

Intellectual Property & Technology Law Journal

Edited by the Technology and Proprietary Rights Group of Weil, Gotshal & Manges LLP

ASPEN PUBLISHERS

VOLUME 19 • NUMBER 5 • MAY 2007

***Wilson Sporting Goods and Lava Trading: Has the Federal Circuit Mandated a More Complicated, Expensive but Comprehensive Markman Proceeding?* 1**

The Federal Circuit recently issued two decisions that may change the focus and logistics of Markman hearings in patent infringement cases: *Wilson Sporting Goods Co. v. Hillerich & Bradsby Co.*, and *Lava Trading, Inc. v. Sonic Trading Mgm't*. On balance, according to **Claude M. Stern**, chair of the National Intellectual Property Litigation Practice for Quinn Emanuel Urquhart Oliver & Hedges LLP, these decisions are likely to result in the discovery process associated with the Markman hearing becoming more complicated and expensive and to make Markman submissions and hearings more extensive. Mr. Stern also believes, however, that these rulings should bring a needed dose of reality and focus to the district courts' claim constructions.

Is Federal Circuit Obviousness Law "Gobbledygook" and "Irrational"? Why Justice Scalia Says So, and What May Come of That 5

During the US Supreme Court's November 28, 2006, oral argument in *KSR International Co. v. Teleflex, Inc.*, Justice Scalia commented that the Federal Circuit's teaching-suggestion-motivation test for evaluating patent obviousness is both "gobbledygook!" and "irrational!"

In this article, **Charles W. Shifley**, **Timothy C. Meece**, and **Charles L. Miller** of Banner & Witcoff, Ltd., examine the background that led to this declaration and explore what may come of it.

The Missing Witness Adverse Inference or Presumption in Patent Cases 9

When a party fails to call an available witness to testify whose testimony presumably would be in favor to the party, a jury

may infer or presume that the testimony in fact would have been unfavorable if the witness had been called to testify. The inference or presumption may be argued to the jury by counsel, or the trial court may instruct the jury of the jury's right to draw such an inference or presumption. For the inference or presumption to exist, the witness must be expected to know facts important to the case and the expected testimony of the witness must not be cumulative of other evidence presented. Additionally, the witness may be required to be more available to one party than the other party.

Harry Laxton, Jr., an attorney at Hunton & Williams, examines how this inference or presumption has been applied or rejected in the context of patent cases.

Common Misconceptions Surround Electronic Transactions with Consumers 15

In the six years since the Federal Electronic Signatures in Global and National Commerce Act (E-Sign) took effect, online retail sales have flourished. Many non-retail businesses would like to "go fully electronic," but technology limitations, unfamiliarity with E-Sign's requirements, and fear that they may make a wrong choice in e-implementation may still be holding them back.

Ethna M.S. Piazza, a partner in the Corporate and Securities and Intellectual Property Practice Groups of Sheppard, Mullin, Richter & Hampton, LLP, notes in this article that E-Sign was designed to eliminate legal impediments to use of electronic signatures and electronic records in consumer transactions. Yet, she adds, several misconceptions exist at some companies about E-Sign's requirements. Ms. Piazza explains the layers of disclosure and consent before electronically delivering a disclosure or other information required by the other consumer protection law.

Is Federal Circuit Obviousness Law “Gobbledygook” and “Irrational”? Why Justice Scalia Says So, and What May Come of That

By Charles W. Shifley, Timothy C. Meece, and Charles L. Miller

If you were a Supreme Court Justice speaking on the public record in your hallowed halls about the jurisprudence of one of the Washington, DC, area US Courts of Appeals, would you describe it as “gobbledygook” and “irrational”? Or would your power, background, position, situation, and the closeness of the other court and judges make you more circumspect?¹ In one of the more outspoken and stinging criticisms probably ever recorded from a sitting justice at oral argument, Justice Scalia said “gobbledygook!” and “irrational!” about the Federal Circuit’s teaching-suggestion-motivation test for evaluating patent obviousness. During the Supreme Court’s November 28, 2006, oral argument in *KSR International Co. v. Teleflex, Inc.*, Justice Scalia commented that the Federal Circuit’s test is both of these:

It is misleading to say that the whole world is embraced within these three nouns, teaching, suggestion, or motivation, and then you define teaching, suggestion, or motivation to mean anything that renders it nonobvious. This is gobbledygook. It really is, it’s irrational.²

The Federal Circuit’s tea leaves are not hard to read from comments like these and similar ones by other justices at oral argument: the Federal Circuit’s teaching-suggestion-motivation test of obviousness for patents, under 35 U.S.C. § 103(a) is about to change, and change significantly. Fair questions are: What brought us to this, and what may come of it?

