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Patent Law and Innovation: The Creation, Operation and a Twenty-Year Assessment of the U.S. Court of Appeals for the Federal Circuit

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-name redacted-
Visiting Scholar in Economic Growth and Entrepreneurship
Resources, Science, and Industry Division

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Summary

The U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") is a specialized court with exclusive appellate jurisdiction over patent appeals. Congress established the Federal Circuit in 1982 in order to promote predictability and uniformity in the patent law. Now that the Federal Circuit has celebrated its twentieth anniversary, it is appropriate to consider the influence of the court upon patent law and, more generally, the climate for innovative industry within the United States.

A number of commentators believe that the Federal Circuit has strengthened the economic, legal and commercial significance of patents to U.S. industry. The Federal Circuit has broadened the subject matter which may be patented to include such innovations as computer software and business methods. Some observers believe that in comparison to predecessor courts, the Federal Circuit has also made it more difficult to show that a patent is invalid because its subject matter would have been obvious in light of the state of the art. The Federal Circuit is also said to have both decreased the showing a patent owner must make in order to obtain a preliminary injunction against accused infringers and increased the monetary damages owed as a remedy for patent infringement.

The Federal Circuit has also attracted some negative commentary. Some commentators believe that the concentration of patent cases in one court provides less chance for sound development of the law through the contributions of many jurists. Because the Federal Circuit routinely encounters patent law issues, the pace of "common law" development in the patent field may be accelerated as compared to other fields, possibly leading to less legal certainty. The Federal Circuit has also been described as a "booster" of the patent law with a jurisprudence that favors patent owners and takes a restrictive view of antitrust principles.

Recent developments continue to shape the Federal Circuit. The 1998 report of the Commission on Structural Alternatives for the Federal Courts of Appeals (known as the "White Commission") did not recommend any immediate changes to the makeup of the Federal Circuit, but it did suggest that the Federal Circuit may be able to assume jurisdiction over additional classes of cases for which national uniformity is desired. The 2002 Supreme Court decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, appears to have limited the exclusive appellate jurisdiction of the Federal Circuit in patent cases.

Continued experience with the Federal Circuit may provide insights on the possible benefits of creating other specialized tribunals. Identification of the factors that make judicial specialization desirable, as well as the impact of a specialized court upon the fields of law within its jurisdiction, may guide future reforms to the federal judicial system.

This report will be updated as future developments require.

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On October 1, 2002, the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") celebrated its twentieth anniversary. Viewed by many commentators as the most significant reform to the federal judicial system in nearly a century,[1] the creation of the Federal Circuit was motivated by a perceived need for more consistent interpretation of the patent law.[2] In the early 1980's, many experts believed that the differing circuit courts of appeals varied widely in their handling of patent disputes.[3] Congress therefore established the Federal Circuit, a centralized national court with exclusive appellate jurisdiction to hear cases arising under the patent law.[4] Congress hoped the Federal Circuit would provide more consistent guidance to innovative industry, the U.S. Patent and Trademark Office ("USPTO") and others impacted by the patent system.[5]

This report considers the impact of the Federal Circuit upon U.S. patent law and innovation. It begins with a brief overview of the policy foundations and legal fundamentals of the patent system. This report next reviews the role of the Federal Circuit within the federal judicial system. It then recounts the history of the formation of the Federal Circuit. The impact of the Federal Circuit upon innovation is discussed, including perceived benefits of the court as well as perceived shortcomings. The report closes with a review of two recent developments affecting the Federal Circuit, the White Commission Report[6] and the Supreme Court decision

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[1]Dennis DeConcini, "The Federal Courts Improvement Act of 1982: A Legislative Overview," 14 *George Mason Law Review* (1992), 529.

[2]Rochelle Cooper Dreyfuss, "The Federal Circuit: A Case Study in Specialized Courts," 64 *New York University Law Review* (1989), 1.

[3]Howard T. Markey, "The Phoenix Court," 10 *American Patent Law Association Quarterly Journal* (1982), 227.

[4]Thomas H. Case & Scott R. Miller, "An Appraisal of the Court of Appeals for the Federal Circuit," 57 *Southern California Law Review* (1984), 301.

[5]S. Rep. No. 275, 97th Cong., 1st Sess. 2, reprinted in 1982 U.S. Code Cong. & Admin. News 11, 12.

[6]Commission on Structural Alternatives for the Federal Courts of Appeal, Final Report (Dec. 18, 1998) (available at http://app.comm. uscourts.gov/final/appstruc.pdf).

in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*[7] along with concluding observations.

