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Supreme Court v. Federal Circuit (2014)

By Ben M. Davidson

On Wednesday, in *Medtronic Inc. v. Mirowski Family Ventures LLC*, the U.S. Supreme Court unanimously reversed the U.S. Court of Appeals for the Federal Circuit in a declaratory judgment case brought by Medtronic to challenge the validity of a patent on which it was paying licensing royalties. The Federal Circuit had held that Medtronic, as the licensee, had the burden of proving its products did not infringe the licensed patent. But the Supreme Court disagreed, holding that the burden of proving infringement always remains on the patentee. The court rejected the argument that public policy requires shielding patent owners from the burdens of litigation brought by their licensees. The public, the Supreme Court explained, has a "paramount interest in seeing that patent monopolies … are kept within their legitimate scope," and licensees are sometimes the only people with enough economic incentive to rein in these monopolies.

Medtronic is the latest signal from the Supreme Court that it will take a more active role in patent cases. In the fast four months alone, the Supreme Court has agreed to take up five cases from the Federal Circuit. Last October, in *Octane Fitness LLC v. ICON Health & Fitness Inc.*, the court agreed to review the Federal Circuit's rigid test for finding a case "exceptional" enough to award attorney fees to prevailing defendants. This test is tough to meet. It requires proof that the patent owner filed suit in bad faith and that no reasonable litigant in its shoes could have thought it could win. In a companion case, *Highmark v. Allcare Health Management Systems*, the court will review the Federal Circuit's practice of readily setting aside attorney fee awards in frivolous cases without deferring to the findings of trial judges who found these awards justified.

On Dec. 6, 2013, in *Alice Corp. v. CLS Bank*, the Supreme Court agreed to take up the question of whether computer-implemented inventions are directed to patent-eligible subject matter under 5 U.S.C. Section 101. The court was widely expected to review this case because the Federal Circuit was deadlocked on how to apply the Supreme Court's recent precedent on subject-matter eligibility to software patents.

Most recently, on Jan. 10, the court agreed to review *Nautilus v. Biosig,* which involves the Federal Circuit's rigid rule on what it takes to invalidate claims as "indefinite." The rule upholds ambiguous claims with multiple reasonable interpretations so long as a court is able to finally arrive at a construction — even one that was not advanced by either side in the lawsuit. In another case, *Limelight Networks Inc. v. Akamai Technologies*, the court agreed to review the Federal Circuit's recent ruling that one can be liable for inducing infringement of a method claim when nobody has directly infringed that claim by performing each of its steps.

The Supreme Court did not always take such an active role in reshaping patent law. For 20 years after Congress formed the Federal Circuit — from 1982 to 2002 — the court let the Federal Circuit have the final word on all but 10 of its patent cases. In that early period, even where it agreed to take on a Federal Circuit case, the court tried to use a light touch. In its 1997 *Warner Jenkinson Co. v. Hilton Davis Chemical Co.* decision on the doctrine of equivalents, the court pointedly refused to "micro-manag[e]" the Federal Circuit's future development of the doctrine, preferring to leave necessary refinements to the Federal Circuit's "sound judgment in this area of its special expertise."

Those days of trying to defer to the Federal Circuit eventually ended. Since 2002, the Supreme Court has reviewed 19 Federal Circuit patent cases, reversing or vacating the decisions in 12 of them and rejecting the court's rules for reaching its decisions in several others. The quarrel between the Supreme Court and the Federal Circuit is rooted in their different perspectives on the patent system. Many Federal Circuit judges are former patent lawyers who believe in the value of patents and in a strong patent system. Judge Richard Linn, who wrote the *Medtronic* decision, was an accomplished patent lawyer for many years before being appointed to the court. The Federal Circuit itself is a pro patent court. Congress created the court in 1982 for the express purpose of strengthening the patent system and fostering innovation by providing predictable and uniform rulings in this area. To carry out its mission, the Federal Circuit often adopts bright-line rules to make it easier to enforce patents with predictable outcomes. The Supreme Court dislikes these rules, and, particularly in the last few years, as in *Medtronic*, it does not share the Federal Circuit's preoccupation with maintaining a strong patent system.

A growing rift between the courts first came to light in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, a 2002 case in which the Supreme Court rejected the Federal Circuit's rigid prosecution history estoppel rule. The Federal Circuit wanted to make the doctrine of equivalents much more predictable by eliminating it completely for any claim feature that had been amended. The Supreme Court found the rule unsupported and required a flexible, case-by-case analysis of the equivalents that an inventor gave up by amending his claims.

Four years later, in *eBay v. MercExchange*, the Supreme Court rejected the Federal Circuit's "categorical rule" that a victorious patentee should automatically be granted a permanent injunction against infringement. In requiring a case-by-case approach in *eBay*, the Supreme Court, unlike the Federal Circuit, expressed alarm at how the automatic-injunction rule was being abused by patent trolls to extract huge licensing fees.

The following year, in *KSR v. Teleflex*, the Supreme Court rejected the Federal Circuit's "[r]igid preventative rule[]" for determining obviousness. This rule required proof of some "teaching, suggestion, or motivation" in the prior art for combining prior art elements. This led to predictable results, but it also made it harder to invalidate obvious patents. During oral argument in *KSR*, Justice Antonin Scalia expressed frustration that the Federal Circuit had approved the patenting of a simple automobile gas pedal patent that "look[ed] pretty obvious" even to him.

The trend continued in the Supreme Court's examination of the subject matter that the Federal Circuit was allowing to be patented. In *Bilski v. Kappos*, the Federal Circuit had held that the "sole test" for determining patent-eligibility should be whether a process is tied to a particular machine or transforms an article into something different. Once again, the Supreme Court reversed, holding that this test could only serve as a "useful clue" in a more searching (and less predictable) analysis. But the Supreme Court's guidance in *Bilski* did not help the Federal Circuit later that year in *Mayo Collaborative Services v. Prometheus*. There, the Federal Circuit held that a method of administering a therapeutically effective amount of a drug to a patient was eligible for patenting. The Supreme Court reversed again, explaining that the patent owner had to do more than identify a law of nature (a therapeutically effective amount) and say "apply it." Later that year, in *Association for Molecular Pathology v. Myriad Genetics*, the Supreme Court reversed the Federal Circuit yet again, this time holding that isolated human DNA can never be patented because it is a naturally-occurring product of nature. Unlike the Federal Circuit majority — which focused on the policy of strengthening the patent system — the Supreme Court was not persuaded that the extraordinary skill required to isolate DNA creates a "new chemical entity" that is deserving of patent protection.

In its current term, the Supreme Court will continue to set a different course for how the Federal Circuit should decide patent cases. In the cases it has agreed to review, the court will likely make it easier to invalidate ambiguous patents, throw further doubt on the patent-eligibility of software innovations, and lower the bar for obtaining attorney fees against losing plaintiffs. The court's heightened interest in patent law may frustrate the Federal Circuit's desire to set its own rules in an area of its expertise. But companies who have been facing threats of patent infringement litigation aren't complaining.


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