



# PREVIEW

## OF UNITED STATES SUPREME COURT CASES

### CONTENTS

<i>Administrative Law</i>	<i>Rhoades v. Vigil</i>	Docket No. 91-1833	195
<i>Antitrust</i>	<i>Hartford Fire v. California</i>	Docket No. 91-1111	198
	<i>Merrett Underwriting v. California</i>	Docket No. 91-1128	
<i>Civil Rights</i>	<i>Buckley v. Fitzsimmons</i>	Docket No. 91-7849	203
<i>Employee Benefits</i>	<i>Mencus v. Hewitt Associates</i>	Docket No. 91-1671	207
<i>Federal Debt Collection</i>	<i>United States v. Texas</i>	Docket No. 91-1729	212
<i>First Amendment</i>	<i>Lamb's Chapel v. Center Moriches Union Free School</i>	Docket No. 91-2624	216
<i>First Amendment</i>	<i>Zobrest v. Catalina Foothills Schools</i>	Docket No. 92-94	220
<i>Fourth Amendment</i>	<i>Minnesota v. Dickerson</i>	Docket No. 91-2019	224
<i>Patents</i>	<i>Cardinal Chemical v. Morton International</i>	Docket No. 92-114	228
<i>Securities Law</i>	<i>Musick, Paeler &amp; Garrett v. Employers Insurance</i>	Docket No. 92-34	231
<i>Sentencing</i>	<i>Deal v. United States</i>	Docket No. 91-8199	234



## *Should the Federal Circuit vacate a judgment of patent invalidity merely because the patent was not infringed?*

by Robert C. Kain, Jr.

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**Cardinal Chemical Company, et al.**

v.

**Morton International, Inc.**

(Docket No. 92-114)

*Argument Date: March 3, 1993*

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### ISSUES

Both of the parties to this case are asking the Supreme Court to end the Federal Circuit's practice of routinely vacating lower-court determinations of patent invalidity whenever it determines that the patent at issue has not been infringed.

### FACTS

Morton International, Inc. ("Morton") filed a patent infringement action in April 1983 in the District Court for South Carolina against Cardinal Chemical Co., et al. ("Cardinal"). *Morton International, Inc. v. Cardinal Chemical Co., et al.*, No. 6:83-889-OK (D.S.C.). Morton claimed that Cardinal infringed two of Morton's patents, U.S. Patent Nos. 4,062,881 and 4,120,845, covering certain organotin compounds. Cardinal filed a counterclaim, pursuant to the Declaratory Judgment Act, 28 USC § 2201, seeking a declaration that Morton's patents were invalid.

While the Cardinal Chemical case was pending, Morton sued Argus Chemical Corp. ("Argus") in the Eastern District of Louisiana for infringement of the same two patents. Then, during the pendency of both the Cardinal and Argus cases, but before either of those cases had gone to trial, Morton sued Atochem North America, Inc. ("Atochem"), claiming infringement of the same patents. *Morton International, Inc. v. Atochem North American, Inc.*, No. 87-60-REM (D. Del.).

The *Argus* case in Louisiana was tried first. There, the district court held that the Morton patents were invalid because the patents did not comply with the patent statutes, particularly 35 USC § 112 (relating to the requirement that the patent contain a written description in such detail that a person of ordinary skill in the art can make and use the invention and the requirement that the patent claims particularly point out

and claim the invention). The district court in *Argus* also held that the chemical stabilizers sold by Argus did not infringe the Morton patents. Morton appealed both the invalidity holding and the finding of noninfringement to the U.S. Court of Appeals for the Federal Circuit. The Federal Circuit hears appeals of all patent disputes from the U.S. district courts. 28 USC § 1295(a)(1). On appeal, the Federal Circuit affirmed the finding of noninfringement and vacated the finding of invalidity. *Morton Thiokol, Inc. v. Argus Chemical Corp.*, 11 USPQ2d 1152 (Fed. Cir. 1989) (unpublished and nonprecedential).

