

**CHANGING THE RULES IN THE MIDDLE OF
THE GAME: HOW THE PROSPECTIVE
APPLICATION OF JUDICIAL DECISIONS
RELATED TO INTELLECTUAL PROPERTY
CAN PROMOTE ECONOMIC EFFICIENCY**

*Daniel R. Cahoy**

I.	INTRODUCTION	3
II.	THE ECONOMICS OF INTELLECTUAL PROPERTY PROTECTION: DIVERSE GROUNDS WITH ULTIMATE COMMONALITY	6
A.	<i>The “Contract” Between Intellectual Property Owners and Society</i>	7
B.	<i>Judicial Retroactivity and its Impact on Vested Intellectual Property Rights</i>	16
1.	Property Rights Are Especially Sensitive to Retroactivity in Judicial Decisions	17

* Assistant Professor of Business Law, The Pennsylvania State University, Smeal College of Business. Thanks to Austin Jaffe and Jeff Sharp for helpful comments and advice. Earlier versions were presented at the Mid-Atlantic Academy of Legal Studies in Business Annual Meeting in Philadelphia, Pennsylvania, April 2002, and the Academy of Legal Studies in Business (“ALSB”) Annual Meeting in Las Vegas, Nevada, August 2002. This paper was awarded the 2002 Holmes-Cardozo Award for Outstanding Conference Paper at the ALSB’s Las Vegas conference.

2.	Intellectual Property Exhibits an Even Deeper Level of Sensitivity to Retroactivity	21
III.	THE CURRENT STATE OF THE LAW REGARDING JUDICIAL RETROACTIVITY	29
IV.	"ENHANCED <i>CHEVRON</i> ": SUGGESTIONS FOR A MORE AGGRESSIVE APPLICATION OF THE <i>CHEVRON</i> TEST IN THE CASE OF INTELLECTUAL PROPERTY RIGHTS	39
A.	<i>Make a Realistic Assessment of when Rules are "New"</i>	40
B.	<i>Consider That Certain Types of Decisions Naturally Have A Greater Effect on Existing Intellectual Property Rights</i>	42
C.	<i>De-Emphasize the Second Chevron Factor: Curb the Inclination Toward Judicial Policy-Making By Acknowledging That the Legislature is Often a More Appropriate Venue</i>	44
V.	A REVIEW AND REINTERPRETATION OF THREE RECENT CASES: A DEMONSTRATION OF HOW AN "ENHANCED <i>CHEVRON</i> " TEST MIGHT WORK IN PRACTICE	46
A.	<i>The Extension of File History Estoppel in Festo: Retroactive Revision of the Common Law</i>	47
1.	Factual Background and Decision	47
2.	Appropriate Retroactive Effect on Existing Patents	50
3.	The Supreme Court's Post-Script: Reliance Interests Take Precedence	52
B.	<i>Opening the Door for the "Prosecution Laches" Defense in Symbol: Retroactive Revision of Statutory Interpretation?</i> . .	54
1.	Factual Background and Decision	55
2.	Appropriate Retroactive Effect on Existing Patents	59
C.	<i>Johnson's Rules for Claiming What is Detailed in the Specification: Clarifying a Nominally Simple Rule</i>	61
1.	Factual Background and Decision	61
2.	Appropriate Retroactive Effect on Existing Patents	63
VI.	CONCLUSION	64

I. INTRODUCTION

A complete understanding of the social and economic environment in the United States must consider the role of the legal system. It provides the basis for the other elements—the boundaries of the playing field and the rules for the game. To a great extent, our laws express a consensus of our base values and vision of what society should be.¹ In this regard, our legal system can be understood to have a substantive role. Additionally, the legal system facilitates the journey to that desired state by providing the enforcement mechanism. In that manner, it has a structural function. If the legislature appears to take on the more substantive aspects by crafting and revising the rules and playing field with societal goals in mind, the courts are usually viewed as a more structural player: they provide a forum for settling disputes rather than planning society.

However, we have gradually begun to appreciate the substantive role courts can play, particularly in light of the ebb and flow of judicial activism in the later half of the twentieth century.² While court incursions into the substantive realm may be explicit (typically more controversial³), they can also be subtle. In fact, one of the most important ways that courts substantively impact the social and economic environment is also one of the least discussed: the retroactive revision of the law by applying changes in legal rules to the actions of those who relied on prior rules. By doing so, courts can

¹ For example, noted legal theorist Roscoe Pound believed that law is primarily a responsive mechanism, derived from the ideals of the community; it recognizes society's interests and establishes the limits within which they will be protected. See EDWARD B. MCLEAN, *LAW AND CIVILIZATION: THE LEGAL THOUGHT OF ROSCOE POUND* 14 (1992).

² The concept of the judiciary taking a more active role in the political and social order began to take hold after the Supreme Court, helmed by Chief Justice Earl Warren, handed down its decision in *Brown v. Board of Education*, 347 U.S. 483 (1954). See LUCAS A. POWE, *THE WARREN COURT AND AMERICAN POLITICS* 27 (2000) ("The justices were not only overruling more than a half century of constitutional law stemming from *Plessy v. Ferguson*, they were going where no court had ever gone before: to dismantle an entrenched social order.").

³ Whether the judiciary responds the political and social environment is not a difficult question—it does. The real debate in judicial activism is in regard to when and to what extent the courts should be exercising a substantive role. Advocates for greater activism exist, see, e.g., ARTHUR S. MILLER, *TOWARD INCREASED JUDICIAL ACTIVISM* 233-34 (1982), as well as those who argue for a more conservative role for the judiciary, see, e.g., Walter Berns, *Government by Lawyers & Judges*, COMMENTARY, June, 1987 at 17.

create a new reality for a wide range of interests, far different from that originally anticipated. And in perhaps no sense is this more significant than when the interests affected are in the nature of personal or real property. This is particularly so due to, not only the economic impact of changes to property value, but also the emotional impact on Western society, which tends to view the sanctity of private property rights as a bedrock principle.⁴

Thus, when courts render decisions that call into question the enforceability (and, thus, the value) of property rights by retroactively reassessing the propriety of actions undertaken in the past, they are exerting a substantive force that must be considered for the sake of economic efficiency and societal contentment.⁵ The problem is particularly significant in the field of intellectual property⁶ due to the magnitude of rule changing that is likely to occur. Because the value of intellectual property rights has become increasingly important to modern businesses—in some cases wholly accountable for the success or failure of a company⁷—retroactive devaluation of those rights is of

⁴ See, e.g., NATHAN ROSENBERG & L.E. BIRDZELL, HOW THE WEST GREW RICH 119-23 (1986) (noting that “the establishment of the right to hold property free of the risk of arbitrary seizure” was essential in the evolution of modern society from feudal Europe).

⁵ To be sure, that same problem is faced by property owners any time the government changes the rules of existing property use and ownership such that the value of the property is diminished. However, when the arm of the government that effects the devaluation is the legislature, or the executive branch acting on the legislature’s enactments, the U.S. Constitution’s Fifth Amendment mandates the payment of just compensation to the aggrieved property owner. U.S. CONST. amend. V; *Nollan v. California Coastal Comm’n*, 483 U.S. 825, 842 (1987) (finding an administrative agency’s requirement that a property owner grant the town an easement in exchange for a building permit without showing any nexus between the two constituted a compensable taking).

⁶ “Intellectual property” can be broadly defined to include any intellectual asset owned by an individual or corporation that provides some value to the owner. However, for purposes of this paper, it is most useful to focus on the four primary intellectual property rights that are widely acknowledged by businesses and encompass readily definable intellectual assets: patents, trademarks, copyrights and trade secrets. See GORDON V. SMITH & RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS 27 (3d ed. 2000).

⁷ The assets of some companies consist of nothing more than a collection of intellectual property; their success is therefore necessarily dictated by the value of those assets. See, e.g., Bill Roberts, *Patent Padlock*, 25 ELEC. BUS. 27, 27 (1999) (“Intel Corp., Santa Clara, and Hewlett-Packard Co., Palo Alto, quietly set up a limited liability corporation in 1995 named the Institute for the Development of Emerging Architectures (IDEA), whose only assets are the patents the two are getting for their 64-bit architecture.”).

high concern. Moreover, if an excess of inefficiency and waste unexpectedly results from objectively rational investment decisions especially those consuming such a great proportion of society's resources there is an economic motive to rethink the status quo.

Yet, despite the importance of this issue and its potential to impact the U.S. (and world) economy, very little academic discussion has appeared in the literature of intellectual property or business law that addresses the topic head-on.⁸ Most of the commentary and case law have been concerned with the retroactive effect of new legal rules in the criminal law context.⁹ Significantly, economic analysis of these issues, particularly useful in the intellectual property law context,¹⁰ is generally lacking. This is a curious fact considering the amount of literature devoted to the economics of the U.S. intellectual property system in general.¹¹

⁸ There has certainly been some discussion on the retroactive effect of court decisions on established property rights (e.g., Louis Kaplow, *An Economic Analysis of Legal Transitions*, 99 HARV. L. REV. 509 (1986)) and related causes of action in tort (e.g., Thomas J. Dufour, *Note: The Proper Application of Judicial Decisions Overruling Established Tort Doctrines*, 65 B.U. L. REV. 315 (1985)), but the specific issue of intellectual property rights has not been prominently addressed.

⁹ See, e.g., Harold J. Krent, *Symposium: Retroactivity of Law: Should Bouie Be Buoyed?: Judicial Retroactive Lawmaking and the Ex Post Facto Clause*, 3 ROGER WILLIAMS U. L. REV. 35 (1997).

¹⁰ In an area of the law founded largely on economic motivations, such as intellectual property law, it seems intuitive that an economic approach is quite applicable and useful, and the legal literature reflects that notion. See, e.g., William Landes & Richard Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325, 325 (1989) ("Intellectual property is a natural field for economic analysis of law . . ."); see also Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989 (1997); Robert P. Merges & Richard R. Nelson, *On the Complex Economics of Patent Scope*, 90 COLUM. L. REV. 839 (1990). But see George Priest, *What Economists Can Tell Lawyers About Intellectual Property*, 8 RES. L. & ECON. 19 (1986) (opining that the value of economic analysis of intellectual property is questionable because of the uncertainty surrounding the question of whether more creation or innovation is necessarily good for society).

¹¹ Importantly, the literature is not limited to legal publications. In the last four years in particular, the field of economics has produced a number of excellent studies and working papers related to intellectual property protection. See, e.g., Adam B. Jaffe, *The U.S. Patent System in Transition: Policy Innovation and the Innovation Process*, Nat'l Bureau of Econ. Research, Working Paper No. 7280 (Aug. 1999) (overview of recent papers concerning the economic analysis of the U.S. patent system), available at <http://www.nber.org/papers/w7280>; Sunil Kanwar & Robert Evenson, *Does Intellectual Property Protection Spur Technological Change?*, Center Discussion Paper No. 831, Economic Growth Center, Yale University (June 2001) (concluding that intellectual property protection has a strong positive association with research and development investment), available at <http://www.econ.yale.edu/~egcenter/research.htm>.

This paper will first lay groundwork for such an analysis by discussing the basic economics of various forms of intellectual property and how retroactive rule changing can affect those economic systems, paying particular attention to patents as a primary example of the phenomenon. Next, the paper will review the current state of the law and how the courts have addressed the issue of retroactive application of judicial determinations. Following that, this paper will recommend alternatives for the way that courts handle such decisions, advocating the incorporation of a modified test for determining when prospective application of new rules is necessary and appropriate. Finally, the paper will analyze three recent, significant cases in the area of patent law and demonstrate how the author's proposed method of analysis would support or diverge from the actual decisions of the courts.

II. THE ECONOMICS OF INTELLECTUAL PROPERTY PROTECTION: DIVERSE GROUNDS WITH ULTIMATE COMMONALITY

Long before the emergence of modern industrial economies, there was great interest in the economic impact and value of intellectual property rights. Scholars, political leaders and business persons alike have understood the utility in allowing individuals or companies to hold property rights in creative output.¹² However, the debate over the proper type and degree of protection for a given intellectual creation is ongoing, and calls for change or revision are constant. Out of the debate has come some substantial and useful analysis of the economic rationale for granting intellectual property rights. This perspective is a good starting point for further discussion, especially considering that the inherent utility of modern intellectual property laws in the United States is often regarded from the standpoint of

¹² Many identify the Venetian Senate's 1474 Act as the first modern administrative system for granting patents. See Giulio Mandich, *Venetian Patents (1450-1550)*, 30 J. PAT. OFF. SOC'Y 166, 177 (1948). The first modern copyright law is generally acknowledged to be the Statute of Anne (8 Anne c. 19, 1710), which granted exclusive publishing rights to authors for a 14-year period. See HARRY RANSOM, *THE FIRST COPYRIGHT STATUTE: AN ESSAY ON AN ACT FOR THE ENCOURAGEMENT OF LEARNING 1710* (1956). Trademark law, although now the subject of federal and state statutory law, began as part of the English common law of unfair competition. See Stephen L. Carter, *The Trouble With Trademark*, 99 YALE L.J. 759, 764 (1990). Similarly, trade secret law is the subject of state statutory law in most U.S. jurisdictions (with some notable exceptions such as Texas and New York), but has its origins as a common law unfair competition tort.

their effect on the economic environment.¹³ Moreover, the effect a certain act or condition has on economic efficiency is at least one objective measure of whether that act or condition is “good” or “bad” for society.¹⁴

A. The “Contract” Between Intellectual Property Owners and Society

There is wide support in the field of law and economics for the proposition that private property ownership tends to encourage efficient use of scarce societal resources.¹⁵ Without private ownership, waste or under-use of resources is likely to occur.¹⁶ The same is true regarding private ownership rules in the allocation of rights related to intellectual property.¹⁷ However, the intangible nature of intellectual

¹³ For example, one of the major issues in a recent Supreme Court case that questioned the constitutionality of the so-called “Sonny Bono Copyright Term Extension Act” was whether Congress exceeded its authority in enacting a copyright law that, according to the petitioners, does not promote the progress of science. See *Eldred v. Ashcroft*, 123 S. Ct. 769, 784-88 (2003). Ultimately, the Court concluded that Congress provided a rational basis for its conclusion that the Copyright Term Extension Act would promote the progress of science, and refused to substitute the Court’s judgment for Congress’s by inquiring further. *Id.* at 785-86. In doing so, the Court expounded on the economics of the copyright system, by referencing language from an earlier case: “copyright law celebrates the profit motive, recognizing that the incentive to profit from the exploitation of copyrights will redound to the public benefit by resulting in the proliferation of knowledge The profit motive is the engine that ensures the progress of science.” *Id.* at 785 n.18 (quoting *American Geophysical Union v. Texaco Inc.*, 802 F. Supp. 1, 27 (S.D.N.Y. 1992), *aff’d*, 60 F.3d 913 (2d Cir. 1994)).

¹⁴ Critics of the law and economics school argue that economic efficiency is only part of the picture, and it fails to take into account other important societal goals. See, e.g., Richard S. Markovits, *On the Relevance of Economic Efficiency Conclusions*, 29 FLA. ST. U.L. REV. 1, 6 (2001) (arguing that “many economists do not understand the limited relevance of economic-efficiency conclusions, that most economists who in one sense do understand this fact habitually ignore it, and that economists have misled many public decision makers into exaggerating the importance of economic efficiency”).

¹⁵ See, e.g., ROBERT COOTER & THOMAS ULEN, *LAW & ECONOMICS* 106-108 (3d ed. 2000) (commenting on the nature of private and public goods and why protecting private goods with private property rights encourages efficiency); RICHARD POSNER, *ECONOMIC ANALYSIS OF LAW* 36-39 (5th ed. 1998) (noting that “[t]he creation of individual (as distinct from collective) ownership rights is a necessity rather than a sufficient condition for the efficient use of resources.”).

¹⁶ See COOTER & ULEN, *supra* note 15 at 107.

¹⁷ See POSNER, *supra* note 15 at 43 (noting that “the economist experiences no sense of discontinuity in moving from physical to intellectual property. In particular, the dynamic rational for property rights is readily applied to the useful ideas that we call inventions.”).

property makes more complicated the specific way in which a private property right promotes efficiency.¹⁸

Despite the fact that intellectual properties of all types are classified as a legal form of personal property,¹⁹ they differ from tangible forms of both real and personal property in that intellectual property is not in and of itself "scarce"; one party's use does not reduce the amount of intellectual property remaining for others to use.²⁰ Additionally, because intellectual property is essentially information, it is extremely easy to transmit, therefore it is difficult to prevent others from accessing or using it without permission.²¹ It has been proposed that private property rights in information exist primarily to enable the

¹⁸ The unique nature of intellectual property causes some commentators (as well as judges) to persist in making economically incorrect statements regarding the nature of the rights. One of the most common errors is in describing intellectual property rights as "monopolies." See Edmund Kitch, *Symposium: Taking Stock: The Law and Economics of Intellectual Property Rights: Elementary and Persistent Errors in the Economic Analysis of Intellectual Property*, 53 VAND. L. REV. 1727, 1729-38 (2000) ("Whether or not any patent or other intellectual property right confers an economic monopoly is an empirical question, but it seems likely that all trademarks, almost all copyrights, and most patents are not monopolies.").

¹⁹ See, e.g., 35 U.S.C. § 261 (1994) ("patents shall have the attributes of personal property"); 17 U.S.C. § 201(d)(1) (1994) ("The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession."); 1 J. T. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 6:4 (4th ed. 1997) ("That there are many common characteristics of patents, trademarks and copyrights cannot be denied. They all share the attributes of personal property, and are referred to en masse as 'intellectual property' or 'proprietary rights.'"); RAYMOND NIMMER, INFORMATION LAW § 5.03 (1996) (describing trade secrets as property).

²⁰ In other words, if one person purchases and reads a book, it has absolutely no effect on the availability of that book to other interested readers (assuming the publisher printed more than one copy). In economic terms, the information is said to be "non-rivalrous." See COOTER & ULEN, *supra* note 15, at 126.

²¹ If ownership rights are not granted (*i.e.*, if the information is publicly-owned), the only option to prevent access to information is to keep it secret. *Id.* Thus, the information is said to be "non-excludable." *Id.*; see also POSNER, *supra* note 15, at 43 ("[I]n a world without patents, such inventive activity as did occur would be heavily biased toward inventions that could be kept secret, in just the same way that a complete absence of property rights would bias production toward things that involve minimum preparatory investment."). Note that although "trade secrets" are considered property rights, once the information becomes public, the right disappears. See, e.g., *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1001 (1984) ("If an individual discloses his trade secret to others who are under no obligation to protect the confidentiality of the information, or otherwise publicly discloses the secret, his property right is extinguished.") (citing 1 R. MILGRIM, TRADE SECRETS § 1.01[2] (1983)).

optimum production level of those rights, essentially the same as with tangible personal property.²² Without private rights, intellectual property will tend to be under-produced because of the difficulty in obtaining a reasonable return on the investment in developing the property. However, it has also been argued that the true purpose in protecting intellectual property rights is to aid in the allocation of *related* resources that are in fact scarce — *i.e.*, those that are used in the development of those properties.²³ Under this theory, those underlying resources will be underutilized or misallocated unless they can be used to produce privately-owned intellectual property rights.²⁴

Regardless of the general theory to which one subscribes, the interesting questions arise from consideration of the specific ways in which these different types of properties are intended to function in the economic and social environment. The scheme actually differs somewhat for each of the major categories of intellectual property rights.²⁵ It is useful to compare and contrast the categories to gain a better understanding of the factors that can influence the current environment.

