

# DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW

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In reviewing intellectual property cases from the survey period, many cases were instructive in interpreting, or applying aspects of patent, trademark, copyright, trade secret, right of publicity, or similar laws. The following cases represent one person's view of the cases that had the greatest impact on intellectual property law in the past year. Three of them are patent cases, concerning the overhaul of fundamental principles of patent law and litigation, or implementation of previously-announced rules. The fourth is one of the first cases to address head-on the reach of Indiana's right of publicity law.

## I. *KSR*: REVISION OF OBVIOUSNESS STANDARDS

Arguably the most anticipated patent opinion of the year, *KSR International Co. v. Teleflex Inc.* (“*KSR*”)<sup>1</sup> is the first Supreme Court foray in decades into the fundamental question of obviousness and how the analysis of obviousness is to be performed. Starting with the seminal case of *Graham v. John Deere Co.*,<sup>2</sup> the Court stopped briefly at a few other cases in its review of precedent before making sweeping pronouncements on the nature of the obviousness issue. As further detailed below, this opinion may be considered a sea change in the consideration of obviousness, or it may turn out merely to be a “righting of the ship” toward a more practical analytical framework.

### A. *Obviousness Background*

In the law of patents, two general criteria concerning the state of the art must be met before a patent can be granted for useful inventive subject matter. First, the subject matter must be “new” or “non-anticipated.” If exactly the same machine, composition, method, or product as is being claimed in a patent application is also found on sale, described in a printed publication, patented, or otherwise within the applicable prior art, then the subject matter is “anticipated,” and no patent can be granted for it. The criteria for anticipation are found in 35 U.S.C. § 102 (e.g., “A person shall be entitled to a patent unless . . . the invention was known or used by others in this country . . . before the invention thereof by the applicant . . .”).<sup>3</sup>

If the subject matter is not found exactly in the applicable prior art, the applicant is not out of the woods. The concept of obviousness as a hurdle to overcome in obtaining patent protection might be found in embryonic form as early as the beginning of the Republic, according to some commentators.<sup>4</sup>

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1. 127 S. Ct. 1727 (2007), *rev'g* *Teleflex, Inc. v. KSR Int'l Co.*, 119 F. App'x 282 (Fed. Cir. 2005).

2. 383 U.S. 1 (1966).

3. 35 U.S.C. § 102(a) (2000).

4. *See generally* John F. Duffy, *Inventing Invention: A Case Study of Legal Innovation*, 86

However, the solidification of “obviousness” as a patentability requirement began in earnest in the 1850s, with cases like *Hotchkiss v. Greenwood*<sup>5</sup> and its demand that patentable subject matter have the quality of “invention.”<sup>6</sup> In the words of that Court,

unless more ingenuity and skill . . . were required . . . than were possessed by an ordinary mechanic acquainted with the business, there was an absence of that degree of skill and ingenuity which constitute essential elements of every invention. In other words, the improvement [in this case] is the work of the skilful [sic] mechanic, not that of the inventor.<sup>7</sup>

Only where an invention has something beyond what might be considered ordinary skill in a particular field will patent protection arise.

After a century of judicial treatment, the codification of the 1952 Patent Act included a statutory statement of a requirement of nonobviousness. Section 103(a) of the Act reads:

A patent may not be obtained though the invention is not identically disclosed or described . . . [in the prior art], 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.<sup>8</sup>

The language of the statute provides several concepts. First, we consider the differences between the invention and the prior art and whether they are of such a character as to make the *whole* subject matter obvious. Second, the eyes through which the assessment of “obvious” is to be made are those of the hypothetical person of ordinary skill in the art. That person is deemed to have all of the prior art at his or her fingertips, and to have “ordinary” experience and/or training in the field of the invention. Third, the inquiry considers only the conditions at the time the invention was made. Later discoveries, techniques, experience, or training are not evidence of obviousness.

Once the statute was enacted, however, another fifteen years passed before the Supreme Court’s *Graham*<sup>9</sup> opinion provided a framework for its use. In *Graham*, the Court set out a four-pronged objective analytical structure for obviousness questions.<sup>10</sup> The “scope and content of the prior art are to be determined,” “the level of ordinary skill in the pertinent art resolved,” and the

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TEX. L. REV. 1 (2007); Jessica Silbey, *The Mythical Beginnings of Intellectual Property*, 15 GEO. MASON L. REV. 319 (2008).

5. 52 U.S. 248 (1851).

6. *Id.* at 267.

7. *Id.*

8. 35 U.S.C. § 103(a) (2000).

9. *Graham v. John Deere Co.*, 383 U.S. 1 (1966).

10. *Id.* at 17.

differences between the claimed subject matter and the prior art must be identified.<sup>11</sup> The fourth prong reviews any objective considerations such as commercial success of the invention, a long-felt but unsolved need in the art, or the failure of others to reach the inventor's solution, and mixes such considerations into the overall question of whether one of ordinary skill would find the invention obvious.<sup>12</sup> The *KSR* opinion repeated *Graham's* goal of "uniformity and definiteness" in analyzing obviousness questions and saw *Graham* as confirming a "functional approach" to obviousness through a "broad inquiry" into the four issues noted above.<sup>13</sup>

Obviousness presents a variety of issues, including what the prior art shows, what the differences between the invention and the prior art are, what the level of ordinary skill in the field is, and many others, and thus is a primary issue in patent litigation as well as in prosecution and appeal in the U.S. Patent and Trademark Office. Certainly it can be said that the approximately fifty-five years since the enactment of the 1952 Patent Act have seen a wealth of cases in various jurisdictions interpreting the obviousness provision and fleshing out how it is to be applied.

### B. Case History of KSR

The *KSR* opinion arose out of a dispute over a patent on automobile pedal systems.<sup>14</sup> Teleflex Inc. sued KSR International Co. for infringement of U.S. Patent No. 6,237,565 (the Engelgau patent), claims of which were generally directed to the combination of an adjustable automobile pedal with an electronic sensor.<sup>15</sup> The sensor sends a signal indicating the pedal's position to the computer that controls the throttle of the automobile.<sup>16</sup> The Patent and Trademark Office ("PTO") had considered several reference patents during prosecution of the Engelgau patent, including a Redding patent that showed an adjustable pedal and a Smith patent that showed how to mount a sensor to a pedal's structure.<sup>17</sup> However, the PTO did not have another reference during prosecution, a patent to Asano, which showed particular housing structure for an adjustable automobile pedal that allowed one of the pedal's pivot points to remain fixed as adjustments are made to the pedal.<sup>18</sup>

The district court, on KSR's motion for summary judgment, held that the relevant claim of Teleflex's patent was invalid.<sup>19</sup> Following *Graham's* analytical guidance, the district court determined on the summary judgment record a level

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11. *Id.*

12. *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1730-31 (2007).

13. *Id.* at 1739 (quoting *Graham*, 383 U.S. at 18).

14. *Id.* at 1734.

15. *Id.*

16. *Id.* at 1735.

17. *Id.*

18. *Id.* at 1737.

19. *Id.* at 1737-38.

of ordinary skill in this art and reviewed the claim and the prior art references finding “little difference” between the claim and the prior art.<sup>20</sup> The features of the relevant Teleflex patent claim were all found in one reference, the Asano patent, except for a sensor that detects a pedal’s position and sends that information to the vehicle’s throttle.<sup>21</sup> Other references included such a sensor, and so all of the features of the claim were present in the prior art.

