IP Insight

by Barry Herman and Christine Dupriest

Patent Rights: What the Federal Circuit Giveth, the Supreme Court Taketh Away?

Ask any patent practitioner what the current U.S. Supreme Court thinks of the U.S. Court of Appeals for the Federal Circuit, and you will likely get a response along the lines of "not much." The prevailing thought is the Roberts Court has gone out of its way to rein in the Federal Circuit and restrict rights for patentees. But is that true? Here, we first look back at the patent cases decided by our nation's highest court since Chief Justice John Roberts joined in 2006 and then peer into our crystal ball to predict how the Court may rule in the three patent cases pending in 2013.

Supreme Court Patent Cases in the Roberts Era

"Hey, Federal Circuit, Patent Cases Are Not So Special!"

Over the past seven years, the Court has, on more than one occasion, overruled the Federal Circuit, reminding it that patent cases should not receive special treatment. The most important and far-reaching example is *eBay Inc. v. MercExchange, L.L.C.*[1] In *eBay*, the Court vacated the Federal Circuit's decision and held that a patentee who demonstrates infringement at trial is not *automatically* entitled to injunctive relief. Rather, courts should grant injunctive relief in patent cases as they would in any other case, i.e., they should use discretion and only grant injunctive relief if the traditional four-factor test for equitable relief is satisfied.

The 2007 term brought two relatively narrow patent issues into focus in *MedImmune, Inc. v. Genentech, Inc.*[2] and *Microsoft Corp. v. AT&T Corp.*,[3] and both resulted in reversal of the Federal Circuit. In *MedImmune*, the Supreme Court held that licensees should be permitted to get out of bad license deals by challenging the validity of the underlying patents and criticized the Federal Circuit's narrow reading of Supreme Court precedent. In *Microsoft*, the Court held that § 271(f) of the Patent Act, which imposes infringement liability for the unauthorized supply of "components" of a patented invention for "combination" abroad, does not cover foreign duplication of software. The Court noted that U.S. patent law is not different from other U.S. laws: "The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law."[4]

In *Global-Tech Appliances, Inc. v. SEB S.A.*,[5] the Court clarified the level of knowledge required for a party to be liable for inducing patent infringement. The Court affirmed the judgment of the Federal Circuit but changed the applicable test. It established a stricter "willful blindness" standard for finding liability absent proof of actual knowledge of the patent. In so doing, the Court held there was no reason why this doctrine should not apply in lawsuits for induced patent infringement "[g]iven the long history of willful blindness and its wide acceptance in the Federal Judiciary ...." [6]

What is Patentable?

The Roberts Court's most important opinion regarding patentability was its decision in *KSR International Co. v. Teleflex Inc.*[7] In *KSR*, it held that "the results of ordinary innovation are not the subject of exclusive rights under the patent laws."[8] The Court criticized the Federal Circuit's "teaching, suggestion and motivation" test for obviousness. Instead of establishing such a rigid standard, which "might stifle, rather than promote, the progress of useful arts," it directed courts to employ "common sense."[9] Thus, it is now easier for accused infringers to invalidate patent claims.

The Court addressed the patentability of business methods in *Bilski v. Kappos*.[10] While it affirmed the Federal Circuit's rejection of the patent claims-at-issue, the Court rejected the rule that the "machine or transformation" test was the sole test for determining whether method claims were patentable subject matter. Like the *KSR* Court, the *Bilski* Court rejected a rigid approach to determining patentability, stating that the patent laws are "designed to encompass new and unforeseen inventions." [11]

Earlier this year, the Court decided *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*,[12] reversing the Federal Circuit and holding that the patent at issue was an unpatentable law of nature. Under *Prometheus*, new patents involving correlations

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between natural phenomena must do more than simply recite the natural correlation and tell the user to apply it.

Power of Patentees in the Marketplace

The Roberts Court's first patent case was *Illinois Tool Works Inc. v. Independent Ink, Inc.*[13] In that case, the Court vacated the Federal Circuit's decision but sided with patentees, holding that a patent does not necessarily confer market power upon the patentee. In cases involving a "tying" arrangement where the allegedly "tying" product is patented, now plaintiffs must prove that the defendant has market power in the patented product.

In 2008, the Supreme Court addressed the patent exhaustion doctrine in *Quanta Computer, Inc. v. LG Electronics, Inc.*[14] The Court reversed the Federal Circuit's decision and held that the patent exhaustion doctrine applies to method patents.

In *Caraco Pharmaceutical Laboratories, Ltd. v. Novo Nordisk A/S*,[15] the Court addressed how far brand-name pharmaceutical patent owners are permitted to go in trying to keep generics off the market. The Court reversed the Federal Circuit and held that a generic may force correction of a use code that inaccurately describes the brand's patent as covering a particular method of using a drug, thus allowing generics to sell a drug under certain circumstances even if it is covered by a patent.

