

## Patent Reform Through the Courts

Although some reforms can happen only through legislation, some key reforms may be achievable through the courts.

**T**he Federal Trade Commission (FTC) and the National Academies of Sciences, among others, have recently called for significant reforms of the U.S. patent system [1, 2]. The Patent and Trademark Office (PTO), they say, has been issuing too many low-quality patents, mainly because it has been using an insufficiently rigorous standard for judging invention. Unfortunately, there is no effective way to challenge “bad” patents, except through the very expensive, time-consuming, and risky route of litigation. Courts too often enjoin unwitting infringers of patents on even small components of complex products and award massive damages.

Both reports recommend reinvigoration of the standard for issuing patents and adoption of a meaningful post-grant review

process akin to the European opposition system to cure key deficiencies in the patent system.

The information technology (IT) industry has been strongly united in support of patent reform to deal with these and other problems and has lobbied for legislation to achieve key reforms.

Several patent reform bills were introduced in the 109th Congress. Additional bills will almost certainly be forthcoming in the new Congress.

There is reason to believe the IT industry’s objectives for patent reform may be more likely to succeed with a Democratic majority in the Congress because Democrats have generally been more receptive than Republicans to the IT industry and small business concerns about laws affecting innovation and economic growth.

Although some reforms, such as a more effective post-grant review process, can come about only through legislation, a few key reforms may be achievable through the courts. The Supreme Court has already decided one important patent reform case in the last year by holding that courts do not always have to issue injunctions in successful patent cases. Another case now pending

before the Court may reinvigorate the patent law invention standard. Both have been top priorities of the IT industry's patent reform agenda.

### SHOULD INFRINGERS ALWAYS BE ENJOINED?

Patent reform via the courts happened in May 2006 when the U.S. Supreme Court reversed an inflexible ruling too favorable to injunctive relief in *eBay, Inc. v. MercExchange*. The Court of Appeals for the Federal Circuit

joined by Justices Breyer, Souter, and Stevens, took note that "[a]n industry has developed in which firms use patents not as a basis for producing and selling goods but instead primarily for obtaining licensing fees....For these firms, an injunction...can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent....When the patented invention is but a small component of the product the companies seek to produce and the threat of

agenda was legislative clarification about judicial discretion in issuing injunctions. Yet, this reform agenda was unlikely to succeed in Congress because of strong opposition from the biotechnology and pharmaceutical industry and the considerable lobbying clout of this industry.

For the biotech and pharmaceutical industry, enforcing patents through injunctions is viewed as essential to their ability to recoup very considerable research and development expenses that must

Prior to the Court's ruling, a high priority of the IT industry's patent reform agenda was legislative clarification about judicial discretion in issuing injunctions.

(CAFC) had ruled that lower courts must issue injunctions in patent cases in the absence of "exceptional circumstances." CAFC construed this term so narrowly that injunctions were effectively mandatory. The Supreme Court in *eBay* pointed out that the patent law says that courts "may" enjoin patent infringement, not that they must always do so. The patent statute also says that traditional principles of equity should guide decisions about whether to enjoin an infringer from making or selling products embodying the patented invention. The CAFC had failed to heed these statutory provisions.

Justice Kennedy's concurrence,

an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate the infringement and an injunction may not serve the public interest." The Kennedy concurrence also noted that "[t]he potential vagueness and suspect validity of some of these patents may affect the calculus" under the equitable test the Court endorsed as an alternative to the CAFC's virtually automatic injunction rule.

The *eBay* ruling is very good news for the IT industry, which has suffered from the rise of the "patent troll" industry to which Justice Kennedy referred. Prior to the Court's ruling, a high priority of the IT industry's patent reform

be incurred to bring drugs or therapeutics to market. Biotech and pharmaceutical industry groups filed amicus curiae (friend of the court) briefs with the Supreme Court in support of MercExchange and the CAFC's virtually automatic injunction rule. They can be expected to try to persuade the CAFC to give a narrow interpretation to the Court's ruling.

### WHAT TEST FOR "NONOBVIOUSNESS"?

To be eligible for a U.S. patent, a technology must be new, useful and "nonobvious." The latter word is a surrogate for the term "invention," which is often used to describe patented innovations. Invention is, however, a difficult term for patent examiners or

judges to operationalize in an assessment of whether someone has advanced the state of the art enough to qualify for a patent. Under section 103(a) of U.S. patent law, patents may not be issued “if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.” If, however, the subject matter would be “nonobvious” to someone skilled in the art, it qualifies for patent protection.