The district court also followed the Federal Circuit’s precedent in applying the “teaching, suggestion, or motivation” (“TSM”) test to the facts before it. According to the Supreme Court,

[i]t reasoned (1) the state of the industry would lead inevitably to combinations of electronic sensors and adjustable pedals, (2) [a Rixon reference] provided the basis for these developments, and (3) [another reference] taught a solution to wire chafing problems in Rixon, namely locating the sensor on the fixed structure of the pedal.<sup>22</sup>

In other words, the judge decided from the summary judgment record that the automotive field would “inevitably” get to adjustable pedal-sensor combinations, the Rixon reference supported that conclusion, and a further reference provided some instruction to those in the field that there was a reason or benefit to placing a sensor in a particular way relative to a pedal.<sup>23</sup> Those findings would direct the person of ordinary skill in the art to combine the prior art sensor and adjustable pedal as in the Engelgau patent, in the district court’s view.<sup>24</sup> Other issues considered by the district court either bolstered its conclusion of obviousness or at least did not shake that conclusion.<sup>25</sup>

Teleflex appealed to the U.S. Court of Appeals for the Federal Circuit. After hearing the appeal, the Federal Circuit reversed, on the basis that the district court’s analysis of obviousness did not rely on its precedent concerning the proper way to combine references against a patent or application claim.<sup>26</sup> In the Supreme Court’s words, that Federal Circuit jurisprudence centered around the TSM test, “under which a patent claim is only proved obvious if ‘some motivation or suggestion to combine the prior art teachings’ can be found in the prior art, the nature of the problem, or the knowledge of a person having ordinary skill in the art.”<sup>27</sup> In this appeal, the Federal Circuit decided that the district court

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20. *Id.* at 1738.

21. *Id.*

22. *Id.*

23. *Id.*

24. *Id.*

25. *Id.*

26. *Id.*

27. *Id.* at 1734 (citing *Al-Site Corp. v. VSI Int’l, Inc.*, 174 F.3d 1308, 1323-24 (Fed. Cir. 1999)); see also U.S. PATENT & TRADEMARK OFFICE, *MANUAL OF PATENT EXAMINING PROCEDURE* (MPEP) § 2141.03 (8th ed., 6 rev. 2007) (“The person of ordinary skill in the art is a hypothetical person who is presumed to have known the relevant art at the time of the invention.” (citing *In re GPAC*, 57 F.3d 1573, 1579 (Fed. Cir. 1995); *Custom Accessories, Inc. v. Jeffrey-Allan Indus., Inc.*,

had not followed the TSM test properly because it did not make the necessary findings as to the “understanding or principle” known to the hypothetical person of ordinary skill that would have motivated him or her to combine the references.<sup>28</sup> The Supreme Court characterized the Federal Circuit decision as also holding that such motivation would be lacking “unless the ‘prior art references address[ed] the precise problem that the patentee was trying to solve.’”<sup>29</sup>

The Court’s recitation of the Federal Circuit’s decision went still further. After a discussion of the lower court’s analysis of the problems and solutions provided in the Asano patent and other prior art references, the Court saw the appellate conclusion that the person of ordinary skill would not have been led to the patentee’s claim as having its basis in the appellate interpretation of the references. The Court specifically noted the Federal Circuit’s dismissal of any supposition that the combination of the references might have been obvious to try as irrelevant in light of prior case law.<sup>30</sup>

As will be seen, the Supreme Court rejected practically all of these ideas in reinstating the district court’s summary judgment of invalidity for obviousness. In doing so, significant portions of Federal Circuit jurisprudence on the question of obviousness were at least revised and reinterpreted. These revisions will have—indeed, already have had—a marked effect on the judgments of the PTO on obviousness during prosecution of patent applications and related proceedings, as well as the analyses and breadth of evidence available in federal court challenges to patent validity.

### C. *The Supreme Court Analysis*

The major point made by the Court in *KSR* is that the objective analytical framework set forth in *Graham*, wielded flexibly on a case-by-case basis by courts, is still the elemental test for obviousness.<sup>31</sup> Rigid tests, or application of additional factors or analyses, are not to be required.<sup>32</sup> The Court proceeded to note what it viewed as a series of errors in the Federal Circuit’s approaches to obviousness in general and its treatment of the underlying case in particular.<sup>33</sup>

The Court began with a recitation of the “need for caution in granting a

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807 F.2d 955, 962 (Fed. Cir. 1986); *Envntl. Designs, Ltd. v. Union Oil Co.*, 713 F.2d 693, 696 (Fed. Cir. 1983)). “A person of ordinary skill in the art is also a person of ordinary creativity,” and may “be able to fit the teachings of multiple patents together like pieces of a puzzle.” *KSR*, 127 S. Ct. at 1742.

28. *KSR*, 127 S. Ct. at 1738.

29. *Id.* at 1738-39 (alteration in original) (citing *Teleflex, Inc. v. KSR Int’l Co.*, 119 F.App’x 282, 288 (Fed. Cir. 2005)).

30. *Id.* at 1739 (citing *In re Deuel*, 51 F.3d 1552 (Fed. Cir. 1995)); see *infra* note 34 (regarding prior ban on an “obvious to try” standard for evaluating obviousness).

31. *KSR*, 127 S. Ct. at 1739.

32. *Id.*

33. *Id.* at 1741-43.

patent based on the combination of elements found in the prior art.”<sup>34</sup> Certainly that beginning is some suggestion of a desire to emphasize vigorous application of the obviousness provisions, if not to draw inward the limits of patentability and leave more developments outside of those limits. The Court went on to cite three post-*Graham* cases with approval.<sup>35</sup> The first, *United States v. Adams*,<sup>36</sup> concerned battery technology that differed from the prior art in two particular ways. According to the Court, its *Adams* opinion “recognized that when a patent claims a structure already known in the prior art that is altered by the mere substitution of one element for another known in the field, the combination must do more than yield a predictable result.”<sup>37</sup> Nevertheless, *Adams* found the claims at issue nonobvious because the relevant prior art directed those in the field away from the solution the inventor found.<sup>38</sup> It is not clear from the Court’s discussion of *Adams* whether it was the teachings of the prior art or the unexpected success of the inventor’s solution (or some combination of both) that tipped the obviousness balance in his favor.

Next on the Court’s list was *Anderson’s-Black Rock, Inc. v. Pavement Salvage Co.*<sup>39</sup> In that case, the patented subject matter combined two prior art elements, and the Court’s opinion decided that such a combination did not provide what the *KSR* Court called “some new synergy” or unexpected benefit.<sup>40</sup> The lesson drawn from this case was that a combination of old elements that “add[s] nothing to the nature and quality” of the items previously patented was not patentable, even though that combination in fact performed a useful

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34. *Id.* at 1739. It based that statement at least in part on its opinion in *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147 (1950), which came prior to the 1952 Patent Act and its codification of obviousness in the provisions of 35 U.S.C. § 103 (2000). *KSR*, 127 S. Ct. at 1739. Perhaps recognizing a possible problem, the Court brushed it aside with the statement that the enactment of section 103 did not disturb “earlier instructions” concerning the “need for caution” noted in the text. *Id.* Notably, P.J. Federico, the primary author of the Patent Act believed that while Congress did not intend “any radical change in the level of invention,” he thought that “some modification was intended in the direction of moderating the extreme degrees of strictness exhibited by a number of judicial opinions over the past dozen or more years; that is, that some change of attitude more favorable to patents was hoped for.” P.J. Federico, *Commentary on the New Patent Act*, 35 U.S.C.A. § 1 (West 1954), reprinted in 75 J. PAT. & TRADEMARK OFF. SOC’Y 161, 183 (1993).

35. *KSR*, 127 S. Ct. 1739-40.

36. 383 U.S. 39 (1966).

37. *KSR*, 127 S. Ct. at 1740 (citing *United States v. Adams*, 383 U.S. 39, 50-51 (1966)).

38. *Id.* This circumstance is commonly known as “teaching away” from the claimed invention. Where a reference would lead the person of ordinary skill in the art in a technological direction away from the inventor’s ideas or suggests that the inventor’s ideas would not be successful, it is said that the reference “teaches away” from the invention, making the invention nonobvious in light of that reference.

39. 396 U.S. 57 (1969).

