

U.S. Supreme Court Reasserts Its Patent Precedent

A review of recent decisions

Christopher H. Strate and Ankit D. Patel

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Many have viewed the Supreme Court's ("SCOTUS") heightened activity in reviewing patent issues as substantially reshaping patent law, which was largely in the purview of the Federal Circuit until the early 2000s. This activity has raised concerns, because several recent decisions have overruled or substantially changed decades of Federal Circuit precedent and rejected prevailing scholarly work in favor of its pre-1982 precedent.

Patent scholars have proposed several theories to understand why SCOTUS increased its review of patent decisions. Some scholars view SCOTUS' activity as an effort to reclaim its power from the Federal Circuit to determine substantive patent issues after remaining relatively dormant during the first 20 years of the Federal Circuit. Peter Lee, *The Supreme Assimilation of Patent Law*, UC DAVIS LAW LEGAL STUDIES RESEARCH PAPER NO. 435, 2 (2015). In fact, during this period (1982-2001), SCOTUS heard only ten patent cases and addressed substantive patent law cases in just a few cases. J. Jonas Anderson, *Patent Dialogue*, 92 N.C. L. REV. 1049, 1051 (2014). However, since 2004, SCOTUS has heard more than 20 patent cases.

Further, SCOTUS' resumed activity may be viewed as its attempt to restrict the Federal Circuit. Congress created the Federal Circuit to bring greater uniformity to the application of patent laws and to eliminate circuit splits. And, in so doing, the Federal Circuit developed several rules that made the application of patent law more predictable and certain. Daniel Kazhdan, *Beyond Patents: The Supreme Court's Evolving Relationship With The Federal Circuit*, 94 J. PAT. & TRADEMARK OFF. SOC'Y 275 (2012). Some scholars, however, have noted SCOTUS' recent activity as rejecting the Federal Circuit's rules as being not wholly consistent with its precedent. Thus, this increased activity may be viewed as SCOTUS' attempt to reign in the Federal Circuit to adhere to SCOTUS precedent.

Regardless of its motive, a review of recent SCOTUS decisions demonstrates its commitment to preserving its pre-1982 precedent:

A. *Kimble v. Marvel Entm't LLC*

SCOTUS' commitment to affirming its pre-1982 precedent in patent cases is particularly exemplified by its decision in *Kimble v. Marvel Entm't LLC*, 135 S. Ct. 2401 (2015), in which it reaffirmed its highly criticized holding in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

In *Brulotte*, SCOTUS held that an agreement that provided for the payment of royalties after a patent has expired is *per se* unlawful. Here, the *Brulotte* Court was particularly concerned that a licensor in such circumstances would be “using the licenses to project its monopoly beyond the patent period,” despite the fact that both parties freely entered into the licensing agreement. *Id.* at 32.

In the decades that followed, the *Brulotte* decision was routinely criticized. In fact, other courts and scholars consider the holding and rationale “dubious” and “out of touch with the Supreme Court's current thinking.” These critics argued that the ruling places an unnecessary burden on the contracting power of parties and may cause licensees to pay a higher royalty rate compared to the rate paid when licenses can extend beyond the patent term. WILLIAM M. LANDES AND RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW*, 380 (2003). So enters *Kimble* and the opportunity for SCOTUS to correct a rule that, as noted by the Ninth Circuit, “is counterintuitive and its rationale is arguably unconvincing.” 727 F.3d 856, 857 (9th Cir. 2013).

Committed to its patent precedent, SCOTUS declined. In coming to this decision, SCOTUS recognized that the *Brulotte* rule was roundly criticized and questioned. However, the Court noted that, in *Brulotte* and “a related line of decisions, we have deemed unenforceable private contract provisions limiting free use of such inventions” in which a patent has expired. *Kimble*, 135 S. Ct. at 2407. The Court concluded that it was important to preserve this precedent because “*Brulotte* has governed licensing agreements for more than half a century... [and] [w]e would prefer not to unsettle stable law.” *Id.* at 2410. The Court also noted that, during this time, Congress has amended the patent act numerous times and never chose to amend the law to overrule *Brulotte*. The Court also expressed a preference for the “ease of use” of the *Brulotte* bright line rule to the “rule of reason” approach proposed by *Kimble* that would provide a “flexible, case-by-case analysis.” *Id.* at 2408. Interestingly, as detailed below, these considerations that supported maintaining the status quo here were not of equal concern in *KSR* and *Alice*.

B. *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*

Before its recent activity, SCOTUS last addressed the scope of patentable subject matter under 35 U.S.C. § 101 in *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) and *Diamond v. Diehr*, 450 U.S. 175 (1981), immediately prior to the establishment of the Federal Circuit. In *Chakrabarty*, SCOTUS found that genetically engineered bacterium was patentable subject matter and noted, “[t]he Committee Reports accompanying the 1952 Act inform us that Congress intended statutory subject matter to ‘include anything under the sun that is made by man.’” 447 U.S. at 309. In *Diehr*, SCOTUS found that, simply because a patent claim incorporated the use of “a mathematical equation and a programmed digital computer,” the invention could still be within the scope of patentable subject matter. 450 U.S. at 185.

