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RECENT FEDERAL CIRCUIT DECISIONS ON PATENT LAW

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Two recent decisions of the Federal Circuit are interesting because the dissenting opinions reveal deep division in the court. These cases represent developing areas of the law that will invariably be addressed again in the near future.

I. Which Case Controls When Two Federal Circuit Precedents Conflict

In the case of *Atlantic Thermoplastics Co. v. Faytex Corp.*,¹ a panel of three judges found that it was not bound by a prior decision of the Federal Circuit. Because the Federal Circuit sits in panels of three judges, if two decisions of the Federal Circuit are in conflict, the *earlier* decision is the controlling precedent because a later panel of only three judges cannot overrule a prior decision of the court. The Federal Circuit must sit en banc in order to overrule a prior decision of the court.² Contrast this with the practice of the Court of Customs and Patent Appeals (C.C.P.A.). Because the judges of the C.C.P.A. all sat on each case, if two decisions of the C.C.P.A. were in conflict, the *later* decision was the controlling precedent.

In the *Atlantic Thermoplastics* case, the court found a new exception to the controlling nature of a prior precedent. Finding that the court in the earlier decision ruled without reference to prior Supreme Court cases involving the same subject matter, the *Atlantic Thermoplastics* court determined that it was not bound by the prior decision.³ The court said "A decision that fails to consider Supreme Court precedent does not control if the court determines that the prior panel would have reached a different conclusion if it had considered controlling precedent."⁴

Many Federal Circuit opinions have been written which failed to cite prior Supreme Court cases dealing with the same area of the law. It remains to be seen whether such opinions may be found to have failed to "consider" Supreme Court precedent, and therefore deemed not to be controlling.

With respect to the merits, the *Atlantic Thermoplastics* case involved a product-by-process claim. The panel undertook a restatement of the law, and held that process terms in product-by-process claims *32 serve as limitations in determining infringement. Thus, the identical product would not infringe the patent unless it were made by the process recited in the claim.⁵

This decision drew dissent from the denial of rehearing en banc by Judges Nies, Rich, Newman, and Lourie. Judge Rich and Judge Lourie pointed out that the patentee had admitted that the claim at issue was limited to the process, and that there was no occasion to review the law and write an opinion which undertook to restate the law on product-by-process claims.⁶

In a stinging dissent, Judge Rich expressed outrage at the panel's defiant disregard, for the first time in the court's nearly ten year history, of the court's rule that no precedent could be disregarded or overruled save by an en banc court. Judge Rich wrote that the panel's decision was "insulting" to the panel that had decided the prior case. Judge Rich went on to state "[I]t is mutiny. It is heresy. It is illegal."⁷

The *Atlantic Thermoplastics* decision conflicts with the earlier holding in *Scripps Clinic & Research Found. v. Genentech, Inc.*⁸ As discussed above, however, where there are conflicting precedents, the Federal Circuit rule has always been that the *earlier* precedent controls. Since the *Scripps Clinic* decision is the earlier precedent, is it nevertheless the controlling

precedent? These conflicting decisions now create confusion in the law. In the next case which addresses the issue, it will be interesting to see which precedent is followed by the court.

II. The *Vieau* Mootness Rule Revisited

The Court of Appeals for the Federal Circuit currently follows the rule of *Vieau v. Japan, Inc.* that the issue of validity of a patent, presented in a counterclaim for declaratory judgment, becomes “moot” if a court finds that:

(1) The patent is not infringed, and

(2) The dispute raised by the counterclaim does not extend beyond the patentee’s infringement claim.⁹ Most recently, the court followed this rule in the case of *Morton Int’l, Inc. v. Cardinal Chem. Co.*,¹⁰ and vacated a holding of invalidity after affirming the district court’s finding of non-infringement. What makes this case notable is the well written dissent by Judge Nies, dissenting from the order declining suggestions for rehearing en banc.¹¹

Judge Nies’ dissent called for an overruling of the *Vieau* case. The Federal Circuit rule stems from two Supreme Court cases, *Electrical Fittings Corp. v. Thomas & Betts Co.*,¹² and *Altwater v. Freeman*.¹³ Judge Nies concluded that part of the *Altwater* analysis has been misinterpreted, and that the case may actually mandate the opposite result.

In *Electrical Fittings*, the district court held the patent in suit partially valid but not infringed. The patentee did not appeal. However, the victorious defendant sought to appeal the judgment to the extent it ruled the patent valid. The circuit court dismissed on appeal on the theory that a winning party could not make an appeal.

The Supreme Court reversed, holding that the defendant, even though he prevailed below, could appeal to obtain a reformation of the decree. Otherwise, the defendant might be precluded by the judgment from attacking the patent in another suit.

