

The Next Supreme Court Cases To Shape Patent Law

Law360, New York (January 01, 2014, 3:16 PM ET) -- The U.S. Supreme Court's patent docket has continued its steady rise over the past few terms. The court last term decided *Association for Molecular Pathology v. Myriad Genetics Inc.* (naturally occurring DNA patent-ineligible) and *Bowman v. Monsanto Co.* (exhaustion inapplicable to reproduction of patented seed), and recently heard argument in *Medtronic Inc. v. Boston Scientific Corp.* over the burden of proof in a patent licensee's declaratory judgment action. The court has two more patent cases on its docket involving attorney fees, and recently granted certiorari in an important patentability case, *Alice Corp. v. CLS Bank International*.

These and several other cases bubbling up from the Federal Circuit could provide the Supreme Court and the en banc Federal Circuit a chance to dramatically reshape patent law on critical issues of patentability, infringement and procedure. In addition, the new America Invents Act presents a host of potentially thorny and interesting legal questions.

Patentability

The Federal Circuit has continued to struggle with a framework for analyzing patent-eligibility under 35 U.S.C. § 101 — particularly in the field of computer software — and the Supreme Court in *Alice* has again waded into the issue.

Alice involves patents that claim the performance of escrow on a computer. Commentators expected the en banc Federal Circuit to clarify the standards for patentability of computer software. But instead it merely affirmed the district court in a per curiam decision that said nothing besides *Alice*'s method, system, and medium claims were patent-ineligible. On the standards for determining patentability, five separate opinions each failed to command a majority.

The plurality opinion concluded that all the claims were ineligible because they merely recited the "abstract idea" of a "form of escrow"; two judges would have found only the system claims eligible as directed to a "machine" with specific functions; and three judges would have held that all of the claims recited patent-eligible subject matter. While a strong majority agreed that the claims should rise or fall together, the court could not agree on whether they were eligible at all. In addition to his opinion, Chief Judge Randall Rader offered "additional reflections" criticizing the court's divergence from statutory language, and since has called the en banc *Alice* decision the "greatest failure in [his] judicial career."

The Supreme Court also has several opportunities to clarify the standard for "obviousness" under 35 U.S.C. § 103. In *Graham v. John Deere Co. of Kansas City*, the court interpreted the statute to require factual inquiries like the "scope and content of the prior art," "differences between the prior art and the claims," the "level of ordinary skill in the pertinent art," and other "secondary considerations." Pending

cert petitions in *Soverain Software LLC v. Newegg Inc.* and *Metso Minerals Inc. v. Powerscreen International Distribution Ltd.*, now present the question whether obviousness is a pure question of law, subject to judicial resolution even where there are material factual disputes.

And there is *Novo Nordisk A/S v. Caraco Pharmaceutical Laboratories Ltd.*, which has already been to the Supreme Court once. The Federal Circuit recently denied en banc rehearing on the question whether a patent for an unexpected drug combination may be invalidated as obvious without considering the most relevant (and often highly technical) prior art. The case involves the fundamental risk of hindsight bias, which taints the obviousness analysis.

Infringement

The Supreme Court is poised to consider several issues relevant to the standards for infringement in two pending cases.

The solicitor general recently urged review in *Akamai Technologies Inc. v. Limelight Networks Inc.* That case is before the court on cross-petitions for certiorari from the Federal Circuit's 6-5 en banc decision, which held that induced infringement under 35 U.S.C. § 271(b) requires that all steps of a claimed method be performed, but not necessarily by the same entity. The court is asked to decide whether the defendant may be liable either for direct or induced infringement when it has performed only some steps of a method claim, but induced others to commit the remaining steps.