Although nonobviousness is a more objective criterion for patentability than invention, it is susceptible to a hindsight bias that might unfairly disadvantage patent applicants. That is, once a skilled artisan or a patent examiner learns that a particular technical design achieves a particular functional goal, it may seem obvious to have done what the patent applicant did, even though at the time the innovation was conceived, it would have been a surprise to those in the field. Hindsight bias may be more likely when considering claims that combine two or more preexisting technologies.

To guard against hindsight bias, the CAFC has required courts, as it recently did in *Teleflex v. KSR International* to make “specific findings showing a teaching, suggestion, or motivation to combine prior art teachings in the particular manner claimed by the patent in

issue” before striking down a patent for obviousness. (Let’s call this the “suggestion” test.) The CAFC further requires that any defendant who challenges a patent on obviousness grounds prove its obviousness by “clear and convincing evidence.”

The FTC, among others, has criticized the suggestion test for unduly lowering the standard for invention. It doesn’t allow patent examiners to use common sense or rely on their own skill in the relevant art. Nor does it recognize that know-how is less well-documented in some fields than in others. Too many patents of questionable validity have been issuing as a result of the suggestion test. Public confidence in the patent system as a means to promote innovation and economic growth has consequently been undermined.

**H**ow timely then was the Supreme Court’s decision to accept KSR’s petition to review whether the suggestion test is a proper interpretation of the patent statute. The patent at issue in *KSR* involves a design for gas pedals for operating passenger cars that combines two preexisting technologies: adjustable gas pedals and electronic throttle controls. Adjustable gas pedals allow drivers of smaller than average stature to change the resting position of the gas pedal so they can operate their cars more comfortably; electronic throttle controls allow improved traction control, stability, and fuel economy, among other things.

The trial court granted KSR’s

motion for summary judgment (that is, a trial was unnecessary because none of the pertinent facts was in dispute) and dismissed Teleflex’s patent infringement lawsuit on the grounds that combining these two technologies was obvious. Adjustable gas pedals, the court found, had been around since the late 1970s, and the trend since the mid-1990s had been increasing use of electronic controls in cars; hence, it was almost inevitable that adjustable pedals and electronic controls would be combined. The CAFC reversed on the ground that the trial court had not made specific fact findings that satisfied the suggestion test.

#### **ARGUMENTS AGAINST THE SUGGESTION TEST**

KSR has made three principal arguments against the suggestion test. First, the suggestion test is inconsistent with the Supreme Court’s prior interpretations of the nonobviousness standard. Second, the suggestion test “effectively guts” the ability of defendants to challenge the validity of patents for obviousness. Third, the suggestion test ill serves important policy goals of the patent system.

The principal Supreme Court precedent on the nonobviousness standard is *Graham v. John Deere Co.* (1966). *Graham* interpreted section 103’s condition of patentability as codifying the invention standard that the Court had first endorsed in 1851 in *Hotchkiss v. Greenwood*. *Hotchkiss* involved a patent on a method of

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manufacturing clay and porcelain doorknobs. This method was identical to that already in use for making metal and wood doorknobs. The Court invalidated the patent as “the work of a skilled mechanic, not that of an inventor,” saying that “there was an absence of that degree of skill and ingenuity which constitute essential elements of every invention.”

*Graham* instructed courts to

“assembl[ies] of old elements,” the Supreme Court directed in *Anderson’s-Black Rock* that the inquiry should focus on whether the combined elements produced some “new or different function” or achieved “an effect greater than the sum of the several parts taken separately,” or whether the claimed invention “only unites old elements with no change in their respective functions.” If the latter,

to find specific prior art references that teach, suggest, or somehow motivate skilled practitioners to combine A and B. Because the suggestion test requires fact-finding, more cases have to go to trial.

The suggestion test frustrates patent policy objectives of leaving in the public domain and available for free copying the wide array of obvious innovations that skilled practitioners know or would make

The Court takes its own precedents very seriously, and it has frequently affirmed a high invention standard in the past 150 years.

consider three things when judging whether a claimed invention was nonobvious: the scope and content of the prior art; differences between the prior art and the claims at issue; and the level of skill in the pertinent art. In close cases, courts could also consider secondary factors such as the commercial success of the invention, long felt but unsolved needs, and contrary teachings in the prior art. Applying this standard in *Graham*, the Court decided the plow improvement at issue was obvious and struck down the patent.

