No. 17-1707

IN THE
Supreme Court of the United States

NICHIA CORPORATION and NICHIA AMERICA CORPORATION,

Petitioners,

v.

EVERLIGHT ELECTRONICS CO., LTD., EMCORE CORPORATION, and EVERLIGHT AMERICAS, INC.,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

September 6, 2018

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RULE 29.6 CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6, Petitioners Nichia Corporation and Nichia America Corporation state that no parent corporation nor any publicly held company owns 10 percent or more of the stock of Nichia Corporation or Nichia America Corporation.

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The Federal Circuit's deferential approach to the legal question of obviousness raises two questions worthy of this Court's review. The first is whether courts must defer to a jury's answer to the ultimate legal question whether a patent is obvious and therefore invalid. An unbroken line of Supreme Court precedent indicates that the answer to that question is "no." Pet. 10–29. If these authorities mean what they say, then the Federal Circuit's current approach conflicts with Supreme Court precedent.

The second is the proper consequence of the Federal Circuit's growing tendency to treat the question of obviousness as a "mixed" question of law and fact. Respondent does not even try to deny that the Federal Circuit has defined the standard of review (inaccurately) as a mixed question of law and fact rather than a question of law in more than a dozen cases in the past six years. Even were the Federal Circuit's re-characterization of the obviousness question correct, that re-characterization would not establish the appropriate standard of review. As this Court held this year, "[m]ixed questions are not all alike" and thus are not all subject to the same standard of review. *U.S. Bank Nat. Ass'n ex rel. CWCapital Asset Mgmt. LLC v. Vill. at Lakeridge, LLC*, 138 S. Ct. 960, 967 (2018). The Federal Circuit's approach is at odds with this Court's precedent and those of its sister circuits. At a minimum, having created a circuit split with its current approach, the Federal Circuit should be directed to engage in the required analysis of the nature of the "mixed" review

it employed, consistent with *U.S. Bank. Lawrence ex rel. Lawrence v. Chater*, 516 U.S. 163, 167 (1996).

Respondent cannot seriously dispute the need for guidance from this Court on these issues, and instead hypothesizes that some other case would be a more appropriate vehicle for answering these pressing questions. Opp'n 15–18. But this case squarely presents the relevant question: the panel deferred on a legal question that, under this Court's precedent, it had the sole responsibility to answer. Nor does Respondent establish that the issues raised in the Petition were waived below. And it is important for this Court to resolve the question now, in view of the dozens of Federal Circuit decisions taking inconsistent positions on the proper legal standard. The Court should take this opportunity to ensure that the Federal Circuit does not abdicate its responsibility to ensure the uniform application of the law.

I. THE FEDERAL CIRCUIT'S CURRENT APPROACH VIOLATES SUPREME COURT PRECEDENT BY DEFERRING TO JURIES ON THE ULTIMATE LEGAL QUESTION.

A. The Federal Circuit Has Repeatedly Taken Inconsistent Positions on the Proper Standard of Review, Despite This Court's Precedent

This Court has consistently held that whether a patent is invalid as obvious is a question of law, even though it may depend on subsidiary factual findings.

KSR Int'l Co. v. Teleflex Inc., 550 U.S. 398, 418, 427 (2007); *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17–18 (1966). Prior to the creation of the Federal Circuit, the regional circuit courts also treated the question as a matter of law. The Federal Circuit, too, long treated the ultimate question of obviousness as one of law. Pet. 24–25.

That has changed. Respondent does not deny that, in more than a dozen cases over the past six years, the Federal Circuit has reclassified obviousness as a "mixed question of law and fact."[1] Opp'n 13. No later than its decision in *Kinetic Concepts, Inc. v. Smith & Nephew, Inc.*, the Federal Circuit began describing its review as concerning a "mixed question of law and fact." 688 F.3d 1342, 1356 (Fed. Cir. 2012). Nor does Respondent deny the Federal Circuit has used this shift to justify deferring to the trier of fact on the ultimate question of obviousness.[2] Opp'n 13–15.

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[1] Ten of those fourteen cases were authored by just two of the sixteen Federal Circuit judges, suggesting that the Federal Circuit itself may be divided on the question of the standard of review.

