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TWO SIDES TO THE LENS: U.S. SUPREME COURT AND FEDERAL CIRCUIT TAKE DIFFERENT VIEWS?

Has justice become blinded to fundamental differences between the way patent law is interpreted by the U.S. Supreme Court and the Federal Circuit? Former Federal Circuit Chief Judge Paul Michel may have been alluding to this phenomenon in late March when he observed: "It seems to me that the Federal Circuit is absolutely terrified [of the Supreme Court]. . . . I think they're going to bend over backwards to not look like they're bucking the Supreme Court."[1]

In light of a decade of patent law-making Supreme Court opinions reversing Federal Circuit decisions, Judge Michel's comments require patent practitioners to give serious consideration to, "How did we get here?" and "How do we adapt?"

The Federal Circuit's "Charge"

Before the Federal Circuit was created, studies showed that a lack of uniformity in patent laws was impeding technological innovation.[2] In response, the Federal Circuit was established to impose consistency on patent law and to restore incentives for technological innovation.[3] The court was not designed to be a "specialty court," but rather one with a varied docket spanning a broad range of legal issues.[4] Over time, Federal Circuit decisions have supplied the desired consistency to patent law, resulting in enhanced technological innovation.

The Federal Circuit and the Supreme Court

However, the Federal Circuit's recent record in the Supreme Court has not been enviable. The Supreme Court has been overturning Federal Circuit rules it deems "rigid," or "categorical." Consider these cases where the Supreme Court reversed Federal Circuit decisions:

eBay Inc. v. MercExchange, L.L.C.[5] In reversing a district court's order denying a motion for permanent injunction, the Federal Circuit said, "[T]he general rule is that a permanent injunction will issue once infringement and validity have been adjudged."[6] A unanimous Supreme Court soon

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1 Paul Michel, Chief Judge, Federal Circuit Court of Appeals (Ret'd), Speech to American Bar Association Section of Intellectual Property Law Conference (March 26, 2015), *quoted in* Ryan Davis, *'Terrified' Fed. Cir. Will Follow High Court, Michel Says*, IPLaw360, March 26, 2015.
2 UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, A HISTORY: 1990 – 2002 at 10 (Compiled by Members of the Advisory Council to the U.S. Court of Appeals for the Federal Circuit) (2002).
3 *Id.* at 12.
4 *Id.* at 13-14; See *28* U.S.C. § 1295(a)(4)(C).
5 547 U.S. 388 (2006).
6 *eBay Inc. v. MercExchange, L.L.C.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005), *vacated and remanded*, 547 U.S. 388, 394 (2006).

rejected the "general rule" and reversed the Federal Circuit, saying principles of equity apply "in patent disputes no less than in other cases governed by such standards."[7] In a concurring opinion, Justice Kennedy warned against resorting to "categorical rules."[8]

"We begin by rejecting the rigid approach of the Court of Appeals."

KSR Int'l Co. v. Teleflex, Inc.[9] The Federal Circuit reversed a district court's grant of summary judgment of obviousness, saying it had not been strict enough in applying the TSM ("teaching, suggestion, or motivation") test.[10] The Supreme Court unanimously reversed the Federal Circuit: "We begin by rejecting the rigid approach of the Court of Appeals. Throughout this Court's engagement with the question of obviousness, our cases have set forth an expansive and flexible approach inconsistent with the way the Court of Appeals applied its TSM test here."[11]

Octane Fitness, LLC v. Icon Health & Fitness, Inc. [12] Again easing a "rigid" Federal Circuit standard, the Supreme Court in *Icon* rejected the Federal Circuit's "exceptional case" standard. Reversing Federal Circuit precedent, the Court said "an 'exceptional' case is simply *one that stands out from others* with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated."[13] Calling out the Federal Circuit, the Court observed that, "In 2005, however, the Federal Circuit abandoned that holistic, equitable approach [consider the totality of the circumstances] in favor of a more rigid and mechanical formulation."[14] Following *Icon,* in *Highmark* the Court decided a district court's determination of whether a case is exceptional is reviewed on appeal for abuse of discretion.[15]

"[T]he Federal Circuit's analysis fundamentally misunderstands what it means to infringe a method patent ..."