**T**wo subsequent opinions, *Anderson’s-Black Rock v. Pavement Salvage* (1969) and *Sakraida v. Ag Pro* (1976), considered nonobviousness as applied to combination patents. In cases involving patents on

the combination should be considered obvious. The Court in *Sakraida* overturned a ruling that upheld the patent because the prior art had not suggested combining the claimed features. Because the Supreme Court struck down in *Sakraida* a precursor of the CAFC’s suggestion test, KSR claims that the CAFC adopted its suggestion test “in open defiance of this Court’s authority.”

KSR has also argued that the suggestion test essentially forces examiners to issue patents unless they can find explicit references in the prior art suggesting a combination of existing elements A and B, no matter how trivial the combination would have been to a skilled artisan. Once weak patents issue, the suggestion test effectively insulates them from challenge because defendants are rarely able

without the need for patent incentives. It fails to recognize that in many fields—and software is certainly one—much of the innovation is implemented in products rather than being revealed in patents or printed publications. Because the suggestion test makes it so difficult to challenge questionable patents, it increases incentives to litigate (or threaten to litigate) these patents and use them as bargaining chips in negotiations to extract unwarranted royalties.

**DEFENDING THE SUGGESTION TEST** Teleflex and those who filed briefs in support of the CAFC’s suggestion test rely heavily on the principle of “stare decisis” (let stand that which has been decided). For more than 20 years, the CAFC and patent

examiners have applied the suggestion test. Hundreds of thousands of patents—perhaps even millions—have been issued in this period, and billions of dollars of investment have been made in innovative technology fields based on the expectation that this test was good law. Teleflex regards a decision rejecting the suggestion test as “earth-shattering” for “patentees, licensees, and investors.”

Given the wide array of possible technologies that can be combined, Teleflex believes it is more difficult than judges may realize to figure out which combinations will be serviceable for particular functions. The suggestion test ensures that inventive combiners won't be unfairly denied patents because some judge decides many years after the patent issues that combining A and B is obvious. Teleflex characterizes the suggestion test as objective and easy for patent examiners and judges to apply.

Teleflex also challenges KSR's assertion that the suggestion test requires examiners to find explicit suggestions in the prior art before finding obviousness. The CAFC has, in fact, said that the prior art suggestion need be only implicit and that examiners can use their expertise in the field. Yet, the cases Teleflex cites for this more flexible interpretation of the suggestion test were decided by the CAFC *after* the Court decided to hear KSR's appeal. Perhaps the CAFC is showing new flexibility in the hope Court will not repudiate the suggestion test.

#### WHAT WILL THE COURT DO?

The Supreme Court heard argument in the *KSR* case in November 2006. Most intellectual property professionals with whom I've discussed the case agree that the Supreme Court didn't take the case in order to tell the CAFC what a good job it has been doing. The Court takes its own precedents very seriously, and it has frequently affirmed a high invention standard in the past 150 years. The Justices were openly critical of the suggestion test during oral argument. So the Court will probably reaffirm its interpretation of nonobviousness and repudiate the CAFC's rigid suggestion test, just as the Court did in *eBay* as to the CAFC's virtually automatic injunction rule.

The most difficult challenge for the Court in *KSR* will be to state a test for judging nonobviousness that is workable and that avoids the hindsight bias problem. Most of the briefs in support of *KSR* call for a return to the *Graham* standard for judging nonobviousness, which is fine so far as it goes, but even *Graham*'s most ardent proponents should admit that *Graham* calls for an open-ended inquiry.

An interesting compromise proposal appears in IBM's amicus brief in support of neither party. It would presume in combination patent cases that the prior art teaches, suggests, or motivates the claimed combination, either implicitly or explicitly. If the patent claimant believes the combination to be nonobvious, it must prove so. Such a rule may deter

applications for minor innovations and may, if applied to existing patents, make it easier to challenge “bad” patents in litigation and to resolve disputes without going to trial.

A meaningful reform of the nonobviousness standard, like the reform of the injunction standard, is probably only achievable through the courts. The biotech and pharmaceutical industries, along with the patent bar and patent bar associations, would actively oppose any legislative effort to refine the invention standard of U.S. patent law. So watch for the Supreme Court's decision in *KSR* by the end of June 2007. The future effectiveness of the U.S. patent system may hang on what the Court does in *KSR* as well as on whether the CAFC will finally decide it must follow the Supreme Court's directives. ■

#### REFERENCES

1. Federal Trade Commission. *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, 2003.
2. National Research Council. *Patent Reform for the 21st Century*, NAS Press 2004.

Synopses and the full text of all briefs filed with the Supreme Court in *KSR* case can be found at Dennis Crouch's Patently O blog: [www.patentlyo.com/patent/patent\\_cases\\_2006/index.html](http://www.patentlyo.com/patent/patent_cases_2006/index.html).

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