Patent Law and Innovation Policy

The patent law provides inventors with exclusive rights to exploit their inventions.[8] In so doing, the patent law offers economic incentives for individuals and institutions to engage in technological innovation. Absent a patent system, an entire industry might readily be able to appropriate the benefits of one firm's innovative efforts. Cognizant of potential "free riders," enterprises might devote few, if any resources towards research and development. The patent law solves this market failure problem by allowing firms the opportunity to appropriate the economic benefits of their innovations.[9]

The regime of patents is also said to serve other goals. Commentators have observed that patent rights facilitate technology transfer.[10] Without patent rights, an inventor may have no tangible asset to sell or license. In addition, an inventor might otherwise be unable to police the conduct of a contracting party. Any technology or know-how that has been disclosed to a prospective buyer might be appropriated without compensation to the inventor. The availability of patent protection decreases the ability of contracting parties to engage in opportunistic behavior. By lowering such transaction costs, the patent system may make technology-based transactions more feasible.[11]

Experts also believe that the patent system encourages the disclosure of products and processes.[12] Each issued patent must include a description sufficient to enable skilled artisans to practice the patented invention.[13] Issued patents may also encourage others to "invent around" the patentee's proprietary interest. Others can build upon the patentee's disclosure to produce their own technologies that fall outside the exclusive rights associated with the patent.[14]

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[7]535 U.S. 826 (2002).

[8]35 U.S.C. § 271(a) (2002).

[9]Simone Rose, "Patent 'Monopolyphobia': A Means of Extinguishing the Fountainhead?," 49 *Case W. Res. L. Rev*. 509 (1999).

[10]Jonathan Eaton & Samuel J. Kortum, "Trade in Ideas: Patenting and Productivity in the OECD," 40 *Journal of International Economics* (1996), 251.

[11]Robert P. Merges, "Intellectual Property and the Costs of Commercial Exchange: A Review Essay," 93 *Michigan Law Review* (1995), 1570.

[12]Keith E. Maskus, "The Role of Intellectual Property Rights in Encouraging Foreign Direct Investment and Technology Transfer," 9 *Duke Journal of Comparative and International Law* (1998), 10.

[13]35 U.S.C. § 112 (2002).

[14]Rebecca S. Eisenberg, "Patents and the Progress of Science: Exclusive Rights and Experimental Use," 56 *University of Chicago Law Review* (1989), 1017.

Through these mechanisms, the patent system may provide a more socially desirable outcome than its chief legal alternative, trade secret protection. Trade secrecy guards against the improper appropriation of valuable, commercially useful information that is the subject of reasonable measures to preserve its secrecy.[15] Taking the steps necessary to maintain secrecy, such as implementing physical security measures, imposes costs that may ultimately be unproductive for society.[16] Also, while the patent law obliges inventors to disclose their inventions to the public,[17] trade secret protection requires firms to hold their protections in secret. The disclosure obligations of the patent system may better serve the goals of encouraging the diffusion of advanced technological knowledge.

The extent to which the patent system practically achieves these goals is difficult to assess. Economic research suggests that different industries attach varying values to patents. For example, one study of the aircraft and semiconductor industries suggested that lead time and the strength of the learning curve were superior to patents in capturing the value of investments.[18] In contrast, members of the drug and chemical industries attached a higher value to patents. Differences in the perception of the patent system have been attributed to the extent to which patents introduced significant duplication costs and times for competitors of the patentee.

Studies have indicated that individual entrepreneurs and small, innovative firms rely more heavily upon the patent system than larger enterprises. Larger companies often possess a number of alternative means for achieving a proprietary or property-like interest in a particular technology. For example, trade secrecy, ready access to markets, trademark rights, speed of development, and consumer goodwill may to some degree act as substitutes to the patent system. As Sally Wyatt and Gilles Bertin reported in their survey of alternatives to patenting, a representative of one European corporation opined that "multinational corporations could easily cease to use patents and use other available methods to achieve the same aims."[19] However, individual inventors and small firms often do not have these mechanisms at their disposal. As a result, the patent system may enjoy heightened importance with respect to these enterprises.[20]

Perhaps the best evidence available as to the perceived value of patents is that, in the United States, the number of filed patent applications and issued patents

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[15]American Law Institute, Restatement of Unfair Competition Third § 39 (1995).

[16]David D. Friedman *et al.*, "Some Economics of Trade Secret Law," 5 *Journal of Economic Perspectives* (1991), 61.

[17]35 U.S.C. § 112 (2002).

