

# **OVERRULED**

## **How the Supreme Court Will Reestablish Control Over the Patent Law**

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## Overruled: How the Supreme Court Will Reestablish Control Over the Patent Law

The Supreme Court has recently developed an appetite for patent law cases. It seems clear that the “Roberts' Court” will be active in this area for some time to come. This short paper will attempt to address some of the reasons that the Supreme Court has begun, and will likely continue, to move away from various hard and fast rules articulated by the Federal Circuit over the last twenty years. An examination of one of the Court’s recent decisions, *eBay, Inc. v. MercExchange, L.L.C.*<sup>1</sup>, in conjunction with two cases upon which certiorari has been granted, *KSR Int’l Co. v. Teleflex, Inc.*<sup>2</sup> and *MedImmune, Inc. v. Genentech, Inc.*<sup>3</sup>, yields an interesting look into the Court’s rationale for pulling back on the Federal Circuit’s reins.

The Supreme Court’s current interest in patent law matters is remarkable if for no other reason than its relative hiatus following the creation of the Federal Circuit. Perhaps the Supreme Court felt disinclined to intervene in patent cases after the formation of the Federal Circuit in 1983. Its goal was to unify the patent law, encourage research and development by enforcing patent rights, and eliminate the trend of forum shopping among the various Circuit Courts of Appeals. Looking at the early years of the Federal Circuit, one could only hope to be a patent holder. The majority of patents were upheld and enforced. The time to completion of appeal was often under one year. Over time, the Federal Circuit grew more and more comfortable in its role as the exclusive court of patent appeals and, some would say, began to formulate law at odds with older Supreme Court precedent. Although rumblings of discontent were heard periodically throughout the 1990’s and into the new millennium<sup>4</sup>, the Supreme Court remained largely on the sidelines. However, it now appears that the Roberts’ Court is ready to play ball.

### *eBay, Inc. v. MercExchange, L.L.C.*

On May 15, 2006, the Supreme Court handed down its decision in the *eBay* case regarding the issuance of permanent injunctions following a finding of patent infringement. The petitioner eBay operates a web site on which individual users can list and sell their goods. Respondent MercExchange sued eBay in the Eastern District of Virginia under its business method patent for “an electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants.”<sup>5</sup> After a jury found the patent to be valid and infringed, the district court denied MercExchange’s motion for a permanent injunction. The Federal Circuit quickly reversed, noting its “general rule that courts will issue

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<sup>1</sup> *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006).

<sup>2</sup> No. 04-1350, 2006 U.S. LEXIS 4912 (June 26, 2006).

<sup>3</sup> No. 05-608, 126 S. Ct. 1329 (Feb. 21, 2006).

<sup>4</sup> For example, Justice Scalia remarked that the Federal Circuit had engaged in “an unprecedented feat of interpretive necromancy,” i.e. black magic. *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 833 (2002). In the same case, Justice Stevens hinted that the Federal Circuit may suffer from “an institutional bias.” *Id.* at 839 (Stevens, J., concurring).

<sup>5</sup> *eBay*, 126 S. Ct. at 1839.

permanent injunctions against patent infringement absent exceptional circumstances.”<sup>6</sup> In other words, under Federal Circuit law, permanent injunctions had been granted almost automatically upon a finding of patent validity and infringement.

In a unanimous decision, the Supreme Court rejected the Federal Circuit’s policy of rubber-stamping permanent injunctions and brought the standard in patent disputes back in line with the rest of civil law, namely the traditional four-factor framework for equitable relief:

In [vacating the judgment of the Court of Appeals], we take no position on whether permanent injunctive relief should or should not issue in this particular case, or indeed in any number of other disputes arising under the Patent Act. We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, *in patent disputes no less than in other cases governed by such standards.*<sup>7</sup>

While the Court’s abandonment of the Federal Circuit’s rigid rule was unanimous, its view on the correct application of the traditional four-factor test moving forward is less clear.<sup>8</sup> Concurring opinions by Chief Justice Roberts and Justice Kennedy highlight two different strains of thought.