40. *KSR*, 127 S. Ct. at 1740 (citing *Anderson’s-Black Rock, Inc. v. Payment Salvage Co.*, 396 U.S. 57, 62-63 (1969)).

function.<sup>41</sup> To summarize, the Court cited to *Sakraida v. AG Pro, Inc.*<sup>42</sup> to say, “when a patent ‘simply arranges old elements with each performing the same function it had been known to perform’ and yields no more than one would expect from such an arrangement, the combination is obvious.”<sup>43</sup> Clearly, the focus of the Court’s review of pertinent cases is the non-patentability of any inventive subject matter that uses only “old” items in their ordinary and accustomed way and that provides nothing unexpected in return. In a sense, since most inventions are fashioned from already-known parts,<sup>44</sup> the Court appears to be requiring that the whole must be more than the sum of its parts. To use the Court’s own words, “a court must ask whether the improvement is more than the predictable use of prior art elements according to their established functions.”<sup>45</sup>

The Court also recognized that some cases will be more difficult to analyze than the case presented by *KSR* and *Teleflex*, and gave a presumably exemplary, non-limiting list of information that may go into the obviousness analysis.<sup>46</sup> Among them are “interrelated teachings of multiple patents,” demands present in the marketplace or otherwise known to product designers, and “background knowledge” entailed in the ordinary skill of the given art.<sup>47</sup> These data points, if relevant, are gathered “in order to determine whether there was an apparent reason to combine the known elements in the fashion claimed” by the inventor.<sup>48</sup>

#### D. Errors by the Federal Circuit

The Federal Circuit’s principal error, according to the Court, was not in the fashioning of the TSM test itself, which it implied was a “helpful insight” toward identifying legitimate reasons for combining references or elements from references.<sup>49</sup> Since inventions “rely upon building blocks long since uncovered, and claimed discoveries almost of necessity will be combinations of what, in some sense, is already known,” a showing of why the person of ordinary skill would find it obvious from the prior art to make the claimed combination.<sup>50</sup> No “necessary inconsistency” exists between the TSM test, which looks to the cited references for the teaching, suggestion, or motivation for their combination or modification, and the obviousness analysis of *Graham* and later cases (as reviewed by the current Court).<sup>51</sup> Rather, according to the Court, the fault lies

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41. *Id.* (quoting *Anderson’s-Black Rock, Inc.*, 396 U.S. at 62).

42. 425 U.S. 273 (1976).

43. *KSR*, 127 S. Ct. at 1740 (citing *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273, 282 (1976)).

44. *Id.* at 1741.

45. *Id.* at 1740.

46. *Id.*

47. *Id.* at 1740-41.

48. *Id.*

49. *Id.* at 1741.

50. *Id.*

51. *Id.*

in rigid or formalistic application of the TSM test and in the limiting of the obviousness analysis or disregarding of the “diversity of inventive pursuits and of modern technology” in obviousness considerations that may result.<sup>52</sup>

The opinion addressed three particular manifestations of that principal error, each arising from the Federal Circuit’s narrow interpretation of obviousness.<sup>53</sup> The first of these was a holding that a focus of the obviousness question is the problem the inventor sought to solve.<sup>54</sup> According to the Court, “any need or problem known in the field . . . and addressed by the [inventor’s] patent can provide a reason for combining the elements.”<sup>55</sup> Thus, consider a case in which the inventor wanted to solve a particular problem by putting together items A and B. Regardless of the inventor’s resolved problem, if it would have been clear to the hypothetical person of ordinary skill in the relevant art that putting together items A and B would solve any known problem, that condition appears sufficient to make an initial case of obviousness.

A second error was found in the Federal Circuit’s “assumption that a person of ordinary skill attempting to solve a problem will be led only to those elements of prior art designed to solve the same problem.”<sup>56</sup> Instead, the Court relied on “common sense” for a broader view of prior art in the context of obviousness.<sup>57</sup> Items in a piece of prior art may have certain “primary purposes,” but they may also have other “obvious uses” that can enable the person of ordinary skill to fit together the teachings of multiple references.<sup>58</sup> In the present case, according to the Court, that the Asano reference’s primary solution was not directed to the inventor’s invention was immaterial.<sup>59</sup> Asano taught an example of technology (here, an adjustable pedal with a fixed pivot point) that the person of ordinary skill would link together with other art (which taught placing a sensor at a fixed pivot point), and the Court considered that sufficient to lead to obviousness.<sup>60</sup>

The last Federal Circuit error was the incorrect inference drawn from the problem of combating hindsight bias in the obviousness analysis.<sup>61</sup> It has long been axiomatic that the prior art must be looked at from the point of view of the person of ordinary skill without reliance on the inventor’s own work or analysis.<sup>62</sup> The Court spoke of the “distortion” that such hindsight may cause and being “cautious” about the reasoning drawn from it, but did not come down

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52. *Id.*

53. *Id.*

54. *Id.* at 1742 (citing to lower case, *Teleflex, Inc. v. KSR Int’l Co.*, 119 Fed. App’x 282, 288 (Fed. Cir. 2005)).

55. *Id.*

56. *Id.*

57. *Id.*

58. *Id.*

59. *Id.*

60. *Id.* at 1742-43.

61. *Id.* at 1742.

62. *Id.* (citing *Graham v. John Deere Co.*, 383 U.S. 1, 36 (1966), for its caution against using the teachings of the inventor against his invention).

entirely against it.<sup>63</sup> Rather, it rejected “[r]igid preventative rules that deny factfinders recourse to common sense.”<sup>64</sup> Apparently, the Court considered the application of the TSM test in this case by the Federal Circuit to have violated common sense, and the legitimate concern for preventing an ex post analysis did not justify it. Notably, the Court indicated that a “broader conception of the TSM test” that considered “common knowledge” and implicit motivations in the prior art may pass muster.<sup>65</sup>

The Court determined that the Federal Circuit’s TSM test as applied in this case was not consistent with the Court’s patent jurisprudence, and the Court essentially reverted to the findings of the district court.<sup>66</sup> The patent claim at issue in the case was found to be obvious.<sup>67</sup> The Court led the obviousness analysis from the evidence of desirability of electronic pedals in the marketplace, with references indicating how to do that, through the considerations of the person of ordinary skill as he or she considered those references and others.<sup>68</sup> Teleflex’s position that the references taught away from their combination, resulting in unobviousness, was rejected, and the Court found no objective or secondary factors indicating unobviousness.<sup>69</sup>

#### *E. Comments*

From the Author’s discussions with other patent practitioners, some regard *KSR* as a sea change in the way obviousness is considered, both for federal courts and for the examining corps at the PTO. Others consider the decision as more of a “righting of the ship,” bringing this fundamental question of patentability more in line with practical considerations and basic theory of patent law. While perhaps dicta, the Court’s closing is suggestive of the ideas this opinion is intended to foster:

We build and create by bringing to the tangible and palpable reality around us new works based on instinct, simple logic, ordinary inferences, extraordinary ideas, and sometimes even genius. These advances, once part of our shared knowledge, define a new threshold from which innovation starts once more. And as progress beginning from higher levels of achievement is expected in the normal course, the results of ordinary innovation are not the subject of exclusive rights under the patent laws. Were it otherwise patents might stifle, rather than promote, the progress of useful arts. These premises led to the bar on patents claiming obvious subject matter established in *Hotchkiss* and codified in §103. Application of the bar must not be confined within a

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63. *Id.* at 1742-43.

64. *Id.*

65. *Id.* at 1743.

66. *Id.*

67. *Id.*

68. *Id.* at 1744.

69. *Id.* at 1745.

test or formulation too constrained to serve its purpose.<sup>70</sup>

Some may say that this focus on the progress of the useful arts and on the reward for excellence is a reflection of a more subtle change in view intended to move the “factfinders” toward sharper scrutiny of inventions, and they may be correct. However, the phrase “ordinary innovation” and the Court’s rejection of patent protection for it, as well as the concern over stifling progress, suggests to this Author that the Court views patentable subject matter as inventions that are closer toward the “flash of genius” end of the inventive spectrum. As a result, it is likely that either fewer patents will be granted and/or that granted patents will be somewhat narrower in scope (to the extent such comparisons can be meaningfully made within or across technological fields).

