Patent Litigation Update: Recent Decisions by the U.S. Supreme Court & the Federal Circuit

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Over the past three years, the United States Supreme Court and the Federal Circuit have decided a series of cases involving critical patent law issues, including patentability standards, affirmative defenses, venue, and remedies. These cases have considerably changed the patent litigation landscape. This article provides an overview of some of these groundbreaking decisions, their impact in patent law, and trends that have emerged since these cases were decided.

INVALIDATION BY OBVIOUSNESS

In *KSR International Co. v. Teleflex Inc.*,[1] the Supreme Court rejected, in part, the Federal Circuit's "teaching-suggestion-motivation test" ("TSM test") for determining the obviousness of a patent, holding that the TSM test is too narrow. Instead, the Court adopted a more flexible and expansive approach to the obviousness inquiry. The Court declared that where a person of ordinary skill in the art could "fit the teaching of multiple patents together like pieces of a puzzle," the patent claim is obvious and therefore invalid.

By endorsing a more relaxed test, the Supreme Court made it easier to establish obviousness in many situations and increased the likelihood for patent invalidation. The first four post-*KSR* obviousness cases decided by the Federal Circuit Court illustrate this point.[2] In three out of the four post-*KSR* decisions, the Federal Circuit Court held that the asserted patent claims were invalid.[3]

The trend that immediately followed *KSR* has continued. The number of patents invalidated by the Federal Circuit and lower courts increased in 2009, although not to the level that many predicted. In the first and second quarters of 2009, the accused infringer prevailed in an obviousness challenge more than 60% of the time—in 34 out of the 55 patents challenged. Such percentage is compared to the 39% in which the accused infringer prevailed in obviousness challenges in 2000-2004, 30% in 2005, 57% in 2006, 55% in 2007, and 49% in 2008.[4]

PATENT INFRINGEMENT

Shipping Abroad

In *Microsoft Corp. v. AT&T Corp.*,[5] the Supreme Court reinforced "the general rule under United States Patent law that no infringement occurs when a patented product is made and sold in another country." The issue in *Microsoft* involved the exception provided in Section 271(f) of the Patent Act, which allows the holder of a U.S. patent to block the export of all or a substantial portion of the patented components to be assembled abroad to produce an infringing product. The Court held that "software, uncoupled from a medium," such as a Microsoft's master disk, is not a combinable component within Section 271(f).[6] The Court explained that "[a]bstract software code is an idea without physical embodiment, and as such, it does not match § 271(f)'s categorization: 'components' amenable to 'combination.'"[7]

The narrow definition of "component" under Section 271(f) restricts the extraterritorial reach of U.S. patent law, making it harder for U.S. patent holders to prevent infringement outside of the United States.

Willfulness

In *In re Seagate Technology, LLC*,[8] the Federal Circuit overturned its long-standing precedent imposing an affirmative duty of care for proving willful patent infringement and adopted an "objective recklessness" standard. Thus, in order to establish

willful infringement a patent holder must now prove "that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent," and that this objectively defined risk was known or should have been known to the accused infringer.[9]

By abandoning the affirmative duty of care standard, the Court eliminated any affirmative obligation to obtain an opinion by counsel. Despite this, however, post-*Seagate* decisions by the Federal Circuit and district courts show that an opinion of counsel remains a relevant factor in the willfulness inquiry.[10] For example, in *Finistar Corp. v. DirectTV Group Inc.*, the Federal Circuit held that a competent opinion of counsel provides sufficient basis for the alleged infringer to negate a claim of objective recklessness.[11]

Without question, *Seagate* heightened the standard for proving willfulness. In 76% of the cases decided by the Federal Circuit and district courts in 2009, the courts determined that the accused infringer did not act objectively reckless and therefore held that no willful infringement had occurred.[12]

INEQUITABLE CONDUCT

In *McKesson Information Solutions, Inc. v. Bridge Medical, Inc.*,[13] the Federal Circuit adopted the "reasonable examiner" standard for determining whether a material nondisclosure renders a patent unenforceable due to inequitable conduct. Accordingly, the key question for the materiality inquiry is whether a reasonable examiner would substantially likely consider the information important when evaluating the patentability of an invention.[14] In addition, the Court redefined the term "information" to be more encompassing, extending it to mean "any information that a reasonable examiner would substantially likely consider important in deciding whether to allow an application to issue as a patent."[15]