In a concurrence joined by Justices Scalia and Ginsburg, Chief Justice Roberts articulated his support for the four-factor standard rather than the Federal Circuit’s general rule. However, he also emphasized “the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes,” thereby suggesting that the four-factor test should continue to result in a large number of permanent injunctions.<sup>9</sup> Although acknowledging that a patentee should not be entitled to a permanent injunction as a general rule, the Roberts concurrence sends a cautionary message to district court judges by noting that “a page of history is worth a volume of logic.”<sup>10</sup>

The concurrence of Justice Kennedy, joined by Justices Stevens, Souter, and Breyer, acknowledges the historical bent of the Roberts concurrence, but goes further by suggesting that, among other things, the recent emergence of a market for patents

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<sup>6</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). An example of an exceptional circumstance could be “when ‘a patentee’s failure to practice the patented invention frustrates an important public need for the invention,’ such as the need to use an invention to protect public health.” *Id.* (quoting *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)).

<sup>7</sup> *eBay*, 126 S. Ct. at 1841 (emphasis added).

<sup>8</sup> Under the traditional four-factor test, “a plaintiff must demonstrate: (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, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.” *Id.* at 1839.

<sup>9</sup> *Id.* at 1841 (Roberts, C.J., concurring) (emphasis in original).

<sup>10</sup> *Id.* at 1842 (Robert, C.J., concurring).

themselves necessitates a more detailed analysis. According to Justice Kennedy, the historical pattern of nearly always granting an injunction against patent infringers “simply illustrates the result of the four-factor test *in the contexts then prevalent*.”<sup>11</sup> These “historical contexts” presumably consisted of firms that used patents to engage in monopoly pricing of the products that *they actually manufactured and sold*. Justice Kennedy warns that many cases today involve a different set of circumstances:

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An 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, and the potentially serious sanctions arising from its violation, 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 an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.<sup>12</sup>

In a similar vein, Justice Kennedy voiced concern over the increasing number of business method patents.<sup>13</sup> Noting the “vagueness and suspect validity of some of these patents,” he concluded that equitable discretion over injunctions should assist the district courts “to adapt to the rapid technological and legal developments in the patent system.”<sup>14</sup>

### The Changing Times

All members of the Supreme Court agreed to abandon the Federal Circuit’s inflexible and pro-patentee rule of issuing injunctions as a matter of course. However, it is the juxtaposition of the two *eBay* concurrences that sheds light on the Court’s thinking regarding the changing patent law landscape.

As described in Justice Kennedy’s concurrence, patent holding companies are increasingly active in obtaining and enforcing intellectual property rights. “Affectionately” known in some circles as “patent trolls,” these companies are in the business of filing, buying, selling, and licensing patents. Perhaps the most famous patent holding company of all is NTP, Inc. which recently obtained a huge settlement from Research in Motion, the maker of BlackBerry™, following NTP’s successful patent infringement lawsuit.<sup>15</sup> These companies are often vilified because they do not themselves make or sell any goods. While the question of whether there is anything

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<sup>11</sup> *Id.* (Kennedy, J., concurring) (emphasis added).

<sup>12</sup> *Id.* (Kennedy, J., concurring) (citations omitted).

<sup>13</sup> As noted above, the *eBay* case itself involved a business method patent.

<sup>14</sup> *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

<sup>15</sup> See *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1326 (Fed. Cir. 2005).

inherently wrong with doing business in this manner is beyond the scope of this paper, it seems the Supreme Court (or at least the Justices joining the Kennedy concurrence) believes the current state of the law creates a situation of market failure. In particular, (1) the ability to obtain a nearly automatic injunction (the issue in *eBay*), (2) the difficulty of proving obviousness both in court and in the PTO (the issue in *KSR*), and (3) the inability of a licensee in good standing to challenge the validity of the licensor's patent (the issue in *MedImmune*) have together created an ideal environment for patent holding companies to conduct themselves in, what many consider to be, an exploitative manner.