Under U.S. law, patent rights, often perceived to be the strongest form of intellectual property right,²⁶ are derived from a specific provision in the U.S. Constitution that empowers Congress to grant

²² See, *e.g.*, COOTER & ULEN, *supra* note 15, at 126-27.

²³ See Edmund Kitch, *The Nature and Function of the Patent System*, 20 J.L. & ECON. 265, 275-80 (1977) (“[T]he property rights literature has viewed the central problem as one as scarcity, while information has appeared to be something that can be used without limit. There is, however, a scarcity of resources that may be employed to use information, and it is that scarcity which generates the need for a system of property rights in information.”).

²⁴ *Id.*

²⁵ Note that the following discussion centers on the rationale for U.S. intellectual property rights. The same general rationale exists for analogous rights in other countries, but differences that may color a global discussion of intellectual property protection are beyond the scope of this paper.

²⁶ Patents are considered especially powerful because they confer the right to exclude all others from practicing the claimed invention, without regard to whether an infringer independently invented the invention or practiced it without knowledge of the patent. See ROBERT L. HARMON, *PATENTS AND THE FEDERAL CIRCUIT* 242-43 (4th ed. 1999), discussing the fact that, although patent infringement is a tort, it is not an intentional tort. But see 35 U.S.C. § 273 (Supp. V 1999), recently enacted as part of the American Inventors Protection Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501A552-91, A555-58, which allows the prior invention of business method to be used as a defense to a claim of infringement of another’s patented business method (subject to a number of qualifications).

inventors exclusive rights to their inventions for a limited time.²⁷ The ostensive purpose for granting patents is written into the Constitution: "To promote the Progress . . . of useful Arts."²⁸ Most have interpreted this to mean the promotion of innovation.²⁹ Thus, the Constitution takes as a given that more innovation is better for society and that the patent grant is one method available to Congress as a means of specifically promoting innovation.³⁰

Certainly, from an economic perspective, it can reasonably be argued that more innovation is better, at least to a point. However, it can also be argued that it is possible to have too much innovation—in other words, a level of innovation that is suboptimal in its use of scarce societal resources as compared to the gain obtained by society.³¹ But how much is too much? This question may be inherently impossible to answer in any meaningful way (*i.e.*, without resorting to vague pronouncements and circular reasoning). For purposes of furthering the discussion, this paper will join the vast

²⁷ U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.").

²⁸ Somewhat confusingly, "Useful arts," in the language of the 1780s, meant inventions, while "Science" referred to the social sciences like the arts and literature. See P.J. Federico, *Commentary on the New Patent Act*, 75 J. PAT. & TRADEMARK OFF. SOC'Y 161, 215 (1993) (reprinted from 35 U.S.C.A. (1954)) ("The purpose of the first provision is to promote the progress of science by securing for limited times to authors the exclusive right to their writings, the word 'science' in this connection having the meaning of knowledge in general, which is one of its meanings today. The other provision is that Congress has the power to promote the progress of useful arts by securing for limited times to inventors the exclusive right to their discoveries."). To this day, different classes of inventions are referred to as "arts" and evidence of existing knowledge related to an invention claimed in a patent is known as "prior art."

²⁹ See, e.g., *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) ("The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'").

³⁰ Arguably, the contribution patents make toward economic efficiency extend beyond optimizing the level of innovation. For example, Professor Clarisa Long argues in a recent article that patents play an important "signaling" role which can function to transmit information between owners, thereby reducing transaction costs. Clarisa Long, *Patent Signals*, 69 U. CHI. L. REV. 625, 647-655 (2002).

³¹ Professor George Priest argues that law and economics analysis is actually *less* useful in the analysis of intellectual property than, for example, criminal law issues, due to the difficulty in determining how much innovation is optimal. See Priest, *supra* note 10, at 19.

majority of the literature in assuming that innovation is beneficial to society.³²

If one accepts the benefits of innovation, the relevant economic question that follows relates to how strong³³ the property right should be in order to foster innovation³⁴ without unduly restricting competition by the grant of overly-broad exclusive rights. Theoretically, if patent rights are too strong, a patent could actually dissuade others from innovating or engaging in other business activities.³⁵ Analysis of this “tension” consumes the bulk of the economic literature related to patents.³⁶ Although courts tend to view patent rights as a “reward,” appropriate if commensurate in scope to a particular level of invention,³⁷ some modern commentators advocate viewing patents as analogous to a prospector’s mineral claim—the so-called “prospect theory of patents” which suggests that considerations of strength should take into account the fact that the patentee is additionally laying claim to future development of the invention.³⁸ Whatever the theory, the U.S. system can be viewed as creating beneficial output from two perspectives: (1) on an individual level, some return on the investment in innovative research and development and (2) on a societal level, industrial spending that produces innovation that eventually becomes available for public use, and is immediately available for private exploitation by the patent holder.

³² Countless papers in law and economics literature discuss the connection between various patent qualities and innovation without touching on the benefit of a given level of innovation versus any other level. See, e.g., Merges & Nelson, *supra* note 10 (a very well regarded paper that discusses the economic effect of patents and how patent law should be crafted to induce invention without touching on the possibility of inducing a supra-optimal level of innovation). The presumption is that more is better.

³³ Patent “strength” is multi-dimensional. One can refer to strength in terms of patent length, patent scope, the presumption of patent validity, etc.

³⁴ Patent law seeks to identify true innovation by granting exclusive rights only to those inventions that are new, nonobvious and useful. See 35 U.S.C. §§ 101, 102, 103 (1994 & Supp. V 1999).

³⁵ See Merges & Nelson, *supra* note 10, at 868-71.

³⁶ See, e.g., Howard F. Chang, *Patent Scope, Antitrust Policy, and Cumulative Innovation*, 26 RAND J. ECON. 34 (1995); Mark A. Lemley & Julie E. Cohen, *Patent Scope and Innovation in the Software Industry*, 89 CAL. L. REV. 1 (2001).

³⁷ See, e.g., Kitch, *supra* note 23, at 282-83.

³⁸ Most credit Edmund Kitch with the genesis of this theory. See Kitch, *supra* note 23, at 267-71.

U.S. copyrights have a similar constitutional and economic basis to U.S. patents.³⁹ Again, promoting “progress” of the social sciences such as arts and literature is the impetus for granting copyrights.⁴⁰ However, the copyright is a more narrow intellectual property right than a patent, and the basis for offering the specific legal protection is somewhat different.⁴¹

The most important distinction between copyrights and patents is that the copyright is an attempt to protect a specific expression of an idea made by an author, rather than a broad concept.⁴² It is meant to protect the work as it exists when finished, not some future development. Because the right is narrower—in contrast to patents, independent creation does not infringe⁴³—there is less likelihood that

³⁹ See *supra* note 27.

⁴⁰ *Id.*

⁴¹ Some commentators have noted that, until the 1976 revisions of the Copyright Act, publishers were actually the greater focus of protection. See *N.Y. Times Co. v. Tasini*, 533 U.S. 483, 495 n. 3 (2001) (“Two Registers of Copyrights have observed that the 1976 revision of the Copyright Act represented ‘a break with the two-hundred-year-old tradition that has identified copyright more closely with the publisher than with the author.’” (quoting Letter from M. Peters to Rep. McGovern, reprinted in 147 CONG. REC. E182 (Feb. 14, 2001))).

⁴² *Feist Publ'ns Inc. v. Rural Telephone Svs. Co.*, 499 U.S. 340, 349-50 (1991) (“To this end, copyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work.” (citing *Harper & Row, Publishers, Inc. v. Nation Enter.*, 471 U.S. 539, 556-57 (1985))). Another important distinction in copyright law is that institutions can be “authors,” whereas only individuals can be inventors under U.S. patent law. Compare 17 U.S.C. § 201(b) (1994) (“In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title . . .”) with *Beech Aircraft Corp. v. EDO Corp.*, 990 F.2d 1237, 1246 (Fed. Cir. 1993) (“[T]he patent right initially vests in the inventor who may then, barring any restrictions to the contrary, transfer that right to another, and so forth.”). That would seem to make copyright ownership more of a corporate endeavor, but in reality, most patents are eventually assigned to companies too. See John R. Allison & Mark A. Lemley, *The Growing Complexity of the United States Patent System*, 82 B.U. L. REV. 77, 96-97 (2002) (“Thus it is corporations, not individuals, who obtain most patents in the United States.”).

⁴³ See *Kewanee Oil v. Bicron Corp.*, 416 U.S. 470, 477-78 (“If an invention meets the rigorous statutory tests for the issuance of a patent, the patent is granted, for a period of 17 years, giving what has been described as the ‘right of exclusion,’ . . . This protection goes not only to copying the subject matter, which is forbidden under the Copyright Act, 17 U. S. C. § 1 et seq., but also to independent creation.” (citing R. ELLIS, PATENT ASSIGNMENTS AND LICENSES § 4, p. 7 (2d ed. 1943))).

a copyright will restrain competition.⁴⁴ Thus, copyright protection is conferred without substantive examination⁴⁵ and the term is quite long.⁴⁶ Despite its more limited nature, the economic rationale for conveying exclusive property rights for creative expression is essentially the same as for patents.⁴⁷ Due to the low cost of copying and using information assets such as copyrighted material, protection (with the possibility of a return) is necessary if one is to invest time and resources in developing them.⁴⁸ Secondarily, society benefits if the system produces more creative expression than would be produced if no protection existed.

Trademark and trade secret protection have different philosophical bases than patents and copyrights, but economic return as an incentive to produce is still the driving force behind protecting those rights. The trademark right, a creature of both federal and state law, is a property right that indirectly protects investment in a business by protecting the generation of consumer “goodwill.”⁴⁹ Goodwill is the

⁴⁴ Arguably, the copyright property interest’s greater effect is its tendency to limit free speech. This is why exceptions to the right have been incorporated into the Copyright Act to protect, for example, copying for the purposes of parody, *e.g.*, 17 U.S.C. § 107 (1994), or for educational uses, *e.g.*, 17 U.S.C. § 110 (1994 & Supp. V 1999). Whether the exceptions are effective in preserving free speech is another question that depends on other variables, such as the term of copyright. *See* Petition for Writ of Certiorari, *Eldred v. Ashcroft*, 2001 U.S. Briefs 618 (Oct. 11, 2001) (No. 01-618) (arguing error in a lower court decision that rejected a First Amendment challenge to a copyright extension act).

⁴⁵ *See* Amy B. Cohen, *Copyright Law and the Myth of Objectivity: The Idea-Expression Dichotomy and the Inevitability of Artistic Value Judgments*, 66 IND. L.J. 175, 181-83 (1990).

⁴⁶ *See, e.g.*, 17 U.S.C. § 302 (1994 & Supp. V 1999). Theoretically, a longer term should have little effect on competition because the right is so narrow. If this is true, one might ask, why not have a perpetual copyright? It has been suggested that the answer to this question lies partially in providing a means for lowering the transaction costs of determining who owns copyrighted material (“tracing costs”)—a practical impossibility if perpetual copyrights existed. *See* Landes & Posner, *supra* note 10, at 361-63.

⁴⁷ *See* *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (“[The Constitutional protection for patents and copyrights] is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.”). But note that the “reward” is for producing an original work of creative expression, not for the investment of time and money (“sweat of the brow”). *See* *Feist*, 499 U.S. at 349 (“The primary objective of copyright is not to reward the labor of authors, but ‘to promote the Progress of Science and useful Arts.’”).

⁴⁸ *Harper & Row*, 471 U.S. at 546 (The copyright system is “designed to assure contributors to the store of knowledge a fair return for their labors.”).

⁴⁹ *See* MCCARTHY, *supra* note 19, at § 2.20 (“Good will and its symbol, a trademark, are

positive consumer reaction to the quality of goods and services produced by a particular source.⁵⁰ By using a trademark as a source indicator, consumers are able to apply the goodwill generated from products or services back to the originating company. Without trademark protection, the goodwill created by a business based on its products or services can simply be appropriated by competitors. Capitalizing on the goodwill of another business is a disincentive to investment because it allows free riders to unfairly compete.⁵¹ Trademarks, thus, promote investment by ensuring that the intangible benefits received by the investor are not misappropriated by competitors, similar in a broad sense to patent and copyright protection.⁵² This is the primary benefit which is gained by the property owner. Trademarks also serve to prevent consumer confusion as to the source of the goodwill, which is essentially the avoidance of an additional transaction cost.⁵³ This can be viewed as the secondary benefit which is gained by society.⁵⁴

inseparable. A trademark has no independent significance apart from the good will it symbolizes. If there is no business and no good will, a trademark symbolizes nothing.”).

⁵⁰ See Keith E. Maskus, *Intellectual Property Rights and Economic Development*, 32 CASE W. RES. J. INT'L L. 471, 474 (2000).

⁵¹ See MCCARTHY, *supra* note 19, at § 2.30 (“Exclusive rights represented by patents and copyrights are protected by Congress under the Constitution to encourage effort and investment in new inventions and literary works: ‘Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.’ In like manner, it can be argued that the law should protect trademarks in order to encourage investment in advertising and the good will it creates.” (quoting *Mazer v. Stein*, 347 U.S. 201 (1954), *reh'g denied*, 347 U.S. 949 (1954))). For a more modern application, see *Intermatic Inc. v. Toeppen*, 947 F. Supp. 1227, 1233 (N.D. Ill. 1996) (“Toeppen is what is commonly referred to as a cyber-squatter. . . . These individuals attempt to profit from the Internet by reserving and later reselling or licensing domain names back to the companies that spent millions of dollars developing the goodwill of the trademark.”).

⁵² It has been argued that property protection is not necessary in the field of trademark law. Mark A. Lemley, *Symposium: The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1697 (1999).

⁵³ See MCCARTHY, *supra* note 19, at § 2.33 (“Trademark law insures that the brand information received by consumers is accurate: ‘By ensuring correct information in the marketplace, the [trademark] laws reduce losses caused by misunderstanding and deceit and thus permit consumers and merchants to maximize their own welfare confident that the information presented is truthful.’” (quoting *Falcon Rice Mill, Inc. v. Community Rice Mill, Inc.*, 725 F.2d 336, 348 (5th Cir. 1984))).

⁵⁴ In other words, from a societal perspective, whether there are more or fewer trademarks *per se* is economically neutral. Their ability to promote fair and efficient competition is the actual benefit.

Trade secret protection is in some respects the opposite of patent and copyright protection, but in many ways it is also a hybrid. Utilizing trade secret protection represents a choice not to disclose information to the public and to primarily guard its value by preventing access. Of course, no law is needed to encourage businesses to keep information secret; the benefit of keeping one's competitors in the dark is obvious. What trade secret laws attempt to accomplish in an economic sense is to discourage those attempting to gain unauthorized access to the information through some improper means, thereby protecting the business investment from low-cost copyists.⁵⁵ Trade secrets are opposite to patent and copyright protection in that property protections are granted despite the fact that no creative information is conveyed to the public in exchange for the right. But trade secret protection is also similar to a patent right in that it protects information that is necessarily not already in the public domain⁵⁶ and similar to a copyright in that unauthorized use of the specific trade secret is the gravamen of a cause of action for misappropriation. Again, as with trademarks, the primary benefit is in the protection of the owner's economic investment against free riders while society benefits from the increased innovation as well as the decrease in unfair competition.

Given the somewhat disparate nature of intellectual property economic incentives and benefits, what economic aspects do they share? The common thread that runs through all of the basic intellectual

⁵⁵ This is in many ways a stripped-down version of a patent. However, trade secret protection is generally viewed as a gap filler for those innovations that don't rise to the level of patent protection, but are nevertheless costly and valuable and deserving of some protection. See Kitch, *supra* note 23, at 288; *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 155-57 (1989).

⁵⁶ A trade secret must derive its value from the fact that it is secret, and not available to the public. See, e.g., Uniform Trade Secret Act definition of "trade secret," UTSA § 1(4)(i), 4 U.L.A. 437, 438 ("'Trade Secret' means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use . . ."); *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1011 (1984) ("With respect to a trade secret, the right to exclude others is central to the very definition of the property interest. Once the data that constitute a trade secret are disclosed to others, or others are allowed to use those data, the holder of the trade secret has lost his property interest in the data."). Many legal actions regarding trade secrets address the issue of whether the information in question actually constitutes a trade secret.

property rights is the concept of encouraging some ultimately beneficial individual (or corporate) investment by dangling an incentive. It is similar to a contract, in a sense, with society and/or government: if an entity invests sufficiently, special protection for that investment may be available if certain conditions are met. Businessmen, lawyers, economists and sociologists debate the terms of these continuing series of “contracts” and whether one side is getting a better deal than the other.⁵⁷ This constitutes the majority of the academic literature regarding intellectual property.

But there is another issue with these “contracts” that has significant potential to impact the economic scheme of intellectual property protection: the consequences of changing the terms of a party’s “contract” after its rights, privileges and responsibilities have vested. In other words, what does it mean to present and future intellectual property investors when government’s or society’s commitments under the bargain are changed or avoided, and what will any changes in investor perception mean for society as a whole? The real-life application of these questions occurs in those instances in which the law of intellectual property rights is changed, and those changes have a retroactive effect on existing property rights.

B. Judicial Retroactivity and its Impact on Vested Intellectual Property Rights

The main purpose of our judicial system is to settle disputes between litigants in view of the current state of the law. But the broader impact of the courts on property interests is much greater than that suggests. In the common law system, the concept of *stare decisis* attempts to create certainty in the law by dictating that a decision rendered in a prior case under the same facts will be applied to parties in a case with similar facts by courts of equal or lesser rank.⁵⁸ While it is true that modern courts view that doctrine as a

⁵⁷ See, e.g., Neil Weinstock Netanel, *Symposium: Taking Stock: The Law and Economics of Intellectual Property Rights: Market Hierarchy and Copyright in our System of Free Expression*, 53 VAND. L. REV. 1879, 1899-1904 (2000) (arguing that changes in the law have allowed copyright owners to acquire much greater power over creative content during the course of the last hundred years, primarily at the expense of the public domain).

⁵⁸ *Payne v. Tennessee*, 501 U.S. 808, 827 (1991) (Stare decisis is “the preferred course because it promotes the evenhanded, predictable, and consistent development of legal principles, fosters reliance on judicial decisions, and contributes to the actual and perceived integrity of the judicial process”).

policy rather than a mandate,⁵⁹ it is generally adhered to and functions to add additional structure to the existing legal environment by, in essence, creating judge-made rules.⁶⁰ As with any legal rule, one expects to be able to rely on judge-made law in undertaking or refraining from undertaking some action or investment.

When a court determines that changing an established legal rule is more important than heeding the doctrine of *stare decisis*, that decision may affect those who acted in accord with the prior rule if the new rule renders those actions inappropriate. While one can see how a wide range of interests can be affected by judicial rule changing, the effect on property interests is especially dramatic.

1. *Property Rights Are Especially Sensitive Retroactivity in Judicial Decisions*

The basic issue in radically altering the legal rules underlying property rights is the upsetting of “reliance” interests.⁶¹ Investors⁶² securing property rights do so with the expectation of a particular return at some point in the future.⁶³ Ideally, the probability of obtaining that return is predicted accurately and may be relied upon and balanced against the investment costs in securing said rights.