By broadening the definition of information and establishing the reasonable examiner standard, some might have predicted that *McKesson* would make it easier to challenge patents based on inequitable conduct. However, 75% (70 out of 93) of the patents challenged on that basis in the Federal Circuit and lower courts in 2008 were held enforceable, and the trend continued in 2009, with the percentage of patents held enforceable increasing to 85% (11 out of 13) in the first and second quarters of 2009.[16]

On August 4, 2009, the Federal Circuit held in *Exergen Corp. v. Wal-Mart Stores, Inc.*[17] that the inequitable conduct defense must be pled "with particularity" under Federal Rule of Civil Procedure 9(b). Thus, *Exergen* now requires the identification of the "specific who, what, when, where and how" of the material representation or omission when asserting the inequitable conduct defense in patent infringement cases.[18] This recent decision suggests that it will be more difficult in the future to plead, and ultimately prevail on, an inequitable conduct defense.

PATENT EXHAUSTION

In *Quanta Computer, Inc. v. LG Electronics, Inc.*,[19] the Supreme Court held that the patent exhaustion defense applies to (i) patented method claims, and (ii) when a licensed/authorized component "substantially embodies the patent." In reaching its conclusion, the Court reinforced its long-standing rule that once a patented invention is lawfully made and sold, there is no restriction on its use for the benefit of the patentee.

By extending the applicability of the exhaustion doctrine to these two instances, *Quanta* forces the patentee to rely on contract rather than patent rules, potentially limiting a patentee's ability to enforce its rights against downstream users due to lack of privity. Although it is too soon to determine its real impact, *Quanta* indeed appears to have limited patentees' rights against downstream users.

DECLARATORY RELIEF

In *MedImmune, Inc. v. Genentech, Inc.*,[20] the Supreme Court rejected the Federal Circuit's "reasonable apprehension of imminent suit" test, which prevented patent licensees from seeking a declaratory judgment without first repudiating its license agreement. The Court held that a patent licensee need not breach or terminate its license agreement before seeking declaratory relief as to patent validity or infringement.[21]

By allowing licensed patent users to seek declaratory relief without having a reasonable apprehension of being sued, *MedImmune* permits licensees to simultaneously pay and sue, thereby undermining the litigation avoidance or settlement objective of license agreements. Since *MedImmune* was decided in 2007, the Federal Circuit has continued to expand the availability of such relief. On March 26, 2007, for example, the Federal Circuit held in *SanDisk Corp. v. STMicroelectronics, Inc.*, that declaratory judgment jurisdiction is met where the patentee "puts the declaratory judgment plaintiff in the position of either pursuing arguably illegal behavior or abandoning that which he claims a right to do."[22]

In 2008, the Federal Circuit went a step further in *Caraco Pharmaceutical Laboratories v. Forest Laboratories, Inc.*,[23] by potentially undermining the enforceability of "not to sue" covenants. In *Caraco*, the Court held that despite the covenant, a controversy exists where a patentee effectively prevents the Federal Drug Administration from approving the accused infringer's generic drug application and excludes the accused infringer from entering the market.[24] The Federal Circuit reiterated the holding of *Caraco* in a recent decision, *Revolution Eyewear, Inc. v. Aspex Eyewear, Inc.*, when it ruled that a covenant not to sue for past infringement does not oust strip a party of jurisdiction where that party wishes to reintroduce the patented product to the market.[25] Since *MedImmune* was

decided in 2007, defendants challenging whether an actual controversy exists have prevailed only 40% of the time.[26]

PERMANENT INJUNCTIONS

In *eBay Inc. v. MercExchange, LLC*,[27] the Supreme Court overturned the Federal Circuit's long-standing rule that successful plaintiffs in patent infringement cases are entitled to permanent injunctive relief absent exceptional circumstances. The Court held that, instead, patent holders must satisfy the four-factor test traditionally used in determining whether injunctive relief should be granted.[28] Accordingly, to obtain a permanent injunction patentees must now show that (i) they will suffer an irreparable injury; (ii) there is no adequate remedy at law; (iii) the balance of hardships between them and the defendant warrants remedy in equity; and (iv) the public interest would not be disserved.[29]