For example, imagine a patent holding company that wants to obtain either business method patents or improvement patents in a newly emerging field. As we'll see below, because of the Federal Circuit's rule that an invention is only obvious when an express "motivation to combine" can be shown from the prior art references (factor (2) above), some of these companies may be able to acquire patents of suspect validity.<sup>16</sup> At this point, the patent holding company will accuse a manufacturing firm of infringement and will offer a license under its patent. Furthermore, possessing a sword of Damocles in the form of an automatic injunction should it win the lawsuit (factor (1) above), the patent holding company (who makes no products of its own and therefore has no incentive to cross-license any patents that the manufacturing firm may own) may drive a hard bargain, but offer a price that is attractive relative to the cost of litigation. The proverbial ball is now in the manufacturing firm's court. The firm will think hard before making its decision because it will know that if it does enter into a license, it will not be able to challenge the validity of that license in court (factor (3) above) without breaching the agreement and subjecting itself to the possibility of a finding of willful infringement and trebled damages. Justice Kennedy's fear is that, over a barrel, many firms in this situation would likely pay the licensing fee, considering it to be an unfortunate cost of doing business and passing that cost on to the downstream consuming public.

In the *eBay* case, the Supreme Court remedied some of the problems associated with factor (1) in the above hypothetical. In light of substantial Supreme Court precedent and the Court's grant of certiorari in the *KSR* and *MedImmune* cases, there is a strong likelihood that the Roberts' Court will remedy the problems associated with factors (2) and (3) as well.

#### KSR Int'l Co. v. Teleflex, Inc.

The Supreme Court's grant of certiorari in *KSR* has drawn much speculation that the Federal Circuit's controversial "teaching-suggestion-motivation test"<sup>17</sup> for obviousness may be the next Federal Circuit rule to be eliminated.

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<sup>16</sup> The reason, as explained below, is that in these arts, i.e. business methods or newly emerging technologies like biotechnology or computer software, the prior art references may not contain express teachings of what would be obvious to a person of ordinary skill in the art. Furthermore, because the examiner in the PTO is not permitted to rely on "common knowledge" to make a §103 obviousness rejection, the examiner will have no choice but to grant the patent.

<sup>17</sup> *Teleflex, Inc. v. KSR Int'l Co.*, 119 Fed. Appx. 282, 286 (Fed Cir. 2005).

The seminal case on obviousness, *Graham v. John Deere Co.*<sup>18</sup>, established a flexible, multi-faceted standard for determining patent validity under 35 U.S.C. 103(a). “While the ultimate question of patent validity is one of law,” *Graham* holds that the § 103 obviousness condition “lends itself to several basic factual inquiries” that include: (1) “the scope and content of the prior art,” (2) any “differences between the prior art and the claims at issue,” (3) “the level of ordinary skill in the pertinent art,” and (4) “secondary considerations [such] as commercial success, long felt but unsolved needs, failure of others, etc.”<sup>19</sup> The Court stated that application of its standard “should be amenable to a case-by-case development” and was dependent on the “factual context” of individual cases.<sup>20</sup>

The Federal Circuit, in a long line of cases since its inception in 1983, has held that a combination patent is presumed valid unless the party challenging its validity provides clear and convincing evidence of a “suggestion, teaching, 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.”<sup>21</sup> Examiners at the PTO are also required to adhere to this “suggestion” test whenever they attempt to reject a combination patent as obvious.<sup>22</sup> The court has explained that evidence of a “suggestion, teaching, or motivation” may be “found explicitly or implicitly” in (1) the prior art, (2) the “knowledge of those of ordinary skill in the art,” or (3) “from the nature of the problem to be solved.”<sup>23</sup>

Despite the Federal Circuit’s stated willingness to consider an implicit suggestion to combine, in practice the test is often limited to explicit evidence within the prior art references. For an examiner’s rejection to survive an applicant’s appeal, the examiner must present specific, “objective evidence” of a “teaching, motivation, or suggestion to select and combine” the elements contained in prior art references.<sup>24</sup> “Common knowledge and common sense of a person of ordinary skill in the art”<sup>25</sup> are said to be unacceptable substitutes for evidence of a “specific hint or suggestion” to combine elements in the prior art.<sup>26</sup> This rigid evidentiary requirement, explicitly divorced from common sense, encourages the allowance of highly questionable patents.<sup>27</sup>

The Supreme Court will likely overturn the Federal Circuit’s *KSR* ruling and the accompanying “suggestion” test. By narrowing the Supreme Court’s standard of

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<sup>18</sup> 383 U.S. 1 (1966).