[18]Levin, Richard C. *et al.*, "Appropriating the Returns for Industrial Research and Development," *Brookings Papers on Economic Activity*, 1987, in *The Economics of Technical Change*, eds. Edwin Mansfield and Elizabeth Mansfield (Vermont, Edward Elgar Publishing Co., 1993).

[19]Sally Wyatt & Gilles Y. Bertin, *Multinationals and Industrial Property* 139 (Harvester 1988).

[20]J. Douglas Hawkins, "Importance and Access of International Patent Protection for the Independent Inventor," 3 *University of Baltimore Intellectual Property Journal* (1995), 145.

continues to climb.[21] In 1996, inventors filed 211,013 patent applications at the USPTO. In 2002, that number had increased to 345,732 applications.[22] These statistics suggest that members of the technological community continue to view patents as valuable.

The patent system has long been subject to criticism, however. Some observers believe that the patent system encourages industry concentration and presents a barrier to entry in some markets.[23] Others believe that the patent system too frequently attracts speculators who prefer to acquire and enforce patents rather than engage in socially productive activity.[24] Still other commentators suggest that the patent system often converts pioneering inventors into technological suppressors, who use their patents to block subsequent improvements and thereby impede technical progress.[25] The Wright brothers, for example, patented a method for stabilizing flight by warping the wings of an aircraft.[26] Their patent covered any system that varied the lateral margins of the wings in opposite directions. Soon thereafter, Glenn Curtiss and Alexander Graham Bell improved upon the Wright brothers' wing-warping device by using a set of wing flaps, or ailerons. Although the Curtiss-Bell invention was separately patented, use of that invention would result in the infringement of the Wright brothers patent. Some commentators believe that the Wright brothers employed their patent to block use of the Curtiss-Bell improvement invention to the detriment of the development of the U.S. aviation industry.[27]

When analyzing these contending views, it is important to note the lack of rigorous analytical methods available for analyzing the effect of the patent law upon the U.S. economy as a whole. The relationship between innovation and patent rights remains poorly understood. Concerned observers simply do not know what market impacts would result from changing patent term from its current twenty-year period, for example.[28] As a result, current economic and policy tools do not allow us to calibrate the patent system precisely in order to produce an optimal level of investment in innovation.

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[21]Robert Hunt, "Patent Reform: A Mixed Blessing for the U.S. Economy?," Federal Reserve Bank of Philadelphia Business Review, available at http://www.phil.frb.org /files/br/brnd99rh.pdf.

[22]U.S. Patent & Trademark Office, U.S. Patent Statistics, Calendar Years 1963-2001 (available at http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.pdf).

[23](name redacted), "Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties," *University of Illinois Law Review* (2001), 305.

[24]*Ibid*.

[25]*See* Robert P. Merges & Richard R. Nelson, "On the Complex Economics of Patent Scope," 90 *Columbia Law Review* (1990), 839.

[26]*See* Steven C. Carlson, "Patent Pools and the Antitrust Dilemma," 16 *Yale Journal on Regulation* (1999), 359.

[27]*See* George Bittlingmayer, "Property Rights, Progress, and the Aircraft Patent Agreement," 31 *Journal of Law and Economics* 227, 230-31 (1988).

[28]*See* F. Scott Kieff, "Property Rights and Property Rules for Commercializing Inventions," 85 *Minnesota Law Review* (2001), 697.

Patent Acquisition

As mandated by the Patent Act of 1952,[29] U.S. patent rights do not arise automatically. Inventors must prepare and submit applications to the U.S. Patent and Trademark Office if they wish to obtain patent protection.[30] USPTO officials known as examiners then assess whether the application merits the award of a patent.[31]

In deciding whether to approve a patent application, a USPTO examiner will consider whether the submitted application fully discloses and distinctly claims the invention.[32] In addition, the application must disclose the "best mode," or preferred way, that the applicant knows to practice the invention.[33] The examiner will also determine whether the invention itself fulfills certain substantive standards set by the patent statute. To be patentable, an invention must be useful, novel and nonobvious. The requirement of usefulness, or utility, is satisfied if the invention is operable and provides a tangible benefit.[34] To be judged novel, the invention must not be fully anticipated by a prior patent, publication or other knowledge within the public domain.[35] A nonobvious invention must not have been readily within the ordinary skills of a competent artisan at the time the invention was made.[36]

If the USPTO allows the patent to issue, the patent proprietor obtains the right to exclude others from making, using, selling, offering to sell or importing into the United States the patented invention.[37] The maximum term of patent protection is ordinarily set at 20 years from the date the application is filed.[38] The patent applicant gains no enforceable rights until such time as the application is approved for issuance as a granted patent, however. Once the patent expires, others may employ the patented invention without compensation to the patentee.