⁵⁹ Many commentators have reflected on the theoretical power of *stare decisis* to act as a potential roadblock to unexpected and dramatic changes to the legal environment. See Pamela J. Stephens, *The New Retroactivity Doctrine: Equality, Reliance and Stare Decisis*, 48 SYRACUSE L. REV. 1515, 1565 (1998). In practice, the Supreme Court has declared that *stare decisis* is closer to a judicial policy than a constitutional edict. See, e.g., *Agostini v. Felton*, 521 U.S. 203, 235 (1997) (“As we have often noted, ‘stare decisis is not an inexorable command,’ *Payne v. Tennessee*, 501 U.S. 808, 828 (1991), but instead reflects a policy judgment that ‘in most matters it is more important that the applicable rule of law be settled than that it be settled right,’ *Burnet v. Coronado Oil & Gas Co.*, 285 U.S. 393, 406 (1932) (Brandeis, J., dissenting)).” Therefore, courts remain relatively free to revise or overrule past precedent when necessary.

⁶⁰ *United States v. International Business Machines Corp.*, 517 U.S. 843, 856 (1996) (“[E]ven in constitutional cases, the doctrine carries such persuasive force that we have always required a departure from precedent to be supported by some ‘special justification.’” (quoting *Payne*, 501 U.S. at 842 (Souter, J., concurring) (in turn quoting *Arizona v. Rumsey*, 467 U.S. 203, 212, (1984))).

⁶¹ See Stephens, *supra* note 59, at 1560.

⁶² The term “investors” as used herein encompasses all those who invest time, money or effort in securing a contract or property interest.

⁶³ “Property is nothing but a basis of expectation” JEREMY BENTHAM, *THEORY OF LEGISLATION* 111-12 (Richard Hildreth trans., Fred B. Rothman & Co. 4th ed. 1987).

However, if a revision of legal rules upsets expectations regarding the return on the investment, the reliance placed by the affected investors is demonstrated to be misplaced (though appropriate when made). If the rule change in question is so unforeseeable that an investor could not have taken it into account when calculating his or her investment costs,⁶⁴ the investment decision is undermined. Additionally, investment in the development of property or contract rights that are later eliminated is wasted to the extent it exceeds the return that could have been obtained from other uses.⁶⁵

There are also consequences going forward: if it becomes apparent that such unexpected rule changes may occur in the future and upset the legal environment, investors likely to be affected may be less interested in investing at the same level in future property interests unless they are able to fully account for the risk of change. The situation would have even greater economic significance if the fear of unpredictable and non-assessable rule changes were to become widespread within a particular class of contract or property rights. In that case, significant resources may be redirected into other ventures (assuming alternatives exist), resulting in an under-investment in the affected field.⁶⁶

⁶⁴ Note that an investor can take into account even unlikely events as long as they are foreseeable and the relative chance of occurrence can be approximated with some accuracy. See Jacob W. Ulvila & Rex V. Brown, *Decision Analysis Comes of Age*, HARV. BUS. REV., Sept.-Oct. 1982, at 357-60.

⁶⁵ For example, if a company invests in research that produces a patented pharmaceutical, and that patent right is later rendered unenforceable, the only value left is the unprotected product (which might convey little more than a head start in marketing.) To the extent the investment exceeded that return (because it was based on obtaining exclusive rights) it could be quite wasteful from a societal perspective if it could have been put to better use, e.g., developing another life-saving drug. The same kind of inefficiency occurs when multiple innovators pursue the same basic invention in secret and only one emerges with the property right. See Martin J. Adelman, *Property Rights Theory and Patent-Antitrust: The Role of Compulsory Licensing*, 52 N.Y.U. L. REV. 977, 982 (1977) (discussing the costs of "reinvention" in the context of trade secrets, stating that it is "a waste of time, money and talent"). We tend to accept that inefficiency is a necessary downside to the generally useful policy that ensures patent applications are initially kept secret.

⁶⁶ In a recent article, Professor Michael Van Alstine argues that legal transition itself imposes costs on society in such forms as "learning costs" and "uncertainty costs" associated with the new legal regime. Michael Van Alstine, *The Costs of Legal Change*, 49 UCLA L. REV. 798, 816-35 (2002). Obviously, if one wished to assess all of the costs on society of changing judicially-created rules, such transition costs would have to be taken into account.

Those familiar with the study of “eminent domain” law will recognize these concerns as a commonly-cited rationale for compensating investors in property who experience a loss in property value as a result of legislative rule changing.⁶⁷ As a general rule, legislatures attempt to avoid these issues and ensure that a new legislative act does not effect an appropriation, or “taking,” of existing property rights.⁶⁸ If it does, just compensation is mandated by the Fifth or Fourteenth Amendment.⁶⁹ The most common method Congress uses to avoid

⁶⁷ The phenomenon has been the subject of extensive treatment in the literature, and was most prominently qualified as a “demoralization cost” in Professor Michelman’s seminal article. Frank I. Michelman, *Property, Utility, and Fairness: Comments on the Ethical Foundations of “Just Compensation” Law*, 80 HARV. L. REV. 1165, 1214-18 (1967). The basic idea is that uncompensated government takings of private property result in demoralization costs which are the costs of (1) offsetting the disutilities which accrue to property losers from the realization that no compensation is offered and (2) the present capitalized dollar value of lost future production caused by the demoralization of uncompensated property owners subject to takings. *Id.*

⁶⁸ Whether a particular type of law “takes” an existing property right has been the subject of a considerable body of case law and commentary. See, e.g., RICHARD A. EPSTEIN, *TAKINGS: PRIVATE PROPERTY AND THE POWER OF EMINENT DOMAIN* 263-82 (1985) (discussing various types of regulations of private property and the factors and justifications for deciding whether a compensable taking is found). In general, if a law forces a property owner to endure a physical occupation of his or her property at the behest of the government, a taking is always found. *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 427 (1982) (“When faced with a constitutional challenge to a permanent physical occupation of real property, this Court has invariably found a taking.”). However, if a law merely regulates a property owner’s use of his or her land, a taking may be found if that regulation deprives the owner of all reasonable use of the property. *Lucas v. S. C. Coastal Council*, 505 U.S. 1003, 1030 (1992) (“When, however, a regulation that declares ‘off-limits’ all economically productive or beneficial uses of land goes beyond what the relevant background principles would dictate, compensation must be paid to sustain it.”).

⁶⁹ One well-versed in eminent domain law in the real property context may question whether legislative acts that restrain or eliminate intellectual property rights are better analogized to “regulatory takings” or “physical occupation takings.” The case law is on the side of the latter. See, e.g., *Hughes Aircraft Co. v. United States*, 86 F.3d 1566, 1571 (Fed. Cir. 1996) (“The government’s unlicensed use of a patented invention is properly viewed as a taking of property under the Fifth Amendment through the government’s exercise of its power of eminent domain and the patent holder’s remedy for such use is prescribed by 28 U.S.C. § 1498(a) . . .” (citing *Pitcairn v. United States*, 547 F.2d 1106, 1114, 192 U.S.P.Q. 612, 616 (1976))), *vacated on other grounds and remanded*, 520 U.S. 1183 (1997), *reinstated*, 140 F.3d 1470 (Fed. Cir. 1998). This is likely the case because regulatory takings cases deal only with restrictions on the owner’s use of the property. Intellectual property rights do not include the owner’s right to use the property, but only the right to exclude others from using it. For example, in the context of patents, the act of invention itself “vests an inventor with a

the takings problem is to constrain the application of the law prospectively, such that existing property rights are not affected.⁷⁰ Additionally, those proficient in international law will recognize the existence of these considerations for companies contemplating investment in a country with a historically unstable legal or governmental structure.⁷¹ Simply put, fear of change can dissuade investors

common law or 'natural' right to make, use and sell his or her invention absent conflicting patent rights in others" *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1578 (Fed. Cir. 1991). A patent conveys the additional right to exclude others from making, using, selling or offering to sell the invention. *Id.* (citing *Six Wheel Corp. v. Sterling Motor Truck Co.*, 50 F.2d 568, 571 (9th Cir. 1931)). Thus, a legislative act that narrows the right to exclude by, in essence, changing the boundary lines has an effect much more analogous to a physical occupation of land, and would be fully compensable. See *Kaiser Aetna v. United States*, 444 U.S. 164, 179-180 (1979) (finding that the government's plan to force the owner of a private pond to allow access to the public would constitute a taking and stating, "In this case, we hold that the 'right to exclude,' so universally held to be a fundamental element of the property right, falls within this category of interests that the Government cannot take without compensation."). Because the "right to exclude" is similar, that principle should apply in the context of other intellectual property rights. See *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1186 (1st Cir. 1994) ("Consequently, 'the owner of the copyright, if [it] pleases, may refrain from vending or licensing and content [itself] with simply exercising the right to exclude others from using [its] property.'" (citing *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932))); *K-mart Corp. v. Cartier, Inc.*, 485 U.S. 176, 185-186 (1988) ("Trademark law, like contract law, confers private rights, which are themselves rights of exclusion. It grants the trademark owner a bundle of such rights"); *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1011-1012 (1984) ("With respect to a trade secret, the right to exclude others is central to the very definition of the property interest").

⁷⁰ For example, when Congress changed the term of enforcement for patents in 1995, it created a procedure for electing the old calculation method only for patents then in existence, not future grants. 35 U.S.C. §§ 154(a)(2), 271 (1994 & Supp. V 1999); *Merck & Co. v. Kessler*, 80 F.3d 1543, 1546 (Fed. Cir. 1996). Even minor governmental units show an appreciation for the issue. For example, when zoning laws are enacted, vested property rights are often excepted from or grandfathered into the new regulation in order to preserve existing rights (referred to as a "non-conforming use" exception). See, e.g., *Money v. Zoning Hearing Board of Haverford Twp.*, 755 A.2d 732, 736-37 (Pa. 2000) ("A lawful nonconforming use establishes in the property owner a vested property right which cannot be abrogated or destroyed unless it is a nuisance, it is abandoned or it is extinguished by eminent domain." (quoting *Keystone Outdoor Advertising v. Dep't of Transp.*, 687 A.2d 47, 51 (Pa. Commw. Ct. 1996), *appeal denied*, 698 A.2d 597 (1997))).

⁷¹ See, e.g., Robert B. von Mehren & P. Nicholas Kourides, *International Arbitrations Between States and Foreign Private Parties: The Libyan Nationalization Cases*, 75 AM. J. INT'L L. 476, 551-52 (1981) ("In private international investment, the need to weigh the risk against the expected return is always present, and the larger the risk, the higher the expected return must be in order to justify the investment. Private foreign investors will not be inclined to take large

when that change has the potential to cause a loss in property value.⁷²

It is possible to draw parallels between these concepts and judicial determinations that have a retroactive effect. If we acknowledge the way in which courts contribute to the legal environment,⁷³ then it follows that changes in judge-made law that retroactively deprive property owners of property value should have the same effects on those owners as described above.⁷⁴ Furthermore, because protections are not available to offset the effects of judicial retroactivity,⁷⁵ the case for some relief in the case of property interests is particularly compelling.

2. *Intellectual Property Exhibits an Even Deeper Level of Sensitivity to Retroactivity*

Although property rights in general merit special consideration when it comes to retroactivity in judicial decision making, the case that can be made for intellectual property is even more convincing. This is due to the unique relationship between intellectual property value and enforceability. In order to appreciate why intellectual property rights are particularly sensitive to judicial determinations,

financial risks if they perceive that their investments will be subject to arbitrary and unilateral repudiation.”).

⁷² See Van Alstine, *supra* note 66, at 816-35.

⁷³ The notion that courts create law is not so easily accepted by those who follow Blackstone’s theory of jurisprudence. See *infra* Part III.

⁷⁴ It should be noted that the justifications for Fifth Amendment protections against legislative takings may not be entirely coextensive in every case with those that apply to judicial retroactivity. For example, an important reason for the Just Compensation Clause is to curb the government’s incentive to make an individual bear a cost that should be borne by society. One would not generally expect the courts to engage in overt property redistribution as an express goal (though it is not beyond the realm of possibility.)

⁷⁵ The constitutional constraints of the Fifth Amendment’s and Fourteenth Amendment’s Just Compensation Clauses have never been applied by the Supreme Court to judicial actions that devalue property rights, although the proposition has been discussed in *dicta*. See *Hughes v. Washington*, 389 U.S. 290, 298 (1967) (Stewart, J., concurring) (“The Due Process Clause of the Fourteenth Amendment forbids . . . confiscation by a State, no less through its courts than through its legislature.”). The reasons as to why are probably rooted on the fact that the judiciary was not originally understood to act as a government law maker, but rather as a finder and enforcer of the relevant laws. See Kermit Roosevelt III, *A Little Theory Is a Dangerous Thing: The Myth of Adjudicative Retroactivity*, 31 CONN. L. REV. 1075, 1081-1083 (1999).

one must understand the unique legal environment that creates the heightened impact.

a. Enforceability is a Tenuous Element of Intellectual Property Value as Particularly Exemplified in the Patent Context

Anyone who has been reasonably attentive to the business world in the last twenty years realizes that patents, trademarks, copyrights and trade secrets can constitute extremely valuable corporate assets. They can have the same influence on a business's bottom line as tangible property assets.⁷⁶ Note that for some time, accountants have accepted the fact that acquired goodwill may be recorded as a business asset on the balance sheet.⁷⁷ The value of intellectual property assets, especially patents, can even exceed the value of a business' tangible property.⁷⁸ Over the years, accountants and other valuation specialists have applied a variety of methods to the assessment of intellectual property value, each having some advantages and disadvantages.⁷⁹ The so-called "income method" is generally considered the most appropriate for valuing intellectual property assets.⁸⁰

Naturally, with an increased appreciation of intellectual property value has come the better understanding of the appropriate return on investment in intellectual property. For example, businesses have been especially active in the last ten years in reassessing their existing patent portfolios and plans for obtaining patents based on a more realistic appreciation of the value such property is likely to bring to

⁷⁶ See Alexander K. Arrow, *Managing IP Financial Assets*, in FROM IDEAS TO ASSETS: INVESTING WISELY IN INTELLECTUAL PROPERTY 112 (Bruce Berman ed., 2002).

⁷⁷ SMITH & PARR, *supra* note 6, at 83.

⁷⁸ Nir Kossovsky, *Fair value of intellectual property: An options-based valuation of nearly 8,000 intellectual property assets*, J. INTELLECTUAL CAPITAL (2002) ("Over the past ten years, IP has evolved from a purely legal asset into a key corporate financial asset. . . . IP is valuable today because it is the primary driver of revenue. Therefore, to be successful, a business today must know the value of its IP, have a strategy for monetizing its intellectual property, and be effective in generating a return on these valuable assets.").

⁷⁹ SMITH & PARR, *supra* note 6 at 163-72. These valuation methods tend to fall within the same three broad categories applied to the valuation of general business assets: (1) the cost method, (2) the market value method, and (3) the income method. *Id.*

⁸⁰ *Id.* at 170. However, it can fail to take into account non-income-producing advantages to intellectual property ownership, such as increased negotiating power for unrelated licenses or rights. *Id.*

the company.⁸¹ Consulting companies have evolved solely to assist businesses in these matters. Similarly, the assets of some companies consist almost entirely of patent property.

The substantial value conferred by intellectual property carries with it some special valuation issues. In particular, the need to continually assess and reexamine the validity or enforceability of a particular intellectual property right adds a wrinkle to its valuation that transcends analogous considerations for other intangible or tangible assets. That is because the value of an intellectual property right, which is based on the owner's right to exclude access,⁸² is directly proportional to its enforceability.⁸³ While the same is true for any property right, enforceability of the right to exclude is a more contentious issue with greater uncertainty in the field of intellectual property. Although cases that redraw or clarify the lines of enforceability of real property rights of exclusion do occur, they are quite rare in comparison to the number of cases concerning the validity or enforceability of intellectual property rights.⁸⁴ The reasons for this are likely two-fold: (1) the recognition and enforcement of intellectual property rights is a relatively new phenomenon, and our society through the courts is still in the process of agreeing on the proper boundary lines and (2) the complexity of intellectual property rights does not easily lend itself to certain identification of its boundaries in the same way that tangible property does.⁸⁵

Intellectual property assets with doubtful enforceability are less likely to produce a return on the investment, *e.g.*, income through

⁸¹ KEVIN G. RIVETTE & DAVID KLINE, *REMBRANDT'S IN THE ATTIC* 65-66 (2000).

⁸² See *supra* note 69.

⁸³ "Enforceability" in a general legal sense relates to the intellectual property owner's ability to enforce his or her patent against another. However, in patent law jargon, the term "enforceability" usually refers to the more narrow issue of whether a valid patent is nonetheless unenforceable against an infringer due to some inequitable act by the patentee, *e.g.*, conduct rising to the level of patent misuse. See *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997).

⁸⁴ Each year brings a great number of cases concerning real property, especially those that sort out factual questions concerning ownership and transfer issues. However, the rules regarding the enforceability of real property interests are quite ancient and established. See 1 *TIFFANY REAL PROP.* § 11, n.1 (1939) (discussing the feudal roots of basic real property common law rules). Thus, revision is slow and new rules are rare.

⁸⁵ See Margaret Blair et al., *Clarifying Intellectual Property Rights for the New Economy*, in *FROM IDEAS TO ASSETS: INVESTING WISELY IN INTELLECTUAL PROPERTY*, *supra* note 76, at 88-91 (discussing the "measurement problem" with intangibles).

licensing. Thus, an intellectual property valuation must take into account facts such as the likelihood that a court will find the right to be valid⁸⁶ or find that it covers a particular scope of infringing activity if asserted against another.⁸⁷ These valuation determinations may be made when the right is first obtained, licensed or subsequently challenged in some manner (or for a variety of other reasons).⁸⁸

Examples of the link between enforceability issues and value are abundant in the field of intellectual property. Trademark rights are open to attack if their boundaries appear to restrict the use of language or product appearance ("trade dress") that is necessary for competition.⁸⁹ Copyright interests may be narrowed if courts determine that those interests operate to improperly curtail "fair use" of

⁸⁶ The concept of "validity" refers to whether the intellectual property right has been properly established in view of the relevant statutes and common law. In the case of rights that are associated with an official government conveyance or recognition, validity is often assessed as a prerequisite. *See, e.g.*, 35 U.S.C. § 131 (Supp. V 1999) (examination of a patent application); 15 U.S.C. §§ 1051-57 (1994 & Supp. V 1999) (federal registration of trademarks); 17 U.S.C. § 410 (1994) (registration of copyright claim and issuance of certificate). Regardless, one may attack the validity of an intellectual property right in court, *see, e.g.*, 28 U.S.C. §§ 1331, 1338 (1994 & Supp. V 1999) (subject matter jurisdiction of federal district courts over copyrights, patents and federal trademarks); HENRY H. PERRITT, *TRADE SECRETS: PRAC. GUIDE* Ch. 10 (2001 Supp.) (subject matter jurisdiction of trade secret claims), and, depending on the type of right, may also address the matter with the issuing or registering agency. *See, e.g.* 35 U.S.C. § 302 (1994 & Supp. V 1999) (reexamination of a patent); 35 U.S.C. § 251 (1994 & Supp. V 1999) (reissue of a patent); 15 U.S.C. §§ 1063, 1064 (1994 & Supp. V 1999) (opposition to and cancellation of a federally-registered trademark).

⁸⁷ *See, e.g.*, *Markman v. Westview Instruments*, 517 U.S. 370 (1996) (the controlling case in patent law mandating that judges in an infringement litigation must construe patent claims to determine their scope). The scope or enforceability of an intellectual property right may also be reevaluated in the same manner as validity, following any initial government procedure regarding issuance or registration of the right. *See supra* note 86.