<sup>19</sup> *Id.* at 17.

<sup>20</sup> *Id.* at 18.

<sup>21</sup> *KSR*, 119 Fed. Appx. at 285. (citations omitted).

<sup>22</sup> See generally *In re Lee*, 277 F.3d 1338 (Fed. Cir. 2002); *In re Dembiczak*, 175 F.3d 994 (Fed. Cir. 1999).

<sup>23</sup> *Ruiz v. A.B. Chance Co.*, 234 F.3d 654, 665 (Fed. Cir. 2000) (quoting *Pro-Mold & Tool Co. v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1572 (Fed. Cir. 1996)).

<sup>24</sup> See *In re Lee*, 277 F.3d at 1343-45.

<sup>25</sup> *Id.* at 1340 (quoting *Ex parte Lee*, No. 1994-1989 (Bd. Pat. App. & Int. Aug. 30, 1994; on reconsid’n Sept. 29, 1999)).

<sup>26</sup> *Id.* at 1344-45.

<sup>27</sup> In *In re Dembiczak*, the Federal Circuit reversed the patent appeals board’s rejection of a patent application for a lawn trash bag bearing a jack-o’-lantern design, since there was no affirmative evidence of a suggestion to combine a regular trash bag with an existing reference describing jack-o-lantern designs on paper bags. 175 F.3d at 1000.

obviousness into a hard and fast rule, *amici* have argued that “[t]he Federal Circuit has transformed one means of establishing obviousness under that framework—proof that the prior art provided a teaching, suggestion, or motivation for combining separate prior art references—into an inflexible requirement for determining obviousness.”<sup>28</sup> In other words, a showing of an explicit “teaching, suggestion, or motivation” should be sufficient, but not necessary, to invoke a finding of obviousness under the *Graham* standard.

The inadequacy of the Federal Circuit’s rule is best demonstrated by *Graham* itself, where application of the Federal Circuit’s “suggestion” test may have led to a different outcome. Despite the fact that the Eighth Circuit found “nothing in the prior art *suggesting* [the inventor’s] unique combination of these old features,” the *Graham* Court reversed the court’s finding of non-obviousness.<sup>29</sup> The Federal Circuit’s formalistic rule is simply at odds with the functional approach laid out in *Graham*.

Furthermore, the Federal Circuit’s rigid rule has undermined the fundamental policies underlying the patent system. As stated in the Solicitor General’s *amicus* brief:

This Court has explained that “the patent system represents a carefully crafted bargain that encourages both the creation and public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time.” *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998) (citing *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-151 (1989)). That bargain’s effectiveness in inducing creative effort and disclosure depends on “a backdrop of free competition in the exploitation of unpatented designs and innovations,” and the nonobviousness requirement is essential in ensuring that “free exploitation of ideas will be the rule, to which the protection of a federal patent is the exception.” *Bonito Boats*, 489 U.S. at 151.<sup>30</sup>

The Supreme Court may be prepared to criticize the Federal Circuit’s bar for patentability as failing to support the “carefully crafted bargain” underlying the patent system.

Some have said that the increase in non-meritorious patents produced by the Federal Circuit’s rigid rule has had injurious effects on some of the nation’s most innovative companies. For example, Cisco Systems “has found that the proliferation of large numbers of obvious patents has increased greatly the potential for inadvertent infringement,” and as a result the company “has obtained hundreds of patents for defensive purposes in technology areas in which it develops products.”<sup>31</sup> This kind of

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<sup>28</sup> Brief for the United States as *Amicus Curiae* at 9, *KSR Int’l Co. v. Teleflex, Inc., et al.*, No. 04-1350 (May 2006).