By adopting the traditional four-part test, *eBay* essentially eliminates the presumption of irreparable harm that historically followed in patent infringement cases. As a result, it made it particular difficult for non-practicing entities to obtain permanent injunctions, despite the Court's holding that a "lack of commercial activity in practicing the patents" is not a *per se* bar to injunctive relief.[30] Since *eBay* was decided three years ago, it has become apparent that a lack of commercial activity in practicing patents does indeed affect the irreparable injury inquiry and the probability of obtaining injunctive relief. Between May 2006 (when *eBay* was decided) and December 2009, there has been only one case, *CSIRO v. Buffalo Technology, Inc.*,[31] where a non-practicing entity was successful in obtaining permanent injunctive relief. In contrast, 61 out of the 71 practicing entities that sought a permanent injunction during the same period were successful.[32]

VENUE

In *In re TS Tech USA Corp.*,[33] the Federal Circuit ordered the transfer of venue from the Eastern District of Texas to the Southern District of Ohio, holding that evidence of national product sales is insufficient to prove a meaningful connection to the Eastern District of Texas. Similarly, in *In re Genentech, Inc.*,[34] the Federal Circuit reversed the Eastern District of Texas, granting the accused infringer's writ of mandamus to transfer its infringement action to the Northern District of California, the home forum of one of the accused infringers and closer to where the second accused infringer resided.

TS Tech and *Genentech* potentially discourage plaintiffs from filing patent cases in the Eastern District of Texas—a popular forum for patent cases—where product sales are the sole basis for asserting venue in that district. In addition, these cases may facilitate the transfer of venue in single-defendant infringement actions that lack any meaningful connection to the Eastern District of Texas or other disputed venues to more convenient forums. Indeed, recent cases suggest that the Eastern District of Texas is granting more motions to transfer venue than it has in the past, particularly where the patentee and the accused infringer both reside on the West Coast.[35]

Nevertheless, the E.D. Texas court continues to deny transfer motions in cases where the Texas forum appears to be centrally located—the center of gravity—while the patentee, the accused infringer, the witnesses and the evidence are located in different regions of the country. For example, in *Novartis Vaccines and Diagnostics, Inc. v. Hoffmann-La Roche Inc.*,[36] the E.D. Texas court denied the accused infringer's motion to transfer the case to North Carolina, finding that the "Eastern District of Texas is a centrally located venue for this litigation," since the sources of proof "are spread across the nation."[37]

But the Federal Circuit continues to aggressively transfer cases out of the Eastern District of Texas. In *In re Hoffmann-La Roche, Inc.*, on December 2, 2009, the Federal Circuit reversed the E.D. Texas court's ruling in *Hoffmann-La Roche*, granting the accused infringer's writ of mandamus to transfer the case to the Eastern District of North Carolina.[38] The Federal Circuit found that North Carolina had a meaningful local interest in adjudicating this dispute because (i) that is where the disputed product was developed and tested, (ii) the trial calls into question the work and reputation of several individuals residing in North Carolina; and (iii) at least four non-party witnesses are subject to North Carolina's subpoena power.[39] *Hoffmann-La Roche* was the second case in 2009 in which the Federal Circuit ordered transferred out of the Eastern District of Texas on mandamus, and it will likely influence the transfer of cases from the E.D. Texas to more convenient venues in the future.

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Endnotes

1. 550 U.S. 398 (2007).
2. *In re ICON Health & Fitness, Inc.*, 496 F.3d 1374 (August 1, 2007) (affirming the Board of Patent Appeals and Interferences' holding that the patent claims were unpatentable as obvious); *Pharmastem Therapeutics, Inc. v. Viacell, Inc.*, 491 F.3d 1342 (July 9, 2007)

(holding that the patent claims were invalid for obviousness based on a combination of several prior art references); *Takeda Chem. Indus. v. Alphapharm Pty. Ltd.*, 492 F.3d 1350 (June 28, 2007) (finding that the patent claims were not obvious and therefore not invalid); *Leapfrong Enters, Inc. v. Fisher-Price, Inc.*, 485 F.3d 1157, 1162 (May 9, 2007) (concluding that the patent claim was invalid as obvious in view of the combination and knowledge of one of ordinary skill in the art).