Limelight Networks, Inc. v. Akamai Techs., Inc.[16] In *Akamai*, the Supreme Court curtly rejected the Federal Circuit's analysis in a controversial method patent infringement decision. After saying "[t]he Federal Circuit's analysis fundamentally misunderstands what it means to infringe a method patent,"[17] a unanimous Court reversed the CAFC's *en banc* opinion in *Akamai Techs., Inc. v. Limelight Networks, Inc.*[18] "Assuming without deciding that the Federal Circuit's holding in *Muniauction* is correct, there has simply been no infringement of the method [patent in suit], because the performance of all the patent's steps is not attributable to any one person." [19]

7 *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).
8 *Id.* at 395 (J. Kennedy, concurring).
9 *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007).
10 *Id.* at 413-14.
11 *Id.* at 415.
12 *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, ____ U.S. ____, 134 S.Ct. 1749 (2014).
13 *Id.* at 1756.
14 *Id.* at 1754.
15 *Highmark Inc. v. Allcare Health Management System, Inc.*, ____ U.S. ____, 134 S.Ct. 1744, 1748, 1749 (2014). ("Our opinion in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, rejects the *Brooks Furniture* framework as unduly rigid and inconsistent with the text of § 285.")
16 *Limelight Networks, Inc. v. Akamai Techs., Inc.*, ____U.S. __, 134 S.Ct. 2111, 2117 (2014).
17 *Id.* at 2117.
18 *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301 (Fed. Cir. 2012), *reversed and remanded, Limelight Networks, Inc. v. Akamai Techs., Inc.*, ____U.S. __, 134 S.Ct. 2111 (2014).
19 *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S.Ct. at 2117.

"We hold that the appellate court must apply a 'clear error,' not *de novo*, standard of review."

Nautilus, Inc. v. Biosig Instruments, Inc.[20] In *Nautilus*, a unanimous Supreme Court rejected the Federal Circuit's "insolubly ambiguous" test for the determination of indefiniteness, saying it "tolerates some ambiguous claims but not others," and "does not satisfy the statute's definiteness requirement."[21] In place of the Federal Circuit's "incapable of construction" and "insolubly ambiguous" standard, the Court adopted a "reasonable certainty" standard, holding that, "a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with *reasonable certainty*, those skilled in the art about the scope of the invention."[22]

On remand, the Federal Circuit had its own pithy response to the Supreme Court: "The Court has accordingly modified the standard by which lower courts examine allegedly ambiguous claims; we may now steer by the bright star of 'reasonable certainty,' rather than the unreliable compass of 'insoluble ambiguity.'"[23]

Teva Pharmaceutical USA, Inc. v. Sandoz, Inc.[24] In *Teva,* the Supreme Court vacated a Federal Circuit opinion and rejected long-standing Federal Circuit standard for appellate review of factual determinations underlying a district court's claim construction ruling.[25] "We hold that the appellate court must apply a 'clear error,' not *de novo,* standard of review."[26] In its opinion, the Court directly addressed the Federal Circuit.[27]

"It's a terrible situation from the standpoint of the overall system. . . . Other than the unlikely event that Congress rides to the rescue, I don't know how we're going to get out of this trap."

Alice Corp. Pty. Ltd. v. CLS Bank Int'l[28] In *Alice,* the Court *unanimously affirmed* a controversial Federal Circuit *per curiam* opinion regarding patent-eligible subject matter under 35 U.S.C. §101 which was entered by the court *en banc*.[29] The Supreme Court "[He]ld that the claims at issue are drawn to the abstract idea of intermediated settlement, and that merely requiring generic computer implementation fails to transform that abstract idea into a patent-eligible invention."[30]

Was it fear of yet another Supreme Court rebuff that guided the Federal Circuit in *Alice*? Characterizing the Supreme Court's *Alice* decision as "impenetrable and unpredictable," Judge Michel said, "It's a terrible situation from the standpoint of the overall system. . . . Other than the unlikely event that Congress rides to the rescue, I don't know how we're going to get out of this trap."[31]