The present case (i.e., *Cardinal*) was stayed by the district court pending the outcome of the *Argus* appeal and two reexamination proceedings in the U.S. Patent and Trademark Office regarding the Morton patents. A reexamination proceeding permits any person to request reexamination of an unexpired U.S. patent and obtain a Patent and Trademark Office determination regarding patentability of that patent in view of (a) patents describing preexisting technology or (b) printed publications describing preexisting technology. 35 USC § 302. The Patent and Trademark Office confirmed the patentability of the Morton patents.

Subsequent to the *Argus* appeal and the reexamination proceedings, the present suit went to trial. The district court found that the Morton patents were not infringed and further granted Cardinal's request for declaratory judgment that the Morton patents were invalid. The district court found that the Morton patents were invalid for the same reasons found in the *Argus* case. For a second time, Morton appealed the issues of invalidity and noninfringement to the Federal Circuit. That court affirmed the district court finding of noninfringement and vacated the lower court's finding of invalidity. *Morton International, Inc. v. Cardinal Chemical Co.*, 959 F.2d 948, 22 USPQ2d 1231 (Fed. Cir. 1992). Both Morton, the patent owner, and Cardinal, the accused infringer, petitioned the Federal Circuit for a rehearing and requested that the court review the validity issue. These petitions were denied. Following the Federal Circuit panel's denial of the petitions for rehearing, the full court, by a divided vote, denied both parties' suggestions for a rehearing *en banc* before the full Federal Circuit. Chief Judge Nies and Judges Rich and Lourie dissented from the denial of rehearing *en banc* with Chief Judge Nies issuing a separate dissenting opinion. 967 F.2d 1571, 23 USPQ2d 1362 (Fed. Cir. 1992).

The infringement action in Delaware against Atochem has been stayed pending the Supreme Court's decision in this case.

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## BACKGROUND AND SIGNIFICANCE

Soon after the Federal Circuit was given exclusive subject matter jurisdiction over patent appeals in 1982, it began to review declaratory judgments of patent invalidity. The Declaratory Judgment Act, 28 USC § 2201, provides that a party may seek a declaration from a district court regarding the rights of another party. In virtually every patent infringement action, the alleged infringer seeks a declaration that the patent is invalid for failure to comply with the patent statutes. Initially, it was the Federal Circuit's practice to review declaratory judgments of invalidity even though it confirmed a lower court decision of noninfringement. See, for example, *Mannesmann Demag Corp. v. Engineering Metal Products Co.*, 793 F.2d 1279 (Fed. Cir. 1986).

On June 16, 1987, the Federal Circuit issued two decisions that altered its practice. These decisions held that when an accused infringer obtained a declaratory judgment of invalidity from a district court, the Federal Circuit's determination of noninfringement requires that the decision on invalidity be vacated. *Vieau v. Japax, Inc.*, 823 F.2d 1510, 1517, 3 USPQ2d 1094 (Fed. Cir. 1987) (invalidity is "moot"); *Fonar Corp. v. Johnson & Johnson*, 821 F.2d 627, 634, 3 USPQ2d 1109 (Fed. Cir. 1987) (no "case or controversy" as to invalidity), *certiorari denied*, 484 U.S. 1027 (1988). *Vieau* holds that the issue of validity of a patent, as raised in a declaratory judgment action, becomes "moot," such that it no longer presents a case or controversy for the court, when the Federal Circuit finds that the patent is not infringed. Essentially, the dispute raised in the counterclaim for declaratory relief does not extend beyond the patentee's infringement claim.

Since 1987, the Federal Circuit has routinely vacated declaratory judgments of invalidity upon determining noninfringement. See, for example, *Sun-Tek Industries, Inc. v. Kennedy Sky Lites, Inc.*, 848 F.2d 179, 183 (Fed. Cir. 1988) (validity issue "moot"), *cert. denied*, 109 S.Ct. 793 (1989); *Perini America, Inc. v. Paper Converting Machine Co.*, 832 F.2d 581, 584 n.1 (Fed. Cir. 1987) (validity issue "moot"). In the present case, Chief Judge Nies stated that the Federal Circuit's practice of vacating declaratory judgments of invalidity has evolved into a *per se* rule. See *Morton Int'l, Inc. v. Cardinal Chemical Co.*, 967 F.2d 1571, 1574, 23 USPQ2d 1362 (Fed. Cir. 1992) (Nies, C.J., dissenting from denial of rehearing *en banc*).

