

A Renewed Interest By the Supreme Court in the Field of Patent Law: *eBay v. MercExchange* and *KSR v. Teleflex*

by

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Two trends in patent law have plagued many companies that create, use and sell technology. The first trend has been the proliferation of so-called "patent trolls"—generally defined as individuals or companies that make and sell no products, and that exist solely for the purpose of generating revenues from patents. One reason why patent trolls have been successful is because of what had been, until recently, the "automatic injunction" rule in patent cases. Under that rule, when a patent was found in a litigation to be valid and infringed, courts would, absent extraordinary circumstances, automatically award the patent owner a permanent injunction to prohibit future acts of infringement. As a result, many companies typically would agree to pay the patent owner royalties for the future use of the patent rather than risk entry of a permanent injunction.

The second trend has been the perception, fueled by the media, that the U.S. Patent and Trademark Office has been overwhelmed with a flood of patent applications, and that it does not have adequate staffing to handle the work load. The result, critics say, is that, the PTO has been issuing more and more patents on "inventions" that are nothing more than obvious combinations of old technologies. Worse still, once the PTO allows such dubious inventions to become patented, those patents are entitled to a presumption of validity in subsequent federal court litigation. Under current law, an accused infringer who tries to invalidate a

patent that is an "obvious" combination of old technologies bears the added burden of having to come forward with specific evidence of some "teaching, suggestion or motivation" that would have led persons skilled in the field of the patented technology to combine the old technologies in the manner claimed in the patent. The current "teaching-suggestion-motivation" requirement poses a substantial obstacle to parties challenging the validity of patents on obvious combinations of familiar elements.

While these problems are not likely to dissipate anytime soon, recent action by the United States Supreme Court suggests that some relief may be on the way for companies that face the prospect of a permanent injunction or that attempt to invalidate a patent for obviousness. In *eBay, Inc. v. MercExchange, L.L.C.*, the Supreme Court has overruled the automatic injunction rule, replacing it with a test that requires an equitable balancing of interests between the parties. And in *KSR International, Inc. v. Teleflex, Inc.*, the Court has agreed to consider the question of whether evidence of a specific "teaching, suggestion or motivation" should be required to invalidate a patent for obviousness.

The Supreme Court's Reinstitution of Equitable Principles in Considering Permanent Injunctions in *eBay v. MercExchange*

In the *eBay* case, the Supreme Court unanimously held that a patent holder seeking a permanent injunction must satisfy a four-factor test by demonstrating

- (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that,

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considering the balance of the hardships between the plaintiff and the defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.¹

The Court expressly disapproved of any general rule, such as that applied by the Court of Appeals for the Federal Circuit, that would result in permanent injunctions issuing once a patent is found valid and infringed.² The previous practice had given patent trolls a significant bargaining chip in litigation against technology companies.

Consistent with the traditional four-factor test for permanent injunctions, the Court also held that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts.³ The unanimous opinion of the Court calls for more fact finding and balancing of equities at the district court level and also makes it more difficult for the Federal Circuit to vacate or reverse grants and denials of permanent injunctions.

The *eBay* decision has created a frenzy within the patent bar, which is eager to see how the various district courts will apply the four-factor test in patent cases. The two concurring opinions in *eBay* attempt to provide some guidance as to how the four-factor test should be applied in patent cases, but the splits between the concurring and non-concurring Justices result in a fractured decision that imparts no real limitations on the district courts' application of the four-factor test.

Chief Justice Roberts, with whom Justices Scalia and Ginsberg joined, wrote a concurring opinion suggesting that the application of the four-factor test to patent cases would normally result in a permanent injunction, consistent with the traditional practice prior to the *eBay* decision. In the words of Chief Justice Roberts, "there is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate."⁴ Thus, three of the Justices indicated that *eBay* is meant to change the analysis but not the outcome in most patent cases, because the four-factor test will usually favor the practice of granting an injunction to the patent owner.