Circuit Law

Under current Federal Circuit law:

A patent claim is obvious, and thus invalid, when the differences between the claimed invention 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.” obviousness is ultimately a legal determination, it is based on several underlying issues of fact, namely: (1) the scope and content of the prior art; (2) the level of skill of a person of ordinary skill in the art; (3) the differences between the claimed invention and the teachings of the prior art; and (4) the extent of any objective indicia of non-obviousness. When obviousness is based on the teachings of multiple prior art references, the movant must also establish some “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.³

In requiring a suggestion, teaching, or motivation, in addition to an analysis of four subjects, the Federal Circuit has created a teaching-suggestion-motivation test (a TSM test) for obviousness that is an embellishment on the Supreme Court’s *Graham v. John Deere* decision,⁴ the seminal decision on the analysis required under 35 U.S.C. § 102(a). The rationale for this TSM test is to protect against courts and juries engaging in a hindsight-based obviousness analysis. According to the Federal Circuit, “[c]ombining prior art references without evidence of such a suggestion, teaching, or motivation simply takes the inventor’s disclosure as a blueprint for piecing together the prior art to defeat patentability—the essence of hindsight.”⁵ Consequently, Federal Circuit precedent provides that “a person of ordinary skill in the art must not only have had some motivation to combine the prior art teachings, but some motivation to combine the prior art teachings in the particular manner claimed.”⁶

This case, *KSR International Co. v. Teleflex, Inc.*, was the first one heard by the Supreme Court on obviousness since *Sakraida v. Ag Pro, Inc.*,⁷ which was decided in 1976, well before the founding of the Federal Circuit. At oral argument, the justices were not impressed, and indeed distressed, with the TSM test as developed by the Federal Circuit. Justice Scalia said that the test is “meaningless.”⁸ Chief Justice Roberts thought that

Charles W. Shifley, Timothy C. Meece, and Charles L. Miller are intellectual property litigators practicing law in the Chicago office of Banner & Witcoff, Ltd. They can be reached at cshifley@bannerwitcoff.com, tmeece@bannerwitcoff.com, and cmiller@bannerwitcoff.com, respectively.

the test was “worse than meaningless” because “it adds a layer of Federal Circuit jargon that lawyers can then bandy back and forth” and “complicates the [obviousness] inquiry rather than focusing on the statute.”⁹

The primary complaints about the TSM test were with respect to “motivation.” Justice Breyer stated that he understood what teachings and suggestions were but that he did not understand what was meant by the term “motivation.” In particular, he reasoned that:

I can understand, I think, what a teaching is. I take it a teaching is you put all the prior art—that’s what I guess that’s what Judge Rich explained, which I thought was very enlightening to me in . . . *Winslow*. You put it all around the room. All right, we’ve got it all around the room, and I begin to look at it and if I see over that it somehow teaches me to combine these two things, if it says, Breyer, combine this and that, that’s a teaching and then it’s obvious. Now, maybe it doesn’t have the teaching, it just has the suggestion. Maybe it says, we suggest you combine this or that; okay, then it’s obvious. But I don’t understand, though I’ve read it about 15 or 20 times now, it though I’ve read it about 15 or 20 times now, I just don’t understand what is meant by the term “motivation.”¹⁰