<sup>29</sup> *Graham*, 383 U.S. at 30 (emphasis added).

<sup>30</sup> Brief for the United States as *Amicus Curiae* at 9, *KSR Int’l Co. v. Teleflex, Inc., et al.*, No. 04-1350 (May 2006).

<sup>31</sup> Brief *Amicus Curiae* of Cisco Systems Inc., Microsoft Corp., Hallmark Cards, Incorporated, V.F. Corporation, and Fortune Brands Inc. at 5, *KSR Int’l Co. v. Teleflex, Inc., et al.*, No. 04-1350 (May 2006).

“[d]efensive, large scale patenting” wastes the company’s time and resources on legal matters rather than on research and development that could benefit consumers.<sup>32</sup>

As it did in eBay, the Supreme Court will likely overrule the Federal Circuit’s hard and fast rule. By lowering the bar for patentability, the FTC has suggested that the Federal Circuit has opened the door for the unscrupulous and has forced other firms to (1) make a choice between licensing or litigating, and (2) undertake wasteful defensive patenting measures of their own. By properly shifting the focus back to the *Graham* standard, the Supreme Court will empower both PTO examiners and district court judges to alleviate some of these perceived problems.

#### MedImmune, Inc. v. Genentech, Inc.

The Supreme Court will have yet another opportunity to reintroduce flexibility into the patent law landscape when it hears the appeal from *MedImmune, Inc. v. Genentech, Inc.*<sup>33</sup>. The issue in this case is whether a licensee in good standing may challenge the licensor’s patent in court. Once again, Federal Circuit law on this issue consists of a rigid rule that is susceptible to Supreme Court rejection.

MedImmune is a relatively small biotechnology company that entered into a patent licensing agreement with Genentech. The agreement covered several patents, including a then-pending patent application which eventually became U.S. Patent No. 6,331,415 (known as the Cabilly II patent). After this patent was issued, Genentech demanded royalties from sales of Syngasis®, a drug that accounts for 80% of MedImmune’s profits, since Genentech believed it was covered under the Cabilly II patent. Despite asserting that Syngasis® was not covered by the patent, MedImmune paid the royalties to avoid an infringement suit. In 2003, the company filed an action for declaratory judgment that Genentech’s patent was invalid and unenforceable, and that Syngasis® did not infringe the licensed patent. MedImmune has continued to pay Genentech royalties both before and during the litigation.

Despite “serious misgivings,”<sup>34</sup> the District Court dismissed MedImmune’s complaint based on a bright-line jurisdictional test spelled out in *Gen-Probe, Inc. v. Vysis, Inc.*<sup>35</sup>. To establish that there is an “actual controversy” under the Declaratory Judgment Act<sup>36</sup>, the *Gen-Probe* test requires:

- (1) an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory judgment plaintiff that it will face an infringement suit, and
- (2) present activity which could

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<sup>32</sup> *Id.* at 7, (citing Transcript of FTC Hearing on Business Perspectives on Patents: Software and the Internet (Feb. 27, 2002) at 351-52).

<sup>33</sup> 427 F.3d 958 (Fed. Cir. 2005).

<sup>34</sup> *MedImmune, Inc. v. Genentech, Inc.*, No. CV 03-2567, 2004 U.S. Dist. LEXIS 28680, at \*17 (C.D. Cal. Apr. 23, 2004).

<sup>35</sup> 359 F.3d 1376 (Fed. Cir. 2004).