⁸⁸ ROBERT F. REILLY & ROBERT P. SCHWEIHS, *VALUING INTANGIBLE ASSETS* 31-35 (1998) (listing common reasons to appraise an intangible asset).

⁸⁹ For example, if one attempts to obtain trademark rights over physical features claimed in an expired patent, that person will face the "heavy burden of showing that the feature is not functional . . ." *See, e.g.*, *Traffix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 29 (2001). That is because competition is adversely affected if a patented invention is not freely available to the public at the end of the patent term. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-152 (1989).

copyrighted material.⁹⁰ But of all of the classes of intellectual property assets, patents are arguably most vulnerable to an attack on validity and enforceability grounds.⁹¹ A more detailed discussion of enforceability and value in the context of patents is the best way to illustrate the concept.⁹²

With regard to validity, issued patents exit the U.S. Patent and Trademark Office (“PTO”) with a statutory presumption that the claims⁹³ are properly granted and that the PTO considered all of the relevant facts and issues.⁹⁴ That presumption can be rebutted in an Article III court proceeding in which infringement of the patent is alleged.⁹⁵ Such a rebuttal requires a demonstration, established with “clear and convincing evidence,” that a mistake was made during the PTO’s examination of the patent application.⁹⁶ Alternatively, anyone, including the patent owner, can request that the PTO “reexamine” the patent to determine if any of the claims were improperly issued in view of the prior art.⁹⁷ Significantly, the burden of establishing invalidity during a reexamination is by a mere “preponderance of the evidence.”⁹⁸ If any of the claims of a patent are held invalid,

⁹⁰ See, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579-81, 590-93 (1994) (holding that a song parody may qualify for the fair use defense, despite the fact that it is commercial in nature).

⁹¹ This is likely due to concern regarding the strength of the patent right and the public perception that it must be tightly restrained. See, e.g., Susan R. Miller, *Big Pharma Protects its Patents*, MIAMI DAILY BUS. REV., May 28, 2002, available at <http://www.law.com>.

⁹² The discussion on patents also provides the opportunity to convey some useful background for the specific case discussions appearing later in this article. See *infra* Part IV.

⁹³ The validity of a patent actually entails the assessment of the individual claims. It is possible for some, but not all of the claims of a patent to be invalid, with the remainder providing for recovery against infringers. *Jones v. Hardy*, 727 F.2d 1524, 1528 (Fed. Cir. 1984) (each claim in a patent constitutes a separate invention).

⁹⁴ 35 U.S.C. § 282 (Supp. V 1999) (patents are presumed valid).

⁹⁵ *Id.* (defenses to infringement).

⁹⁶ See *Tate Access Floors, Inc. v. Interface Architectural Resources, Inc.*, 279 F.3d 1357 (Fed. Cir. 2002) (“Our law requires patent challengers to prove invalidity by clear and convincing evidence.”).

⁹⁷ 35 U.S.C. § 301 (1994).

⁹⁸ *Ethicon v. Quigg*, 849 F.2d 1422, 1427 (Fed. Cir. 1988) (“In a reexamination proceeding, on the other hand, there is no presumption of validity and the ‘focus’ of the reexamination ‘returns essentially to that present in an initial examination,’ In re Etter, 756 F.2d at 857, 225 USPQ at 4, at which a preponderance of the evidence must show nonpatentability before the PTO may reject the claims of a patent application.”).

they essentially disappear and cannot be asserted against one who practices the claimed invention in the future.⁹⁹

Due to the complexity of the patent examination process and the temporal and financial limitations of the PTO, errors occur and challenges are often undertaken.¹⁰⁰ And once the full value of a patent is understood, potential infringers are able to direct more resources into investigating examination errors or oversights than were available during the original examination process.¹⁰¹ Challenges in these circumstances are often successful.¹⁰² Thus, the validity of the claims of an issued patent is an important issue that must be considered in attributing the proper weight to the patent.

The enforceability of a patent that is nonetheless valid can still be called into question in light of the patentee's allegedly inequitable acts during the original examination or after issuance.¹⁰³ The burden of establishing that a patent is unenforceable is the same as showing invalidity in each of the respective adjudicative forums.¹⁰⁴ However, since a judgment of unenforceability generally affects all of the claims of a patent, it can have more far reaching effects.¹⁰⁵ Challenges to a patent's enforceability are based to a great extent on a characterization of the patentees' behavior, such allegations are easier to make but more difficult to ultimately prove. As with issues of validity, facts that may affect the enforceability of a patent must also be considered by anyone interested in accurately evaluating the property.

Because corrective procedures always loom which may end up rendering the patent unenforceable, the strength of a patent cannot be taken for granted. Patent strength must be considered by any owner or licensee planning to depend on the patent for market

⁹⁹ See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Foundation*, 402 U.S. 313, 349 (1971).

¹⁰⁰ The PTO is generally perceived to be under staffed and under funded for its broad mission. Deficiencies in PTO resources can mean lower quality patents are issued, which are then more likely to be challenged. John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 316-22 (2001).

¹⁰¹ See Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1502 (2001) (stating that "the median cost of patent litigation to each side is \$ 799,000 through the end of discovery, and \$ 1,503,000 through trial and appeal").

¹⁰² See John R. Allison & Mark A. Lemley, *How Federal Circuit Judges Vote In Patent Validity Cases*, 27 FLA. ST. U. L. REV. 745 (2000).

¹⁰³ *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1178 (Fed. Cir. 1995).

¹⁰⁴ *Kingsdown Med. Cons., Ltd v. Hollister, Inc.*, 863 F.2d 867, 872 (Fed. Cir. 1988).

¹⁰⁵ *Id.*

exclusivity as well as any party interested in purchasing or licensing the property for a fair price. Obviously, a patent with a proverbial skeleton in its prosecution history closet has much less value than one which is relatively solid and not open to attack on any reasonably foreseeable grounds.

Moreover, there is an additional danger in relying on a patent of uncertain validity or enforceability due to some rather curious case law from the late 1960s. In *Lear v. Adkins*,¹⁰⁶ the Supreme Court held that a patent licensee cannot be estopped by contract from challenging the validity of a patent in the future and avoiding the license. In contrast, a so-called “licensee estoppel” clause can be incorporated into trademark¹⁰⁷ or copyright¹⁰⁸ licenses.¹⁰⁹ The population interested in challenging the validity of an issued patent is therefore increased due to the fact that a patent licensee has the ability (as well as strong motive¹¹⁰) to invalidate the patent that is the subject of the license. All of this substantially amplifies the uncertainty in depending on the value of the patent property asset.

b. Enhancement of the Effect of Retroactivity

Intelligent property investment decisions of all types are generally supported by an assessment of the legal environment.¹¹¹ If a subsequent change in the law affects the enforceability of a property right (e.g., limiting the potential remedies against trespassers in the real

¹⁰⁶ 395 U.S. 653, 671 (1969).

¹⁰⁷ See *Creative Gifts, Inc. v. UFO*, 235 F.3d 540 (10th Cir. 2000) (“Although the licensee estoppel rule in patent cases was struck down in *Lear v. Adkins*, 395 U.S. 653 (1969), with only a few exceptions the caselaw since then has held the *Lear* non-estoppel rule inapplicable in the trademark context.”).

¹⁰⁸ See *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191 (7th Cir. 1987) (declining to apply the reasoning in *Lear* to copyrights).

¹⁰⁹ The “licenses” implicated by the *Lear* doctrine do not include those resulting from a settlement of a patent litigation. *Flex-Foot, Inc. v. CRP, Inc.* 238 F.3d 1362, 1369-70 (Fed. Cir. 2001).

¹¹⁰ Although an *exclusive* licensee might be disinclined to challenge the patent license unless the advantage gained over the exclusive use of the patented technology is less than the license royalty rate.

¹¹¹ See REILLY & SCHWEIHS, *supra* note 88, at 66-67 (noting the importance of describing the bundle of legal rights subject to appraisal).

property context¹¹²), the objective value of the property right is necessarily affected. But with most types of property, changes in the legal environment are slow and predictable, and challenges to their enforceability are infrequent.¹¹³ Thus, while unexpected changes in the legal environment can retroactively render various investment decisions unsound, for most property interests, the concern is limited.

On the other hand, due to the various aspects of enforceability that can be called into question in conjunction with the many avenues for doing so, the legal environment for intellectual property is in a greater state of flux.¹¹⁴ As the three cases detailed *infra* demonstrate, a single decision from a relevant appellate court can devalue hundreds or even thousands of intellectual property rights in a broad swath.

A wise individual interested in ascertaining the value of his or her intellectual property must contemplate the relative chance that the property interest will be declared invalid or rendered unenforceable in the future. This fact underlies a significant part of the “due diligence” analysis that is required when an intellectual property asset is purchased or acquired.¹¹⁵ It follows that any changes in the current legal environment that make existing intellectual property rights more likely to be held invalid or unenforceable necessarily affect their

¹¹² See, e.g., *Boomer v. Atlantic Cement Co.*, 257 N.E.2d 870, 875 (N.Y. 1970) (allowing defendant cement company to pay damages for nuisance to plaintiff’s property rather than imposing injunctive relief).

¹¹³ One versed in general property law would likely conclude that ownership and liability issues are much more common to non-intellectual property rights than enforceability issues. For example, experience suggests that the average homeowner would be more likely to be involved in a mundane dispute over ownership, such as proper transfer of title, than something analogous to the enforceability disputes constantly faced by intellectual property owners, such as whether that homeowner has the right to exclude airplanes from flying over the property (see, e.g., *United States v. Causby*, 328 U.S. 256 (1946)).

¹¹⁴ Perhaps because of that flux, there are a large number of Web sites devoted, at least in part, to keeping track of and analyzing decisions related to intellectual property. See, e.g., <http://www.ipo.org> (Website for the Intellectual Property Owners Association); <http://www.ll.georgetown.edu/Fed-Ct/cafed.html> (Georgetown University Law Center page archiving Federal Circuit decisions); <http://www.ipmall.fplc.edu/> (Franklin Pierce Law Center’s Intellectual Property Mall).

¹¹⁵ See Sheldon Burshtein, *Intellectual Property and Technology Due Diligence in Business Transactions*, in *INTELLECTUAL PROPERTY ASSETS IN MERGERS & ACQUISITIONS* 8.62 (Lanning Bryer & Melvin Simensky eds., 2002) (noting that “validity and enforcement” are key representations and warranties that must result from a due diligence analysis of an intellectual property asset).

value. Congress has acknowledged that fact in enacting legislation that could be viewed as “taking” a portion of an existing intellectual property value by either limiting the legal effect of the legislation to rights granted only in the future¹¹⁶ or determining that no taking occurred after analyzing the economic effect of the legislation on existing rights.¹¹⁷

In summary, intellectual property owners, as a class, are more likely to suffer negative effects of judicial determinations that retroactively revise the law because (1) there are more opportunities and incentives to attack the enforceability of the property right and (2) the complexity and historical novelty of intellectual property leads to a greater incidence of rule changing. When those determinations are truly unexpected and investors are not able to take them into account, the impact is enhanced and overall economic efficiency is at risk of being reduced. In that case, some mechanism for relief seems natural and logical.

III. THE CURRENT STATE OF THE LAW REGARDING JUDICIAL RETROACTIVITY

In view of the potential economic consequences of the retroactive application of new legal rules in the context of intellectual property, the question as to whether a mechanism for ameliorating the effects is possible in view of the law as it currently stands is critical. Are there any established legal constraints on the retroactive reach of judicial rulings? Can the judiciary limit the application of new rules prospectively? In fact, a body of law has developed that suggests some limitations on the retroactive effect of judicial determinations in general (*i.e.*, not constrained to property deprivations) are appropriate; that law has applicability to the specific rule changing scenario presented in this paper.

¹¹⁶ See, e.g., Act of Sept. 28, 1996, Pub. L. No. 104-208, 100 Stat. 8009 (codified at 35 U.S.C. § 287(c) (1996)) (affecting the enforceability of patents on medical methods and limiting the application to issued patents: “This subsection shall not apply to any patent issued before the date of enactment of this subsection.”).

¹¹⁷ See HOUSE REPORT ON THE DRUG PRICE COMPETITION AND PATENT TERM RESTORATION ACT, H.R. REP. 98-857(II) at 27-30 (1984) (finding that, because FDA regulations would otherwise give pharmaceutical patent owners a *de facto* extension of their patent term, “the nature of the interference with patent rights created by this bill is necessitated by the very nature of the industry involved”).

The issue of the retroactive application of judicial determinations received considerable attention in both the criminal and civil context in the latter half of the last century.¹¹⁸ But in the grand scheme of American jurisprudence, the debate is relatively recent, coinciding with the judicial activism that characterized the Supreme Court in the 1950s and 60s.¹¹⁹ Surprisingly, the propriety of temporally limiting the impact of judicial determinations is not a settled issue, and some examination of the general landscape as it developed and exists today is warranted before making conclusions or recommendations about the future conduct of courts in considering issues related to intellectual property enforceability.

First, consider the role of the modern judiciary in resolving legal issues not specifically addressed by legislative enactments or constitutions. One can view judicial decisions as falling into one of three basic categories: (1) interpretations of statutes; (2) constitutional interpretations and applications; and (3) creation and application of common law doctrine.¹²⁰ A substantial body of decisions naturally follows from the latter two types of judicial decision making, but even statutory interpretation, which largely consists of attempts to divine the intent of the legislature, can significantly add to the legal environment. All types have the potential to create legal "regimes," although the common law is arguably more susceptible to the whim of the judiciary (reined in by *stare decisis*).¹²¹ Interestingly, there is some

¹¹⁸ See Stephens, *supra* note 59, at 1517. Professor Stephens points out that state courts engaged in prospective decision making even earlier, though it didn't appear to generate the same deliberations as the formal adoption of the concept in the federal context. *Id.* at 1517-18. In fact, in 1932, the Supreme Court specifically noted its approval of state courts choosing to apply their decisions prospectively. *Great N. Ry. Co. v. Sunburst Oil & Ref. Co.*, 287 U.S. 358, 363 (1932).

¹¹⁹ Stephens, *supra* note 59, at 1517; see also *supra* notes 2 and 3. It has been suggested by some commentators that the conflict was sparked by the legal positivism school, see, e.g., Richard H. Fallon, Jr. & Daniel J. Meltzer, *New Law, Non-Retroactivity, and Constitutional Remedies*, 104 HARV. L. REV. 1733, 1760-1761 (1991), and by the legal realist school of thought by others, see, e.g., Beryl Levy, *Realist Jurisprudence and Prospective Overruling*, 109 U. PA. L. REV. 1, 25-30 (1960).

¹²⁰ For a useful outline of this structure and the relative differences, see Roosevelt, *supra* note 75, at 1076-77. Legal historians recognize that the phrase "common law" is derived from the original English courts administered under the King that, through their decisions, attempted to find and apply the law common to all in the Monarchy, as opposed to local custom. See JOHN HUDSON, *THE FORMATION OF THE ENGLISH COMMON LAW* 16-19 (1996).

¹²¹ See *supra* note 59.

disagreement as to the source from which courts draw the authority to create such legal regimes. Significantly, the theory one applies can directly influence one's conclusion as to whether retroactive application of "new" judge-made rules is legally appropriate (or required).

For years, courts adhered to Blackstone's model of jurisprudence, which is based on the philosophy that judges do not make law; rather, they "find" the law and articulate it in their opinions.¹²² True lawmaking is left to the legislature.¹²³ Under this theory, there is no notion of retroactivity. If a latter judicial opinion conflicts with an earlier one, a Blackstonian theorist would say that the previous opinion was merely an incorrect understanding.¹²⁴ In other words, the law doesn't change, only the articulations do at different points in time. In general, reliance on the incorrect articulation is deemed misplaced—the law is the law, and it is a constant.¹²⁵

Eventually, American jurists began to agree that courts do, in fact, create their own body of law.¹²⁶ This recognition eventually led to a concern regarding the impact of changing that law (or establishing new law) on those whose actions were based on assumptions made in view of the old legal regime. In essence, there was recognition that judicial decisions can act retroactively, and this retroactivity can have objectively unfair consequences. A parallel was drawn between the judiciary and the legislature: logically, if judge-made law has the

¹²² 1 W. BLACKSTONE, COMMENTARIES 69 (1765) (Judicial power is "not delegated to pronounce a new law, but to maintain and expound the old one"). Blackstonian theory relies heavily on the natural rights basis for the common law: The law is always in existence, and the court's obligation is to search out and apply that law.

¹²³ In many respects, the debate over whether judicial determinations are "law" and the related question as to the power of the judiciary to constrain its decisions prospectively implicates the classic struggle to find the proper separation of judicial and legislative power. Supreme Court Justice Antonin Scalia has been especially vocal in the separation of powers debate; however, Scalia's opinions seem to suggest a distaste for the current common law system and a desire for a return (to the extent that it ever actually existed) to the Blackstonian ideal. See, e.g., ANTONIN SCALIA, A MATTER OF INTERPRETATION 12 (1997).

In view of the most recent case law, the default scheme is that Congress makes prospective laws while the judiciary makes rules that apply retroactively. How and when exceptions to this scheme are allowed represents the line of scrimmage in an ongoing battle that actually exists on several diverse fronts.

¹²⁴ See Fallon & Meltzer, *supra* note 119, at 1758-60.

¹²⁵ *Id.*

¹²⁶ Roosevelt, *supra* note 75 at 1087-90.

ability to effectively change the past, many of the same issues encountered by the legislature in drafting laws are implicated.¹²⁷

The new aversion to judicial retroactivity first impacted the criminal cases heard by the Warren Court.¹²⁸ Faced with the possibility of thousands of convicted criminals demanding new trials and release based on a new application of the exclusionary rule,¹²⁹ the Court in *Linkletter v. Walker*¹³⁰ determined that prospective application of the new rule was appropriate. In doing so, the Court found that the retrospective application of judicial decisions is neither required nor prohibited by the Constitution.¹³¹ The *Linkletter* decision was a milestone for the school of jurisprudence that advocated the consideration and, if necessary, avoidance of the overly burdensome retroactive effects of some adjudications.

The *Linkletter* decision eventually led to the extension of the prospective application scheme in the civil context in *Chevron Oil Co. v. Huson*.¹³² In that case, the Supreme Court addressed the proper statute of limitations for personal injuries sustained in an offshore oil rig. The Court found that the shorter limitations period mandated by state law was proper under another recent decision, but refused to apply it to the plaintiff in the case.¹³³ Noting that the plaintiff had no way to know that a shorter limitation period would become the new rule and render his case time-barred, the Court acknowledged this as a problem inherent in judicial law making, and clearly rejected the Blackstonian point of view.¹³⁴ The *Chevron* Court articulated their retroactivity analysis as a three-factored test:

¹²⁷ Note that the Supreme Court has taken the stand that legislative decisions are presumed prospective unless they are specifically noted to apply retroactively. See, e.g., *United States v. Sec. Indus. Bank*, 459 U.S. 70, 79 (1982) ("The principle that statutes operate only prospectively, while judicial decisions operate retrospectively, is familiar to every law student.").

¹²⁸ Roosevelt, *supra* note 75 at 1087-90.

¹²⁹ Earl Warren was appointed Chief Justice of the Supreme Court in 1953 and retired in 1969. See POWE, *supra* note 2, at 24, 482-84.

¹³⁰ 381 U.S. 618, 639-40 (1965).

¹³¹ *Id.* at 629.

¹³² 404 U.S. 97 (1971).

¹³³ *Id.* at 107.