Consequently, at least some justices at oral argument appeared to be considering sweeping aside the “M” of the TSM test, or even the TSM test in its entirety. This prompted a string of questions by Justice Souter, however, evidencing a concern for potential chaos. In particular, Justice Souter questioned whether the court was “going to produce chaos” if the test was “tip[ped] over now,” because the Federal Circuit has been applying the test for more than 20 years.¹¹ Justice Souter reasoned that, “if the error is common enough and long enough, the error becomes law” and questioned whether in effect that is what the Supreme Court was presented with in this case.¹² Further, he asked whether “100,000 cases” would be filed the morning after a decision overruling the TSM test.¹³ Justice Scalia also questioned the ramifications of sweeping aside the Federal Circuit’s test:

It isn’t just the Federal Circuit that has been applying this test. It’s also the Patent Office and it’s been following the Federal Circuit’s test for 20 years or so. What, what is—assuming that we sweep that test aside and say that it’s been incorrect, what happens to the presumption of validity of, of patents which the courts have been, have been traditionally applying? Does it make any sense to presume that

patents are valid which have been issued under an erroneous test for the last 20 years?¹⁴

The United States, in the person of the Deputy Solicitor General, did not advocate abandoning any of the T, S, or M of the test, perhaps because of the concern for chaos. Instead, the United States took the position that the Federal Circuit’s test does have a problem but that the problem is that it is exclusive of other tests for patent obviousness.¹⁵ Indeed, currently, the TSM test is construed and applied as a necessary test in the overall analysis of obviousness.¹⁶ It is effectively a fifth part of the four-part test of *Graham v. John Deere*. Consequently, said the United States, the problem to be rectified by the Supreme Court is that Federal Circuit law precludes obviousness determinations in the absence of satisfaction of the TSM test.¹⁷

The Government’s View

The United States’ argument regarding exclusivity may have been persuasive to some justices. For example, Justice Kennedy seemed to allow that the TSM test may “serve to show us at least one way in which there can be obviousness.”¹⁸ Justice Kennedy further asked whether it would “be inadvisable for us to say that the motive test teaches us something important; it has a valuable place; it’s just not the exclusive test for what’s obvious.”¹⁹ Justice Kennedy went so far as to ask whether the test “would serve a valid purpose, *i.e.*, . . . can we keep the motivation test and then supplement it with other, with other means of, other ways of showing obviousness?”²⁰

The Federal Circuit seems to have had a capacity over time to increasingly irritate and finally anger Supreme Court justices. In 1997, in *Warner-Jenkinson*, the Supreme Court left the critical patent law issue of the doctrine of equivalents to the Federal Circuit’s “sound discretion” because it was a court of “special expertise,” which the Supreme Court had “no need for micromanaging.”²¹ In 1998, in *Pfaff v. Wells*, the Supreme Court established a two-part test for the on-sale bar in substitution for a Federal Circuit multi-factor test, rather mildly stating that the replaced test “seriously undermine[d] the interest in certainty” in the law.²² In 2002, in *Festo*, however, the Supreme Court reviewed a Federal Circuit decision to adopt a categorical rule that an amendment of a patent claim barred all equivalents, and the Supreme Court seemed to express that it was tedious for the Federal Circuit to require the court to revisit the subjects of the doctrine of equivalents and prosecution history estoppel so soon after *Warner-Jenkinson*.²³ Then, in *Holmes*, on the issue of which circuit courts should hear cases with patent counterclaims, the Supreme Court seemed to

enjoy resolving that regional circuits should hear these cases. Justice Stevens, concurring, zinged off that patent decisions by regional circuits would “provide an antidote to the risk that the specialized [Federal Circuit] may develop an institutional bias.”²⁴ In 2006, after the Federal Circuit decided yet again that, in patent cases, injunctions are to be categorically issued, the Supreme Court summarily reversed and admonished the Federal Circuit that it had not fairly applied traditional considerations and principles.²⁵

In short, the Supreme Court has apparently come to view the Federal Circuit as a court of categorical rules—*wrong* categorical rules—a court with a wrong institutional bias expressed in its decisions.

The Low Point?