<sup>36</sup> 28 U.S.C.S. § 2201(a) (2006).

constitute infringement or concrete steps taken with the intent to conduct such activity.<sup>37</sup>

On appeal to the Federal Circuit, the District Court's ruling was affirmed, despite MedImmune's contention that the *Gen-Probe* test was contrary to the Supreme Court precedent of *Lear v. Adkins*.<sup>38</sup> *Lear* abolished the doctrine of licensee estoppel, which had historically barred patent licensees from challenging the validity of the licensor's patent.<sup>39</sup> The Federal Circuit distinguished MedImmune's case, noting that the licensee in *Lear* had stopped paying royalties, and the patentee had brought a suit against the licensee, whereas MedImmune was "complying fully with the license terms" and could not be sued by Genentech.<sup>40</sup> Thus, MedImmune was not in "reasonable apprehension of a suit" under the *Gen-Probe* test, and did not meet the jurisdictional requirements of the Declaratory Judgment Act even though it could be sued if it discontinued royalty payments to Genentech.<sup>41</sup>

The Supreme Court is likely to overturn the Federal Circuit's *MedImmune* ruling and re-establish a more flexible standard for what constitutes an "actual controversy" under the Declaratory Judgment Act. The *Gen-Probe* rule is too narrow and undermines both (1) the congressional intent in passing the Declaratory Judgment Act, and (2) the federal policies underlying the patent laws and related Supreme Court precedents such as *Lear*.

Congress's goal in passing the Declaratory Judgment Act was to enable a party engaged in a contractual dispute "to sue for a declaration of rights without breach of the contract . . . ."<sup>42</sup> Prior to the Act, a party that was unsure of its contractual obligations could either acquiesce to the other party's interpretation or act upon its "own interpretation" and risk costly litigation to obtain a resolution.<sup>43</sup> The purpose of the Act was to avoid "such social and economic waste and destruction in order to obtain a determination of one's rights."<sup>44</sup> The *Gen-Probe* test created by the Federal Circuit states that a licensing contract, "unless materially breached, obliterate[s] any reasonable apprehension of a lawsuit," and therefore no "actual controversy" exists under the Declaratory Judgment Act.<sup>45</sup> The Federal Circuit's requirement that a party breach before bringing a declaratory judgment action is antithetical to Congress's stated goal in passing the Act.

In addition, the bright-line *Gen-Probe* rule directly contradicts Supreme Court interpretation of the Declaratory Judgment Act: "The difference between an abstract

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<sup>37</sup> *Gen-Probe*, 359 F.3d at 1380 (quoting *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978 (Fed. Cir. 1993)).

<sup>38</sup> 395 U.S. 653 (1969).

<sup>39</sup> *Lear*, 395 U.S. at 670.

<sup>40</sup> *MedImmune, Inc. v. Genentech, Inc.*, 427 F.3d 958, 963 (Fed. Cir. 2005).

<sup>41</sup> *Id.*

<sup>42</sup> S. Rep. No. 1005, 73d Cong., 2d Sess. 2 (1934).

<sup>43</sup> *Id.*

<sup>44</sup> *Id.*

<sup>45</sup> *Gen-Probe*, 1359 U.S. at 1381.

question and a ‘controversy’ contemplated by the Declaratory Judgment Act is necessarily one of degree, and it would be difficult, if it would be possible, to fashion a precise test for determining in every case whether there is such a controversy.”<sup>46</sup> In short, the Supreme Court has specifically warned against the kind of “precise test” that the Federal Circuit has attempted to fashion in the *Gen-Probe* case and its related progeny.

In a more recent case, the Supreme Court has stated that a party may satisfy “the burden of establishing the existence of an actual case or controversy” and receive “a declaratory judgment, even if the patentee has not filed an infringement action.”<sup>47</sup> “Merely the desire to avoid the threat of a ‘scarecrow’ patent, in Learned Hand’s phrase, may therefore be sufficient to establish jurisdiction under the Declaratory Judgment Act.”<sup>48</sup>

Finally, the *Gen-Probe* rule undermines Supreme Court pronouncements on the public policies underlying patent law. As the *Lear* Court stated: “Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.”<sup>49</sup> The Federal Circuit in *Gen-Probe*, following earlier Federal Circuit cases<sup>50</sup>, “declined to apply the *Lear* doctrine” for fear that it would “effectively defeat” license agreements and “discourage patentees from granting licenses.”<sup>51</sup> In effect, the Federal Circuit declined to follow the Supreme Court’s patent policy<sup>52</sup> in favor of its own policy. As stated by the *MedImmune* District Court,

The *Gen-Probe* panel was concerned by the “undesirable result” that licensors would bear more risk and be less likely to grant licenses if licensees were permitted to challenge the patents they license. . . . The panel was apparently more persuaded by this concern than by the potential that invalid or unenforceable patents will stand because licensees will be too risk-averse to challenge them.<sup>53</sup>

As in *KSR*, the Solicitor General has filed a brief supporting the policy arguments of the party challenging the Federal Circuit’s rigid rule. “While patent licensing in general

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<sup>46</sup> *Maryland Cas. Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941).