A plurality of four Justices, led by Justice Kennedy, argued that the historical practice of "granting an injunction against patent infringers almost as a matter of course" should only guide district courts "when the circumstances of a case bear substantial parallels to litigation the courts have confronted before."⁵ Justice Kennedy identified specific situations in which the four-factor test might result in denial of a permanent injunction based on "the nature of the patent being enforced and the economic function of the patent holder."⁶ In the following scenarios, Justice Kennedy suggests that the four-factor test might result in denial of a permanent injunction:

- The patent owner is a firm that uses patents primarily for obtaining licensing fees rather than the basis for producing and selling goods—i.e., a "patent troll";
- The patented invention is merely a small component of a product that the infringer produces, and the threat of injunction is employed "simply for undue leverage in negotiations"; and
- The patent covers a method of doing business.⁷

Through these examples, Justice Kennedy's concurring opinion urges district courts to consider the "economic function" of the patent holder and the "nature of the patent" so that cases involving socially undesirable businesses and patents will not result in the entry of a permanent injunction.

Application of the Four-Factor Test in the District Courts Disfavors Patent Owners Who Are Not in Competition With the Defendant

In response to the Supreme Court's *eBay* decision, the district courts have exhibited a pattern in the way that injunctions are granted and denied, albeit one that, so far, has resulted in the denial of a permanent injunction in the majority of cases. In every post-*eBay* opinion to date that denied a permanent injunction, the patent owner was not a competitor of the infringer. On the other hand, to date, the district courts have uniformly granted an injunction where the patent owner was competing with the infringing product.

In *Tivo, Inc. v. EchoStar Communications Corp.*, the district court determined that the patent holder suffered irreparable harm and that there was no adequate remedy at law, in part, because “Defendants compete directly with Plaintiff” and “[t]he availability of the infringing products leads to loss of market share for Plaintiff’s products.”⁸ Similarly, in *Wald v. Mudhopper Oil Field Services*, the district court found that the patent holder’s loss of market share, opportunity to maintain their own product as the industry standard, and damage to their reputation for innovation were injuries that were “not necessarily take[n] into account” by the money damages awarded by the jury and enhanced by the court.⁹

By contrast, in three post-*eBay* decisions, the lower courts have refused entry of a permanent injunction—*z4 Techs., Inc. v. Microsoft Corp.*; *Finisar Corp. v. DirecTV Group, Inc.*; and *Paice LLC v. Toyota Motor Corp.* In each of those cases, the patent holder was not a direct competitor of the infringing company.¹⁰ Strikingly, none of the plaintiffs was able to demonstrate that even one of the four factors weighed in its favor. Given the deference that the Federal Circuit must show the district court post-*eBay*, it would seem that a patent owner has, at best, an uphill battle if he is not a competitor of the infringer and nonetheless desires to obtain permanent injunctive relief.

In light of these post-*eBay* decisions, the district courts so far appear to be aligning with the plurality of four concurring Justices in the Supreme Court’s *eBay* decision. The decisions of the district courts appear to be addressing Justice Kennedy’s stated concern over patent holders that do not themselves manufacture or sell products and that merely use their patents to obtain licensing fees.¹¹

It remains to be seen whether district courts will adopt Justice Kennedy’s guidelines in cases where the patented invention is a small component of the product or in cases involving a business method patent. At least one district court (in the *z4* case) noted that the infringing technology was only a small component of the infringing product, and the court in *z4* appeared willing to deny an injunction on that ground alone, despite the existence of additional facts that the court used to support its decision: “The infringing [] component of the

software is in no way related to the core functionality for which the software is purchased by consumers. Accordingly, Justice Kennedy’s comments support the conclusion that monetary damages would be sufficient to compensate *z4* for any future infringement by Microsoft.”¹² Thus, in the *z4* case, the relative importance of a patented component to the entire product factored into the district court’s determination of whether the patent holder had lost market share as a result of the infringement. From this standpoint, it may be the loss of market share to the patentee that has been guiding the district court decisions. When infringement results in loss of market share, which is normally the case where the parties are competitors, the district courts in the post-*eBay* era have entered a permanent injunction. On the other hand, when infringement does not affect market share, either because there is no direct competition or because the patented invention is a small component of the product and has a negligible effect on sales, the post-*eBay* district courts have refused to enter a permanent injunction.