In the *KSR* situation, the Federal Circuit seemed to reach a zenith to date of wearing thin at the Supreme Court. In a typical case and in a regional circuit, the case goes to the Supreme Court, and the circuit court awaits Supreme Court review. In *KSR*, the Federal Circuit did not sit still. The Supreme Court justices were distressed by what appeared to be several post-*certiorari* attempts by the Federal Circuit to use its decision making to set up a group of escape devices from the categorical TSM test. For example, Justice Scalia observed that, “in the last year or so, after we granted cert in this case after these decades of thinking about it [the TSM test], it [the Federal Circuit] suddenly decides to polish it [TSM] up.”²⁶ Justice Kennedy admonished counsel to identify, when referencing Federal Circuit precedent, whether the case was decided after the Federal Circuit’s opinion in *KSR*, because “when the case has been decided after, I think it has much less, much less weight” and was potentially “irrelevant.”²⁷

While the Federal Circuit did apparently try to “polish up” its TSM test in cases decided at the Federal Circuit after *KSR*’s *certiorari*, it apparently did not help its reputation at the Supreme Court and instead created the arguably greater offense of pre-writing what it hopes will be the Supreme Court’s decision, in the thinly veiled guise of stating several harmonizing and diluting interpretations of its own precedents. Given Justice Scalia’s comments, it is unlikely that thin veils will protect the Federal Circuit from suffering yet again from a reputation as a court of categorical rules. The Supreme Court will give little consideration to the cases issued by the Federal Circuit on obviousness after grant of *certiorari*.

The Future

How, then, will the Supreme Court rule specifically? Based on the Federal Circuit’s reputation at the

Supreme Court, its track record, and the justices’ comments at oral argument, the Federal Circuit’s TSM test will not remain as a significant test of obviousness, even for overcoming hindsight in the determination of obviousness. Based on the Supreme Court’s string of progressively stronger criticisms of the Federal Circuit as a court of wrong categorical rules, the TSM test will not stay in the law as a categorical rule. In all likelihood, as in its several recent patent cases, the Supreme Court will little regard Federal Circuit precedent and will well regard its own precedents, as far back as a century and as recent as *Graham*. The test of obviousness will remain *Graham*’s four-part test of the scope and content of the prior art, the differences between the prior art and the claimed subject matter, the level of skill in the art, and secondary considerations. The T and S of TSM will be characterized as parts of the first and third parts of the four-part test of *Graham*, and the M of the TSM test, motivation, will be eliminated from the test of obviousness as “gobbledygook” and “a layer of Federal Circuit jargon” that “complicates the [obviousness] inquiry rather than focusing on the statute.”²⁸ Presumably, the criticism of the TSM test will be more respectfully phrased in the Supreme Court’s written work product than “gobbledygook,” but perhaps not by much.

The new Supreme Court test probably will make it easier for litigation defendants to prove patents invalid as obvious and the US Patent & Trademark Office to reject patent applications for obviousness. Accused infringers will enjoy at least a significant period of time in which they will be able to prove invalidity for obviousness, even by the required standard of clear and convincing evidence, by summary judgment.

Patent examiners are apparently already understanding that they will not have to adhere to a rigorous showing of a “teaching, suggestion, or motivation” to combine prior art references in order to reject claimed inventions. The rate of allowances of applications is at an all-time low of 54 percent.²⁹ While this statistic cannot be linked to the *KSR* case, no other potential reasons for this low rate of allowances can be discerned.

Patent applications and owners alike can apparently anticipate tougher going in patent obviousness matters. Application costs will be up, prospects for successful patent procurement will be down, and prospects of litigation success will also be down. The alleged pro-validity bias of the Federal Circuit will be partially undone, regardless of anyone’s concern for potential chaos.

Speaking of all-time lows, the Federal Circuit is at an all-time low in reputation at the Supreme Court. *KSR* reached the Supreme Court largely as a result of the *amici* briefing of 24 intellectual law professors,³⁰ and the Federal Circuit is arguably at an all-time low

in terms of reputation among all judges, professors, and commentators since its creation in 1982. The court has a well-respected intellectual Chief Judge³¹ and a well-respected intellectual IP law professor as its newest judge.³² Perhaps they can help the court find its way back to its reputation from its past, near the time of its creation. The first Chief Judge of the court, Howard Markey, however, was a man apart, a member of the Greatest Generation, a tireless worker, and the recipient of essentially every accolade that could be given.³³ For now, the Supreme Court has a wide open docket³⁴ and a high level of distress with the Federal Circuit. Expect it to take patent cases from the Federal Circuit and reverse them.

