions. One reason is quite simply that these cases often involve market power and thus involve very large sums of money. The recent patent litigation woes of medical device company Boston Scientific graphically illustrate why patents matter to today's industry and modern efforts at innovation and they also illuminate companies' reasons for devoting so many resources to patent litigation.

It would be an understatement to say that patent litigation has not been kind to Boston Scientific during the first part of the twenty-first century. In February 2008, Boston Scientific suffered a \$431,867,351.00 adverse judgment in the United States District Court for the Eastern District of Texas.¹ That was followed in May 2008 by a \$250,000,000 jury verdict against the company in another case.² Thus, in less than six months, the company incurred roughly half a billion dollars in liability through unfavorable outcomes in patent cases.

The subject of massive patent damages awards is beyond the scope of this practice note. However, Boston Scientific's troubles illustrate patent litigation's current importance. It is no wonder that patent litigation cases are sometimes referred to as "bet the company" cases.³ Appellate practitioners, through their work before the Federal Circuit (which generally hears patent cases)⁴ as well as in the Supreme Court itself, have a unique chance to help shape this important field. Several interesting

1. *Saffran v. Boston Scientific Corp.*, 2008 WL 380206 (E.D. Tex. Feb. 11, 2008) (verdict, agreement, and settlement).

2. *Medtronic Vascular, Inc. v. Boston Scientific Corp.*, No. 2-06-CV-78 (E.D. Tex. May 28, 2008) (verdict form) (copy on file with Journal of Appellate Practice and Process).

3. See e.g. James Fischer, *The "Right" To Injunctive Relief For Patent Infringement*, 24 Santa Clara Computer & High Tech. L.J. 1, 2 (Nov. 2007).

4. See 28 U.S.C 1295(a)(1) (2008) (providing for jurisdiction in the Federal Circuit over appeals from federal district courts in patent cases) (available at <http://uscode.house.gov>).

trends are emerging in the Supreme Court's treatment of patent matters, trends that will impact patent litigation throughout the United States.

III. THE SUPREME COURT'S RECENT DECISIONS HAVE CONSISTENTLY FAVORED PATENT-INFRINGEMENT DEFENDANTS

Recently, the Supreme Court has not been kind to patent holders, which have lost five patent cases in a row before the Court. Even a simplified analysis of those cases illustrates this striking trend:

First, in *eBay Inc. v. MercExchange L.L.C.*,⁵ in which patentee MercExchange sued eBay for infringement of the MercExchange patents,⁶ the Court rejected the idea of a general rule whereby permanent injunctions are automatically granted to patentees who prevail at trial.⁷ This would appear to be a major blow intended particularly to target so-called "patent trolls"—entities that create or collect patents and then withhold the inventions in order to garner profits by tactics such as bargaining for exorbitant licensing fees.⁸ Some believe that the *eBay* decision was an attempt to rein in patent trolls by hobbling one of the valuable features of a patent—a virtual certainty of a right to exclude others from practicing the art or using the invention disclosed in the patent—by replacing it with the uncertainty of judicial discretion and reducing the leverage that patent trolls have had in negotiating licensing fees.⁹

Second, the Court ruled against another patent holder in *MedImmune, Inc. v. Genentech, Inc.*,¹⁰ holding that a patent licensee is not required to break or terminate its license agreement before seeking a declaratory judgment that the

5. 547 U.S. 388 (2006). The interested reader can find a brief summary of the facts and procedural history of *eBay* in Peter O. Huang, *eBay v. MercExchange as a Sign of Things to Come: Is the Supreme Court Still Reluctant to Hear Patent Cases?* 8 J. App. Prac. & Process 373 (2006).

6. *eBay*, 547 U.S. at 390.

7. *Id.* at 392-93.

8. See e.g. Rebecca A. Hand, Student Author, *eBay v. MercExchange: Looking at the Cause and Effect of a Shift in the Standard for Issuing Patent Injunctions*, 25 *Cardozo Arts & Ent. L.J.* 461, 464 (2007).