20 *Nautilus, Inc. v. Biosig Instruments, Inc.*, ___ U.S. ___, 134 S.Ct. 2120, 2124, 2129 (2104) (emphasis added).
21 *Nautilus, Inc.*, 134 S.Ct. at 2124.
22 *Id.* at 2124, 2129 (emphasis added).
23 *Biogsig Instruments, Inc. v. Nautilus, Inc.*, No. 2012-1289, slip op. at 9 (Fed. Cir. April 27, 2015 (maintaining reversal of district court on remand from Supreme Court and remanding).
24 ___ U.S. ___, 135 S.Ct. 831 (2014).
25 *Id.*
26 *Id.* at 835.
27 *Id.* at 839 (e.g. "Finally, the Circuit feared that 'clear error' review would bring about less uniformity." "At the same time, the Federal Circuit's efforts to treat factual findings and legal conclusions similarly have brought with them their own complexities.")
28 *Alice Corp. Pty. Ltd. v. CLS Bank International,* ___ U.S. ___, 134 S.Ct. 2347 (2014).
29 *Id.* at 2352.
30 *Id.*
31 Paul Michel, Chief Judge, Federal Circuit Court of Appeals (Ret'd), Speech to American Bar Association Section of Intellectual Property Law Conference (March 26, 2015), *quoted in* Ryan Davis, *'Terrified' Fed. Cir. Will Follow High Court, Michel Says,* IPLaw360, March 26, 2015.

Sources of the Disconnect?

Three possible bases for understanding the obvious disconnect between the Federal Circuit and the Supreme Court need to be considered:

First, consider the **educational perspective** brought to bear by members of the two courts. Compare the educational backgrounds of the justices and judges:

> **Supreme Court:** Chief Justice Roberts (A.B. Harvard, history); Justice Scalia (B.A. Georgetown, history); Justice Kennedy (B.A. Stanford, political science); Justice Thomas (B.A. Holy Cross, English literature); Justice Ginsburg (A.B. Cornell, government); Justice Breyer (A.B. Stanford, philosophy; B.A. Oxford); Justice Alito (A.B. Princeton); Justice Sotomayor (B.A. Princeton, history); Justice Kagan (A.B. Princeton, history; M.Phil. Oxford)
>
> **Federal Circuit:** Chief Judge Prost (B.S. Cornell; M.B.A. George Washington); Judge Newman (B.A. Vassar; M.A. Columbia; Ph.D. Yale, chemistry); Senior Judge Mayor (B.S. U.S. Military Academy); Senior Judge Plager (A.B. North Carolina); Judge Lourie (A.B. Harvard; M.S. Wisconsin; PhD. Penn., chemistry); Senior Judge Clevenger (B.A. Yale); Senior Judge Schall (Princeton, B.A.); Senior Judge Bryson (A.B. Harvard); Senior Judge Linn (B.E.E. Rensselaer Polytechnic Inst.); Judge Dyk (A.B. Harvard); Judge Moore (B.S., M.S. MIT, electrical engineering); Judge O'Malley (A.B. Kenyon, history and economics); Judge Reyna (B.A. Rochester); Judge Wallach (B.A. Arizona); Judge Taranto (B.A. Pomona, mathematics); Judge Chen (B.S. UCLA, electrical engineering); Judge Hughes (A.B. Harvard; M.A. Duke, English)

The varied technical background of the Federal Circuit as opposed to the strong liberal arts perspective of the Supreme Court justices is self-evident.

The varied technical background of the Federal Circuit as opposed to the strong liberal arts perspective of the Supreme Court justices is self-evident. Given this difference, the Federal Circuit's penchant for more readily understood – and quantified – "bright-line" rules may stem from the technical orientation of the bolus of members of that court, while the Supreme Court appears to be much more comfortable with a flexible, and consequently more ambiguous, approach to the law.

"Certainty is not the test of certainty. We have been cock-sure of many things that were not so."