¹³⁴ *Id.* ("We should not indulge in the fiction that the law now announced has always been the law and, therefore, that those who did not avail themselves of it waived their rights." (citing *Griffin v. Illinois*, 351 U.S. 12, 26 (Frankfurter, J., concurring in judgment))).

First, the decision to be applied nonretroactively must establish a new principle of law, either by overruling clear past precedent on which litigants may have relied . . . or by deciding an issue of first impression whose resolution was not clearly foreshadowed . . . Second, it has been stressed that “we must . . . weigh the merits and demerits in each case by looking to the prior history of the rule in question, its purpose and effect, and whether retrospective operation will further or retard its operation.” . . . Finally, we have weighed the inequity imposed by retroactive application, for “where a decision of this Court could produce substantial inequitable results if applied retroactively, there is ample basis in our cases for avoiding the ‘injustice or hardship’ by a holding of nonretroactivity.”¹³⁵

Significantly, the *Chevron* case is an example of “selectively prospective” adjudication, as the new rule regarding the controlling law was applied to the parties in the earlier case, but not the *Chevron* litigants.¹³⁶

The question of retroactivity is not necessarily limited to litigants in cases already filed at the time a new rule is annunciated; it can theoretically be applied to any actions undertaken in reliance of the old law that will in the future have some new and different legal significance.¹³⁷ Thus, under the *Chevron* analysis, litigants have been able to argue that contracts made or property acquired under a prior legal regime that would be substantially burdened or forfeited under a new legal regime (counter to the original expectations of the property owners) should not be subject to retroactive application of the new regime.¹³⁸ The same logic and consideration of reliance would seem applicable for intellectual property interests secured in

¹³⁵ *Id.* at 106-107 (citations omitted). Note that the “*Chevron* test” is expressed as one threshold factor (establishment of a new principle of law) and two balancing factors. But even *Chevron*’s threshold factor actually consists of a range of decisions that may justify reliance, from the relatively loose “issue of first impression whose resolution was not clearly foreshadowed,” which could be applied to almost any case if sufficiently distinguished from prior decisions on the facts, to the strict “overruling clear past precedent,” which would seem to apply in only rare circumstances. It is therefore reasonable to assume that courts consider the relative strength of all of the factors in determining whether non-retroactivity is appropriate.

¹³⁶ *Id.* at 107.

¹³⁷ See Jill E. Fisch, *Retroactivity and Legal Change: An Equilibrium Approach*, 110 HARV. L. REV. 1055, 1067-69 (1997).

¹³⁸ See, e.g., *EEOC v. Atlanta Gas Light Co.*, 751 F.2d 1188, 1191 (11th Cir. 1985).

reliance on a prior rule, but the concept has apparently not been applied in that manner.¹³⁹

Through the 1970s, the *Chevron* test became a staple for civil actions and remained an important consideration until the tide began to turn in retroactivity analysis. In the early 1980s, the Supreme Court began to intimate that a reversal of its precedent regarding the propriety of applying some rules prospectively was coming in the criminal context.¹⁴⁰ The case that finally heralded the new era was *Griffith v. Kentucky*,¹⁴¹ and it remains the law in federal criminal jurisprudence to this day. In that case, the Court held that the failure to apply a newly-declared constitutional interpretation to criminal cases pending on direct review was unconstitutional.¹⁴² In rejecting that application of prospectivity, the *Griffith* Court squarely rejected the so-called "clear break" rule for criminal cases.¹⁴³ To do otherwise, the majority stated, would fly in the face of the principle that the Court does not disregard current law when adjudicating a case pending on direct review.¹⁴⁴ Additionally, it would often work to treat similarly situated defendants differently in violation of the Equal Protection Clause.¹⁴⁵ However, the Supreme Court's broad reversal of its earlier precedent was limited to the criminal context in *Griffith*;¹⁴⁶ a clear pronouncement on civil retroactivity was reserved for a subsequent case.

It appeared for a short period of time following *Griffith* that the law in the civil context might remain unchanged from the *Chevron* era.¹⁴⁷

¹³⁹ *But see* *Malta & Malmark, Inc. v. Schulmerich Carillons, Inc.*, 952 F.2d 1320, 1327-28 (Fed. Cir. 1991) (analyzing a claim that prior patent case law should not be applied retroactively under the *Chevron* doctrine, and ultimately concluding that the law had not, in fact, changed).

¹⁴⁰ *See* *United States v. Johnson*, 457 U.S. 537, 548 (1982) ("Retroactivity must be rethought.").

¹⁴¹ 479 U.S. 314 (1987).

¹⁴² *Id.* at 328.

¹⁴³ *Id.* at 326-27.

¹⁴⁴ *Id.* at 322-23.

¹⁴⁵ *Id.* at 323.

¹⁴⁶ *Id.* at 322 n.8 ("We noted in *Johnson* that our review did not address the area of civil retroactivity. . . . That area continues to be governed by the standard announced in [*Chevron*].") (citations omitted).

¹⁴⁷ *See* *American Trucking Ass'n v. Smith*, 496 U.S. 167, 178 (1990) (affirming that the *Chevron* test was controlling in the civil context and refusing to apply retroactively an earlier decision invalidating highway use taxes under the Commerce Clause). Perhaps

However, the Court eventually adopted the reasoning of *Griffith* and reversed its stance on a major part of the ability of federal courts to prospectively apply new civil rules. The strongest articulation of the reversal came in *Harper v. Virginia Dept. of Taxation*.¹⁴⁸ Although the basic retroactivity issue in the case, which involved the proper application of another decision declaring a particular type of employee taxation unconstitutional, had been recently addressed by the Court, the *Harper* majority took the opportunity to reevaluate the situation and clearly state the relevant law. The majority opinion, relying on positions taken by that majority in a previous decision,¹⁴⁹ boiled down the Court's shift from the *Chevron* era to a specific new rule:

When this Court applies a rule of federal law to the parties before it, that rule is the controlling interpretation of federal law and must be given full retroactive effect in all cases still open on direct review and as to all events, regardless of whether such events predate or postdate our announcement of the rule.¹⁵⁰

Thus, *Harper* effectively eliminated the opportunity for prospective application of new rule in a civil case if that rule has been applied to parties in another case.¹⁵¹ This is the current state of the law in the federal civil forum.¹⁵² The *Harper* rule has been applied by courts in

foreshadowing the gradual fracture of the *Chevron* constituency, *American Trucking* produced three opinions, none of which garnered a majority.

¹⁴⁸ 509 U.S. 86 (1993).

¹⁴⁹ *James B. Beam Distilling Co. v. Georgia*, 501 U.S. 529 (1991).

¹⁵⁰ *Id.* at 97.

¹⁵¹ Thus, the *Chevron* result can no longer occur. See *Chevron Oil Co. v. Huson*, 404 U.S. 97, 107 (1971).

¹⁵² For a period of time following *Harper*, courts and academics toyed with the idea that a rule could be applied retrospectively, but a court could fashion a *remedy* that essentially rendered it ineffective to all but prospective cases. See Fallon & Meltzer, *supra* note 119 at 1806-33. However, that notion was soundly put to rest in *Reynoldsville Casket Co. v. Hyde*, 514 U.S. 749, 753-54 (1995):

[W]e do not see how, in the circumstances before us, the Ohio Supreme Court could change a legal outcome that federal law . . . would otherwise dictate simply by calling its refusal to apply that federal law an effort to create a remedy. . . . If Harper has anything more than symbolic significance, how could virtually identical reliance, without more, prove sufficient to permit a virtually identical denial simply because it is characterized as a denial based on "remedy" rather than "nonretroactivity"?

intellectual property cases, for example, to justify the reinterpretation of patent claims in cases on review in order to incorporate a new rule of claim construction.¹⁵³

Significantly, the *Harper* decision leaves open an important issue regarding a court's ability to limit the application of a decision prospectively: the instance in which a rule is articulated but *not* applied to the parties in the case—in other words, a fully prospective decision. Such decisions have occurred, but they are relatively rare,¹⁵⁴ especially in comparison to fully retrospective decision making.¹⁵⁵ In fact, there is a real question as to the continued viability of purely prospective decision making. Some have suggested that an Article III court cannot render a purely prospective decision without violating the case and controversy requirement of the Constitution.¹⁵⁶ Others have declared judicial prospectivity to be a clear infringement on the province of the legislature.¹⁵⁷ Regardless, purely prospective decision making is an avenue that remains open for the time being and may provide an important option for judicial decision making.

As the brief history presented above demonstrates, all indications are that the trend is moving against the practice of constraining new legal regimes to prospective application. Should this trend be

¹⁵³ *Insituform Tech., Inc. v. Cat Contracting, Inc.*, 10 Fed. Appx. 871, 876 (Fed. Cir. 2001) (unpublished) (“Since we applied the rule of law established in *Festo* to the parties in that case, *Festo*, 234 F.3d at 587-91, the holding in *Festo* ‘must be given full retroactive effect in all cases still open on direct review and as to all events, regardless of whether such events predate or postdate [the] announcement of the rule.’ . . . Thus, even if we have already decided issues regarding prosecution history estoppel and infringement under the doctrine of equivalents in a previous decision, if those issues are still open on direct review, we must apply the holdings of *Festo*.”) (citations omitted). In an excellent illustration of how retroactive application of new judicial rules can keep the ball in the air for some time, the Supreme Court recently reversed the above decision and remanded for consideration in light of *its* decision in the *Festo* case. *Insituform Tech., Inc. v. Cat Contracting, Inc.*, 508 U.S. 1108 (2002).

¹⁵⁴ See, e.g., *N. Pipeline Constr. Co. v. Marathon Pipe Line*, 458 U.S. 50 (1982); *Cipriano v. City of Houma*, 395 U.S. 701 (1969); *England v. Louisiana State Bd. of Med. Exam’rs.*, 375 U.S. 411 (1963).

¹⁵⁵ Retroactivity is overwhelmingly the norm in judicial decision making; in fact, that has been acknowledged to be the default proposition. See *United States v. Sec. Indus. Bank*, 459 U.S. 70, 79 (1982).

¹⁵⁶ Note, *Prospective Overruling and Retroactive Application in the Federal Courts*, 71 *YALE L.J.* 907, 930-33 (1962); see also *Desist v. United States*, 394 U.S. 244, 256 (1969) (Harlan, J., dissenting).

¹⁵⁷ See *supra* note 123.

encouraged to its logical end, in which complete retroactivity is mandated in all circumstances? Or is there a reason for permitting an exception for some rules in some situations? In view of the economic effects of judicial retroactivity on intellectual property interests, it seems that a compelling case can be presented for such an exception.

The courts have not been entirely hostile to this proposition in a more general sense. The case law generally reflects the notion that established property and contract rights present themselves as more susceptible to changing legal regimes in both the legislative and judicial forums.¹⁵⁸ With respect to retroactivity analysis, courts have acknowledged that the case for limiting retroactivity in view of *Chevron* is stronger when vested property or contract rights are in question.¹⁵⁹

Unfortunately (and somewhat surprisingly), there are not a great number of cases concerning property or contract rights generally — let alone intellectual property rights, specifically — in which courts have actually constrained the application of new rules. Although many courts have addressed the issue, few have found situations worthy of a *Chevron* limitation.¹⁶⁰ Thus, it is not empirically clear that courts have actually found the *Chevron* test satisfied more frequently in cases of property or contract, despite the fact that they have indicated that such a result should ideally occur.¹⁶¹

Moreover, most of the federal cases that suggest prospective rule making is appropriate when property or contract rights are concerned

¹⁵⁸ See, e.g., *Payne v. Tennessee*, 501 U.S. 808, 828, (1991) (“Considerations in favor of stare decisis are at their acme in cases involving property and contract rights, where reliance interests are involved”); S.R. Shapiro, Annotation, *Prospective or Retroactive Operation of Overruling Decision*, 10 A.L.R.3d 1371, 1388-90 (1966) (“It has often been held or recognized that where particular persons have acted in justifiable reliance on a subsequently overruled judicial decision and retroactive application of the overruling decision would defeat their reliance interests, such reliance interests should receive adequate protection, and the overruling decision should be denied retroactive application in order to prevent such persons from being subjected to unfairness or undue hardship.”); Dufour, *supra* note 8 at 325 n.6 (citing cases and noting that “In the areas of real property and contract transactions, parties not only rely on existing law in their actions, but they also acquire vested rights that could be defeated by retroactive application. Therefore, retroactive application of decisions overruling property and contract laws ordinarily is improper.”).

¹⁵⁹ Dufour, *supra* note 8 at 325 n.6.

¹⁶⁰ Based on a review of cases citing *Chevron* collected by *Shepard's®* Citation Service.

¹⁶¹ Further complicating research on the issue is the fact that contract and property claims are generally rooted in state law rather than federal.

were decided before the Supreme Court began to partially dismantle the *Chevron* structure in *James B. Beam Distilling Co. v. Georgia*¹⁶² and *Harper*. While some decisions suggest an impetus for greater care with regard to vested contract/property interests, it appears that the federal courts are unable (or unwilling) to find a case that actually merits relief from retroactivity.

With respect to state courts — the more likely venue for contract and most property cases — analyzing post-*Harper* decisions is complicated. This is mainly due to the fact that *Harper* is generally construed as applying only to decisions regarding federal law. Thus, state courts may adopt or ignore *Harper* at their discretion.¹⁶³ In fact, courts have explicitly refused to follow *Harper*, and have instead chosen to continue to apply the standard *Chevron* analysis.¹⁶⁴ Obviously, these decisions have little bearing on the treatment of property interests for which validity and enforceability issues are controlled by federal law.¹⁶⁵ At best, they provide evidence that the rationale behind the Supreme Court's shift from *Chevron* is not uniformly accepted by the judiciary at large.

¹⁶² 501 U.S. 529 (1991).

¹⁶³ However, a state court must apply the *Harper* ruling to cases involving an application of federal law. *Reynoldsville Casket Co. v. Hyde*, 514 U.S. 749, 759 (1995).

¹⁶⁴ See, e.g., *Beavers v. Johnson Controls World Servs., Inc.*, 881 P.2d 1376, 1382 (N.M. 1994) ("Although the United States Supreme Court has thus held that it lacks the power to choose between retroactivity and prospectivity in civil cases, this Court has never regarded itself as so limited, and we are not inclined to do so now."); *Aleckson v. Village of Round Lake Park*, 679 N.E.2d 1224 (Ill. 1997) ("To hold that the appellate court could not apply its own prior decision prospectively in this case would frustrate that court's ability to do equity in the cases it reviews. We decline to handcuff our appellate court in such a manner."); *Wisconsin v. Thiel*, 625 N.W.2d 321, 452 (Wis. Ct. App. 2001) ("We decline to follow *Harper* and adopt its approach that makes all new rules retroactive. First, *Harper* only applies to the interpretation of federal law by the United States Supreme Court. . . . Second, a radical change in the manner in which Wisconsin appellate courts approach retroactivity analysis is within the exclusive superintending authority of the Wisconsin Supreme Court.").

¹⁶⁵ For example, patents, copyrights and federally-registered trademarks. As mentioned previously, trade secret law is largely a matter of state law, so the limitation on *Harper* may be important in this context. See *Baker Hughes Inc. v. Keco R&D Inc.*, 12 S.W.3d 1, 4-5 (Tex. 2000) (determining whether a new rule decided in a prior case should be applied retroactively by considering the *Chevron* factors without any mention of the *Harper* limitations).

IV. "ENHANCED *CHEVRON*:" SUGGESTIONS FOR A MORE AGGRESSIVE APPLICATION OF THE *CHEVRON* TEST IN THE CASE OF INTELLECTUAL PROPERTY RIGHTS

Because of the special sensitivity of intellectual property to retroactive adjudication and the potential for economically inefficient consequences, the *Chevron* test is a key limitation that should not be eliminated. In fact, intellectual property presents the perfect platform on which to build back part of the structure of a doctrine that has perhaps been too hastily dismantled. To do so, we must once and for all recognize that courts do make "law" in the sense that they create binding rules for society. When applied retroactively, they have the same effects as legislative determinations *vis-à-vis* devaluing established property interests. There is no reason that courts should not assess those effects and determine if their rules would be more fairly applied prospectively.

The *Chevron* decision continues, in the civil context, to give courts the opportunity to assess the effects of their decisions on property interests and plan accordingly. In many respects, it is even more important in the current legal environment to embrace a rational application of the *Chevron* test for property interests most prominently affected by retroactivity in order to make the case for the continued viability of prospective decision making. Failure to do so may result in *Chevron* being completely eliminated before the impact of such a decision is fully appreciated.

In light of the sparse utilization of the *Chevron* limitations, it appears that applying judicial determinations in a purely prospective fashion is not an easy thing for courts to do. The underlying basis for that reticence is easy to understand. First, a court must be willing to openly acknowledge that it is changing the rules. In the case where past precedent exists, it has traditionally been easier to skirt the conflict by distinguishing the prior decisions or implying a conflict of precedent that must be resolved. Second, a court must be willing to buck the clear trend in retroactive adjudication. As explained above, the case for the utilization of prospective adjudication in decisions related to intellectual property is especially compelling and may allow a court to overcome any trepidation.¹⁶⁶ If a court were further willing

¹⁶⁶ Perhaps the greatest source of any trepidation would be the concern that the decision would be soundly reversed by the Supreme Court in a final blow to *Chevron*. However, in the same way that "bad facts make bad law," one can argue that good facts make good law: The

to add some meat to the basic *Chevron* analysis, which can be fairly criticized as somewhat vague and arbitrary, the doctrine could have an even better chance of a sustained existence in the more limited context of property interests.

Based on an understanding of the above issues and concerns regarding the application of the *Chevron* doctrine, it is possible to propose a set of recommendations for enhancing the *Chevron* analysis that can make it more useful and palatable. These recommendations focus primarily on invigorating the first and third *Chevron* factors by attempting to add more specificity to the test for use with intellectual property interests. Additionally, this paper recommends de-emphasizing the second *Chevron* factor in recognition of the fact that it merely functions as a means to elevate judicial policy making authority over the interests of property owners and economic efficiency. If recommendations such as these are adopted, they will have the effect of not only protecting the incentive to invest that is central to intellectual property protection, but also of allowing a party involved in a matter ripe for prospective adjudication to make a cogent argument for or against such an application.¹⁶⁷

A. Make a Realistic Assessment of When Rules are "New"

Even a strict reading of the first *Chevron* factor¹⁶⁸ allows some ambiguity as to what constitutes "past precedent" or an issue of "first impression."¹⁶⁹ It is a relatively simple matter for a court to interpret the prior law such that the new rule can be argued to have always

continued viability of *Chevron* should be tested with the best possible argument.

¹⁶⁷ Although these recommendations can be considered by any court addressing intellectual property issues, the initiative is perhaps best undertaken by the Federal Circuit—the court at the forefront of patent jurisprudence and the effective last stop for most patent matters and disputes. See *infra* note 185. It is generally acknowledged that the Supreme Court has exhibited a pattern of allowing the Federal Circuit relatively free reign in developing U.S. patent law due to the Federal Circuit's expertise in complex patent law issues gained from its unique appellate assignment. See Mark D. Janis, *Patent Law in the Age of the Invisible Supreme Court*, 2001 U. ILL. L. REV. 387 (2001). Toward that end, the Supreme Court reviews few of the Federal Circuit's decisions and, when it does, the Court usually suggests that some deference to the Federal Circuit's expertise is appropriate.

¹⁶⁸ *Chevron Oil Co. v. Huson*, 404 U.S. 97, 106-07 (1971) ("[T]he decision to be applied nonretroactively must establish a new principle of law, either by overruling clear past precedent on which litigants may have relied . . . or by deciding an issue of first impression whose resolution was not clearly foreshadowed.").