The Supreme Court also called for the solicitor general's views in a second case — *Maersk Drilling USA Inc. v. Transocean Offshore Deepwater Drilling Inc.* — involving the extraterritorial application of U.S. patent law. Maersk offered, negotiated and agreed in Scandinavia to provide a Norwegian company with oil services that Transocean claims infringed a U.S. patent. But when the rig was brought into U.S. waters, the rig was modified so that it did not infringe the U.S. patent. The Federal Circuit nonetheless held that Maersk offered to sell and sold an infringing rig "within the United States" under 35 U.S.C. § 271(a). Much like *Kirtsaeng v. John Wiley & Sons* from last term, which presented a similar question under the Copyright Act, *Maersk Drilling* could significantly impact commerce abroad.

Procedure

The Supreme Court and en banc Federal Circuit are also wrestling with several critical procedural questions that are unique, and extremely important, to patent litigation.

The most important of these procedural issues is whether claim construction is purely a question of law reviewed de novo, or whether construction is at least in part a finding of fact entitled to deference on appeal. On Sept. 13, 2013, the en banc Federal Circuit heard argument in *Lighting Ballast Control LLC v. Philips Electronics North America Corp.*, in which the Federal Circuit may reconsider its holding in *Cybor Corp. v. FAS Technologies Inc.* that claim construction is purely a legal question reviewed de novo.

Interestingly, neither party in *Lighting Ballast* defends *Cybor* in its entirety. The appellant argues that findings of "historical fact" should receive appellate deference because they require external evidence. Such findings would include, for example, a word's meaning in the relevant art at the time of the invention. The appellee, however, argues that all aspects of claim construction should be reviewed for clear error. Overruling *Cybor* could inhibit the Federal Circuit's purpose of establishing uniform patent law by requiring deference to inconsistent factual findings made during claim construction.

The case's national import has prompted twenty-one amicus briefs. One potential game-changer is the Supreme Court's recent grant of certiorari in *Highmark v. Allcare Health Management Systems Inc.*, concerning whether the Federal Circuit should review de novo an "exceptional" case finding for purpose of attorney fees, which could bear on this question even after *Lighting Ballast* is resolved.

The en banc Federal Circuit has also struggled with questions over the finality of judgment in parallel litigation and reexamination proceedings. In *Fresenius USA Inc. v. Baxter International Inc.*, the PTO reexamined a patent and found it invalid after the Federal Circuit already had affirmed a district court's finding of validity. When the case reached the Federal Circuit again after remand, the court held that the patentee no longer had a cause of action because its patent was invalid. The en banc court's refusal to rehear the case drew a blistering dissent from Judge Pauline Newman. This issue will only increase in importance once the AIA's expanded review of business methods goes into effect.

The America Invents Act

The AIA, fully effective as of March 16, 2013, promises to be a fertile source of litigation, and has already presented some difficult and interesting legal issues.

For example, in *Madstad Engineering Inc. v. U.S. Patent & Trademark Office*, the first-to-file system was challenged as violating the Copyright Clause for failing to reward the true "inventor." The case was dismissed on standing grounds, however, because the plaintiff, whose ideas were "close to patentability," had alleged only a speculative future injury. The Copyright Clause issue was left for another day.

A more interesting standing question is posed by the new inter partes review system, which allows a third party to challenge a patent's validity before the PTO, and if necessary to appeal to the Federal Circuit. Just recently, the PTO issued its first final decision after trial in an inter partes review. But while Congress clearly has authority to allow third parties to challenge validity decisions before the agency, a party that wishes to appeal the agency decision to the Federal Circuit must have Article III standing — Congress cannot confer standing on a party without a live "case or controversy."

Commentators have already begun reading tea leaves based on a question by Justice Anthony Kennedy at oral argument in *Already LLC v. Nike Inc.*, where he expressed skepticism about whether third parties challenging an agency decision have a live case or controversy. The Federal Circuit initially requested briefing on this issue from the parties in *Consumer Watchdog v. Wisconsin Alumni Research Foundation*, and has since requested further briefing from the PTO and the United States, so the issue may be teed up soon.

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