Second, the **philosophical background** of the two courts merits thought. Setting aside political leanings, the Supreme Court has a storied history steeped in the philosophy of the law. Justice Oliver Wendell Holmes, a noted legal philosopher, expressly rejected legal formalism:

> The danger of which I speak is . . . the notion that a given system, ours, for instance, can be worked out like mathematics from some general axioms of conduct. . . . But certainty generally is illusion, and repose is not the destiny of man. Behind the logical form lies a judgment as to the relative worth and importance of competing legislative grounds, often an inarticulate and unconscious judg-

> ment, it is true, and yet the very root and nerve of the whole proceeding.[32]

In a similar vein, Holmes once said: "Certainty is not the test of certainty. We have been cock-sure of many things that were not so."[33]

Benjamin Cardozo, another Justice and noted legal philosopher, once observed, "I have grown to see that the process in its highest reaches is not discovery but creation; and that the doubts and misgivings, the hopes and fears, are part of the travail of mind, the pangs of death and the pangs of birth, in which principles that have served their day expire, and new principles are born."[34]

From this philosophical perspective, it is reasonable to project why the Supreme Court has been adopted a jaundiced view of "bright-line" rules which, while they lend consistency to the law, may be characterized as "rigid" and "categorical."

From this philosophical perspective, it is reasonable to project why the Supreme Court has been adopted a jaundiced view of "bright-line" rules which, while they lend consistency to the law, may be characterized as "rigid" and "categorical."

Finally, the **nature of the patent right** is important. The Supreme Court may be intentionally taking a broader view of patent rights than the Federal Circuit to preserve the public's rights and interests, as well as the patent holder's position. Undoubtedly, the Federal Circuit recognizes that the exclusive patent right granted to the patentee "is the reward stipulated for the advantages for the exertions of the individual, and is intended as a stimulus to those exertions."[35]

Based on a long line of Supreme Court precedent, the public has a constitutionally protected interest in patent grants as well. In every patent grant, there are "two interests involved, that of the public, who are the grantors, and that of the patentee."[36] The exclusive right granted to inventors was "never designed for their exclusive benefit or advantage."[37] In fact, "[T]he benefit to the public or community at large was another and doubtless the primary object in granting and securing that [patent] monopoly."[38]

Thus, from the Supreme Court's perspective, "The aim of the patent laws is not only that members of the public shall be free to manufacture the product or employ the process disclosed by the expired patent, but also that the consuming public at large shall receive the benefits of the unrestricted exploitation, by others, of its disclosures."[39]

Conclusions

Against this conflicting-decisions backdrop, what should patent owners and practitioners do?

32 Oliver Wendell Holmes, Jr., *The Path of the Law,* 10 Harv. L.R. 457, 465-66 (1897).
33 Oliver Wendell Holmes, Jr., *Natural Law,* 32 Harv. L.R. 40 (1918-19).
34 Benjamin N. Cardozo, The Nature of the Judicial Process, The Storrs Lectures at Yale University (1921).
35 *Grant v. Raymond*, 31 U.S. 218, 241- 242 (1832).
36 *Butterworth v. Hoe*, 112 U.S. 50, 59 (1884).
37 *Kendall v. Winsor*, 62 U.S. 322, 327 (1858); *Graham v. John Deere Co.*, 383 U.S. 1, 9 (1965) ("The patent monopoly was not designed to secure to the inventor his natural right in his discoveries. Rather, it was a reward, an inducement, to bring forth new knowledge.") (discussing Jefferson's philosophy regarding patents).
38 *Kendall,* 62 U.S. at 328.
39 *Scott Paper Co. v. Marcalus Co.*, 326 U.S. 249, 255 (1945). *See Anderson's Black Rock v. Pavement Salvage Co.*, 396 U.S. 57 (1969) (recognizing that the public benefit requirement is constitutionally based).

First, know your audience. What works in the Federal Circuit may meet resistance in the Supreme Court. Build your strategy based on your short- or long-term outcomes' goals.

Second, welcome flexibility. It's here to stay. Fashion claiming and litigation strategies that can adapt to a fluid legal landscape.

Third, advocate for legislative and jurisprudential change that embodies flexible rules and standards that, while they allow for consistent patent laws, also allow for progressive change. It's a tall order, but the patent bar is up to it.

ABOUT SHOOK

Shook, Hardy & Bacon offers expert, efficient and innovative representation to our clients. We know that the successful resolution of intellectual property issues requires a comprehensive strategy developed in partnership with our clients.