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October Term 2012: Trends in Supreme Court Intellectual Property Jurisprudence

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In its most recently concluded term, the United States Supreme Court issued six opinions covering intellectual property law. At the highest level, the opinions demonstrate the Court's continued broad interest in copyright, trademarks, and patents, as well as their interaction with antitrust considerations. Also evident is the Court's fearlessness toward taking on "expert" doctrines—such as exhaustion and first sale—in both the patent and copyright contexts. Through these boundary doctrines, the Court has made clear its interest in sculpting the edges and limits of intellectual property laws. And certain accusations against the Supreme Court—that it is anti-IP, out to put the Court of Appeals for the Federal Circuit in its place, or that it is out of its element with IP—prove too simplistic in light of analysis of the Court's recent decisions.

TREND 1: NARROW HOLDINGS TIED TO THE FACTS

At the same time the Supreme Court revealed its willingness to engage with IP's more complicated doctrines, it has also shown considerable restraint by tailoring its decisions to the facts at hand in each case. Notably absent from the Court's opinions are universal proclamations and over-inclusive dicta. The Court has performed surgery on some of IP's foremost complications with a scalpel—not a chainsaw.

In the highly publicized *Assn. for Molecular Pathology v. Myriad Genetics, Inc.* decision, which some see as providing a potential disincentive to critical research in the biotech field, the Court showed such restraint. To be sure, the decision was no bulwark for IP protection, as the Court invalidated a patent on the grounds that a naturally occurring DNA segment is a product of nature and not patent eligible merely because it has been isolated (despite substantial investment into that isolation). But the Court explicitly noted "what is *not* implicated by this decision"—namely, the patentability of innovative methods for manipulation toward isolation of a gene and of all DNA in which naturally occurring nucleotides were in some way altered.¹ The proposition that *Myriad* stands for the unpatentability of DNA is a gross overstatement and thus the extent to which the case will discourage biotech innovation, as opposed to merely recalibrating some patenting strategies and some development investments, remains to be seen.

¹ *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2119-20 (2013) (emphasis added).

In *Bowman v. Monsanto Co.*, in which the Court upheld enforcement of the patent at issue, the Court was similarly careful in limiting its holding. The Court declined to extend patent exhaustion to the case of a farmer's reproduction—through unauthorized planting and harvesting—of a patented seed. But the Court was explicit that it addressed only “the situation before us, rather than every one involving a self replicating product” and, recognizing that “such inventions are becoming ever more prevalent, complex, and diverse,” noted that it did not consider whether or how the doctrine of patent exhaustion would apply in the context of other self-replicating products.² *Monsanto*, like *Myriad*, demonstrated the Court's recognition of the ever-increasing speed at which invention takes place, and its discomfort with using rulings on today's technologies to tie lower courts' hands in evaluating tomorrow's innovations.

TREND 2: RECOGNITION OF INNOVATION'S PRIMACY—AND IP'S ROLE IN FOSTERING IT

Looking more deeply, what this term's decisions show is an ongoing effort by the Court to shape and align the IP system with the times in which we live. Ours are times where innovation is everything. It is the sole remaining source of competitive advantage but also so vulnerable, so easily subverted, and so delicate. By the same token, ours are times prone to excess and abuse, in which the very same attributes that make the IP system increasingly central to competitiveness—it is the only system there is to protect and incent innovation—also make it a target for overextension.

The Supreme Court has shown an appreciation for the criticality of innovation and for the role of intellectual property in maximizing innovation, as well as the need to protect the vulnerable positions of innovators who rely on the legal system. In *Monsanto*, the Court rested its decision on the uncomplicated logical proposition that overextending the doctrine of exhaustion would undermine the entire purpose of IP:

“[I]f simple copying were a protected use, a patent would plummet in value after the first sale of the first item containing the invention. The undiluted patent monopoly, it might be said, would extend not for 20 years (as the Patent Act promises), but for only one transaction. And that would result in less incentive for innovation than Congress wanted.”³

The Court addressed the vulnerability of IP in the trademark context in *Already, LLC v. Nike, Inc.*, affirming dismissal of a counterclaim by a smaller shoemaker against Nike, seeking invalidation of a trademark despite Nike's covenant not to sue on the mark as part of a settlement of the original claim. The Court rejected the smaller shoemaker's argument that broader standing in trademark challenges would prevent “bullying” of small innovators, noting that “lowering the gates for one party lowers the gates for all.”⁴ The Court recognized the potential inimical result of providing larger companies “standing to challenge the IP portfolios of their more humble rivals—not because they are threatened by any particular patent or trademark, but simply because they are competitors in the same market.”⁵

TREND 3: OPTIMIZATION AS THE GOAL

The Court's decisions showed both a recognition of the need to protect incentives for innovation and of the countervailing concern that maximization cannot be the cornerstone policy objective for the IP system. Optimization, not minimization or maximization, is the goal. In *Monsanto*, the Court referred to its prior rejection of the claim that the Plant Variety Protection Act (PVPA) implicitly repealed the Patent Act's

² *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1769 (2013).

³ *Id.* at 1768.

⁴ *Already, LLC v. Nike, Inc.*, 133 S. Ct. 721, 732 (2013).