This change is already being seen in the examination of patent applications. The PTO has prepared new Examination Guidelines in response to the *KSR* opinion, which were published just outside of the survey period.<sup>71</sup> The Guidelines provide an overview of the *KSR* decision and of the factual obviousness inquiries given in the *Graham* case and reaffirmed in *KSR*.<sup>72</sup> With those factual findings in hand, the examiner must then determine whether a rationale exists to support an obviousness rejection.<sup>73</sup> The Guidelines supply seven different possible rationales for obviousness, as well as an explanation of each in the context of a prior case. Each is discussed briefly below.<sup>74</sup>

(1) “Combining prior art elements according to known methods to yield predictable results.”<sup>75</sup> Once the *Graham* inquiries are made, a patent claim can be ruled obvious if the prior art shows all of its elements and if further findings are made. These further findings are that (1) the person of ordinary skill could have combined the elements via known methods, with each element merely performing the same function it did when separate from the combination and (2) that the person of ordinary skill would have recognized that the combination’s result(s) were predictable.<sup>76</sup> This rationale appears to be similar to previous bases for obviousness.

(2) “Simple substitution of one known element for another to obtain predictable results.”<sup>77</sup> This rationale requires three findings. If the prior art includes subject matter that differs from a patent claim only in the substitution of some components for others, and if those substituted components and their

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70. *Id.* at 1746 (citations omitted).

71. Examination Guidelines for Determining Obviousness Under 35 U.S.C. 103 in View of the Supreme Court Decision in *KSR International Co. v. Teleflex Inc.*, 72 Fed. Reg. 57,526 (Oct. 10, 2007) [hereinafter Guidelines].

72. *Id.* at 57,526-28.

73. *Id.* at 57,528 (“The key to supporting any rejection under 35 U.S.C. 103 is the clear articulation of the reason(s) why the claimed invention would have been obvious.”).

74. *Id.* at 57,529.

75. *Id.*

76. *Id.*

77. *Id.* at 57,530.

functions were known in the art, and if the person of ordinary skill could have made the substitution with predictable results, then the rationale is satisfied.<sup>78</sup> Again, this analytical path is similar to existing ideas of obviousness.

(3) “Use of known technique to improve similar devices (methods, or products) in the same way.”<sup>79</sup> The examiner must find that the prior art includes a “base” device for which the claimed subject matter is an “improvement.”<sup>80</sup> If there is something in the prior art that is “comparable” to the base device that is improved in the same way and the person of ordinary skill could have applied that improvement technique to the base device with predictable results, then obviousness can be found.<sup>81</sup> This rationale adds some breadth to the obviousness analysis, insofar as the addition of an item “comparable” to the principal prior art and improvements to that item is a step further away from the evaluation of the claimed subject matter vis-à-vis the prior art.

(4) “Applying a known technique to a known device (method, or product) ready for improvement to yield predictable results.”<sup>82</sup> The examiner must find that the prior art shows a “base” device for which the claimed subject matter is an “improvement.”<sup>83</sup> Then, if there is a technique in the prior art that is “applicable” to the base device to provide predictable results and an improved system, obviousness can be found.<sup>84</sup> This rationale is closely related to rationale (3), above, with the focus clearly on the principal prior art and its relationship with the claimed subject matter.

(5) “‘Obvious to try’—choosing from a finite number of identified, predictable solutions, with a reasonable expectation of success.”<sup>85</sup> This rationale requires a finding that there was “a recognized problem or need in the art” (such as a “design need” or “market pressure”).<sup>86</sup> If there are “a finite number of identified [and] predictable solutions,” and if the person of ordinary skill could have tried them with a reasonable expectation of success, then obviousness can be found.<sup>87</sup> This is perhaps the most fundamental and broadening change for examination practice at the PTO, since the allegation that a solution was “obvious to try” has not been a proper obviousness criterion under Federal

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78. *Id.*

79. *Id.*

80. *Id.*

81. *Id.*

82. *Id.* at 57,531.

83. *Id.*

84. *Id.*

85. *Id.* at 57,532.

86. *Id.*

87. *Id.*

Circuit law for at least twenty years.<sup>88</sup> Now, however, under *KSR*<sup>89</sup> and these guidelines, if it would have been obvious to try the patentee's solution, that is sufficient for obviousness.

(6) "Known work in one field of endeavor may prompt variations of it for use in either the same field or a different one based on design incentives or other market forces if the variations would have been predictable to one of ordinary skill in the art."<sup>90</sup> The prior art must show something "analogous" to the applicant's subject matter, and the examiner must find "design incentives" or "market forces" that would have encouraged changing that prior art item.<sup>91</sup> If, in addition, the examiner finds that the differences between the invention and the prior art were known variations or part of a known principle, and that the person of ordinary skill could make such a predictable variation in light of the noted incentives or forces, then obviousness can be found.<sup>92</sup> Until *KSR*, art from a different technical field could only be used in an obviousness analysis when it concerned the problem with which the inventor was concerned (the "analogous art" rule).<sup>93</sup> This traditional approach, recognizing that even the hypothetical person of ordinary skill in the art could not be charged with knowledge in all fields, appears to be severely weakened, if not eliminated, by *KSR* and these examination guidelines.

(7) "Some teaching, suggestion, or motivation in the prior art that would have led one of ordinary skill to modify the prior art reference or to combine prior art reference teachings to arrive at the claimed invention."<sup>94</sup> Where the examiner finds a teaching, suggestion, or motivation either in the cited prior art or knowledge generally available in the art to modify or combine reference teachings, as well as a reasonable expectation of success of the modification or combination, a case of obviousness can be made.<sup>95</sup> This is the pre-*KSR* TSM test, which is familiar to all patent practitioners, and the rigid application of which was struck down by *KSR*. The *KSR* opinion noted that it does not foreclose a flexible or open use of this test.<sup>96</sup> Its inclusion as one of seven rationales for

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88. See 2 DONALD S. CHISUM, CHISUM ON PATENTS § 5.04[1][f][i]-[iv] (1998 & Supp. 2007) (discussing and/or citing inter alia *In re O'Farrell*, 853 F.2d 894 (Fed. Cir. 1988); *In re Yates*, 663 F.2d 1054 (C.C.P.A. 1981); *In re Lindel*, 385 F.2d 453 (C.C.P.A. 1967); *In re Huellmantel*, 324 F.2d 998 (C.C.P.A. 1963).

89. *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1742 (2007) (where "a person of ordinary skill has good reason to pursue the known options within his or her technical grasp . . . the anticipated success . . . is likely the product not of innovation but of ordinary skill and common sense. In that instance the fact that a combination was obvious to try might show that it was obvious under § 103").

90. Guidelines, 72 Fed. Reg. at 57,533.

91. *Id.*

92. *Id.*

93. See, e.g., *In re Oetiker*, 977 F.2d 1443, 1446 (Fed. Cir. 1992).

94. Guidelines, 72 Fed. Reg. at 57,534.

95. *Id.*

96. *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1743 (2007).

obviousness is perhaps the starkest indication that a broad view of obviousness is in the offing in the PTO.

The PTO's examination guidelines also briefly discuss rebuttal of an obviousness determination, focusing on the evidence applicants may offer in this regard.<sup>97</sup> Notably, this discussion focuses on fact evidence that may rebut the factual findings made by the examiner in the *Graham* factual inquiries and/or in the findings needed to establish an obviousness rationale.<sup>98</sup> Such evidence may be of "secondary" or "objective" considerations like commercial success or failure of others.<sup>99</sup> Further, evidence and argument showing that known methods could not achieve the proposed combination, that the combined elements "do not merely perform the function that each element performs separately," or that unexpected results were obtained may also be offered.<sup>100</sup> However,

[a] mere statement or argument that the [PTO] has not established a prima facie case of obviousness or that the [PTO's] reliance on common knowledge is unsupported by documentary evidence will not be considered substantively adequate to rebut the rejection or an effective traverse of the rejection under 37 CFR 1.111(b).<sup>101</sup>

If this guideline is interpreted simply to mean that the mere allegation of these failures is insufficient, then no substantial change in policy appears indicated.<sup>102</sup> If, on the other hand, it is strictly or severely interpreted, it appears that declaration or other documentary evidence could be required for most responses to obviousness rejections.