As a result of *eBay* and the ensuing district court opinions, a patent holder that does not compete with the infringing product stands to lose bargaining power due to the diminished threat of a permanent injunction against the accused infringer. This outcome is consistent with the intention of the Kennedy plurality to give the district courts discretion to deny injunctions where the patent holder is engaged in socially undesirable activity by allowing the courts to consider the “economic function” of the patentee. Under *eBay* “university researchers or self-made inventors” who do not commercialize their inventions may still obtain injunctions,¹³ which suggests that the Supreme Court is more sympathetic to patent holders engaged in socially desirable activity. Although the district courts post-*eBay* have not yet issued any opinions concerning permanent injunctions in cases that involve a university or a self-made inventor, it is likely that such cases will turn on whether the patent holder is engaged in a socially desirable business or is perceived as a patent troll.

Future Application of *eBay*

It will also be interesting to see how the *eBay* decision will shape district court practice in

granting or denying *preliminary* injunctions. The unanimous opinion of the Supreme Court in *eBay* frowns upon the use of general rules and categorical grants and denials of injunctive relief.¹⁴ Thus, *eBay* requires district courts to address the equities of granting a permanent injunction, regardless of whether certain situations will always result in the grant of such relief. In the context of preliminary injunctions, the Federal Circuit has implied that presumptions of the type proscribed by the Supreme Court in *eBay* are still alive and well.

In the case of *Abbott Labs. v. ANDRX*, for example, the Federal Circuit cited the Supreme Court's *eBay* decision and nonetheless, in denying a preliminary injunction, stated the following: "First, as noted above, we conclude that *Abbott* has not established a likelihood of success on the merits. As a result, *Abbott* is no longer entitled to a presumption of irreparable harm."¹⁵ Although dicta, this statement by the Federal Circuit suggests that if the patent holder can establish a *likelihood* of success on the merits, irreparable harm will be presumed. This appears to conflict with the principles set forth in the *eBay* case, which prohibits a presumption of irreparable harm when the patent holder has already succeeded on the merits. How the Federal Circuit will address this situation when the patentee, unlike the patentee in *Abbott*, is able to show a likelihood of success on the merits is an open question. So far, at least one district court in the post-*eBay* era has determined that a rebuttable presumption of irreparable harm still exists when a party moving for a preliminary injunction establishes a likelihood of success on the merits.¹⁶

The five district court opinions involving permanent injunction in patent cases after *eBay* have come from the Eastern District of Texas and the District of Oklahoma. It remains to be seen how other district courts will apply the Supreme Court's *eBay* decision in determining whether to grant a permanent injunction. The district court opinions that have resulted so far appear to be following the concurring opinion of Justice Kennedy and finding that the equities tip in favor of the infringer when the patent holder has not lost market share as a result of the infringement. If

other district courts take a different approach and grant injunctions in the vast majority of cases, as Chief Justice Roberts and Justices Scalia and Ginsberg seem to urge, then patent owners are likely to forum shop on the basis of whether a particular district disfavors certain classes of patent holders or certain types of patents. Presumably some judges and districts will grow to favor particular types of patent holders and patents over other judges and districts. If this is the inevitable result of *eBay*, then the Supreme Court has empowered district courts to deny permanent injunctions that would result in inequities at the cost of making district court litigation less predictable and creating further divisions between judicial districts and judges.

Revisiting the Standard for Obviousness— *KSR International v. Teleflex, Inc.*

In a case that is being widely watched by patent applicants as well as companies across a spectrum of industries that litigate patents, the Supreme Court recently agreed to hear in its upcoming October 2006 term the question of what evidence is required to prove that a patent claim is invalid as "obvious." The case, *KSR International Co. v. Teleflex Inc.*, marks the first time in 30 years that the Supreme Court has addressed the issue of obviousness. Because obviousness issues arise in virtually every patent case, in both proceedings before the U.S. Patent and Trademark Office as well as during infringement litigation, the Court's anticipated decision in the *KSR* case could have far-reaching implications.