9. See e.g. *id.* at 464, 484.

10. 549 U.S. 118 (2007).

underlying patent was invalid, unenforceable, or not infringed.¹¹ A licensee's avoidance of imminent injury by paying the royalties is coerced by the threat of an enforcement action, and the coercive nature of such a threatened action preserves a licensee's right to recover the royalties paid or to challenge the legality of the demand for royalties.¹²

Third, the Supreme Court found against yet another patent holder in *Microsoft Corp. v. AT&T Corp.*,¹³ in which the Court's ruling emphasized that Microsoft only sent software master disks to foreign countries, where the master disks were then copied, and only the copies were installed in computers sold in the foreign countries.¹⁴ While AT&T contended that such conduct constituted infringement by supplying components of the holder's invention from the U.S. for combination abroad,¹⁵ the Court held that it was not enough that the Microsoft software enabled a computer to process speech in the manner claimed by the patent.¹⁶ Microsoft, the Court held, did not infringe the patent by supplying the master disks for copying and installing in computers abroad because the original master disk was never installed on any foreign-made computers and, instead, only the *copies made abroad* were used for installation.¹⁷ Further, the Court held that the software at issue did not qualify as a component until it was expressed as a computer-readable copy when the foreign-made copies were generated.¹⁸

11. *Id.* at 129-31.

12. *See id.* Some would claim that the *MedImmune* decision allows concerned licensees to file declaratory judgment actions in order to obtain preemptive engagement and select a favorable forum, thus enabling them to steer the course of litigation and concurrent out-of-court business negotiations in their favor. *See e.g.* Stephanie Chu, Student Author, *Operation Restoration: How Can Patent Holders Protect Themselves from MedImmune?* 2007 Duke L. & Tech. Rev. 8, ¶ 34 (available in electronic form at <http://www.law.duke.edu/journals/dltr/articles/2007DLTR0008.html>).

13. 550 U.S. 437 (2007).

14. *Id.* at 445-46.

15. *Id.* at 446-47.

16. *Id.*

17. *Id.* at 453-54.

18. *Id.* at 451. For the purposes of this practice note, it is not important to completely analyze the technical and somewhat metaphysical distinctions drawn by the Court in *Microsoft*. The relevant point is that the patent holder once again lost in the Supreme Court. *Microsoft* essentially creates a potential safe harbor involving software and makes it easier for potential targets to avoid being held liable as infringers.

Fourth, the Supreme Court issued yet another decision unfavorable to the patent holder in *KSR International Co. v. Teleflex Inc.*,¹⁹ again reversing the Federal Circuit,²⁰ and emphasizing that when considering obviousness of a combination of known elements, the operative question is whether the improvement is more than the predictable use of prior art elements according to their established functions.²¹ The Court cautioned against an overly rigid application of the relevant test, and discussed other rationales that could be used to find obviousness.²² Commentators have noted that *KSR* promises to “create a stir” among patent holders by making it easier for accused infringers to prove invalidity of asserted patents, thereby making it harder to obtain and preserve the validity of patents based on the combination of known elements.²³

Finally, the Supreme Court issued another setback to patent holders in *Quanta Computer, Inc. v. LG Electronics, Inc.*,²⁴ holding that the doctrine of patent exhaustion limits the patent rights that survive the initial authorized sale of a patented item.²⁵ The Federal Circuit had held that the patent exhaustion doctrine does not apply to method patents, which describe operations to make or use a product, and alternatively concluded that exhaustion did not apply because LG Electronics did not license Intel to sell products to Quanta to combine with non-Intel products.²⁶ However, the Supreme Court reversed and held that the doctrine of patent exhaustion applies to method patents, and because the LG Electronics-Intel license agreement authorized the sale of components that substantially embodied the patents in suit, the exhaustion doctrine prevented LG Electronics from further asserting its patent rights with respect to products

19. 550 U.S. 398 (2007).

20. *Id.* at 428.

21. *Id.* at 416.

22. *Id.* at 415-22.

23. See e.g. Christopher A. Harkins, *Fending Off Paper Patents and Patent Trolls: A Novel “Cold Fusion” Defense Because Changing Times Demand It*, 17 Alb. L.J. Sci. & Tech. 407, 467 (2007).

24. 553 U.S. 617 (2008).

25. *Id.* at ___, 128 S. Ct. at 2122.

26. *Id.* at ___, 128 S. Ct. at 2115.

substantially embodying the inventions in those patents.²⁷ This development removes another array of targets for patent holders to pursue and no doubt will cause them further unhappiness.