"Hey Federal Circuit, You Got Some Right!"[16]

More recently, the Court issued two opinions that affirmed the Federal Circuit *and* were favorable to patentees. First, in *Microsoft Corp. v. i4i Ltd. Partnership*,[17] it upheld long-standing Federal Circuit precedent that patent invalidity defenses must be proven by clear and convincing evidence. Second, in *Kappos v. Hyatt*,[18] it held that rejected patent applicants may raise new evidence in district court proceedings, and the courts need not defer to the findings of the U.S. Patent and Trademark Office.

Scorecard for Roberts Court

The Roberts Supreme Court has reversed the Federal Circuit six times, vacated its decision twice, affirmed but changed the applicable standard twice, and affirmed twice. Its rulings have had a negative effect on patent rights eight times, and either kept the status quo or have had a positive effect on patent rights four times (although placing the murky *Bilski* decision in the latter category is admittedly debatable). For those keeping score, the Federal Circuit's winning percentage is 17 percent, and patentees' winning percentage is 33 percent.

Supreme Court Cases to Be Decided in 2013

The analysis set forth above supports the prevailing sentiment that the Roberts Court has tended to take cases in order to get the Federal Circuit in line with other appellate courts and to restrict patent rights. There are notable exceptions, however. In two of the last four cases, the Court affirmed the appellate court. Will this trend continue in the three cases to be decided next year?

Gunn v. Minton[19]

In *Gunn*, the Court will decide whether complaints stating a non-patent cause of action "arise under" the patent laws and thus fall under the jurisdiction of the federal courts pursuant to 28 U.S.C. § 1338. Although malpractice claims are typically a matter of state tort law, the Court will decide what happens when such claims are brought against patent attorneys.

In the opinion below, the Texas Supreme Court[20] followed Federal Circuit precedent giving broad interpretation to "arising under" jurisdiction and dismissed the patent malpractice case in the interest of federal jurisdiction. The dissent disagreed, noting that Texas had a strong interest in governing the conduct of its attorneys. Moreover, the dissent asserted that federalism concerns dictate these cases should be adjudicated by state courts.

Generally, the Supreme Court has promoted mindfulness of the appropriate balance of power between state and federal courts and tempered the broad exercise of federal jurisdiction. Given its recent patent decisions, it seems unlikely the Court will create an "all or nothing" rule that all malpractice suits against patent attorneys automatically arise under the patent laws, or that none do. Instead, the Roberts Court's attempts to bring the Federal Circuit in line with its sister courts and its belief that patent cases should be treated like other cases suggest the outcome will involve some attempt by the Court to strike a balance between these extremes.

Bowman v. Monsanto[21]

In *Bowman*, the Supreme Court will opine on the effect of the patent exhaustion doctrine on self-replicating technologies. The Federal Circuit held below that patent exhaustion does not apply to second-crop plantings. The issue on appeal is whether Monsanto's patent rights in biotechnology related to genetically modified plants are independently applicable to each generation of soybeans embodying the invention such that a grower who creates a new generation of genetically modified soybeans infringes those rights.

This case is difficult to predict, particularly since the U.S. Solicitor General recommended that certiorari be denied. Since the Federal Circuit did *not* rely on the patent exhaustion doctrine in rendering its decision, it may be that the Roberts Court has instead decided to weigh in on the "conditional sale" doctrine. Its 2008 opinion in *Quanta* held that patent rights were exhausted by an unconditional license, but left the conditional sale doctrine unaddressed. While it is certainly possible that the Court will reverse the Federal Circuit and hold that there is no exception to the doctrine of patent exhaustion for self-replicating technologies, our best guess is that the Supreme Court will affirm the appellate court but clarify its position with respect to the conditional sale doctrine.

Association for Molecular Pathology v. Myriad Genetics Inc.[22]

In *Myriad*, the Supreme Court will opine on the straightforward yet significant question: "Are human genes patentable?"[23] This is the second petition filed in this case; the prior one was granted and the case remanded for further proceedings in light of the Roberts Court's decision in *Prometheus* (discussed above). On remand a divided Federal Circuit panel reaffirmed its earlier ruling that the challenged composition claims are patentable, concluding that *Prometheus* was largely irrelevant to the issues presented in *Myriad*. In its opposition to the certiorari petition, Myriad argued that the question for the Supreme Court is not whether human genes are patentable, but whether isolated DNA molecules that were identified and defined by human inventors are patent-eligible subject matter. By adopting the question in the manner requested by the petitioner, the Supreme Court seemingly disagrees with the Federal Circuit's holding that the isolated DNA molecules were obtained in the laboratory and man-made—and thus, the product of human ingenuity.