The precise question that the Supreme Court has agreed to consider in the *KSR* case is whether the Court of Appeals for the Federal Circuit—which, since 1982, has heard all appeals from federal court patent enforcement cases—erred in holding that a claimed invention cannot be "obvious," and thus unpatentable, in the absence of a proven "teaching, suggestion, or motivation" that would have led a person skilled in the art to combine the relevant prior art teachings in the manner claimed. The Federal Circuit has applied the "teaching-suggestion-motivation" test to obviousness issues for 20 years.

The Federal Circuit's teaching-suggestion-motivation requirement has been criticized by some as unsupported by the law of obviousness codified in 35 U.S.C. § 103 (a), a provision of federal patent law that dates to 1952. Section 103 (a) states that an invention cannot be patented if it would have been "obvious" to a person skilled in the art of the invention. The obviousness standard enacted by Congress in Section 103 has been a part of the common law (i.e., judge-made law) of the United States since the mid-19th Century.¹⁷

Critics of the Federal Circuit's teaching-suggestion-motivation test point out that the test is not found in either the patent statute or Supreme Court precedent. Those in favor of abandoning the Federal Circuit's current inflexible requirement of specific evidence of a "teaching, suggestion, or motivation" argue that imposing this additional requirement unnecessarily sustains patents that would otherwise be invalidated as obvious combinations of pre-existing components.

The *KSR* case has attracted the attention of a diverse group of industry, public interest groups, and academics, which many of whom have voiced their support for abandoning the current inflexible requirement that persons challenging validity for obviousness satisfy the teaching-suggestion-motivation test. Interestingly, some of the organizations that are seeking to do away with this requirement themselves have significant patent portfolios. Technology titans Microsoft and Cisco, for example, have joined forces in an amicus ("friend of the court") brief in which they argued that the Federal Circuit's teaching-suggestion-motivation test hurts innovation by establishing "far too lenient a standard for patentability."¹⁸

Other briefs filed with the Supreme Court have likewise criticized what they call the current "lax" standard for obviousness that is being applied by the Federal Circuit. The Progress & Freedom Foundation, a non-profit organization that filed its own amicus brief, argued that the teaching-suggestion-motivation test results in "a 'flood of trivial patents' that 'retards innovation and competition.'"¹⁹ Not surprisingly, Teleflex, the patent holder, denies these assertions; it says that the Federal Circuit's teaching-suggestion-

motivation test is consistent with the Supreme Court's obviousness jurisprudence and that there is no need to change the law.²⁰

The Supreme Court has not yet scheduled oral arguments in the *KSR* case. It is anticipated that the matter will be heard in early 2007. A decision is expected to be published before the Supreme Court begins its 2007 summer recess.

Specific Case Proceedings Below

The case at issue involves U.S. Patent No. 6,237,565 ("the '565 patent"), which relates to adjustable gas pedal technology for passenger cars and light trucks. In 2002, Teleflex Incorporated and Technology Holding Company ("Teleflex") sued *KSR International, Inc.* ("*KSR*"), a supplier of gas pedals for General Motors vehicles, for infringement of the '565 patent. According to *KSR*, the claimed invention of the '565 patent involved "a straightforward combination of (i) a pre-existing type of 'adjustable pedal,' and (ii) a pre-existing type of 'electronic control' that is commonly used on newer cars."²¹

During the district court proceedings, *KSR* filed a motion for summary judgment that the sole asserted claim of the '565 patent was invalid as obvious under the Patent Act, 35 U.S.C. § 103 (a). Section 103 (a) provides:

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, 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. Patentability shall not be negated by the manner in which the invention was made.