<sup>47</sup> *Cardinal Chem. Co. v. Morton Int’l*, 508 U.S. 83, 95 (1993).

<sup>48</sup> *Id.* at 96 (footnote omitted) (citing *Bresnick v. United States Vitamin Corp.*, 139 F.2d 239, 242 (2d Cir. 1943)).

<sup>49</sup> *Lear*, 395 U.S. at 670.

<sup>50</sup> *See Studiengesellschaft, m.b.H. v. Shell Oil Co.*, 112 F.3d 1561, 1567 (Fed Cir. 1997), *cert. denied*, 522 U.S. 996 (1997) (describing *Lear*’s holding as “tones that echo from a past era of skepticism over intellectual property principles.”).

<sup>51</sup> *Gen-Probe*, 359 F.3d at 1381-82.

<sup>52</sup> *See Lear*, 395 U.S. at 670 (“Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.”).

<sup>53</sup> *MedImmune, Inc. v. Genentech, Inc.*, No. CV 03-2567, 2004 U.S. Dist. LEXIS 28680, at \*15 (C.D. Cal. Apr. 23, 2004).

should be encouraged because it allows the efficient exploitation of technology and promotes competition and innovation, public policy strongly favors ridding the economy of invalid patents, which impede efficient licensing, hinder competition, and undermine incentives for innovation.”<sup>54</sup>

To be sure, most licensees enter their agreements with no intent to challenge the validity of the licensed patents. However, in light of the changing patent law landscape, licensees that were “pressured” into accepting an agreement should have the remedy of a declaratory judgment to allow federal courts to examine the validity of those licensed patents. The Supreme Court will likely abandon the rigid *Gen-Probe* rule and reintroduce an element of flexibility into patent law jurisprudence, just as it did in *eBay* and just as it is likely to do in *KSR*.

### Conclusion

Perhaps the reality is that the Federal Circuit created certain hard-line rules (often in the face of difficult Supreme Court authority) in order to strengthen the patent system at a time when it was in disarray. Indeed, patents have become the lifeblood of many start-up companies that depend on their IP for venture capital funding. New technologies continue to change the world we live in, and intellectual capital now drives our economy as physical capital once did. Dependable patent rights and the promise of exclusivity drove the growth of industries such as biotechnology, telecommunications, and computing software. However, these rigid rules which generally favor the patentee have now begun to inflict harm on the system. The Supreme Court’s recent interest in patent law suggests that it recognizes the importance of these issues and is moving to swing the pendulum back in the direction of a more “standards-based” approach.

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<sup>54</sup> Brief for the United States as *Amicus Curiae* Supporting Petitioner at 23-24, *MedImmune, Inc. v. Genentech, Inc., et al.*, No. 05-608 (May 2006). The Solicitor General cites a number of Supreme Court precedents backing his policy arguments:

See, e.g., *Cardinal Chem. Co. v. Morton Int’l, Inc.*, 508 U.S. 83, 100-101 (1993) (noting the “importance to the public at large of resolving questions of patent validity”); *Blonder-Tongue Labs., Inc. v. University of Ill. Found.*, 402 U.S. 313, 349-350 (1971) (describing the Court’s “consistent view” that “the holder of a patent should not be insulated from the assertion of defenses and thus allowed to exact royalties for the use of an idea that is not in fact patentable or that is beyond the scope of the patent monopoly granted”); *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394, 400 (1947) (noting the “necessity of protecting our competitive economy by keeping open the way for interested persons to challenge the validity of patents which might be shown to be invalid”).

*Id.* at 25.