¹⁶⁹ See *supra* note 135.

been present¹⁷⁰ or not squarely contradict existing precedent.¹⁷¹ To fairly assess the effect of judicial determinations, courts must move past self-serving, artificial interpretations and attempt to truly appreciate the law that was generally understood to control prior to the decision.

In essence, this understanding of the law is the quality that other commentators have recognized as “reliance.”¹⁷² But, of course, it is impossible for a single court to accurately divine which rules were truly relied upon by the country’s intellectual property developers and which ones were viewed with skepticism and concern. In a paper written from the perspective of the “legal process” school, Professor Jill Fisch analyzed the propriety of reliance on existing legal rules by whether those rules were objectively in a state of “stable equilibrium” or “unstable equilibrium.”¹⁷³ Changes to rules in stable equilibrium reasonably upset reliance interests and tend to create unfair and inefficient results.¹⁷⁴ Alternatively, changes in rules in unstable equilibrium are not reasonably relied upon and can be made with less concern.¹⁷⁵ Professor Fisch’s paper thus attempts to separate punctuated changes in legal regimes from those that are part of the natural progression of a developing legal regime, the former affecting existing vested interests much more dramatically.

The equilibrium analysis actually translates quite well to an economic approach. It is reasonable to presume that investors would not rely on rules in a state of unstable equilibrium; the converse is also reasonable. However, a bit more certainty regarding when a legal

¹⁷⁰ For example, in *Symbol*, the majority held for the continued existence of prosecution laches based on their determination that it had not been explicitly eliminated by statute, despite the fact that most practitioners (and prior Federal Circuit panels) believed it had. *Symbol Techs., Inc. v. Lemelson Med., Educ. & Research Found.*, 277 F.3d 1361, 1366 (Fed. Cir. 2002), *cert. denied*, 537 U.S. 825 (2002).

¹⁷¹ For example, in *Festo*, the court at least impliedly asserts that there were two lines of precedent that could control the issue of the case, one of which was chosen by the court to settle the dispute. *Festo Corp. v. Shoketsu Kinzoki Kogyo Kabushiki Co.*, 234 F.3d 558, 572-73 (Fed. Cir. 2000), *vacated and remanded*, 535 U.S. 722 (2002). That idea, of course, ignores the fact that, under the court’s own rules, only the line of cases overruled by the court actually constituted controlling precedent.

¹⁷² See, e.g., Stephens, *supra* note 59, at 1560.

¹⁷³ Fisch, *supra* note 137.

¹⁷⁴ *Id.* at 1105.

¹⁷⁵ *Id.* at 1108.

regime is stable or unstable is required to make the analysis immediately useful. Thankfully, objective rules can be fairly intuitive. A tri-leveled categorization system can be employed to characterize the legal environment with corresponding recommendations for retroactive or prospective application (*see* Table 1):

Table 1

Legal Environment	Proper Temporal Effect
Past precedent directly on-point; new rule reverses existing law	Prospective application more reasonable
Persuasive authority on-point and weight of authority on one side; expectation that law will remain	Depends on evaluation of other factors
No law on-point or balance of authority on both sides	Retroactive application more reasonable

Although the precise definition of the categories used to assess the degree of reliance can differ, the effect of clearly delineating the test promotes fairness and efficiency in and of itself.

B. Consider That Certain Types of Decisions Naturally Have A Greater Effect on Existing Intellectual Property Rights

Not all decisions related to a given intellectual property asset’s enforceability have an equal consequence on all intellectual property assets of a given type.¹⁷⁶ The courts should strive to determine the scope of the effect of a particular decision on existing intellectual property rights. This is an enhancement of the third *Chevron* prong.¹⁷⁷

¹⁷⁶ For example, while a case relating to whether a rather unique type of publication can constitute prior art may affect the litigants and a handful of other patent owners, a case calling into question the patentability of an entire category of subject matter would obviously have a far greater effect. The latter arguably provides a greater impetus for prospective application.

¹⁷⁷ *Chevron Oil Co. v. Huson*, 404 U.S. 97, 106-07 (1971) (“[weigh] the inequity imposed by retroactive application, for “where a decision of this Court could produce substantial inequitable results if applied retroactively, there is ample basis in our cases for avoiding the

Although a quantitative analysis would be most useful, putting such an analysis together for even a small fraction of the cases related to intellectual property that are heard by U.S. courts each year is probably a practical impossibility.¹⁷⁸ One option might be to invite briefing on the subject by counsel, but the adversarial nature of the process might render the information substantially useless. A better alternative might be to set out broad categories of decisions that suggest greater scrutiny in their outcome, *i.e.*, creating a presumption that the effects would be broad (*see* Table 2).¹⁷⁹

Table 2

Intellectual Prop. Rights Affected	Proper Temporal Effect
Broad group of intellectual property assets rendered unenforceable	Prospective application more reasonable
Only part of the intellectual property rights of a broad group rendered unenforceable (<i>e.g.</i> , patent equivalents)	Depends on evaluation of other factors
Few intellectual property rights beyond those involved in the case-at-bar affected by legal change	Retroactive application more reasonable

Of course, more specificity can be derived based on empirical analysis.

'injustice or hardship' by a holding of nonretroactivity").

¹⁷⁸ Requesting the litigants to prepare such an analysis is similarly not a realistic possibility. There is often great variance in the financial backing of intellectual property litigants. One is hesitant to suggest a litigation-oriented project that is potentially a significant financial burden on those most interested.

¹⁷⁹ For example, decisions that determine that fair use prevents enforcement of one's copyright against a group previously understood to infringe would be a very reasonable category.

C. De-Emphasize the Second Chevron Factor: Curb the Inclination Toward Judicial Policy-Making By Acknowledging That the Legislature is Often a More Appropriate Venue

In considering the philosophical attacks on retroactivity (or adherence to *stare decisis*, for that matter), a natural counterargument is that courts should not be prevented from revising ineffective rules; indeed, they should be encouraged to do so. Eliminating retroactivity can blunt the corrective effect of new legal rules. This is, in essence, the purpose of the second *Chevron* factor¹⁸⁰ and de-emphasizing it naturally raises some important questions. Should we be restraining courts from righting past wrongs? Would that lead to the conclusion that once a court of sufficient authority rules on an issue affecting certain property rights—rational or not—society is stuck with it?

Yes and no. This paper does argue that, when legal regimes have become sufficiently established and affect broad enough categories of property interests, the courts should leave well enough alone and refrain from rearranging the system. Society is, of course, not stuck with those rules because they can be legislatively overruled. In that case, property that is devalued is ostensibly protected by the provisions of the Fifth or Fourteenth Amendment. More than anything, this recognizes that courts make law that is relied upon by investors in property, and it makes sense to apply the same protections that one expects when legislative enactments change the rules of the game.¹⁸¹

The second *Chevron* factor merely provides an avenue for the courts to give special weight to the policy goals of the new rule. It suggests that if a new rule's objectives are furthered by application to existing interests, that fact can counter the negative effects on property owners. However, this view tends to encourage encroachment of the judiciary into the powers of the legislature with none of the Constitution's protections. Courts should acknowledge that the legislature is the better forum for making broad, sweeping changes to

¹⁸⁰ *Chevron*, 404 U.S. at 106-07 (“[W]eigh the merits and demerits in each case by looking to the prior history of the rule in question, its purpose and effect, and whether retrospective operation will further or retard its operation.”).

¹⁸¹ An alternative way of dealing with this situation is for a court to refrain from making *any* change—prospective or retrospective—to the established legal regime, leaving all revisions to the legislature. This is essentially the approach adopted by the Supreme Court *Festo Corp. v. Shoketsu Kinzoki Kogyo Kabushiki Co.*, 535 U.S. 722, 737-40 (2002).

the established legal environment, at least when property interests are concerned.¹⁸² This maximizes predictability in the rules, which promotes efficiency and fairness overall. Only when a clear choice cannot be derived from an analysis of the first and third factors should courts consider the second *Chevron* factor.

Additionally, if a court were to give full weight to the second *Chevron* factor, in the case of intellectual property rules, it is not likely to provide information of much value. This is because the explicit “purpose and effect”¹⁸³ of a rule affecting the enforcement of intellectual property rights is almost always “furthered” by applying it to existing interests, but if the implicit goals of intellectual property rules are included in the analysis, the net effect probably works out to be very small. To make a complete assessment of the “purpose and effect” of most new rules related to intellectual property interests, one must take into account the impact on the incentive scheme discussed earlier. A rule that simplifies the conduct of litigation but ends up discouraging or invalidating investment in the system may have no net positive effect on economic efficiency. Additionally, attempting to actually quantify the net purpose and effect would likely be a very difficult proposition, and when the impact of that analysis is likely to be small, it is a less than productive but overly inflated part of the overall *Chevron* test.

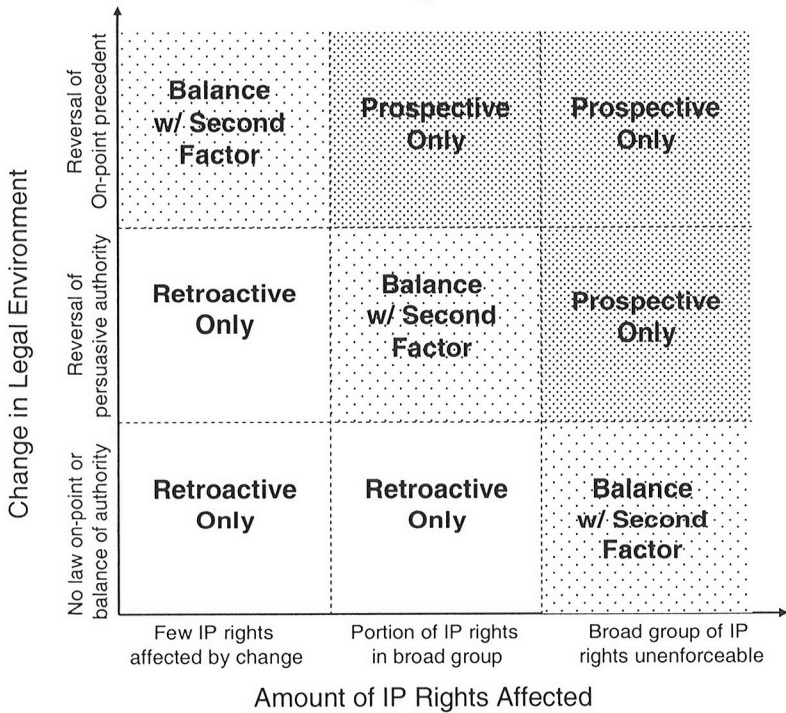
The analysis in the above three sections can be combined to produce a matrix (Figure 1)¹⁸⁴ that better allows one to assess the propriety of prospective rule application. In this manner, prongs one and three of the *Chevron* test are enhanced to better address the issues related to intellectual property interests.

¹⁸² See *id.*

¹⁸³ See *Chevron*, 404 U.S. at 106-07.

¹⁸⁴ Although the “Change in Legal Environment” and “Amount of IPRights Affected” are really a continuum of values, the imposition of a clearly delineated decision matrix better allows one to determine the most appropriate category of final analysis.

Figure 1



V. A REVIEW AND REINTERPRETATION OF THREE RECENT CASES: A DEMONSTRATION OF HOW AN “ENHANCED *CHEVRON*” TEST MIGHT WORK IN PRACTICE

Three recent decisions by the U.S. Court of Appeals for the Federal Circuit¹⁸⁵ crystallize the issues discussed in this paper and

¹⁸⁵ The Federal Circuit is the key court for patent issues. Established in 1982, this appellate court has made a significant mark on patent jurisprudence. See HARMON, *supra* note 26, at x-xi (noting that the Federal Circuit produces about three times as many decisions of interest as its predecessor court and finding its record surprisingly prolific); see also Rochelle Dreyfus, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 24-25 (1989) (finding that “the CAFC’s jurisprudence reveals that the court has begun to

provide a basis for demonstrating how *Chevron* may be more effectively employed. In *Festo Corp. v. Shoketsu Kinzoki Kogyo Kabushiki Co.*,¹⁸⁶ *Symbol Technologies, Inc. v. Lemelson Medical, Education & Research Foundation*¹⁸⁷ and *Johnson & Johnston Assoc. Inc. v. R.E. Service Co.*,¹⁸⁸ we see demonstrations of the potential court decisions have to retroactively diminish intellectual property value by placing the enforceability of affected patents in doubt. The exact diminution individual property owners will incur as a result of these cases is difficult to quantify until the occurrence of a critical event (like litigation), and it will certainly vary depending on the particular patent in question. But the three cases discussed herein take the retroactive weakening of existing intellectual property rights to an extreme by calling into question broad conduct and practices in the prosecution¹⁸⁹ of patents. The broad reach of these decisions has created a major stir in the patent community and will force many to reevaluate patent property rights once thought secure. Thus, they provide excellent material for analysis and discussion. Furthermore, the Supreme Court's recent reversal of the *Festo* decision—based in part on the same reasoning used in this paper to support prospective decision making—provides an excellent example of the only fair alternative to making use of *Chevron* limitations: refraining from significantly changing the rules at all.¹⁹⁰

make patent law more accurate, precise, and coherent.”). It has sole jurisdiction over appeals concerning patent infringement litigation and decisions of the U.S. Patent and Trademark Office. Federal Courts Improvement Act of 1981, Pub. L. No. 97-164, 96 Stat. 40 (1982). One of the court's purposes was to provide greater doctrinal stability in the patent system. *Chemical Eng'g Corp. v. Marlo, Inc.*, 754 F.2d 331, 333 (Fed. Cir. 1984).

¹⁸⁶ 234 F.3d 558 (Fed. Cir. 2000), *vacated and remanded*, 535 U.S. 722 (2002).

¹⁸⁷ 277 F.3d 1361 (Fed. Cir. 2002), *cert. denied*, 537 U.S. 825 (2002).

¹⁸⁸ 285 F.3d 1046 (Fed. Cir. 2002).

¹⁸⁹ The act of applying for a patent and the subsequent exchange of correspondence between the patent applicant and the PTO is usually called “prosecution” from the perspective of the applicant and “examination” for the perspective of the PTO. The file maintained by the PTO which contains all correspondence and documents submitted during the patent application process is called the “prosecution history” or “file history.”

¹⁹⁰ *Festo*, 535 U.S. at 737-40.

A. The Extension of File History Estoppel in Festo: Retroactive Revision of the Common Law

In the fall of 2000, an *en banc* panel of the Federal Circuit handed down its controversial decision in *Festo Corp. v. Shoketsu Kinzoki Kogyo Kabushiki Co.*¹⁹¹ Few cases in recent memory have elicited so much commentary and general gnashing of teeth in the patent bar.¹⁹² Of course, the Supreme Court's recent reversal substantially eviscerates the Federal Circuit's dramatic decision and its critics are largely placated.¹⁹³ However, as a stand-alone decision, the Federal Circuit ruling is worth discussing as a powerful exhibition of judicial retroactivity issues.

1. *Factual Background and Decision*

The case involved Shoketsu Kinzoki Kogyo Kabushiki Co.'s (referred to in the decision and heretofore as "SMC") alleged infringement of Festo's patents for "magnetically coupled rodless cylinders."¹⁹⁴ The wrinkle in the case began with the fact that Festo did not claim that SMC infringed by practicing the literal language of the claims.¹⁹⁵

¹⁹¹ 234 F.3d 558 (Fed. Cir. 2000).

¹⁹² Over thirty-five amicus briefs were filed in the appeal before the Supreme Court, *Festo*, No. 00-1543, October Term, 2001. Note that the phrase "patent bar" is used herein in the general sense to denote those who have an interest in patent issues. In a more formal sense, "patent bar" is often used to refer to the subset of attorneys who are admitted to practice before the U.S. Patent and Trademark Office.

¹⁹³ The Supreme Court granted certiorari to the decision on June 18, 2001 and held oral argument on January 8, 2002. *Festo*, 533 U.S. 915 (2001); Tony Mauro, *Court May Curb Festo Rule; Bork argues that Federal Circuit patent ruling spells trouble. Justices seem to agree*, LEGAL TIMES, Jan. 14, 2002, at 6. On May 28, 2002, the Court issued its decision reversing and remanding based on its determination that the Federal Circuit's new rule upset the balance achieved by the Supreme Court's prior rulings on equivalents. *Festo*, 535 U.S. at 739-41.

¹⁹⁴ *Festo*, 234 F.3d at 578.

¹⁹⁵ Each patent ends with one or more "claims"—a one sentence statement that declares what the invention is. MANUAL OF PATENT EXAMINING PROCEDURE ("MPEP") § 608.01(m) ("Form of Claims"). To put it in real property terms, the claims of a patent define the "metes and bounds" of the invention. See, e.g., *Corning Glass Works v. Sumitomo Elec. U.S.A., Inc.*, 868 F.2d 1251, 1257 (Fed. Cir. 1989) ("A claim in a patent provides the metes and bounds of the right which the patent confers on the patentee to exclude others from making, using or selling the protected invention."); but see *In Re Etter*, 756 F.2d 852, 859 n.7 (Fed. Cir. 1985) ("A patent is not a 'deed', a term normally used to describe an attribute of

Rather, Festo accused SMC of infringing under the “doctrine of equivalents.” The doctrine of equivalents is a judicially-created set of guidelines that prevents one from escaping infringement merely by making insubstantial changes to the invention as described in the claims.¹⁹⁶ It ensures that a patentee is not tied to a particular phrasing of the invention in the claim language when an alleged infringer is clearly practicing its “equivalent.”¹⁹⁷

SMC defended against Festo’s infringement claims on the grounds that Festo had waived its right to equivalents for certain aspects of the claimed invention by entering narrowing “amendments”¹⁹⁸ during the prosecution of the patents—the so-called “prosecution history estoppel” defense.¹⁹⁹ According to SMC, by entering the amendments, Festo rejected any claim to subject matter specifically excluded by the amendments. Festo countered that it had not intended to narrow its claims and that it was entitled to a range of equivalents that included SMC’s allegedly infringing rodless cylinders. Festo prevailed on a motion for summary judgment of infringement in the U.S. District Court for the District of Massachusetts and, following a jury trial,

real property.”). A party infringes the patent only if he or she commits an act within the scope of the claim(s), either literally or under the doctrine of equivalents. *Hoescht-Roussel Pharms., Inc. v. Lehman*, 109 F.3d 756, 759 (Fed. Cir. 1997).

¹⁹⁶ *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 21 (1997) (“Under this doctrine, a product or process that does not literally infringe upon the express terms of a patent claim may nonetheless be found to infringe if there is ‘equivalence’ between the elements of the accused product or process and the claimed elements of the patented invention.” (quoting *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 609 (1950))).

¹⁹⁷ Although the courts have not arrived at a mandatory test to determine whether a particular aspect of an allegedly infringing invention is an equivalent, many courts favor the “function, way, result” test. *See id.* at 40. The “function, way, result” test dictates that, if an accused element performs the same function in the same way to achieve the same result, it is an equivalent. *Id.*

¹⁹⁸ During prosecution of a patent, a patent applicant may change the language of the patent application or “specification,” including the claim language, by submitting an amendment. Often, amendments are submitted in response to a patent examiner’s “rejection” of the application and make changes necessary to render the claims patentable.