KSR argued that the sole asserted claim of the '565 patent was invalid in view of the combination of two prior art references: (1) an earlier issued patent (the "Asano patent") that was alleged to disclose the same type of adjustable pedal assembly claimed in the '565 patent; and (2) an earlier available, off-the-shelf, modular electronic pedal position sensor that

was designed to engage the pivot shaft of any type of gas pedal.²²

The district court agreed with KSR and granted summary judgment of invalidity. The district court concluded that the asserted claim of the '565 patent was obvious under 35 U.S.C. §103 (a) in view of a combination of prior art references. The district court judge, after comparing the teachings of the prior art with the asserted claim of the '565 patent, found that all of the limitations of the claim at issue existed in the prior art at the time of the invention. The district court explained that the structural limitations of the asserted claim of the '565 patent were disclosed in the Asano patent with the exception of the limitation of electronic control.²³ The district court further concluded that electronic controls were well known in the prior art, and further, that a person skilled in the art of the '565 patent would have been motivated to combine the Asano and electronic controls references.²⁴

On appeal, the Federal Circuit (in an unpublished decision) vacated the district court's obviousness determination. The Federal Circuit ruled that the district court's analysis applied an "incomplete teaching-suggestion-motivation" test. The appeals court stated that "[u]nder our case law . . . the district court was required to make specific findings as to whether there was a suggestion or motivation to combine the teachings of Asano with an electronic control in the particular manner claimed by claim 4 of the '565 patent."²⁵ The Federal Circuit held that the district court erred in granting summary judgment of invalidity because there existed "genuine issues of material fact" as to whether one of ordinary skill in the art would have been motivated to attach an electronic control to the support bracket of the assembly disclosed by Asano.²⁶

Supreme Court Petition

KSR filed a petition for the Supreme Court to review the Federal Circuit's decision. Such petitions are rarely granted in any case, and patent cases are no exception. In its petition, KSR argued that under earlier Supreme Court cases, including *Anderson's-Black Rock, Inc. v. Pavement Salvage Co.*²⁷ and *Sakraida v. Ag Pro, Inc.*,²⁸ patent

protection is precluded for a claimed invention that consists of "a combination which only unites old elements with no change in their respective functions." KSR stated that the Supreme Court's precedents and the language of Section 103 itself had been "eviscerated" by the Federal Circuit during the past 20 years.²⁹

Possible Impact of Decision on Litigation Strategies and Tactics

The KSR case has the potential for impacting nearly everyone involved in acquiring or enforcing patents in the United States. If the Supreme Court concludes that evidence of a specific "teaching, suggestion, or motivation" is not required in every case under 103 (a), it is likely that the PTO will reject more pending patent applications based on obviousness. Patent applicants facing obviousness rejections will be more likely to narrow the scope of patent claims that might have otherwise been allowed in order to get their patent granted. Additionally, the duration of the patent examination process could be extended for some applicants, especially those that appeal from adverse decisions on patentability by the PTO on grounds of obviousness. A change in the law of obviousness could also lead to more third-party validity challenges being filed in the PTO, such as by protests or requests for reexamination.

Furthermore, should the Supreme Court abandon the teaching-suggestion-motivation test as a requirement for proving obviousness, the validity of any issued patent that is subsequently asserted in a litigation could be somewhat more susceptible to attack. Nevertheless, accused infringers normally face an uphill battle when trying to invalidate a patent for any reason, including obviousness. This is because once a patent is issued by the PTO, it is presumed to be valid in litigation. The accused infringer bears the burden of proving that the patent is invalid by "clear and convincing evidence"—a standard of proof that is higher than the "preponderance of the evidence" standard that normally applies in civil cases.³⁰

Even if the Supreme Court ultimately rejects the Federal Circuit's teaching-suggestion-motivation test as a requirement, such a ruling does not mean

that there would be no standard for determining obviousness. Forty years ago, in *Graham v. John Deere Co.*,³¹ the Supreme Court set forth the analytical tools for evaluating whether a patent is invalid for obviousness. Under the *Graham* test, courts must consider the scope and content of the prior art, the differences between the prior art and the claims at issue, the level of ordinary skill in the pertinent art, and other objective indicia of non-obviousness (such as whether the claimed invention

is commercially successful, whether it addresses a long felt but unsolved need, and whether others have tried and failed to solve the problem purportedly solved by the invention.).³² Thus, regardless of how the Supreme Court ultimately decides the *KSR* case, the *Graham* factors will still be applicable to analyzing issues of obviousness in patent cases.