3. *See id.*
4. University of Houston Law Center, U.S. Patent Litigation Statistics, http://www.patstats.org.
5. 550 U.S. 437 (2007).
6. *Id.* at 450.
7. *Id.* at 449.
8. 497 F.3d 1360 (2007).
9. *Id.* at 1371.
10. *See, e.g.*, *DR Sys. v. Eastman Kodak Co.*, 09 U.S. Dist. LEXIS 104080, *31 (S.D. Cal. Nov. 9, 2009) (noting that an opinion of counsel may be considered when assessing whether the infringement was willful); *Creative Internet Adver. Corp. v. Yahoo! Inc.*, 2009 U.S. Dist. LEXIS 65690, *13 (E.D. Tex. July 30, 2009) (finding that an opinion of counsel is a factor to take into account in determining whether the defendant willfully infringed the patent); *Lucent Techs, Inc.. v. Gateway, Inc.*, 2007 U.S. Dist. LEXIS 95934, *11 (S.D. Cal. Oct. 30, 2007) (explaining that advice of counsel remains relevant to the willfulness inquiry, though it is no longer an affirmative duty).
11. *See* 523 F.3d 1323, 1339 (Fed. Cir. 2008).
12. In reviewing post-*Seagate* decisions issued by the Federal Circuit and the district courts in 2009, in 13 cases the courts determined that the accused infringer did not act objectively reckless and 4 cases in which they found objective recklessness.
13. 487 F.3d 897 (Fed. Cir. 2007).
14. *See id.* at 913.
15. *Id.*
16. *See* U.S. Patent Litigation Statistics, *supra* note 4.
17. 575 F.3d 1312 (Fed. Cir. 2009).
18. *Id.* at 1327.
19. 128 S. Ct. 2109 (2008).
20. 549 U.S. 118 (2007).
21. *See id.* at 126.
22. 480 F.3d 1372, 1381 (Fed. Cir. 2007).
23. 527 F.3d 1278 (Fed. Cir. 2008).
24. *See id.* at 1297.
25. 556 F.3d 1294 (Fed. Cir. 2009).
26. This is based on reviewing post-*MedImmune* decisions issued by the Federal Circuit and the district courts from January 2007 to December 2009. In 36 cases, the courts determined that an actual controversy existed between the parties seeking declaratory relief and 30 cases where they found that no case of actual controversy existed under the Declaratory Judgment Act.
27. 547 U.S. 388 (2006).
28. *See id.* at 391.
29. *See id.*
30. *Id.* at 393.
31. 492 F. Supp. 2d 600 (E.D. Tex. 2007).
32. In reviewing post-*eBay* decisions by the Federal Circuit and the district courts from May 2006 to December 2009, in 61 cases the practicing entities were successful in obtaining permanent injunctive relief and 10 cases where a permanent injunction was denied. As for non-practicing entities, there has been only one case where the permanent injunction was granted and 15 cases where it was denied.
33. 551 F.3d 1315 (Fed. Cir. 2008).
34. 566 F.3d 1338 (Fed. Cir. 2009).
35. *See, e.g.*, *Orinda Intellectual Props. USA Holding Group, Inc. v. Sony Corp.*, 2009 U.S. Dist. LEXIS 98881 (E.D. Tex. Sept. 29, 2009) (both Plaintiff's and Defendant's principal places of business were in the Northern District of California); *Abstrax, Inc. v. Sun Microsystems, Inc.*, 2009 U.S. Dist. LEXIS 77393 (E.D. Tex. Aug. 28, 2009) (Defendant's headquarters were in Northern California and Plaintiff's headquarters were in Arizona); *Aten Int'l Co. v. Emine Tech. Co.*, 2009 U.S. Dist. LEXIS 53764 (E.D. Tex. June 25, 2009) (both Plaintiff and Defendant's subsidiary principal places of business were in the Central District of California); *PartsRiver, Inc. v. Shopzilla, Inc.*, 2009 U.S. Dist. LEXIS 12482 (E.D. Tex. Jan. 30, 2009) (Plaintiff and six of the seven Defendants had their principal places of business in California, while the remaining Defendant had its principal place of business in Washington); *Odom v. Microsoft Corp.*, 596 F. Supp. 2d 995 (E.D. Tex. Jan. 30, 2009) (Plaintiff resided and operated his business in Oregon, while Defendant had its principal place of business in Washington).
36. 597 F. Supp. 2d 706 (E.D. Tex. Feb. 3, 2009).
37. *Id.* at 711.
38. *In re Hoffmann-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009)
39. *See id.* at 1339.