*KSR* and these PTO Guidelines indicate a much broader application of obviousness law to application and patent claims before the PTO and to patent claims before the federal courts. Examiners will continue to rely on their own assessment of common sense and use of a wide field of prior art to attack patent claims. The examiner's job, of course, is to allow those claims of patentable merit, and to reject the others. It is clear that the obviousness hurdle is now significantly higher than it was and that applicants will have substantially more difficult tasks in terms of preparing applications and offering evidence and arguments to the PTO during prosecution.

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97. Guidelines, 72 Fed. Reg. at 57,534.

98. *Id.*

99. *Id.*

100. *Id.*

101. *Id.*

102. Note that these guidelines may not be in harmony with rules of the PTO that require the examiner to provide documentation for his or her views. *See, e.g.*, 37 C.F.R. § 1.104(d)(2) (2007) (requiring the examiner to provide an affidavit concerning facts or information within his or her own knowledge).

## II. WILLFULNESS STANDARDS: *IN RE SEAGATE TECHNOLOGY, LLC*<sup>103</sup>

Another long-time standard of the patent law reviewed and overhauled in 2007 concerns the standards for finding infringement of a patent willful, with the accompanying potential for an award of increased damages and/or attorney fees. The Patent Act permits a court to increase actual damages by a factor of up to three,<sup>104</sup> and although not specified in the statute, the existence of willfulness on the part of the infringer has been held a requirement for invocation of such enhanced damages.<sup>105</sup> Even if willfulness is found, enhanced damages need not be awarded, as the statute uses the permissive “may” concerning them.<sup>106</sup> The Patent Act also permits an award of attorney fees in “exceptional cases,”<sup>107</sup> and such exceptional cases can include situations in which the infringer exhibited willfulness in his or her infringement.

### A. *The Underwater Devices Rule*

For almost twenty-five years, the baseline standard for willfulness had been taken from *Underwater Devices Inc. v. Morrison-Knudsen Co.*:<sup>108</sup>

“Where . . . a potential infringer has actual notice of another’s patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. Such an affirmative duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.”<sup>109</sup>

The standard requires actual notice on the part of the putative infringer, and charges him or her to take steps to see whether he or she is infringing or may infringe the patent. A requirement to obtain a proper opinion of counsel is included in the duty of care, and for those patents known prior to the beginning of potentially infringing actions, the opinion of counsel was due ahead of such actions.<sup>110</sup> Where one became aware of a patent after activity had begun, an opinion should be obtained as soon as possible after the discovery of the patent.<sup>111</sup> Cases following *Underwater Devices* evolved the rule to view the duty

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103. 497 F.3d 1360 (Fed. Cir. 2007) (en banc). The author would like to acknowledge and thank Holiday W. Banta, partner in Woodard, Emhardt, Moriarty, McNett & Henry LLP, for information on this case provided in a meeting of the Firm’s Litigation Practice Group.

104. 35 U.S.C. § 284 (2000).

105. *Seagate Tech.*, 497 F.3d at 1368 (citing *Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991)).

106. *Id.* (citing 35 U.S.C. § 284 (2000); *Odetics, Inc. v. Storage Tech. Co.*, 185 F.3d 1259, 1274 (Fed. Cir. 1999); *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed. Cir. 1996)).

107. 35 U.S.C. § 285 (2000).

108. 717 F.2d 1380 (Fed. Cir. 1983), *overruled by Seagate Tech.*, 497 F.3d 1360.

109. *Seagate Tech.*, 497 F.3d at 1368-69 (omission in original) (quoting *Underwater Devices, Inc.*, 717 F.2d at 1389-90 (citations omitted)).

110. *Id.* at 1369.

111. *Id.*

under the “totality of the circumstances” and “enumerated factors informing the inquiry.”<sup>112</sup>

### *B. Case Background and History*

Before being sued for infringement of two patents, defendant Seagate Technology had sought an opinion of counsel concerning those patents.<sup>113</sup> The opinion, received shortly after the complaint in the case had been filed, determined that many of the patent claims were invalid and that others were not infringed by Seagate’s products.<sup>114</sup> Additional opinions were also obtained later on other issues.<sup>115</sup> After Seagate notified the plaintiffs that it intended to rely on the opinions to defend against a finding of willfulness and permitted discovery of its attorney and his documents relating to the opinions, the plaintiffs moved to compel production of communications and work product of Seagate’s trial and other counsel.<sup>116</sup> The trial court ruled that a broad waiver of privilege and work product immunity had taken place and ordered disclosure.<sup>117</sup> Following plaintiffs’ request for trial counsel opinions and notices of deposition of trial counsel, and a denial of Seagate’s motions for stay and for certification of an interlocutory appeal, Seagate petitioned for mandamus to the Federal Circuit.<sup>118</sup>

Recognizing the “practical dilemmas” arising between the desire for protection from willfulness determinations and the potential for waiver of privilege, the Federal Circuit granted the petition.<sup>119</sup> It traced its consideration of those dilemmas through several cases. The court had recommended *in camera* review of opinions and related privileged materials and bifurcated trials to employ the right balance between willfulness and privilege.<sup>120</sup> More recently, the court moved further in favor of protecting the attorney-client relationship by refusing to give an adverse inference as to the substance of an opinion of counsel if the defendant asserted attorney-client or work product privilege.<sup>121</sup> Following that holding, the court determined that while reliance on in-house counsel’s opinion waives attorney-client privilege, as well as work product protection for communications on that same subject matter, the waiver “did not extend to work product that was not communicated to an accused infringer.”<sup>122</sup> With that

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112. *Id.* (citing *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992); *Rolls-Royce Ltd. v. GTE Valetton Corp.*, 800 F.2d 1101, 1110 (Fed. Cir. 1986)).

113. *Id.* at 1366.

114. *Id.*

115. *Id.*

116. *Id.* at 1366-67.

117. *Id.* at 1367.

118. *Id.*

119. *Id.*

120. *Id.* at 1369 (citing *Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 643 (Fed. Cir. 1991)).

121. *Id.* at 1369-70 (citing *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344-45 (Fed. Cir. 2004) (en banc)).

122. *Id.* at 1370 (citing *In re Echostar Commc’ns Corp.*, 448 F.3d 1294, 1303-04 (Fed. Cir.

background in hand, the Federal Circuit turned to the question at hand, namely whether any “waiver resulting from advice of counsel and work product defenses extend to trial counsel.”<sup>123</sup>

### C. *The Underwater Devices Rule is Overruled*

After reviewing briefly the nature of the term “willful,” the court declared that the *Underwater Devices* duty of care set a level for willful infringement that was too low.<sup>124</sup> Rather than using the recklessness threshold found in other areas of law, the court considered the existing patent law rule to be more akin to a negligence standard and “allow[ed] for punitive damages in a manner inconsistent with Supreme Court precedent.”<sup>125</sup> Even though the appeal issues were discovery-based, the court saw that the willfulness standard clearly affects what evidence is relevant and likewise the appropriate range for discovery.<sup>126</sup>

Consequently, the court took the opportunity to rework rules and analytical considerations surrounding willfulness and opinion-of-counsel defenses, and concentrated heavily on objectivity in doing so. Derived from definitions in other areas of the law, the focus for willfulness in the patent law now is “at least a showing of objective recklessness.”<sup>127</sup> In explaining its holding further, the court stated that a successful claim of willful infringement requires a “show[ing] by clear and convincing evidence that the infringer acted despite an *objectively high likelihood* that its actions constituted infringement of a valid patent.”<sup>128</sup> Apparently to underscore the two-fold use of “objectiveness,” the court further noted that the putative infringer’s state of mind is irrelevant to the assessment of risk of infringement.<sup>129</sup> Once such an objective likelihood is established, the patentee must then demonstrate a mental element on the infringer’s part.<sup>130</sup> The objective risk must be “either known or so obvious that it should have been known to the accused infringer.”<sup>131</sup>

However, this is where the court’s guidance on the topic of willfulness ends, at least for the present. Having appropriately explained the jump from the petition for mandamus on a question of discovery to the fundamental questions involved in a determination of willfulness, and having offered a two-step test for willfulness, the court stopped. Rather than offer further teaching or examples, perhaps from past opinions, the judges preferred to allow “future cases to further

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2006)).

123. *Id.*

124. *Id.* at 1371.