IV. THE SUPREME COURT'S DECISIONS AGAINST PATENT HOLDERS HAVE BEEN REMARKABLY FREE OF DISSENT AND HAVE BEEN COMING AT A RELATIVELY FAST PACE

Another striking trend can be observed from the five cases discussed in this note: They have been remarkably dissent free. More specifically, there were no dissenting justices at all in *eBay*, *KSR*, and *Quanta*, while *MedImmune* included a lone dissent from Justice Thomas²⁸ and *Microsoft* a lone dissent from Justice Stevens.²⁹ This virtual unanimity is yet another bad sign for those hoping to use their patents offensively to generate profits.

Another interesting trend also appears from these cases: The Supreme Court is addressing more patent disputes. As I pointed out in this journal several years ago,³⁰ the Court decided only ten patent cases from the inception of the Federal Circuit in 1982 until 2000, which yields an average of approximately one patent case every two years.³¹ Furthermore, as Professor Janis pointed out in 2001, only three of those ten cases involved substantive patent issues, which would yield an average of approximately one every six years.³² Not that long ago, then, it was fair to say that the Court was remarkably reticent in its approach to review of patent cases. The Court almost seemed

27. *Id.* at ___, 128 S. Ct. at 2117, 2122.

28. *See MedImmune*, 549 U.S. at 137.

29. *See Microsoft*, 550 U.S. at 462.

30. *See Huang*, *supra* n. 5, at 374-75.

31. *See Nelson v. Adams USA, Inc.*, 529 U.S. 460 (2000); *Fla. Prepaid Post-Secondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627 (1999); *Dickinson v. Zurko*, 527 U.S. 130 (1999); *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55 (1998); *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997); *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996); *Cardinal Chem. Co. v. Morton Intl., Inc.*, 508 U.S. 83 (1993); *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661 (1990); *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988); *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809 (1986).

32. Mark D. Janis, *Patent Law in the Age of the Invisible Supreme Court*, 2001 U. Ill. L. Rev. 387, 387 n. 2 (referring to *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55 (1998); *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997); and *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661 (1990)).

content to stand aside and allow the Federal Circuit to handle patent matters.

But the latest patent cases from the Supreme Court illustrate and emphasize a recent trend towards much more frequent review of patent cases. In an approximately three-year span, the Supreme Court reviewed five cases, which is about three times the pace of review in the 1982 to 2000 period.³³ Arguably, at least three of those cases involved substantive issues, which is an average of one per year, and approximately six times the pace of substantive review in the 1982 to 2000 period.³⁴

So patent holders should not merely be worried that the Supreme Court is consistently rendering decisions unfavorable to them. They should also be concerned that there appears to be a solid majority of Justices on the Supreme Court who are taking positions unfavorable to them. And if that were not enough, patent holders should be deeply concerned by the significantly increased volume of such unfavorable decisions.

IV. CONCLUSION

Difficult though this recent activity at the Supreme Court may make life for patent holders, it presents an opportunity for appellate practitioners to involve themselves in a dynamic area of law. Patent litigation is in significant flux. Appellate practitioners whose clients' business dealings involve patent issues can in consequence expect to help flesh out the details of the precedents established by recent Supreme Court decisions through appellate litigation at both the Federal Circuit and the Supreme Court.

Counsel for patent defendants can aggressively leverage the recent cases to protect their clients' interests. For now, the momentum appears to be in their favor, at least at the Supreme Court. Appellate practitioners representing patent-infringement defendants can help re-shape the law to eliminate what many

33. See *Quanta*, 553 U.S. 617; *Microsoft*, 550 U.S. 437; *KSR*, 550 U.S. 398; *MedImmune*, 549 U.S. 118; *eBay*, 547 U.S. 388.

34. See *Quanta*, 553 U.S. 617; *Microsoft*, 550 U.S. 437; *KSR*, 550 U.S. 398.

perceive to be bad patents and bad patent actors like patent trolls.

On the other hand, counsel for patent holders will face serious challenges in their attempts to stop or reverse this trend, even though patent holders' rights are important enough to be enshrined in the Constitution.³⁵ Appellate practitioners who represent patent holders can help their clients navigate these recently appearing challenges and may also have the opportunity to help shape new law that protects their clients'—and other patent holders'—valuable intellectual property.

Because “bet the company” patent cases have become an important part of the litigation landscape, they are generating significant appellate work, and there is no sign that this will change any time soon. Whether for patentees or patent defendants, appellate practitioners prepared to represent their clients in connection with patent matters appear to have a chance to make a major difference in this area for some time to come.



35. See U.S. Const., art. I, § 8, cl. 8 (available at http://www.senate.gov/civics/constitution_item/constitution.htm#a1).