¹⁹⁹ The concept of prosecution history estoppel is based on the idea that, if a patent applicant narrows his or her claims to make them patentable, that applicant should not later be allowed to claim a broader scope as an “equivalent” because that scope was specifically surrendered. *Warner-Jenkinson*, 520 U.S. at 30.

judgment was entered against SMC for infringement under the doctrine of equivalents.²⁰⁰

On appeal of the summary judgment motion, the Federal Circuit addressed the case *en banc*,²⁰¹ primarily to clarify the law relating to the application of the doctrine of equivalents to amended claims.²⁰² The most significant question addressed by the Federal Circuit, was whether an applicant who narrows a claim element²⁰³ by amendment is barred from asserting infringement over allegedly equivalent acts or devices that fall outside of the narrowed element.²⁰⁴ After reviewing its past precedent and concluding that the answer depended on which of two lines of cases was followed, the Federal Circuit reversed the line that had previously been established as controlling precedent and held that claims narrowed by amendment for purposes of patentability may be accorded no coverage of equivalents for the amended element.²⁰⁵ This is known as the “complete bar” rule.²⁰⁶

In reversing its earlier precedent, the majority stated that the court’s experience since its inception²⁰⁷ led it to conclude that the previously established rule, known as the “flexible bar” rule, was unwork-

²⁰⁰ *Festo*, 234 F.3d at 578.

²⁰¹ The *en banc* consideration actually marked the third time the Federal Circuit addressed SMC’s infringement. In the first instance, the Federal Circuit affirmed the district court’s grant of summary judgment of infringement under the doctrine of equivalents. *Id.* at 578-79. The Supreme Court granted *certiorari* and remanded for reconsideration in view of the intervening Supreme Court decision in *Warner Jenkinson v. Hilton Davis*, 520 U.S. 17 (1997). *Id.* at 579. The Federal Circuit affirmed again and, on SMC’s request, subsequently heard the case *en banc*. *Id.*

²⁰² *Id.* at 565 (“In this *en banc* rehearing, we focus our attention on the effect of *Warner-Jenkinson* on our case law relating to the doctrine of equivalents and prosecution history estoppel.”).

²⁰³ The individual parts of a claim are called “elements.” For example, a claim for a pointer comprising a cylindrical piece of aluminum, said piece having a length of one foot and a diameter of 1/8 inches could be read to have at least four claim elements: (1) the cylindrical shape, (2) the aluminum material, (3) the one-foot length and (4) the 1/8 inch diameter. Of course, exactly what constitutes an “element” can be a matter of dispute.

²⁰⁴ *Festo*, 234 F.3d at 569.

²⁰⁵ *Id.* at 574-75 (“Today, we revisit the question we first addressed in [the 1983 case] *Hughes I* and come to a different conclusion as to the proper scope of equivalents that is available when prosecution history estoppel applies than we did in that case.”).

²⁰⁶ *Id.* at 569. The alternative theory was known as the flexible bar rule. *Id.* at 572.

²⁰⁷ The Federal Circuit was established in 1982 and has sole jurisdiction over appeals concerning patent infringement litigation and decisions of the U.S. Patent and Trademark Office. Federal Courts Improvement Act of 1981, Pub. L. No. 97-164, 96 Stat. 40 (1982).

able due to its inherent ambiguities.²⁰⁸ The majority favored the complete bar rule because of its tendency to support the principle that a patent must give notice to the world as to what the patentee claims to be his or her invention.²⁰⁹

2. *Appropriate Retroactive Effect on Existing Patents*

From the moment the decision appeared in print, a swell of controversy ensued. Many patent owners as well as members of the patent bar complained that the decision unfairly called into question the scope of enforceability of many patents with amendments in their prosecution history.²¹⁰ The problem according to those concerned is that many patent prosecutors believed (supported by previous Federal Circuit decisions) that claim amendments could be entered without necessarily surrendering all equivalents. In relying on that belief, patent practitioners adopted a claim drafting practice that entailed the use of broad initial claims followed by amendments in order to define the invention. In contrast—and often cited as the proof of the inequity of the Federal Circuit's *Festo*—is the fact that, if an identically-worded claim had been submitted in the original application without amendment, that claim *would* be entitled to a range of equivalents. Patent practitioners can reasonably claim that, if they had known of the potential effects of amending, they would have made different decisions. Of course, the file history for existing patents is set in proverbial stone and cannot be undone.

As a result of the Federal Circuit's *Festo* decision, some patent claims could have been limited to their literal terms (at least for certain elements). Previously broad and powerful patent claims might

²⁰⁸ *Festo*, 234 F.3d at 574-75 ("Our decision to reject the flexible bar approach adopted in *Hughes I* comes after nearly twenty years of experience in performing our role as the sole court of appeals for patent matters.").

²⁰⁹ *Id.* at 575.

²¹⁰ See, e.g., Raymond Van Dyke and Steven R. Pedersen, *How Big Are Patents? High Court Must Choose Between Two Visions of a Good IP System*, LEGAL TIMES, Jan. 7, 2002, at 34 ("Festo detractors contend that this constitutes a radical curtailment of the doctrine of equivalents and will prevent them from successfully suing infringers. Savvy copyists can now review prosecution history, find a minor clerical change to the claim language, and modify their product or process only slightly to escape infringement. Thus *Festo* allows the value of patented devices and processes to be commandeered by those who bring no additional creativity or inventiveness of their own.").

have only been enforceable over an objectively narrow range of potentially infringing acts. Moreover, competitors would know exactly what aspects of the invention to change in order to practice just outside of the claim language, but still make use of the essence of the invention. That would make any patent so affected potentially much less valuable—even worthless in some cases.²¹¹ In his statements on behalf of Festo, Robert H. Bork noted, “[I]f what happened to Festo here and what’s going to happen to other patent holders continues, this case, were it not done by a court, were it done by any other agency, would be a taking under the Constitution.”²¹²

Turning to the analysis in Part IV of this paper, we can see that the Federal Circuit’s *Festo* decision would have been ripe for prospective treatment. The court acknowledged that prior decisions constituting binding precedent were being overruled.²¹³ Under prong one, that strongly suggests that retroactive treatment would undermine patent owner reliance. Additionally, the *Festo* decision would have affected a large number of patents because it changes the rules regarding a common prosecution practice. However, the effect is tempered by the fact that only a part of the patent right, equivalents to the literal claim scope, were being eliminated. Putting it all together in the matrix (*see* Figure 2) shows that prospective treatment of the decision (which necessarily includes the parties in the case) would have been appropriate.

3. *The Supreme Court’s Post-Script: Reliance Interests Take Precedence*

In a move that was predicted by most of those interested in this somewhat technical case, the Supreme Court soundly rejected the Federal Circuit’s “absolute bar” rule, adopting instead a much more

²¹¹ This is essentially the argument Festo made to the Supreme Court. *See, e.g.*, Reply Brief for Petitioner, *Festo*, 2000 U.S. Briefs 1543, at *9 (“In addition to these harms to the system, a massive injustice would be done to the holders of more than a million patents who had freely amended under the current law, confident that the doctrine of equivalents was available unless the amendment surrendered substance, i.e., matter related to novelty, utility, and nonobviousness as set out in Sections 101-103, and then only to that extent. Those patents, under the government’s position as well as SMC’s, would now be rendered virtually worthless by the proposed change in the law.”).

²¹² Transcript of Oral Argument at 48, *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.* (No. 00-1543) (Statement of Counsel for Petitioner, Robert H. Bork).

²¹³ *Festo*, 234 F. 3d at 574-76.

flexible rule creating a rebuttable presumption against equivalents.²¹⁴ The decision, issued in May 2002, is particularly interesting because it bases its reversal on precisely the same reliance interests discussed Part III above as the primary rationale for utilizing prospective decision making.²¹⁵ Essentially, the Supreme Court explicitly recognized the retroactivity problem, but addressed the issue by refraining from significantly altering the law, leaving any such change to the legislature.²¹⁶

Justice Kennedy, writing for a unanimous Court, expressed the opinion that the Federal Circuit's rule was inconsistent with the purposes of the doctrine of file history estoppel, as well as the mandate in the Supreme Court's decision in *Warner-Jenkinson*.²¹⁷ In doing so, he explained why the Federal Circuit decision was inappropriate in terms of its affect on investment-backed expectations:

The Court of Appeals ignored the guidance of *Warner-Jenkinson*, which instructed that courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community. . . . In that case we made it clear that the doctrine of equivalents and the rule of prosecution history estoppel are settled law. The responsibility for changing them rests with Congress *Fundamental alterations in these rules risk destroying the legitimate expectations of inventors in their property.* The petitioner in *Warner-Jenkinson* requested another bright-line rule that would have provided more certainty in determining when estoppel applies but at the cost of disrupting the expectations of countless existing patent holders. We rejected that approach: "*To change so substantially the rules of the game now could very well subvert the various balances the PTO sought to strike when issuing the numerous patents which have not yet expired and which would be affected by our decision.*"²¹⁸

The Court emphasized the harm occurring from retroactive application of the Federal Circuit's rule as a reason for finding the judiciary impotent to make such a significant change.²¹⁹ Instead, the Court adopted a much more flexible approach in which the patentee

²¹⁴ *Festo*, 535 U.S. at 738-41.

²¹⁵ *Id.*

²¹⁶ *Id.*

²¹⁷ *Id.* at 739.

²¹⁸ *Id.* (emphasis added and citations omitted) (quoting *Warner-Jenkinson*, 520 U.S. at 32, n.6).

²¹⁹ *Id.*

bears the burden of showing that the amendment in question does not surrender equivalents, and if that burden is satisfied, equivalents are available for the claimed element.²²⁰ The Court did not discuss the alternative of prospective application, probably because it was not raised by the parties.²²¹ Interestingly, one should note that if the Federal Circuit had chosen to limit their decision to prospective application only, a great deal of the Supreme Court's rationale for reversing would not exist.

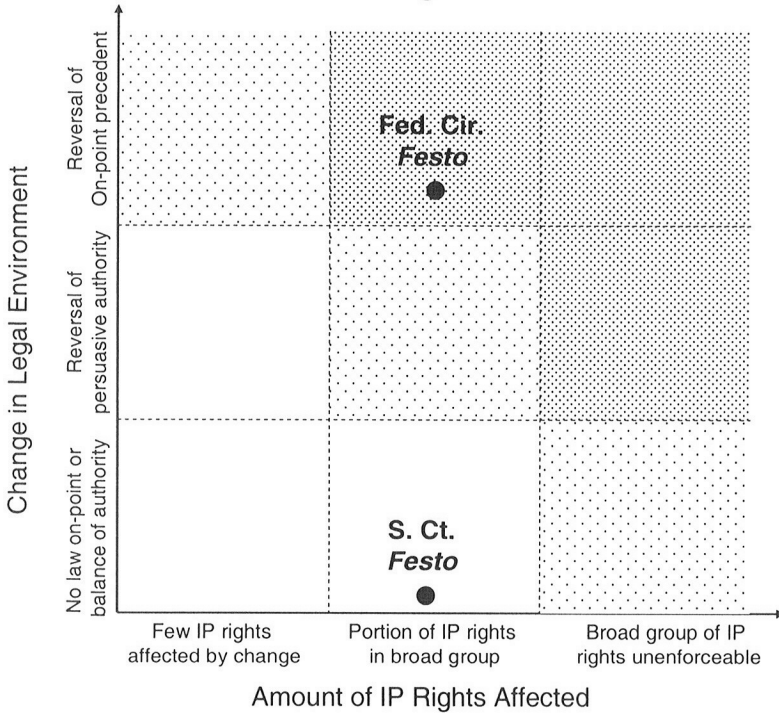
Although the Court held that it was doing nothing more than applying the law of its previous decision in *Warner-Jenkinson*, neither that case nor any subsequent decision explicitly places the burden on the patentee to establish a right to equivalents.²²² Therefore, it can be said that some minor change in the law has resulted, though far smaller than in the Federal Circuit decision. If one adjusts the placement of this decision on the "Change in Legal Environment" side of the matrix (see Figure 2), one can see that the Supreme Court revision of *Festo* is properly retroactive.²²³

²²⁰ *Id.* at 740-41. This was the approach suggested in an amicus brief filed by the United States. *Id.*

²²¹ Five amicus briefs specifically addressed the issue, with four asserting that purely prospective application is mandated and one discounting the idea. However, the Supreme Court has previously indicated that it is unwilling to consider the *Chevron* prospectivity analysis when it has not been raised by the parties below or in their initial briefs regarding the grant of certiorari. *Lexecon Inc. v. Milberg Weiss Bershad Hynes & Lerach*, 523 U.S. 26, 44 n.5 (1998) ("In their brief to this Court, Milberg suggests that any decision rejecting multi-district litigation courts' practice of ruling on § 1404 transfer motions should be applied only prospectively under *Chevron* Because this argument was not presented below . . . or to this Court when Milberg opposed petitioners' petition for certiorari . . . it is unnecessary for us to consider it here.").

²²² Of additional interest is the fact that the Court's test for the range of available equivalents following a narrowing amendment seems to be tied into whether the equivalents were foreseeable at the time the amendment was made. *Festo*, 535 U.S. at 738 ("There is no reason why a narrowing amendment should be deemed to relinquish equivalents unforeseeable at the time of the amendment and beyond a fair interpretation of what was surrendered."). That seems to be very similar to a theory advocated by one Federal Circuit Judge, see *Johnson*, 285 F.3d at 1056-59 (Rader, J., concurring), but criticized by others, see *id.* at 1063-64 (Lourie, J., concurring).

²²³ In an *en banc* decision on remand, the Federal Circuit further refined the supreme Court's ruling in *Festo*. No. 95-1066, 2003 U.S. App. LEXIS 19867, *19-*26 (Fed. Cir. Sep. 26, 2003) (*en banc*). Essentially, the refinements attempt to explain how the test for surrender of equivalents is to be applied rather than adding any new, substantive rules, see *id.*, though it can be argued that the Federal Circuit slightly enlarged the scope of surrender, see *id.* at *48-*52 (Newman, J., dissenting) ("My colleagues now implement the presumption of

Figure 2

surrender in ways that enlarge the surrendered territory, and implement the rebuttal analysis by converting two of the Court's three rebuttal criteria into questions of law and then deciding them, *sua sponte*, without trial or record."). At most, the new decision deserves to be placed only slightly to the right of the Supreme Court *Festo* in Figure 2, but still in the "Retroactive Only" section. Additionally, in a very interestingly concurrence, Judge Rader noted that the constant rule changing and modification can cause uncertainty that affects expectation interests:

[M]uch of the unpredictability of these changes lies in the pace of change. By common law standards, this court's jurisprudence moves at a lightning pace. This pace can engender uncertainty about the consequences of each new rule. . . . With exception added to exception, and presumptions rebutted by still newer presumptions, a practitioner can scarcely predict the scope of claims years in the future, when they are likely to be enforced, let alone the scope of claims drafted a few years ago when amendments did not potentially forfeit claim scope. In other words, the pace of the creation of new rules is itself disrupting the fundamental principle of certainty in the scope of patent claims.

Id. at *42-*44 (Rader, J., concurring). As noted earlier, property rights in general, and intellectual property rights specifically, are especially sensitive to this phenomenon. See *supra* note 66 and accompanying text.

B. Opening the Door for the "Prosecution Laches" Defense in Symbol: Retroactive Revision of Statutory Interpretation?

In the Federal Circuit's recent decision in *Symbol Technologies, Inc. v. Lemelson Medical, Education & Research Foundation*,²²⁴ the court awakened a defense based on the use of a common patent prosecution practice that most in the patent bar thought was long put to rest. Following so quickly on the heels of *Festo*, it demonstrates the retroactivity phenomenon is not merely a single-case issue, but an ongoing concern that must be continually assessed by patent owners.

1. *Factual Background and Decision*

This case involved several patents resulting from applications originally filed by the famous (infamous to some) late inventor, Jerome H. Lemelson in 1954 and 1956.²²⁵ Lemelson is well-known to patent aficionados as the most prominent practitioner of the "submarine patent" – a patent based on an application filed many years before and kept alive by filing "continuation applications"²²⁶ in the PTO until finally issuing with claims drawn to cover the current state of the art. The "submarine" label derives from the fact that U.S. patent applications have historically been kept confidential unless and until

²²⁴ 277 F.3d 1361, *cert. denied*, 537 U.S. 825.

²²⁵ *Id.* at 1364. For the "official" biography of Jerome Lemelson, see http://www.lemelson.org/about/bio_jerry.php (last visited Sept. 3, 2003).

²²⁶ A continuation application occurs when a patent applicant files a new application with the same disclosure but different claims, and claims the benefit of an earlier-filed application. See 35 U.S.C. §§ 120 and 121 (1994). The phrase "continuation application" is generally applied to a situation in which the applicant abandons the earlier-filed application in favor of the continuation, but may be used to describe an application that is co-pending with the earlier-filed application, containing the same disclosure but claims drawn to a different invention (also known as a "divisional.") An applicant can also file an application known as a "continuation-in-part" that adds some new matter to the earlier-filed application and claims priority to it only with regard to the original content. The advantage to filing a series of continuation applications over a period of years has been dramatically reduced with the GATT-induced amendments to the Patent Act in 1995. Pub. L. 103-465, §532, 108 Stat. 4983 (1994). Under those amendments, post-1995 patent applicants could receive a term of no more than twenty years from *filing* the application; thus, an applicant filing continuation after continuation would merely end up reducing the term of the issued patent.

a patent is issued²²⁷; thus, no one is aware of the content of a submarine patent until it “surfaces” when issued.²²⁸ Although Lemelson died in 1997, his patent empire is kept alive by a foundation that maintains and enforces them.²²⁹ The Lemelson patents involved in the *Symbol* case²³⁰ related generally to machine vision and automatic identification technology.

The plaintiffs, a group of companies collectively referred to in the decision as “Symbol” and another company known as “Cognex,” designed, manufactured and sold bar code scanners and related products. After receiving letters from the Lemelson Foundation accusing Symbol and Cognex of infringing various Lemelson patents, the plaintiffs filed independent actions (later consolidated) against the Lemelson Foundation for declaratory judgment that the patents in question were invalid, unenforceable and not infringed. Among the bases for judgment detailed in the Symbol and Cognex’s Complaints was the contention that Lemelson committed prosecution “laches”²³¹ by unduly delaying the issuance of claims based on the 1950s applica-

²²⁷ But note that, as a result of the American Inventors Protection Act of 1999, Pub. L. No. 106-113, 4001-4808, 113 Stat. 1501A-552 to 1501A-591, U.S. applications that will also be filed in other countries are now published after eighteen months. The claims, of course, can be changed during the course of prosecution, so the published application may not entirely reflect the patent that issues (if any does).

²²⁸ See Timothy R. DeWitt, *Does Supreme Court Precedent Sink Submarine Patents?*, 38 IDEA 601, 601 (1998) (“These patents often spend a decade or more as pending applications in the Patent and Trademark Office only to surface as issued patents at the height of commercial viability, wreaking havoc on well established industries.”).

²²⁹ Not surprisingly, due to the Lemelson Foundation’s robust enforcement of Lemelson’s patents against numerous companies across a wide range of industries, organizations have formed to collect and share information on defeating the patents. See, e.g., <http://www.lemelsonpatents.com> (“Because so many companies across the country have received notices of infringement, Competition Law Group, LLC has created this site to provide a clearinghouse for basic information on Lemelson-related litigation and licensing.”).

²³⁰ The patents issuing from Lemelson’s 1950’s applications relate to various areas of laser technology.