[2] Respondent suggests that the citation of *Kinetic Concepts* on appeal to the Federal Circuit estops

Instead, Respondent argues that this change is insignificant—just words—and suggests that a question may be treated as "mixed," rather than as a pure question of law, without any impact on the standard of review. Opp'n 13. To the contrary, the standard of review matters, which is why this Court has given it close attention. *See, e.g.*, *Concrete Pipe & Prods. of Cal., Inc. v. Constr. Laborers Pension Tr. for S. Cal.*, 508 U.S. 602, 623 (1993). This Court has made clear that the standard of review for a "mixed" question of law and fact is not the same as the standard of review for a pure question of law. *E.g.*, *United States v. Gaudin*, 515 U.S. 506, 513 (1995) (distinguishing treatment of "mixed questions of fact and law" from "pure questions of law"). And this Court has never described the ultimate question of patent obviousness as anything other than a pure legal question. *KSR*, 550 U.S. at 418, 427; *Graham*, 383 U.S. at 17–18. To treat the change from viewing obviousness as a legal question to a "mixed" question as an incidental detail is untenable in light of this

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Nichia from criticizing *Kinetic Concepts* in the instant petition. Opp'n 15–16. Not so. On appeal, Nichia appropriately argued to the Federal Circuit that it was ignoring its own binding precedent. This does not preclude Nichia from arguing that the precedent in question is itself inconsistent with this Court's jurisprudence.

Court's longstanding insistence that appellate courts employ the correct standard of review. *See Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748 (2014).

The Federal Circuit's refusal to follow this Court's precedent is a real change with real consequences, meriting the attention of this Court.

B. The Federal Circuit's Improper Deference Infects This Case, Making It a Good Vehicle for Review

Alternatively, Respondent suggests that this case is not the proper vehicle for Supreme Court review because the Federal Circuit nominally recited the correct legal standard in this case. Opp'n 10–12. But while the Federal Circuit correctly characterized obviousness as a legal question, it ignored the necessary consequence of that rule by failing to engage in the required *de novo* review.

Before the creation of the Federal Circuit (and even for a time thereafter) courts did not defer to a jury's finding on the ultimate question of obviousness. All employed some mechanism to prevent the jury from having the final word on obviousness, a question of law. Pet. 21–24. They did so for a simple reason: *de novo* review is inconsistent with a panel engaging in no analysis of the ultimate legal question presented for its review, instead deferring to the jury's analysis of that question. *See Highmark Inc.*, 134 S. Ct. at 1748. In this case, however, there is no way to

interpret the Federal Circuit's decision as anything other than deference to the jury verdict on that ultimate question. Nichia's patent was held invalid by the jury based on expert testimony that the Federal Circuit itself acknowledged was inaccurate and therefore could not support the verdict.[3] Although the Federal Circuit alluded to "other evidence," Pet. App. 9a n.4, it nowhere even identified that "other" evidence much less evaluated whether that evidence supported a legal conclusion of obviousness.[4] To the contrary, the Federal Circuit, while reciting the *de*

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[3] While Respondent correctly notes that the Federal Circuit was conservative in this finding, only noting that the false testimony was "arguably inaccurate," the record shows that Everlight's expert made statements about the prior art references that were simply factually false. For instance, Everlight's expert expressly said that one prior art reference, Baretz, taught the invention outright when it unambiguously did not. C.A. Dkt. 88 at 8 (Feb. 20, 2018).

[4] Respondent spends much of its brief trying to relitigate facts of the case that are not before this Court, such as the jury's findings on secondary considerations of nonobviousness or the nature and content of the prior art. Nichia did not challenge those subsidiary fact findings in its Petition and they are not before the Court.

novo standard for the ultimate legal conclusion, found that there was "substantial evidence" to support the jury's verdict on the ultimate legal conclusion: that a person of skill in the art would have combined different pieces of the prior art. "Substantial evidence" is the standard applied to subsidiary fact questions, not ultimate conclusions of law. *See Callaway Golf Co. v. Acushnet Co.*, 576 F.3d 1331, 1339 (Fed. Cir. 2009). If, as Respondent contends, the Federal Circuit was right to defer not only to the findings of subsidiary fact but to the jury's weighing of the evidence to reach the ultimate legal conclusion, it is meaningless to speak of obviousness as a question of law at all. Under Respondent's and the Federal Circuit's approach, there is no part of the obviousness inquiry for which *de novo* review is ever appropriate.

C. The Fact That the Federal Circuit's Error Persists Is a Reason to Grant, Not Deny, the Writ

Finally, having spent most of its Brief agreeing with this Court that obviousness is a question of law and trying to square that with the Federal Circuit's behavior, Respondent pivots on pages 12–15 to a different, indeed contradictory argument: that obviousness has actually been a mixed question of law and fact, not a question of law, all along. It acknowledges the cases Nichia identified in the Petition as adopting that different standard, and indeed cites earlier cases making the same error. Opp'n 12–13. Far from justifying the denial of certiorari, those claims provide further reason to grant review in this case. The standard of review of

obviousness is hopelessly muddled. And if Respondent is right, at least some lower courts have departed from this Court's guidance for years. The confusion about how to review obviousness determinations has significant consequences, and this case squarely presents those issues for review.