The Federal Circuit's practice has been the subject of much criticism, and all briefs filed with the Supreme Court support a reversal of the doctrine set forth in *Vieau*. See J. Re and W. Rooklidge, *Vacating Patent Invalidity Judgments Upon an Appellate Determination of Noninfringement*, 72 J. Pat. & Trademark Off. Soc'y 780 (1990); R. Harmon, *Patents & The Federal Circuit*, 551-54 (2d ed. 1991); J. Donofrio, *The Disposition of Unreviewable Judgments by the Federal Circuit*, 73 J. Pat. & Trademark Off. Soc'y 462 (1991); H. Wegner, *Morton, The Dual Loser Patentee: Frustrating Blonder-Tongue*, 74 J. Pat. & Trademark Off. Soc'y 344 (1992).

As articulated by patent owner Morton, once a district

court has found that the patent is invalid and the Federal Circuit vacates that lower court decision based upon its affirmance of noninfringement, all other courts treat the patent as being presumptively invalid. This is contrary to well established patent law principles. See, for example, *Panduit Corp. v. Dennison Mfg. Co.*, 774 F.2d 1982, 227 USPQ 337 (Fed. Cir. 1985). The patent statutes provide that an unexpired, issued patent is entitled to a presumption of validity specifically mandated by 35 USC § 282. Morton argues that this presumption is reversed when the Federal Circuit vacates a finding of invalidity based upon an affirmance of noninfringement. Patent owner Morton's position is supported by the articles written by J. Re and W. Rooklidge, and H. Wegner, cited above. Further, the patent owner can never have its arguments heard on appeal regarding a flawed lower court decision of invalidity if the Federal Circuit continues this practice.

Morton is simultaneously pursuing three patent infringement actions on two patents. In the first action, after an eight-day bench trial, the district court in Louisiana found Morton's patents invalid and not infringed. The Federal Circuit affirmed the noninfringement finding and vacated the finding of invalidity. In the second action to be tried, the district court in South Carolina held the patents invalid and not infringed after a five-day bench trial. Again, the Federal Circuit affirmed the noninfringement finding and vacated the judgment of invalidity. Morton is still asserting its twice resurrected patent in a third action against Atochem in the district court for Delaware. This action has been stayed pending the Supreme Court decision. Even though the Patent Office confirmed the patentability of the Morton patents during the reexamination proceeding, Morton cannot obtain substantive judicial appellate review of the lower court decisions of invalidity by the Federal Circuit. Since the lower court decisions of invalidity have been vacated, actual and potential defendants must set aside resources to respond to Morton's continued litigation involving these patents.

The parties argue, with the support of various *amicus curiae*, that the Federal Circuit practice undermines the principles set forth in the Supreme Court case of *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971). In *Blonder-Tongue*, the Supreme Court held that once a patent is found to be invalid, patentees are barred from re-litigating those patents. Also, patent licensees are no longer compelled to pay royalties under the invalidated patent. In that case, the Supreme Court recognized that invalid patents harm the public interest and frustrate the purposes of the patent system. Patents that do not comply with the patent statutes, i.e., invalid patents, stifle business competition and remove ideas from the public domain. Patents that are found to be invalid by the courts restore the public's trust in the patent system by assuring the business community that only new and nonobvious innovations are protectable with a patent.

The Federal Circuit's decision in *Vieau* introduces uncertainty into the marketplace regarding whether a patent, held invalid by a district court decision subsequently vacated by

the Federal Circuit, is truly invalid. If the district court decision is correct, and the Federal Circuit vacates that decision without substantial review, the public is harmed because an invalid patent is allowed to exert continued influence in the marketplace. On the other hand, if the district court's holding of invalidity was erroneous and would have been reversed on appeal, the public is still harmed because there is a public interest in having good patents affirmatively upheld and confirmed by the courts.