In light of its history of narrowing the field of what is patentable, particularly in *Prometheus*, we think the Roberts Court will tell the Federal Circuit, once again, that it got this one wrong. The case was originally remanded so that the Federal Circuit could consider the impact of *Prometheus* on this decision. The Federal Circuit indicated that the holding in *Prometheus* should be limited to method claims and thus cannot be applicable to Myriad's DNA composition claims (emphasizing that, while isolated DNA molecules are prepared from products of nature, so is every other composition of matter). By granting certiorari, it appears that at least some members of the Court disagree. Our crystal ball suggests that Roberts and his colleagues will side with the overwhelming number of amicus briefs imploring the Court to reverse the Federal Circuit's decision, and we believe the patentability of human genes will be limited, perhaps significantly. ⊙

Endnotes

[1]547 U.S. 388 (2006).

[2]549 U.S. 118 (2007).

[3]550 U.S. 437 (2007).

[4]*Id*. at 454–55.

[5]___ U.S. ___, 131 S. Ct. 2060 (2011).

[6]*Id*. at 2069.

[7]550 U.S. 398 (2007).

[8]*Id*. at 427.

[9]*Id.* at 403, 427.

[10]___ U.S. ___, 130 S. Ct. 3218 (2010).

[11]*Id*. at 3220.

[12]___ U.S. ___, 132 S. Ct. 1289 (2012).

[13]547 U.S. 28 (2006).

[14]553 U.S. 617 (2008).

[15]___ U.S. ___, 132 S. Ct. 1670 (2012).

[16]The Supreme Court also affirmed the Federal Circuit in *Board of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, ___ U.S. ___, 131 S. Ct. 2188 (2011). However, as this holding focused on the effect of federal funding under the Bayh-Dole Act on patent ownership rather than directly on issues of patent law, we excluded it from this analysis.

[17]___ U.S. ___, 131 S. Ct. 2238 (2011).

[18]___ U.S. ___, 132 S. Ct. 1690 (2012).

[19]*Minton v. Gunn*, No. 2011-326942, 355 S.W.3d 634 (Tex. 2011), *cert. granted* (U.S. Jan. 16, 2013) (No. 11-1118).

[20]*Id.*

[21]*Monsanto v. Bowman*, No. 2010-1068 (Fed. Cir. Sept. 21, 2011), *cert. granted* (U.S. Jan. 16, 2013) (No. 11-796).

[22]*Ass'n for Molecular Pathology v. Myriad Genetics Inc.*, 689 F.3d 1303 (Fed. Cir. 2012), cert. granted (U.S. Nov. 30, 2012)(No. 12-398).

[23]*Id.*

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all. Through the spirit of active citizenship, ichangemycity intends to help improve the quality of life in the city.

It appears from press accounts carried on the site that this website is already enabling Indians who have no special clout to have a genuine effect on the priorities of the government of Bangalore, improving the quality of life. One wonders why every city in the free world does not have such a forum!

The second site is much more breathtaking in its audacity. It directly confronts a moral evil that is a deeply entrenched way of life in India, and seeks to eradicate it by shining a light on it as never before. "Uncover the market price of corruption," proclaims the banner on the homepage of IPaidaBribe.com. And, it further states its pledge to visitors: "We protect your anonymity, so you can share your story." (And, so far it apparently has, perhaps because any prying eyes from the government would doubtless be subject to embarrassing exposure.)

Yes, this amazing site bills itself as a place where Indians can compare notes on what they are paying under the table for the same services, enabling them to adjust their bribes to the market price and thereby lower the total price of corruption. It also allows Indians to measure for the first time the total amount being paid under the table in their country. What a concept! Ordinary people get to share their experiences of bribery—what governmental service a bribe was for, where it took place, and how many rupees were involved.

To some degree, the website allows ordinary people to expiate their personal guilt by going public. In her presentation to the SEP group, Swati Ramanathan observed that a bribe corrupts both parties. The person paying the bribe may feel that there is no other way that they can get what they need, whether it is a driver's license, a chance to see their newborn baby in the hospital, or to get a connection to the local water supply for their small restaurant. Yet, despite their feeling that there is no alternative, they also feel morally diminished by their experience. While the person accepting the bribe may rationalize their conduct by believing that every other person in their government department is doing the same thing, they also are personally morally diminished by their experience.

Thus, Swati observed, in order to raise the level of civic morality in India, a site like hers was sadly necessary. It was obvious to her and to her husband, when they first considered creating the website, that the government itself was in a state of total denial or deep corruption, to the point where the problem was so endemic that it would never be solved without this sort of technological intervention.

Launched in August of 2011, the site is already having a profound effect in her homeland. BBC Radio Online has reported as follows:

> The website has evolved into a consumer comparison site where people can also get information and advice in different languages on how to avoid paying bribes.
>
> So far, nearly 10,000 bribe experiences have been reported across 347 cities and 19 government departments.
> As the numbers mount, Swati Ramanathan hopes the website will become a powerful tool for shaming government departments into tackling corruption.
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> "There is so little risk to being corrupt in our country and so high a reward," she explained. "The moment you change the equation and you make it riskier, the reward becomes less.

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