II. EVEN IF THE FEDERAL CIRCUIT IS CORRECT TO (SOMETIMES) REFER TO REVIEW OF PATENT OBVIOUSNESS AS A "MIXED" QUESTION, IT HAS NOWHERE DESCRIBED WHAT *TYPE* OF "MIXED" QUESTION IT IS—ANALYSIS NOW REQUIRED BY THIS COURT'S PRECEDENT.

Even if the Federal Circuit's treatment of its review to be of a "mixed" question is legally correct, it has failed to provide the required guidance to parties and trial courts as to what type of "mixed" question patent obviousness is. That requirement stems from *U.S. Bank*, where this Court made emphatically clear that "[m]ixed questions are not all alike" and modeled a framework for lower court analysis of different types of mixed questions. *U.S. Bank Nat. Ass'n ex rel. CWCapital Asset Mgmt. LLC v. Vill. at Lakeridge, LLC*, 138 S. Ct. 960, 967 (2018).

Respondent seems to think *U.S. Bank* has no effect on anything beyond the facts of that case. Not so. It is a non sequitur to state that "*U.S. Bank* did not establish a new standard of review for all mixed questions. . . ." Opp'n 19. That is precisely the point. The controlling question for any mixed question of law

and fact after *U.S. Bank* is what *kind* of mixed question it is. That's why this Court offered comprehensive guidance to lower courts to determine what standard of review should apply to a particular "mixed" question. *U.S. Bank* unmistakably requires lower courts to analyze the nature of the "mixed" question at issue to determine whether it is one in which legal questions predominate or one in which fact questions predominate, and thus what standard of review should apply.

If obviousness is now to be viewed as a mixed question of law and fact, *U.S. Bank* requires the Federal Circuit to explain how this mixed question should be treated and whether it is the type of mixed question as to which a deferential standard is appropriate. The Federal Circuit has not conducted that analysis.

Respondent tries to shrug off *U.S. Bank* as a one-off resolution of a question relating to bankruptcy law, cabined by its facts. Opp'n 19. But this Court declined review of two bankruptcy-specific questions in favor of a question concerning the standard of review that would have application outside of the bankruptcy context. https://www.supremecourt.gov/docket/docketfiles/html/qp/15-01509qp.pdf. And this Court established a framework for distinguishing between two different paradigmatic "types" of mixed questions, drawing not just on bankruptcy opinions but on a variety of different civil and even criminal cases. *U.S. Bank*, 138 S. Ct. at 966–67. *U.S. Bank applied* that framework to a question of bankruptcy law, but it

nowhere suggested that the *framework itself* works only for bankruptcy cases. Following *U.S. Bank*, other courts immediately recognized that its framework applied outside the bankruptcy context. *See Oracle Am., Inc. v. Google LLC*, 886 F.3d 1179, 1192 (Fed. Cir. 2018) ("Merely characterizing an issue as a mixed question of law and fact does not dictate the applicable standard of review"); *Miller v. Panther II Transp., Inc.*, No. 1:17–cv–04149, 2018 WL 3328135, at *2 (S.D. Ind. July 6, 2018) (applying *U.S. Bank* standard in a negligence case); *Cascadia Wildlands v. Scott Timber Co.*, No. 6:16–cv–01710, 2018 WL 3341173, at *7 (D. Or. July 5, 2018) (applying *U.S. Bank* to an environmental case).

Respondent does not try to deny that the analysis required by *U.S. Bank* is absent in the lower court's opinion (or indeed any Federal Circuit opinion). Even if the lower court had acknowledged its use of a "mixed" standard, the panel did not analyze the nature of the "mixed" review it was employing, as *U.S. Bank* required it to do. Tellingly, Respondent does not even attempt to argue that the "mixed" obviousness inquiry is one as to which factual issues predominate and thus as to which a deferential standard of review would be appropriate under the *U.S. Bank* framework that the Federal Circuit failed to apply.

U.S. Bank requires the Federal Circuit to articulate the nature of its "mixed" review. 138 S. Ct. at 967. That the panel did not undertake that analysis, but nonetheless *applied* a deferential standard of review, only underscores the need for this

analysis. And given the likelihood that the standard of review is outcome-determinative in the instant case, and the importance of having predictable standards of review for the patent system as a whole, this Court should grant certiorari, vacate, and remand for the Federal Circuit to engage in the required analysis. *See Lawrence ex rel. Lawrence v. Chater*, 516 U.S. 163, 167 (1996).

CONCLUSION

Respondent cannot have it both ways: either the Federal Circuit is correct to engage in "mixed" review of the legal question of obviousness, in which case *U.S. Bank* counsels in favor of a grant, vacatur, and remand for articulation of what type of "mixed" review is involved; or the Federal Circuit's deferential approach represents a change in law unsupported by Supreme Court precedent, justifying review by this Court on the merits.

The petition for writ of certiorari should be granted.

Respectfully submitted,

/s/ Mark A. Lemley

Dated: September 6, 2018 Mark A. Lemley

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