*33 In *Altwater*, a judgment of invalidity was entered by the district court upon a declaratory claim.¹⁴ The Supreme Court held that the judgment must be reviewed on the merits by the appellate court so long as a case or controversy exists at that time to support the assertion of the declaratory claim.¹⁵ In *Altwater*, the Court found such a controversy still existed, despite the accused infringer’s exculpation from liability on the patentee’s claim. The court said that the dispute between the parties “went beyond the single claim and the particular accused devices involved in [the patentee’s] suit.”¹⁶

Based upon the decision in *Altwater*, the Federal Circuit has concluded that, “if a declaratory claim simply involves the same devices and patent claims involved in the patentee’s complaint, upon a finding of no infringement, a counterclaim seeking a declaration of invalidity becomes ‘moot’ in the constitutional sense of no case or controversy.”¹⁷

Judge Nies argues that a significant fact that distinguishes *Altwater*, and that makes its case or controversy analysis no longer germane, is that the *Altwater* claimant for a declaration of invalidity was a licensee. At that time, a licensee could not attack the validity of a patent because of licensee estoppel.¹⁸ *Altwater* was decided 25 years before *Lear, Inc. v. Adkins* buried the doctrine of licensee estoppel.¹⁹ Therefore, the discussion in *Altwater* of the requirement for a case or controversy must be read in the context that at that time, a licensee had to base his declaratory judgment claim on a controversy beyond the patentee’s assertion of a right to royalties under the license.

Judge Nies argues that interpreting *Altwater* as requiring an accused infringer who is not a licensee to prove that its counterclaim for invalidity goes beyond the scope of the patentee’s complaint in order to establish a case or controversy is an unwarranted extension of the holding in *Altwater*. This rule leads to the absurd result that an accused infringer can obtain a declaratory judgment for claims of the patent that were not asserted in the patentee’s suit, but not for those that were, whereas the patentee’s suit in itself shows that an actual controversy rages as to the asserted patent claims.²⁰ And *Altwater*’s rule that a licensee needs to show a dispute outside the scope of that asserted by the patentee no longer has any validity in view of *Lear*.

Public policy objectives of reducing duplicative and wasteful litigation, stated by Justice White in *Blonder-Tongue Lab., Inc. v. University of Illinois Found.*²¹ (in which the mutuality requirement for estoppel was eliminated in patent cases), weigh in favor of allowing a district court to render a judgement that a patent is invalid, even if the patent is also found not to be infringed.²² A defendant who has obtained a holding of invalidity at great expense and effort may forcefully argue that it is entitled to such a judgment. Of course, the judicial resources involved in determining invalidity should not be ignored either.²³ After such a forceful dissent by the Chief Judge, it remains to be seen whether the Federal Circuit will revisit this issue en banc and overrule *Vieau v. Japax, Inc.*

Footnotes

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¹ 970 F.2d 834 (Fed. Cir. 1992).

² Johnston v. IVAC Corp., 885 F.2d 1574, 1579 (Fed. Cir. 1989).

³ The conflicting earlier decision was Scripps Clinic & Research Found. v. Genentech, Inc., 927 F.2d 1565, 18 U.S.P.Q.2d 1001 (Fed. Cir. 1991).

⁴ Atlantic Thermoplastics Co. v. Faytex Corp., 970 F.2d 834 (Fed. Cir. 1992). Note that this statement is contradicted by the fact that Judge Newman, the sole holdover from the prior panel who drafted the majority opinion in Scripps, dissented in this case.

⁵ *Id.* at 846-47.

⁶ Atlantic Thermoplastics Co. v. Faytex Corp., 974 F.2d 1279, 1280 (Fed. Cir. 1992).

⁷ Atlantic Thermoplastics Co. v. Faytex Corp., No. 91-1076, slip op. at 4, 23 U.S.P.Q. 1801 (Fed. Cir. 1992).

⁸ 927 F.2d 1565, 18 U.S.P.Q.2d 1001 (Fed. Cir. 1991).

⁹ Vieau v. Japax, Inc., 823 F.2d 1510, 3 U.S.P.Q.2d 1094 (Fed. Cir. 1987).

¹⁰ 959 F.2d 948 (Fed. Cir. 1992), *cert. granted*, 61 U.S.L.W. 3256 (U.S. Oct. 19, 1992) (No. 92-114).

¹¹ Morton Int'l, Inc. v. Cardinal Chem. Co., 967 F.2d 1571 (Fed. Cir. 1992).

¹² 307 U.S. 241 (1939).

¹³ 319 U.S. 359 (1943).

¹⁴ *Altwater v. Freeman*, 319 U.S. at 362.

¹⁵ *Id.* at 363.

¹⁶ *Id.* at 364.

¹⁷ Morton Int'l, Inc. v. Cardinal Chem. Co., 967 F.2d 1571, 1573 (Fed. Cir. 1992).

¹⁸ *Id.* at 1573.

¹⁹ 395 U.S. 653 (1969).

20 Morton Int'l, Inc. v. Cardinal Chem. Co., 967 F.2d at 1573.

21 402 U.S. 313 (1971).

22 Morton Int'l, Inc. v. Cardinal Chem. Co., 967 F.2d at 1577.

23 “Judge Avern Cohn of the Eastern District of Michigan (the *Vieau* trial judge) stated, in a panel discussion at our most recent Judicial Conference:

I took six months to write a JNOV, found the patent invalid and not infringed and was very proud of my work product. And when I read that court of appeals opinion and found that my finding of invalidity had been vacated, there was no case or controversy, I was in a state of shock for ten minutes.”

Morton Int'l, Inc. v. Cardinal Chem. Co., 967 F.2d 1571, 1577, n.9 (Fed Cir. 1992) (quoting Cohn, Remarks at the Patent Breakout Sessions of the Tenth Annual Judicial Conference of the United States Court of Appeals for the Federal Circuit 65 (April 30, 1992)).