125. *Id.* (citing *Safeco Ins. Co. v. Geico Gen. Ins. Co.*, 127 S. Ct. 2201, 2209, 2214-15, 2216 n.20 (2007); *Smith v. Wade*, 461 U.S. 30, 39-49 (1983)).

126. *Id.* at 1371-72.

127. *Id.* at 1371.

128. *Id.* (emphasis added) (citing *Safeco Ins. Co.*, 127 S. Ct. at 2215).

129. *Id.*

130. *Id.*

131. *Id.*

develop the application” of the new test.<sup>132</sup> Nevertheless, an oblique expectation that “standards of commerce would be among the factors a court might consider” found its way into the opinion.<sup>133</sup> The court did not offer particular solutions for the case at bar, with its disposition being a grant of mandamus and remand to the district court for reconsideration of the discovery issues that fomented the petition.<sup>134</sup>

The second facet of the *Seagate* opinion was the question of the scope of waiver of privilege when an opinion-of-counsel defense is asserted.<sup>135</sup> This point, clearly centrally related to the parties’ conflict at the district court level, was split into separate considerations of the attorney-client privilege<sup>136</sup> and work product protection.<sup>137</sup> In both cases, the result is that an opinion-of-counsel defense generally does not work a waiver of these valuable protections.<sup>138</sup>

Taking the issue of attorney-client privilege first, the court expressed its veneration for the privilege and its value in the legal system.<sup>139</sup> Recognizing the general principle that where a client waives the privilege, protection is lost for “all other communications relating to the same subject matter,”<sup>140</sup> the court also noted the lack of any bright line test for the scope of waiver and that the facts and circumstances of the particular case before establishing that scope.<sup>141</sup> With district court decisions espousing three different general positions—waiver based on opinion-of-counsel defense extends to trial counsel, waiver does not so extend, and a “middle ground” applying only to certain communications—this appellate decision chose the first position.<sup>142</sup> “[T]he significantly different functions of trial counsel and opinion counsel advise against extending waiver to trial counsel.”<sup>143</sup> These functions, viewed as objective assessment from opinion counsel versus adversarial litigation strategy and presentation from trial counsel,<sup>144</sup> plus the long-standing “compelling” interests contrary to waiver of privilege for trial counsel<sup>145</sup> and the focus of the willfulness inquiry on conduct prior to litigation,<sup>146</sup> led to the decision. The court did not make that rule an absolute imperative, giving lower courts discretion “in unique circumstances to extend waiver to trial counsel, such as if a party or counsel engages in

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132. *Id.*

133. *Id.* at 1371 n.5.

134. *Id.* at 1376.

135. *Id.* at 1375.

136. *See id.* at 1372-75.

137. *See id.* at 1375-76.

138. *Id.*

139. *Id.* at 1372.

140. *Id.* (citing *Fort James Corp. v. Solo Cup Co.*, 412 F.3d 1340, 1349 (Fed. Cir. 2005)).

141. *Id.*

142. *Id.* at 1373.

143. *Id.*

144. *Id.*

145. *Id.* (citing *Hickman v. Taylor*, 329 U.S. 495, 510-11 (1947)).

146. *Id.*

chicanery.”<sup>147</sup>

This section of the opinion also included an interesting passage that should give patent plaintiffs food for thought as they consider whether to request a preliminary injunction. A preliminary injunction is avoided through a showing of “only a substantial question as to invalidity” or infringement.<sup>148</sup> Correlating that principle with the objective recklessness threshold for willfulness pronounced earlier in the opinion, the court noted that where a defendant has shown that substantial question on invalidity or infringement, such a showing is likely to avoid a willfulness finding based on the defendant’s conduct after the filing of the complaint.<sup>149</sup> Where previously the denial of a preliminary injunction was a setback but not fatal to any portion of a plaintiff’s case, now such a denial likely results in the denial of willfulness and the chance to obtain enhanced damages for any post-complaint infringing conduct.<sup>150</sup> That “substantial question” as to invalidity or infringement is likely, in the court’s view, to show objectively the defendant’s conduct during litigation to be non-reckless.<sup>151</sup>

Similarly, the waiver occasioned by the opinion-of-counsel defense is generally not extendable to trial counsel’s work product “absent exceptional circumstances.”<sup>152</sup> Again recognizing the fundamental place of the work product doctrine in an adversarial system and prior opinions concerning scope of waiver, the court held that while opinion counsel’s work product was available for discovery, trial counsel’s was not.<sup>153</sup> The possibility of extending the waiver for special problem cases was left open, and the court also acknowledged existing principles allowing discovery of work product on a proper showing of need and hardship.<sup>154</sup>

*Seagate* would appear to make it significantly more difficult to prove willfulness and obtain enhanced damages. On paper, at least, the Federal Circuit has characterized the *Underwater Devices* rule as approving a willfulness standard akin to negligence, and has moved that standard to objective recklessness as a minimum for finding willfulness.<sup>155</sup> On that basis alone it would seem likely that lower courts and the Federal Circuit will scrutinize allegations of willfulness much more carefully and that they would reject more of those allegations than has occurred in the past. Combined with the holding in *Knorr-Bremse* that the failure to produce an opinion of counsel, or failure to obtain legal advice, will not provide an adverse inference as to the contents of the

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147. *Id.* at 1374-75.

148. *Id.* at 1374 (citing *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1359 (Fed. Cir. 2001)).

149. *Id.*

150. *Id.*

151. *Id.*

152. *Id.* at 1375.

153. *Id.* at 1375-76.

154. *Id.* at 1376.

155. *Id.* at 1368-73.

opinion or to willfulness,<sup>156</sup> the party asserting willfulness has a heavier burden in proving its case than was true just a few years ago. Plaintiffs will undoubtedly wish to be even more careful in alleging willfulness in their complaints given these new standards. These changes are focused on preserving the rules surrounding the attorney-client relationship that have been developed over time and are used in every other area of the law<sup>157</sup> and appropriately shift burdens concerning willfulness from the defendant to the plaintiff.

### III. UPDATE ON *EBAY INC. V. MERCExchange, L.L.C.*<sup>158</sup>

The District Court for the Eastern District of Virginia issued a new ruling in this case following remand from the Supreme Court.<sup>159</sup> The history of this case includes a jury verdict of willful infringement by defendants eBay and Half.com, following which the trial court denied a motion for a permanent injunction.<sup>160</sup> Among the Federal Circuit's decisions on appeal was a reversal of that denial with an indication "that injunctions should essentially issue as a matter of course in patent infringement actions upon a finding of validity and infringement."<sup>161</sup> The Supreme Court granted certiorari solely on the issue of the permanent injunction standard and vacated the Federal Circuit's ruling.<sup>162</sup> In a sense, the Court's *eBay* ruling is a precursor to the *KSR* ruling discussed above insofar as it demonstrates a current relative high interest in patent matters and a desire to correct what it views as the Federal Circuit's deviation from established principles in its efforts to create uniformity in the patent law. The Court relied on its earlier decisions on injunctions generally and on injunction issues found in its copyright decisions,<sup>163</sup> and held that the familiar four-factor test relating to injunctions must be used in patent cases<sup>164</sup> and that injunctions cannot be allowed to issue simply as a matter of course.<sup>165</sup>

With this direction in mind, the district court revisited the injunction question.<sup>166</sup> After reviewing post-remand proceedings and post-trial factual

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156. *Id.* at 1369-70 (citing *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344-45 (Fed. Cir. 2004) (en banc)).

157. Note *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391-92 (2006), which similarly found that tests available in other areas of law (e.g. the four-factor test employed in equity in a determination of whether to grant a permanent injunction) applied to patent cases. It would seem likely that other situations in which practice in patent litigation varies from practice in other litigation may be likewise harmonized by the Supreme Court or Federal Circuit in the future.

158. 547 U.S. 388.

159. *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556 (E.D. Va. 2007).

160. *Id.* at 559-61.

161. *Id.* at 559-60.

162. *Id.* at 560.

163. *eBay, Inc.*, 547 U.S. at 390.

164. *Id.* at 391-92.

165. *Id.* at 394.