Notes

1. The *New York Times* reports that the Supreme Court is more laidback and civil under Chief Judge Roberts. See http://video.on.nytimes.com/ifr_main.jsp?nsid=b50b7eac3:110e019a5a1:5ace&fr_story=0fcea498671464ae0c7fa479f500f71cdd8a2d8d&st=1171993133730&mp=WMP&cpf=true&fvn=9&fr=022007_123853_50b7eac3x110e019a5a1x5ad0&rdm=785985.255490594.
2. Transcript of Oral Argument at 41, *KSR Int'l Co. v. Teleflex, Inc.*, 126 S. Ct. 2695 (2006) (granting cert.).
3. See *Teleflex, Inc. v. KSR Int'l. Co.*, No. 04-1152, 2005 WL 23377, at *2 (Fed. Cir. Jan. 6, 2005).
4. *Graham v. John Deere*, 383 U.S. 1 (1966).
5. See *Teleflex*, 2005 WL 23377 at *3.
6. See *id.*
7. See *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273 (1976).
8. Transcript of Oral Argument at 36, line 25 (“I would say its test is meaningless.”).
9. *Id.* at 40, lines 6-13 (“It adds a layer of Federal Circuit jargon that lawyers can then bandy back and forth, but if it’s—particularly if it’s nonexclusive, you can say you can meet our teaching, suggestion, or motivation test or you can show that it’s nonobvious, it seems to me that it’s worse than meaningless because it complicates the inquiry rather than focusing on the statute.”).
10. *Id.* at 9, lines 2-20.
11. *Id.* at 20, lines 6-11.
12. *Id.* at 20, lines 20-25.
13. *Id.* at 21, lines 10-12.
14. *Id.* at 23, lines 8-18.
15. *Id.* at 18-19.
16. *Id.* at 18-19.
17. Transcript of Oral Argument at 18-19.
18. *Id.* at 12, lines 12-19; p.19, lines 5-9.
19. *Id.* at 11, lines 18-21.
20. *Id.* at 19, lines 5-9.
21. *Warner-Jenkinson Co. v. Hilton-Davis Chemical Co.*, 520 U.S. 17, 39 (1997).
22. *Pfaff v. Wells Electronics Inc.*, 525 U.S. 55.
23. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002).
24. *Holmes Group Inc. v. Vornado Air Circulation Systems Inc.*, 535 U.S. 826 (2002).
25. *eBay Inc. v. MercExchange LLC*, 126 S. Ct. 1837 (2006).
26. Transcript of Oral Argument at 53, lines 6-9.
27. *Id.* at 36, lines 6-15.
28. *Id.* at 40, lines 6-13 (“It adds a layer of Federal Circuit jargon that lawyers can then bandy back and forth, but if it’s—particularly if it’s nonexclusive, you can say you can meet our teaching, suggestion, or motivation test or you can show that it’s nonobvious, it seems to me that it’s worse than meaningless because it complicates the inquiry rather than focusing on the statute.”).
29. *United States Commerce News*, Press Release Dec. 22, 2006, #06-73.
30. See http://www.ffhsj.com/practice_groups/ksr/doc_15.pdf.
31. Chief Judge Paul Michel. See <http://www.fedcir.gov/judgbios.html#Michel>.
32. Judge Kimberly Moore. See <http://www.fedcir.gov/judgbios.html#Moore>.
33. See <http://www.fedcir.gov/pdf/MARKEY.pdf>.
34. The *New York Times* reports that the Supreme Court has 40 percent fewer cases this year than last year. See Greenhouse, “Case of the Dwindling Docket,” Dec. 7, 2006, <http://select.nytimes.com/gst/abstract.html?res=FA0611F73D550C748CDDAB0994DE404482&n=Top%2fReference%2fTimes%20Topics%2fOrganizations%2fs%2fSupreme%20Court%20>.