²³¹ The classic laches litigation defense is based on the plaintiff’s failure to take action against a defendant for an unreasonable period time, during which the defendant relied on the plaintiff’s conduct and suffered prejudice. *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1028 (Fed. Cir. 1992). It is similar to a detrimental reliance argument in contract law.

tions.²³² The Lemelson Medical, Education & Research Foundation (“Lemelson”) requested dismissal of the case, in part because the prosecution laches defense failed to state a claim upon which relief could be granted.²³³ Although the trial court refused to dismiss the case entirely, it did dismiss the prosecution laches defense.²³⁴

The only issue appealed to the Federal Circuit as a result of the district court’s ruling was the dismissal of the prosecution laches defense. In reviewing the plaintiffs’ arguments, the majority of the three-judge panel noted that the prosecution laches defense had a basis in two Supreme Court decisions from the 1920s, *Woodbridge v. United States*²³⁵ and *Webster Electric Co. v. Splitdorf*,²³⁶ which found that delays of nine and eight years, respectively, were sufficient to establish laches on the part of the patent applicant.²³⁷ The majority affirmed the continued existence of the defense and dismissed Lemelson’s arguments as to why the court might be constrained from doing so, including that the Federal Circuit was bound by earlier, “non-precedential” Federal Circuit decisions rejecting the prosecution laches defense²³⁸ and that the defense was legislatively foreclosed by

²³² *Symbol Techs., Inc. v. Lemelson Med., Educ. & Research Found.*, 277 F.3d 1361, 1363 (Fed. Cir. 2002), *cert. denied*, 537 U.S. 825 (2002); *see also* Symbol’s July 21, 1999 Declaratory Judgment Complaint ¶ 41, *available at* http://www.lemelsonpatents.com/litigation_docs/litigation_docs.htm (“Lemelson unreasonably and inexcusably delayed seeking and obtaining the claims of the Lemelson patents-in-suit with consequent harm to plaintiffs and other members of the public. His unreasonable and inexcusable delays constitute laches and render the patents-in-suit unenforceable.”).

²³³ *See* Fed. R. Civ. P. 12(b)(6).

²³⁴ *Symbol*, 277 F.3d at 1363.

²³⁵ 263 U.S. 50 (1923).

²³⁶ 264 U.S. 463 (1924).

²³⁷ *Symbol*, 277 F.3d at 1364.

²³⁸ This is a very interesting issue that has been the subject of a number of law journal articles since the decision in *Anastasoff v. United States*, 223 F.3d 898 (8th Cir. 2000). *See, e.g.*, Richard Cappalli, *The Common Law’s Case Against Non-Precedential Opinions*, 76 S. CAL. L. REV. 755 (2003); Lauren Robel, *Symposium: The Practice of Precedent: Anastasoff, Noncitation Rules, and the Meaning of Precedent in an Interpretive Community*, 35 IND. L. REV. 399 (2002); Salem M. Katsh & Alex V. Chachkes, *Constitutionality of “No-Citation” Rules*, 3 J. APP. PRAC. & PROCESS 287 (2001). In that case, the Eighth Circuit held that its local rule against citing unpublished, non-precedential decisions was unconstitutional. *Id.* at 904. In *Symbol*, the Federal Circuit clearly rejected that argument, stating, “Courts contribute to the growing imprecision, uncertainty and unpredictability of the law by issuing repetitive opinions on subjects that have been thoroughly irrigated. In our view, ideally once a principle has been established, it is up to the courts thereafter to apply it in cases coming before them and at most to explain

the revisions of the Patent Act of 1952.²³⁹ As to the latter argument, the majority determined that the defense of laches was implicitly incorporated into the infringement defenses detailed into the act.²⁴⁰ Under the majority's view, this included not only laches with respect to filing the litigation, but also laches in prosecuting the patent.²⁴¹ Thus, the majority concluded that even if a patent applicant followed the statutory procedures and administrative rules for obtaining a patent (including meeting the many timing requirements already in the system, such as filing deadlines), the applicant could nonetheless face an equitable claim of delay in prosecuting the claims.²⁴²

2. *Appropriate Retroactive Effect on Existing Patents*

As with *Festo*, the *Symbol* decision quickly raised eyebrows in the patent bar. The complaint is similar: *Symbol* retroactively calls into question a common practice in patent prosecution long believed to be entirely legitimate and proper.²⁴³ As a result, a patent may be rendered unenforceable for "delay" that was explicitly provided for by the patent statute and PTO rules. Many patents now in force could be affected because they were obtained following one or more continuations from an original application. Patent owners who placed value on their patent rights in partial reliance upon the generally-accepted notion that the defense was eliminated with the 1952 revision to the Patent Act were taken by surprise. To add salt to the wound, many patent owners likely shored-up that reliance following two non-precedential Federal Circuit decisions that at least

their decisions to the parties, not to add to the explosion of legal opinions. Accordingly, we decline to consider the nonprecedential cases cited by Lemelson." *Symbol*, 277 F.3d at 1368. The Eighth Circuit decision was eventually vacated as moot, *Anastasoff*, 235 F.3d 1054, 1056 (8th Cir. 2000), thus a true split in the circuits does not exist, reducing the chance that the Supreme Court will weigh in on the issue. However, the circuit courts may themselves be bringing about a change. In November, 2002, the U.S. Judicial Conference's Advisory Committee on Appellate Rules proposed a rule that would allow citation of unpublished decisions in all U.S. circuit courts. See Tony Mauro, *Move Afoot to Allow Attorneys to Cite Unpublished Circuit Court Decisions*, N.Y.L.J., May 23, 2003, at 1. The process of adopting a new rule like this can take over two years. *Id.*

²³⁹ *Symbol*, 277 F.3d at 1365.

²⁴⁰ *Id.* at 1366 (citing Federico, *supra* note 28).

²⁴¹ *Id.*

²⁴² *Id.*

²⁴³ See *id.* at 1368-69 (Newman, J., dissenting).

implied that the court did not view the defense with favor; the court's recent pivot was therefore even more of a shock to those diligent in keeping abreast of the case law in order to accurately value patent portfolios.²⁴⁴

The potential inequity behind the retroactive effect was highlighted by Judge Pauline Newman in her dissent. Judge Newman focused on the statutory foreclosure argument, noting that the drafters of the 1952 Act specifically provided for the procedure of keeping a patent application alive over several years through the continuation process under 35 U.S.C. §§ 120 and 121.²⁴⁵ Echoing the essence of the retroactivity arguments in *Festo*, Judge Newman stated that

It simply adds to the uncertainties of the patent grant, to create a new cause of action whereby routine actions, in full statutory compliance, can years later be challenged as having been done too late or having taken too long.²⁴⁶

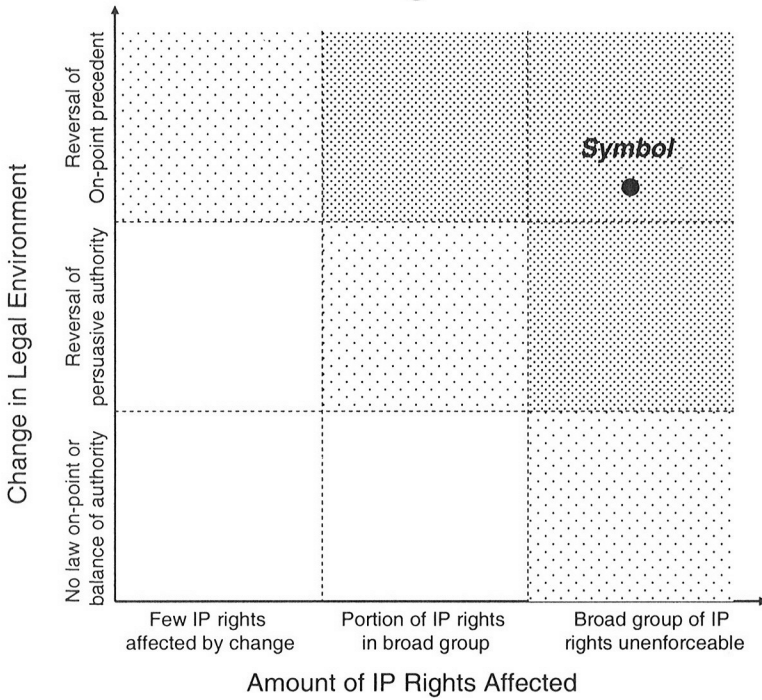
Those added uncertainties can have a real effect on the value of issued patents. As a result of *Symbol*, patent owners must take into account the prosecution laches defense in evaluating the strength of their patent properties, and any potential reduction in value.

Referring to the temporal application analysis in Part IV, we see that the *Symbol* decision is strongly indicated for prospective treatment. The court changed a rule that was not only generally thought to be settled by the enactment of the 1952 Patent Act, but also contravened recent non-precedential opinions by previous Federal Circuit panels. Additionally, if the doctrine of "prosecution laches" becomes a widely used defense, it has the potential to render many patents wholly unenforceable. Using the matrix, we see that *Symbol* falls squarely within the prospective adjudication field (see Figure 3).

²⁴⁴ It may be that *Symbol* is merely the latest incarnation of the old legal saw, "bad facts make bad law." Lemelson's use of continuation practice was so extreme as to become legendary. The fact that patents are still pending based on continuations-in-part of applications filed in the 1950's provides a stunning example of how the pre-GATT patent system could be manipulated by a savvy practitioner.

²⁴⁵ *Id.*

²⁴⁶ *Id.* at 1369.

Figure 3

*C. Johnson's Rules for Claiming What is Detailed in the Specification:
Clarifying a Nominally Simple Rule*

In another recent and heavily-watched case, *Johnson & Johnston Assoc. Inc. v. R.E. Service Co.*,²⁴⁷ the Federal Circuit reviewed the legal rules regarding another patent prosecution-related issue that can ultimately affect claim breadth. Hailed by many as the latest “nail in

²⁴⁷ 285 F.3d 1046 (Fed. Cir. 2002).

the coffin" of the Doctrine of Equivalents,²⁴⁸ the case caused as much concern for what it is perceived to say about the court's attitude toward the Doctrine than its retroactive effect. However, the case may force many patent owners to reevaluate the scope of their patents which have long since passed out of prosecution.

1. *Factual Background and Decision*

The case concerned Johnson & Johnston Associates, Inc.'s ("Johnson") patent related to the manufacture of printed circuit boards.²⁴⁹ Johnson's invention-at-issue was a circuit board assembly that included a metal substrate which attaches to etched copper circuits to prevent damage that can be caused by worker handling. Johnson brought an action against R.E. Service Co., Inc ("RES") for infringement of the patent by manufacturing copper circuits with a stainless steel substrate and claimed damages in excess of \$1 million. Following a trial, a jury found RES guilty of infringement under the Doctrine of Equivalents²⁵⁰ and awarded Johnson \$1,138,764 in damages.²⁵¹ The judge increased the award to \$2,957,342 as a consequence of the jury's finding that the infringement was willful.²⁵²

RES appealed the judgment on a question of claim scope and interpretation. The main issue was Johnson's ability to claim certain materials as equivalents based on the wording of its claim language in view of the specification. Although the specification²⁵³ in Johnson's patent referred to several materials as options for the substrate, including aluminum as the preferred metal as well as stainless steel and nickel alloys, the claims of the patent mentioned only the use of aluminum. RES claimed that Johnson's mention of several substrate options in the specification without including them in the literal scope

²⁴⁸ See, e.g., Brenda Sandburg, *Ruling is "Nail in Coffin" of Doctrine of Equivalents*, THE RECORDER, April 3, 2002; but see the Supreme Court's ruling in *Festo*, *supra* Part V.A.3, as an example of a limitation on the Federal Circuit's alleged attack on equivalents.

²⁴⁹ U.S. Pat. No. 5,153,050 (issued Oct. 6, 1992).

²⁵⁰ See *supra* notes 196-97 and accompanying text.

²⁵¹ *Johnson*, 285 F.3d at 1048.

²⁵² 1998 U.S. Dist. LEXIS 20235 at *5.

²⁵³ Technically, the patent specification includes the claims in addition to sections as the Background of the Invention, Summary of Invention and Detailed Description of the Invention. See 35 U.S.C. § 112 (1994). However, most people think of the claims as a separate feature, and it is probably simpler to do so.

of the claims worked to dedicate that material to the public under long-standing patent law doctrine.²⁵⁴ Johnson would therefore be prevented from including the dedicated material within scope of the invention under the Doctrine of Equivalents.²⁵⁵ If RES's argument were adopted, Johnson's patent could not cover RES's use of a stainless steel substrate in place of the claimed aluminum.

The Federal Circuit took the case *en banc*, in part, because it recognized that the resolution to the issue on appeal depended on the adoption of one of two lines of arguably divergent Federal Circuit precedent. The position propounded by RES was reflected in the 1996 case, *Maxwell v. J. Baker, Inc.*, wherein the Federal Circuit refused to find as equivalent an iteration of a fastening system for shoes that was stated in the specification but not claimed.²⁵⁶ Johnson's position was reflected by the 1998 case, *YBM Magnex, Inc. v. Int'l Trade Comm'n*,²⁵⁷ in which the court held that the *Maxwell* decision did not create an absolute rule against finding equivalents in a disclosed-but-not-claimed scenario,²⁵⁸ and proceeded to reinstate a finding of infringement under the doctrine of equivalents in exactly that instance.²⁵⁹

The *Johnson* court essentially adopted the *Maxwell* precedent and overruled the *YBM* case law.²⁶⁰ In doing so, the court focused on the importance of being able to rely on the claims of a patent as defining the invention and giving notice to the world. The court held that allowing a patentee to claim through the doctrine of equivalents that which he or she "deliberately left unclaimed" would "conflict with the primacy of the claims in defining the scope of the patentee's exclusive

²⁵⁴ *Johnson*, 285 F.3d at 1050. See *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1106 (Fed. Cir. 1996) (noting the well-established rule that "subject matter disclosed but not claimed in a patent application is dedicated to the public" and finding that the rule "applies equally to prevent a finding of infringement under the doctrine of equivalents" (quoting *Unique Concepts, Inc. v. Brown*, 939 F.2d 1558, 1562-63 (Fed. Cir. 1991))).

²⁵⁵ *Johnson*, 285 F.3d at 1050.

²⁵⁶ *Maxwell*, 86 F.3d at 1108.

²⁵⁷ 145 F.3d 1317 (Fed. Cir. 1998).

²⁵⁸ *Id.* at 1321. The court distinguished *Maxwell*, stating that its rule applied to cases in which a patent discloses an unclaimed alternative distinct from the claimed invention. *Id.* at 1320.

²⁵⁹ *Id.* at 1322.

²⁶⁰ *Johnson*, 285 F.3d at 1055.

right.”²⁶¹ In the court’s view, it could allow a patentee to narrowly claim the invention to avoid scrutiny during prosecution in the PTO, only to recapture it in litigation.²⁶² The judgment in favor of Johnson was wholly reversed.²⁶³

2. *Appropriate Retroactive Effect on Existing Patents*

Most dramatic about the *Johnson* decision is its rather strict rule prohibiting the capture of subject matter disclosed in the specification but not claimed. According to a singular and vociferous dissenting opinion written by Judge Newman,²⁶⁴ the majority’s “new rule” was an unnecessary exercise of judicial power.²⁶⁵ Judge Newman believed that the case could have been resolved within the framework of both *YBM* and *Maxwell*, and she voiced concern that patent owners would now have a significantly lowered incentive to disclose helpful information in the specification:

The public interest in fostering innovation and technological advance is not served by a judicial decision that imposes legal obstacles to the disclosure of scientific and technological information. Information dissemination is a critical purpose of the patent system. By penalizing the inclusion of information in the specification the patent becomes less useful as a source of knowledge, and a more guarded legal contract.²⁶⁶

Although Judge Newman cited several sources to support her argument that the majority’s decision was economically unsound, she did not specifically note the retroactive economic effects on issued patents. It is, however, possible to consider at least one. One could argue that some patent applicants drafted their disclosures with an eye toward the *YBM* decision, believing that a more inclusive disclo-

²⁶¹ *Id.* at 1054 (quoting *Sage Prods. Inc. v. Devon Indus., Inc.*, 126 F.3d 1420, 1424 (Fed. Cir. 1997)).

²⁶² *Id.* The court also noted that patentees who inadvertently leave some piece of the invention out of the claims have the ability to attempt to add it in later through a reissue procedure. *Id.* at 1055.

²⁶³ *Id.*

²⁶⁴ It should be noted that Judge Newman authored the opinion in *YBM* which was effectively overruled by *Johnson*.

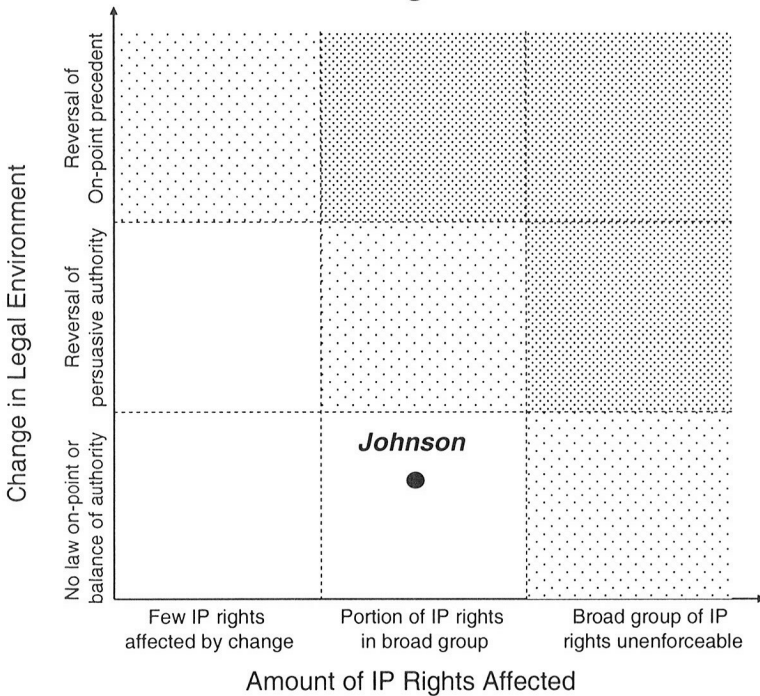
²⁶⁵ *Id.* at 1064.

²⁶⁶ *Id.* at 1071.

sure would better support the enablement and written description requirements. Those applicants, one might contend, expected that the disclosure would not disenfranchise them of disclosed equivalents as long as those equivalents fit within the constraints of the *YBM* decision.

Turning to the analysis of future application in Part IV, we see that the *Johnson* decision is probably best applied retroactively. The prior rule supporting the appellant's contention was less than clear, depending merely on one case that stood in the face of prior precedent. Moreover, although the case could affect a broad class of patents, it only regards claim equivalents. Therefore, using the matrix (Figure 4), we see that *Johnson* falls within a field indicating retroactive application.

Figure 4



VI. CONCLUSION

The concern over the retroactivity of judicial determination has waned in recent years in view of a significant shift in the attitude of the Supreme Court. However, from an economic and social perspective, the issue is as important today as ever. Particular categories of property rights may provide the incentive to test the continued viability of prospective judicial decision making and preserve the useful remnants of the doctrine articulated in *Chevron*. Intellectual property interests present an exceptional opportunity for prospective decision making because they present special retroactivity problems due to the connection between enforceability and value and the fact that the case law makes this form of property more susceptible to changes in judicially-created rules. The courts should give increased consideration to the prospective application of its rules in certain circumstances by creating a more workable and specific version of the *Chevron* test for intellectual property interests.