166. *MercExchange, L.L.C.*, 500 F. Supp. 2d at 568.

developments,<sup>167</sup> and considering a motion for a stay based on proceedings in the PTO,<sup>168</sup> the court turned to MercExchange's renewed injunction request. In reviewing whether the plaintiff had shown an irreparable injury, the court ran into an immediate hurdle—whether the oft-cited presumption of irreparable harm arising from infringement of a valid patent survived the Supreme Court's holding.<sup>169</sup> From the import of the Supreme Court's language as well as other cases it found relevant, this court came down against the presumption of irreparable harm.<sup>170</sup> Nonetheless, it also recognized that “the nature of the right protected by a patent, the right to exclude, will frequently result in a plaintiff successfully establishing irreparable harm” following validity and infringement findings.<sup>171</sup> Even so, it remains the plaintiff's responsibility to affirmatively prove that irreparable harm exists, given that “numerous case specific facts may weigh against the issuance of an injunction.”<sup>172</sup>

The district court then considered each of the traditional four factors.<sup>173</sup> It first determined that MercExchange had not established irreparable harm.<sup>174</sup> The thorough discussion of that factor covered a range of facts concerning the parties and their business activities, but the ultimate conclusion centered for the most part on MercExchange's willingness to license the patents at issue and its own lack of commercial activity in practicing them.<sup>175</sup> While not preventing it from obtaining an injunction, MercExchange's efforts were viewed as evidencing a policy of maximizing revenue from the patents by having others practice them, and an award of substantial damages is compatible with that policy.<sup>176</sup> The practicality and suitability of money damages in this case indicated that the harm to the plaintiff was not irreparable.<sup>177</sup>

The court also considered and rejected four issues or “sub-factors” that might be relevant to an irreparable harm analysis.<sup>178</sup> The first was a potential distinction that might in a sense excuse MercExchange's licensing program and permit the inference of irreparable harm.<sup>179</sup> It recognized the fact that an individual inventor may seek to license a patent as an alternative to raising

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167. *Id.* at 559-62.

168. *Id.* at 562-67.

169. *Id.*

170. *Id.* at 568-69 (citing *24 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 437, 440 (E.D. Tex. 2006); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*4 (E.D. Tex. Aug. 16, 2006)).

171. *Id.* at 569.

172. *Id.*

173. *Id.* at 569-90.

174. *Id.* at 569-70.

175. *Id.* at 569-71.

176. *Id.* at 569-70.

177. *Id.* at 571.

178. *Id.* at 571-75.

179. *Id.* at 571-72.

capital to develop the subject matter himself or herself.<sup>180</sup> That scenario is distinguishable, the court found, because the individual inventor is still seeking to develop the patented item, while MercExchange sought to license to companies already in the market and potentially infringing its patents.<sup>181</sup>

Second, as opposed to patent owners “who do not practice their patents but nonetheless seek to defend their *right to exclude*, MercExchange’s public and private actions indicate its desire to obtain royalties from eBay.”<sup>182</sup> The record showed published statements by a MercExchange officer and its attorney suggesting that eBay should be allowed to use the patents on a royalty-bearing arrangement, as well as private efforts between the parties to enter a license before litigation began.<sup>183</sup> In the court’s view, these facts in light of prior case law weighed against irreparable harm as an indication of “the patent holder’s willingness to forgo his right to exclude.”<sup>184</sup>

The third issue the court noted was MercExchange’s lack of an attempt to obtain a preliminary injunction.<sup>185</sup> It opined that there are many considerations that may go into a decision to seek or not to seek a preliminary injunction and that preliminary and permanent injunctions have fundamental differences.<sup>186</sup> Even so, the court believed that the decision not to seek a preliminary injunction weighed against irreparable harm at least because it was consistent with the other facts of record—such as its licensing efforts with defendant eBay and the reduction in available royalties had an injunction been issued—that indicated its “true goal” was not to defend its right to exclude.<sup>187</sup> Had it wanted to defend that right, the court thought MercExchange “would likely have at least *attempted* to stop eBay, the purported ‘market monopolist,’ from further improving its foothold on the market” as litigation continued.<sup>188</sup>

Fourth, the court considered the nature of the business-method subject matter of the patent at issue, which “appears to rely upon a unique combination of non-unique elements.”<sup>189</sup> It agreed that the patent was valid and enforceable at that time and that such patents would support an injunction just as much as any other.<sup>190</sup> However, it also observed the need for caution in granting such patents, as expressed in Supreme Court cases such as *KSR International Co. v. Teleflex Inc.* and the opinion remanding this case back to the district court, as well as the multiple rejections of the claims by the PTO.<sup>191</sup> In that light, the court suggested

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180. *Id.*

181. *Id.* at 572.

182. *Id.*

183. *Id.*

184. *Id.* at 573.

185. *Id.*

186. *Id.*

187. *Id.*

188. *Id.*

189. *Id.* at 574.

190. *Id.*

191. *Id.* at 574-75 (citing *KSR Int’l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1739 (2007)).

that the nature of the patent weighed “against a finding of irreparable harm as if [it] was improvidently granted.”<sup>192</sup>

While these four “sub-factors” weighed against a finding of irreparable harm, the court saw facts surrounding MercExchange’s relationship with another licensor as having the potential to be “significant evidence” favoring irreparable harm.<sup>193</sup> Those facts, discussed in some detail, did not provide evidence of harm because they pointed to MercExchange’s desire for revenue through licensing, rather than assisting itself or another to exclude others from the market.<sup>194</sup> The court likewise considered additional arguments from MercExchange offered from new and previously obtained evidence and found that they either were not indicators of irreparable harm and/or did not overcome the considerations against irreparable harm.<sup>195</sup> It ultimately found that the irreparable harm factor did not support the entry of a permanent injunction.<sup>196</sup>

The second injunction factor, whether there is an adequate remedy at law, overlaps the analysis of whether irreparable harm exists. The court summarized its points from its irreparable harm analysis and determined that money damages would adequately compensate MercExchange in light of its licensing and litigation policies.<sup>197</sup> This determination of the second factor also weighed against an injunction.<sup>198</sup>

The court further considered the final two factors, the balance of the hardships between the parties<sup>199</sup> and the public interest.<sup>200</sup> The former favored neither party, according to the court, after a review of the relevant information of record.<sup>201</sup> As to the latter, the court found that the public interest slightly weighed against an injunction.<sup>202</sup> It started from the premise that the public interest in maintaining a strong patent system may favor the patentee, but it also considered “the type of patent involved, the impact on the market, the impact on the patent system, and any other factor that may impact the public at large.”<sup>203</sup>

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192. *Id.* at 575. Since 35 U.S.C. § 282 (2000) unequivocally provides the presumption of validity of a patent, and the patent survived the underlying litigation in the *MercExchange* case, it might appear that the court’s recital of “improvidently granted” as a factor against irreparable harm is not supportable. However, the record indicated that the patent at issue was not only under reexamination by the PTO, but also that the claims had been initially rejected. *Id.* at 574. That fact apparently allowed the court to get past the validity presumption and/or any case law on validity that existed.

193. *Id.* at 575.

194. *Id.* at 575-76.

195. *Id.* at 575-80.

196. *Id.* at 580-81.

197. *Id.* at 582-83.

198. *Id.* at 583.

199. *Id.* at 583-86.

200. *Id.* at 586-90.

201. *Id.* at 585-86.

202. *Id.* at 586.

203. *Id.*

Among its discussion of these factors, the court came back to (and seemed to emphasize) MercExchange's litigation position and public statements in apparent disregard or minimization of its right to exclude, finding that the "public interest would be disserved" by allowing MercExchange to assert an alternative reality to the court following trial.<sup>204</sup> With three factors pointing away from a permanent injunction, the court refused to enter one.<sup>205</sup>

Certainly any permanent injunction analysis will necessarily be focused on the particular facts of a given case, and so the value of any such analysis in one opinion in predicting the outcome of or persuading a court in a later case may be small or negligible. The *MercExchange* court went out of its way to express that its analysis is dependent on its facts and does not represent the use of any presumptions or bright line rules.<sup>206</sup> Nevertheless, the variety of issues the court considered and the way it considered them are quite instructive. It is possible of course that further appeals in this case may affect the merit of the analytical framework in this opinion. For now, and perhaps for some time to come, the decision provides substantial guidance as to how to consider a permanent injunction request. It also provides clear clues for counsel and for businesspeople as to what conduct should be avoided if a patent's inherent right to exclude is to be preserved.