⁵ *Id.* at 724.

coverage of seeds and plants, noting that the “requirements for getting a patent ‘are more stringent than those for obtaining a PVP certificate, and the protections afforded’ by a patent are correspondingly greater.”⁶ This unwillingness to dilute the patent system by supplanting it with concurrently available—but less potent—avenues of protection demonstrated the Court’s disinclination to minimize IP. In *Myriad*, the Court showed a corresponding aversion to maximization, noting that “Groundbreaking, innovative, or even brilliant discovery does not by itself satisfy the §101 [patentability] inquiry... extensive effort alone is insufficient to satisfy the demands of [patentability].”⁷

In perhaps its most broadly applicable decision, the Supreme Court effectively ended publishers’ ability to offer differential pricing worldwide by extending the first sale doctrine to encompass works legally published abroad.⁸ The Court also unanimously declined to afford a patent holder a second bite at the IP apple after he saw his patent invalidated and sought a new trial on a concomitant state legal malpractice claim—which he also lost—on a theory of failed subject matter jurisdiction.⁹ Certainly, the rights holders at the center of each of these cases invested considerable time and resources into their respective works. But the Supreme Court made abundantly clear that providing rewards to creators is not the only aim of the IP system.

TREND 4: AN ON-GOING BALANCING ACT

Finally, the Court’s actions during this recently completed term evidenced a search for balance as between the rights of innovators and the rights of the public, along with a desire to avoid extremes in seeking that balance. As the Court noted in *Myriad*, “patent protection strikes a delicate balance between creating incentives that lead to creation, invention, and discovery and impeding the flow of information that might permit, indeed spur, invention.”¹⁰

In its final IP-related decision of the term, *FTC v. Actavis, Inc.*, the Court brought this balance to bear on a fundamental tension of intellectual property—that between the unique legal monopoly afforded to innovators via the patent system and the general aversion toward monopoly embodied in the antitrust laws. At issue was the practice (common in the pharmaceutical industry) of reverse payment settlement agreements, in which patent holders make payments to competitors in exchange for their abandonment of patent challenges.

The majority noted that it would be “incongruous to determine antitrust legality by measuring the settlement’s anticompetitive effect solely against patent law policy.”¹¹ As such, the Court demonstrated its intent to evaluate IP in a broader legal context than did the Eleventh Circuit, which had found reverse settlement agreements presumptively immune from antitrust attack so long as those agreements fell within the scope of the patent’s exclusionary limits. The majority pointed out that there was “nothing novel” in its restraining a patent holder from deterring competitor patent challenges; it was merely consistent with the “patent-related policy of eliminating unwarranted patent grants so the public will not continually be required to pay tribute to would-be monopolists without need or justification.”¹²

The majority acknowledged that the agreement at issue fell within the exclusionary scope of the patent, which includes permission to charge a higher-than-competitive price, but noted that “an *invalidated* patent carries with it no such right. And even a valid patent confers no right to exclude products or processes that do not

⁶ *Monsanto*, 133 S. Ct. at 1767 (quoting *J.E.M. Supply, Inc. v. Pioneer Hi-Bred Int’l, Inc.*, 534 U.S. 124, 142 (2001)).

⁷ 133 S. Ct. at 2117-18.

⁸ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

⁹ *Gunn v. Minton*, 133 S. Ct. 1059 (2013).

¹⁰ 133 S. Ct. at 2116 (internal quotations omitted).

¹¹ *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2231 (2013).

¹² *Id.* at 2233 (internal quotations omitted).

actually infringe.”¹³ The majority posited an example of how a reverse payment settlement agreement might upset the balance between patent monopoly and public benefit:

Suppose, for example, that the exclusive right to sell produces \$50 million in supracompetitive profits per year for the patentee. And suppose further that the patent has 10 more years to run. Continued litigation, if it results in patent invalidation or a finding of noninfringement, could cost the patentee \$500 million in lost revenues, a sum that then would flow in large part to consumers in the form of lower prices.... [Where such litigation is circumvented, the] patentee and the challenger gain; the consumer loses.¹⁴

But, giving weight to the innovator’s side of the balance, the Court was unwilling to take the more drastic step—urged by the Federal Trade Commission—of declaring reverse payment settlement agreements presumptively illegal. Nor was it willing to shift the burden to the patent holder to show empirical evidence of pro-competitive effects. In keeping with its tempered approach to IP, the Court directed a rule-of-reason analysis—left to the lower courts to structure.

CONCLUSION

The practical effects of the Supreme Court’s recent IP-related decisions remain to be seen. Will innovations in the biotech and pharmaceutical industries—with their potential to yield life-saving products—be delayed by industry fears in the aftermath of *Myriad* and *Actavis*? Will decisions like *Monsanto* and *Nike* enhance the assurance that innovators need to support risky investments into new products with the potential to enhance our lives and our enjoyment of life? While the six decisions issued by the Supreme Court over the last year cannot answer these questions, they do demonstrate the Court’s commitment toward refining the IP system. By working to shape its boundaries—whether in such a way as might be labeled “pro” or “anti” IP—the Supreme Court at least improves clarity in the IP system. A clearly defined system is good for business, and ultimately good for consumers, because it allows for the sort of confident risk analysis that creators of new products need. There are no perfect solutions to the hard problems that make their way to the Supreme Court, and our IP system remains—indeed is perpetually—a work in process. But the Court’s willingness to enter the IP arena, such as it has in its last term, suggests that innovation—the bedrock of our nation’s ascension—will continue to hold a place of primacy in our future.

This memorandum relates to general information only and does not constitute legal advice. Facts and circumstances vary. We make no undertaking to advise recipients of any legal changes or developments.

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¹³ *Id.* at 2231 (emphasis in original).

¹⁴ *Id.* at 2234.