In the intervening time, the Federal Circuit in *State St. Bank & Trust Co. v. Signature Fin. Grp.*, 149 F.3d 1368 (Fed. Cir 1998) considered whether a patent directed to “a data processing system for managing a financial services configuration of a portfolio” and recited a computer processor, a storage means and a logic circuit programmed to perform certain functions was patentable subject matter. In view of SCOTUS’ holdings in *Chakrabarty* and *Diehr*, the Federal Circuit determined that it was, and further declared that business methods could be patented. SCOTUS then denied State St. Bank’s Writ of Certiorari petition on this issue. Subsequently, a significant field of patents developed relating to computer applications and business methods. In addition, Congress responded by passing 35 U.S.C. § 273 to provide an infringement defense to a business method patent based on prior confidential use. Congress, however, did not overrule this decision.

Sixteen years later, SCOTUS elected to take up this matter in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014) to determine whether a patent with method and system claims directed to “a computerized scheme for mitigating ‘settlement risk’” was patentable subject matter. Here, the Court declared that a two-part *Mayo* test must be applied: 1) “determine whether the claims at issue are directed to one of those patent-ineligible concepts” and 2) “if so...consider the elements of each claim both individually and ‘as an ordered combination’ to determine whether the additional elements ‘transform the nature of the claim’ into a patent-eligible application.” *Id.* at 2355. Without addressing what a patentable business method is, the Court declared that the *Alice* claims were impermissibly drawn to the abstract concept of intermediated settlement.

The Court went on to analyze its execution of mathematical algorithm precedents from *Gottschalk v. Benson*, 409 U.S. 63 (1972), *Parker v. Flook*, 437 U.S. 584 (1978) and *Diamond v. Diehr*, 450 U.S. 175 (1981) and held that its precedent required the conclusion that “the mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention.” *Alice*, 134 S. Ct. at 2358. The Court also concluded that computer hardware claims that require a “data processing system” with a “communications controller” and “data storage unit,” are purely functional and generic and that they do not “offer[] a meaningful limitation beyond generally linking ‘the use of the method to a particular technological environment,’ that is, implementation via computers.” *Id.*

Although, in numerous circumstances, SCOTUS has criticized the Federal Circuit’s use of formulas and bright line rules for assessing patent validity, it appeared to be willing to rely on its precedent to adopt such standards in connection with its patentable subject matter analysis.

C. *KSR Int’l Co. v. Teleflex, Inc.*

KSR Int’l Co. v. Teleflex, Inc., 550 U.S. 398 (2007) provides an example in which SCOTUS took the Federal Circuit to task for applying what it characterized as an overly rigid approach to obviousness. In *KSR*, SCOTUS reviewed the Federal Circuit’s “teaching, suggestion, or motivation” test (“TSM test”) for analyzing whether a patent is invalid for obviousness. This test originated from the Court of Claims and Patent Appeals, the predecessor court to the Federal Circuit, as far back as *In re Fridolph*, 134 F.2d 414 (C.C.P.A. 1943), and those courts’ decades of experience in reviewing validity determinations by trial courts and patent examiners alike. According to the TSM test, a court must ask “whether a person of ordinary skill in the art, possessed with the understandings and knowledge reflected in the prior art, and motivated by the general problem facing the inventor, would have been led to make the combination recited in the claims.” *Alza Corp. v. Mylan Labs, Inc.*, 464 F. 3d 1286, 1290 (Fed. Cir. 2006) (citations omitted). Both the CCPA and Federal Circuit determined that this test was appropriate to prevent use of “statutorily proscribed hindsight reasoning when determining the obviousness of an invention.” *Id.*

In its 2007 opinion, SCOTUS emphatically declared: “[w]e begin by rejecting the rigid approach of the [Federal Circuit].” *KSR*, 550 U.S. at 415. SCOTUS, then drawing from three examples from its pre-1982 precedent, *United States v. Adams*, 383 U.S. 39, 40, (1966), *Anderson’s-Black Rock, Inc. v. Pavement Salvage Co.*, 396 U.S. 57 (1969), and *Sakraida v. AG Pro, Inc.*,

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425 U.S. 273 (1976), declared that “a court must [instead] ask whether the improvement is more than the predictable use of prior art elements according to their established functions.” *Id.* at 417. SCOTUS was also certain to admonish the use of this formulaic approach because “obviousness analysis cannot be confined by a formalistic conception of the words teaching, suggestion, and motivation.” *Id.* at 419.

In its recent return to patent jurisprudence, SCOTUS has repeatedly demonstrated its commitment to applying its pre-1982 precedent. It has demonstrated that it is committed to doing so despite decades of intervening jurisprudence and scholarly development in its absence.