#### IV. INDIANA'S RIGHT OF PUBLICITY—*SHAW FAMILY ARCHIVES*

Indiana's right of publicity statute<sup>207</sup> has enjoyed a certain amount of fanfare centering around its comparatively broad protections and its one-hundred-year term of protection,<sup>208</sup> the longest of any United States jurisdiction. However, in the relatively few years since its enactment, the statute has been the subject of very few reported cases. A 2007 opinion from the United States District Court for the Southern District of New York has opened up the possibility that the statute is not as far-reaching as has been thought.

In *Shaw Family Archives Ltd. v. CMG Worldwide, Inc.*,<sup>209</sup> the court considered not only Indiana's right of publicity statute, but also the laws of New York and California, and how they affected photographs of Marilyn Monroe. In 2005, Indianapolis-based CMG Worldwide ("CMG") along with Marilyn Monroe, LLC filed suit against Shaw Family Archives ("SFA") and others in federal court in Indianapolis, alleging a violation of Monroe's right of publicity under Indiana law.<sup>210</sup> Before being served, SFA filed an action with several claims, including a request for a declaratory judgment as to whether any post-

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204. *Id.* at 586-90.

205. *Id.* at 591.

206. *See, e.g., id.* at 569 (stating that "a permanent injunction shall only issue if . . . the case specific facts warrant entry of an injunction").

207. IND. CODE §§ 32-36-1-1 to -20 (2004).

208. *Id.* § 32-36-1-8.

209. 486 F. Supp. 2d 309 (S.D.N.Y. 2007).

210. *Id.* at 310.

mortem right of publicity existed in Monroe's name, likeness, or image.<sup>211</sup> Following motions in each court, the cases were consolidated in the New York federal court, which ruled that Indiana's choice of law principles would be used in the case.<sup>212</sup>

This opinion dealt with the parties' cross-motions for summary judgment focused on the application of Indiana's right of publicity law.<sup>213</sup> As factual background, the court noted that Monroe's will included a residuary clause that bequeathed to Lee Strasberg "the entire remaining balance" of the estate.<sup>214</sup> Eventually Marilyn Monroe, LLC was formed "to hold and manage the intellectual property assets of the residuary beneficiaries of Monroe's will."<sup>215</sup> As to SFA, it is a company that owns photographs by the late Sam Shaw, among which are "many 'canonical' Marilyn images."<sup>216</sup> The complaint alleged that SFA had been selling shirts with Monroe's picture and had maintained a website through which licenses to use pictures or images of Monroe on products could be purchased.<sup>217</sup> It further alleged that Marilyn Monroe, LLC is the proper successor-in-interest to Monroe's rights of publicity, which it claimed were passed through Monroe's will to Strasberg and on to the company.<sup>218</sup> SFA's actions were alleged to violate Indiana law, a "statute[] passed over three decades after Ms. Monroe's death, by a state with which she had (as far as the court is aware) absolutely no contact during her life."<sup>219</sup>

While the opinion deals in the main with aspects of probate law, insofar as the Monroe will was the vehicle through which the right of publicity passed (if at all),<sup>220</sup> it also makes some fundamental determinations about the reach of the Indiana statutory provisions.<sup>221</sup> After stating the principle that one cannot devise by will property he or she did not own at the time of death, the court found that "[d]escendible postmortem publicity rights were not recognized, in New York, California, or Indiana at the time of Ms. Monroe's death."<sup>222</sup> Focusing on Indiana law, the court opined that until passage of the right of publicity statute, the only way rights of publicity could be asserted was via a "personal tort action for invasion of privacy."<sup>223</sup> The result is that "any publicity rights she enjoyed

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211. *Id.* at 310-11.

212. *Id.* at 311.

213. *Id.* at 312-13.

214. *Id.* at 312.

215. *Id.*

216. *Id.* at 312-13.

217. *Id.* at 313.

218. *Id.*

219. *Id.*

220. *Id.* at 314-19.

221. *Id.* at 319-20.

222. *Id.* at 314.

223. *Id.* (citing IND. CODE § 34-9-3-1 (2004); *Time Inc. v. Sand Creek Partners, L.P.*, 825 F. Supp. 210, 212 (S.D. Ind. 1993); *Cont'l Optic Co. v. Reed*, 86 N.E.2d 306, 309 (Ind. App. 1949)). Note that commentators generally find the origin of right of publicity law in right of privacy law,

. . . were extinguished at her death by operation of law.”<sup>224</sup>

The court dismissed the argument by Marilyn Monroe, LLC that her will could pass postmortem publicity rights later conferred on her by statute.<sup>225</sup> As previously noted, the court discussed at length the New York and California probate law and their insistence that a will cannot pass property not owned by the decedent at the time of death.<sup>226</sup> The argument that the contrary intent of the decedent can change that rule was quickly dispatched, as was the argument that other provisions of New York’s or California’s probate law could support its case.<sup>227</sup> A further argument based on Texas law, that a residuary clause can pass property the decedent may have “overlooked,” was not persuasive because it was out of jurisdiction, because “Monroe could not have overlooked a right that did not come into being” until many years after she died, and because it affirmed the principle that property owned by the decedent is all that can be devised by will.<sup>228</sup>

The last point made by the court focuses on the Indiana statute and interprets it as not permitting transfer of rights of publicity of persons already deceased at the time it was enacted.<sup>229</sup> It pointed to sections 16 to 18 of the statute, which provide several ways including “testamentary document” for transferring rights of publicity and provide that such rights pass under the rules of intestate succession if not transferred in one of those ways.<sup>230</sup> In the court’s words, “even if a postmortem right of publicity . . . could have been created after [Monroe’s] death,” the Indiana statute does not permit it “to be transferred through the will of a ‘personality’ who . . . was already deceased at the time of the statute’s enactment.”<sup>231</sup> If such postmortem rights are available, they clearly were not passed by any of the methods listed in the Indiana statute and thus must have passed to heirs via intestate succession.<sup>232</sup> The court did not discuss who that might be, but it may be supposed that there were no such heirs, and it is certainly the case that neither CMG nor Marilyn Monroe, LLC had a claim to such rights through any such heirs that might exist.

Once again, the great majority of this case is concerned with interpretations of the will under appropriate law. Nonetheless, two important points can be drawn from this opinion. First, at least one federal court at least implicitly has held that Indiana’s right of publicity statutes does not create rights *nunc pro tunc*, as though they came into existence prior to a personality’s death.<sup>233</sup> Applied to the facts of this case, the rights created with the 1994 enactment of those statutes

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but that early common law right of publicity is quite a different species from later statutory rights.

224. *Id.*

225. *Id.*

226. *Id.* at 314-17.

227. *Id.* at 314-15.

228. *Id.* at 316-17.

229. *Id.* at 318-19.

230. *Id.* at 319 (citing IND. CODE §§ 32-36-1-16 to -18 (2004)).

231. *Id.*

232. *Id.*

233. *Id.*

do not act retroactively to create rights in 1962, just before Monroe's death.<sup>234</sup> The second is the holding that any rights of publicity under Indiana law for personalities who died before 1994 cannot be passed by will.<sup>235</sup> Taken together, this court would seem to mean that there are no rights of publicity under Indiana law for personalities who are deceased earlier than 1994. If rights are not retroactively created and whatever might exist cannot be devised, there seems to be little or no room to find rights for such predeceased people. Of course, it may be that Indiana courts or those of other states will have a different view. However, in the opinion of this Author, *Shaw Family Archives* is well-reasoned and persuasive, and makes a substantial rebuttal to those who consider Indiana's right of publicity statute to be far-reaching, perhaps to be able to encompass personalities who passed away early in the twentieth century, such as Mark Twain.

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234. *Id.*

235. *Id.* at 319-20.