In other words, patent owners in this situation cannot realistically determine the strength or validity of their patents, competitors cannot determine with any degree of precision the risks involved in introducing a product identical to or similar to the patented product into the marketplace, and the public is affected by being forced to pay monopoly-type prices for patented products in the absence of lower-cost, equivalent products from competitors. Even if a competitor introduces a product similar to the patented product, that competitor must extract sufficient profits from the sale of the product to defend a potential patent infringement action brought by the patent owner. Morton claims to have spent over \$1 million litigating the present cases. The median cost of patent litigation through trial, based upon a national survey, is almost \$400,000 for each party. American Intellectual Property Law Association, *Report of Economic Survey* 1991, 29 (1991).

Lastly, the parties argue that the Federal Circuit's *Vieau* policy eviscerates the remedy afforded a patent infringement defendant under the Declaratory Judgment Act. A patent infringement action normally focuses on a specific product or products sold by the defendant. If a defendant counterclaims seeking a declaration from the court that the patent is invalid, a continuing controversy exists between the patent owner and the defendant if the defendant plans to release new products different from but similar to the products alleged to infringe the patent. A district court's finding of noninfringement, confirmed by the Federal Circuit, releases liability for selling a specific product or product identified at trial. On the other hand, a district court decision that the patent is invalid, positively confirmed by the Federal Circuit after judicial review, permits the defendant to introduce a number of products covered by the patent, i.e., the decision on invalidity extends beyond the products specified at trial. The *Vieau* policy does not permit a patent infringement defendant to secure a judicial ruling regarding the rights of the patent owner and to have the lower court decision of invalidity substantively reviewed on appeal.

## ARGUMENTS

***For Cardinal Chemical Co., et al.*** (*Counsel of Record, Charles F. Schill; Adduci, Mastriani, Meeks & Schill, 1140 Connecticut Avenue, NW, STE 250, Washington, DC 20036; telephone (202) 467-6300*):

1. The Federal Circuit misapplies the doctrine of mootness when validity is raised in a declaratory judgment counterclaim.
2. The Federal Circuit's practice of vacating a lower court's decision of invalidity when it confirms the lower court's decision on noninfringement has evolved into a *per se* rule that eviscerates the Declaratory Judgment Act and is contrary to public policy.

***For Morton International, Inc.*** (*Counsel of Record, Gordon R. Coons; Leydig, Voit & Mayer, Two Prudential Plaza, STE 4900, Chicago, IL 60601; telephone (312) 616-5600*):

In addition to substantially the same points raised by Cardinal Chemical:

1. The Federal Circuit's *Vieau* policy is harmful to the patent owner, to competitors of the patent owner, and to the public.
2. The Federal Circuit's policy makes the district court decision regarding invalidity the court of first and last resort because the Federal Circuit refuses to substantively review the district court's determination.

## AMICUS BRIEFS

### ***In Support of Both Parties***

The arguments of the following amici are substantially similar to the positions of the parties set forth above.

The American Intellectual Property Law Association (*Counsel of Record, Joseph R. Re; Knobbe, Martens, Olson & Bear, 620 Newport Center Drive, Newport Beach, CA 92660; telephone (714) 760-0404*).

Atochem North America, Inc. (*Counsel of Record, Brian G. Brunsvold; Finnegan, Henderson, Farabow, Garrett & Dunner, 1300 I Street, NW, Washington, DC 20005-3315; telephone (202) 408-4000*).

The American Bar Association (*Counsel of Record, J. Michael McWilliams, President, American Bar Association, 750 North Lake Shore Drive, Chicago, IL 60611; telephone (312) 988-5000*).

The Federal Circuit Bar Association (*Counsel of Record, Robert L. Harmon, The Federal Circuit Bar Association, STE 3600, 455 N. Cityfront Plaza Drive, Chicago, IL 60611-5599; telephone (312) 822-9800*).