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Notes

¹ 126 S.Ct. 1837, 1839 (2006).

² *Id.* at 1840-41.

³ *Id.* at 1841.

⁴ *Id.* at 1841 (Roberts, C.J., concurring).

⁵ *Id.* at 1842 (Kennedy, J., concurring).

⁶ *Id.*

⁷ *Id.* at 1842.

⁸ 2:04-CV-1-DF, Dkt. No. 773, Order at 10 (E.D. Tex. August 17, 2006).

⁹ 2006 U.S. Dist. LEXIS 51669, at *16 (W.D. Okl. July 27, 2006).

¹⁰ See *z4 Techs., Inc. v. Microsoft Corp.*, 2006 U.S. Dist. LEXIS 40762, at *7-8 (E.D. Tex. June 14, 2006) ("Microsoft does not produce product activation software that it then individually sells If it did, then z4 might suffer irreparable harm in that Microsoft would be excluding z4 from selling or licensing its technology"); *Finisar Corp. v. DirecTV Group, Inc.*, 2:03-CV-02612-WHW, Dkt. No. 259, Tr. of Oral Opinion at 123-24, (E.D. Tex. July 6, 2006) ("It's also uncontested [Plaintiff] . . . never made the slightest effort to ever use the patent."); *Paice LLC, v. Toyota Motor Corp.*, 2:04-CV-211-VF, Dkt. No. 227, Order at 8-9 (E.D.

Tex. August 16, 2006) ("[B]ecause Plaintiff does not compete for market share with the accused vehicles, concerns regarding loss of brand name recognition and market share similarly are not implicated.").

¹¹ See *e-Bay*, 126 S.Ct. at 1842. Justice Kennedy refrained from using the pejorative term "patent troll" in his concurring opinion.

¹² *z4*, 2006 U.S. Dist. LEXIS 40762, at *11-12.

¹³ 126 S.Ct. at 1840.

¹⁴ *eBay*, 126 S.Ct. at 1841.

¹⁵ 452 F.3d 1331, 1334 (Fed. Cir. 2006).

¹⁶ *Christiana Indus., Inc. v. Empire Elecs., Inc.*, 2:06-CV-12568-VAR, Dkt. No. 15, Opinion and Order at 19 (E.D. Mich. July 25, 2006), Dkt. No. 26, Opinion and Order at 4 (E.D. Mich. Aug. 4, 2006).

¹⁷ *Hotchkiss v. Greenwood*, 52 U.S. 248 (1852).

¹⁸ Brief *Amicus Curiae* of Cisco Systems, Inc., Microsoft Corp., Hallmark Cards, Incorporated, V.F. Corporation, and Fortune Brands Inc., at 3-4.

¹⁹ Brief of the Progress & Freedom Foundation as *Amicus Curiae* in Support of the Petition for Writ of Certiorari, at 3.

²⁰ Brief of Teleflex, Inc. and Technology Holding Co. in Opposition to Petition for Writ of Certiorari, at 14-16.

²¹ KSR International Co.'s Petition for Writ of Certiorari, at 5.

²² *Id.* at 7.

²³ *Teleflex, Inc. v. KSR Int'l Co.*, 298 F.Supp. 2d 581, 592 (E.D. Mich. 2003).

²⁴ *Id.*

²⁵ KSR International Co.'s Petition for Writ of Certiorari, appendix A (Federal Circuit slip op. at 12a).

²⁶ *Id.* (Federal Circuit slip op. at 14a-16a).

²⁷ 396 U.S. 57, 60-61 (1969).

²⁸ 425 U.S. 274, 281-82 (1976).

²⁹ KSR International Co.'s Petition for Writ of Certiorari, at 3.

³⁰ The highest standard of proof is "beyond a reasonable doubt," which applies only in criminal cases.

³¹ 383 U.S. 1 (1966).

³² 383 U.S. at 17-18.