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[29]P.L. 82-593, 66 Stat. 792 (codified at Title 35 United States Code).

[30]35 U.S.C. § 111 (2002).

[31]35 U.S.C. § 131 (2002).

[32]35 U.S.C. § 112 (2002).

[33]*Ibid.*

[34]35 U.S.C. § 101. (2002).

[35]35 U.S.C. § 102 (2002).

[36]35 U.S.C. § 103 (2002).

[37]35 U.S.C. § 271(a) (2002).

[38]35 U.S.C. § 154(a)(2) (2002). Although patent term is based upon the filing date, the patentee gains no enforceable legal rights until the USPTO allows the application to issue as a granted patent. A number of Patent Act provisions may modify the basic 20-year term, including examination delays at the USPTO and delays in obtaining marketing approval for the patented invention from other federal agencies.

Patent Litigation

Patent Litigation Prior to 1982

Congress has specified that patent litigation generally occurs within the federal courts, as compared to state or local courts.[39] Patent disputes enter the federal court system through two principal routes. First, a patent applicant may disagree with a USPTO decision denying the issuance of a patent. In such cases, the patent applicant is entitled to appeal the administrative agency's decision. From its founding in 1909 through 1982, a specialized tribunal, the Court of Customs and Patent Appeals ("CCPA"), was authorized to hear cases arising from the USPTO.[40] Appeals from the CCPA could be heard by the nation's highest court, the U.S. Supreme Court.

The second possibility is patent enforcement. Issued patents provide their owners with certain rights, but these rights are not self-enforcing. A patentee bears responsibility for monitoring its competitors to determine whether they are using the patented invention or not. Patent proprietors who wish to compel others to observe their intellectual property rights must ordinarily commence litigation.[41]

Patent proprietors commence enforcement litigation in the U.S. district courts, which are the trial courts of the federal court system. Congress has established 94 federal judicial districts, including at least one district in each state, as well as the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and the Northern Mariana Islands.[42]

These judicial districts are organized into 12 regional circuits, each of which has a U.S. court of appeals. A court of appeals hears appeals from the district courts located within its circuit.[43] For example, the Court of Appeals for the Second Circuit presides over the federal district courts of Connecticut, New York and Vermont, while the Court of Appeals for the Seventh Circuit hears cases from the district courts of Illinois, Indiana and Wisconsin.[44] The Supreme Court possesses authority to hear cases decided from the courts of appeal.[45]

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[39]28 U.S.C. § 1338(a) (2002).

[40]Act of Aug. 5, 1909, ch. 6, 36 Stat. 11,105 (establishing Court of Customs Appeals). *See* Ellen E. Sward & Rodney F. Page, "The Federal Courts Improvement Act: A Practitioner's Perspective," 33 *American University Law Review* (1984), 385.

[41](name redacted), "Litigation Beyond the Technological Frontier: Comparative Approaches to Multinational Patent Enforcement," 27 *Law and Policy in International Business* (1996), 277.

[42]28 U.S.C. §§ 88, 116 (2002).

[43]The appellate courts may also accept appeals from certain decisions of federal administrative agencies.

[44]28 U.S.C. § 41 (2002).

[45]In addition, the Supreme Court possesses original jurisdiction over some cases. It also may expedite appeals from the district courts.

Reforms to Patent Litigation in 1982

With the passage of the Federal Courts Improvement Act of 1982,[46] Congress altered the traditional jurisdictional structure for patent appeals. Congress created a new court, the Federal Circuit, possessing nationwide jurisdiction to hear appeals in cases involving the patent laws.[47] Congress accomplished this task through two principal acts. First, Congress abolished the CCPA and invested the Federal Circuit with jurisdiction over appeals of adverse patentability decisions from the USPTO. Second, Congress divested the regional circuit courts of appeals of patent enforcement cases. Under the new law, the Federal Circuit enjoys national jurisdiction over appeals in patent infringement cases.

As a result, patent applicants may appeal adverse patentability decisions from the USPTO directly to the Federal Circuit. In addition, in patent infringement litigation, appeals go not to the regional courts of appeal, but to the Federal Circuit. For example, suppose that the U.S. District Court for the Eastern District of Virginia decides a case involving a violation of federal employment laws, and another case involving complaints of patent infringement. Because the U.S. District Court for the Eastern District of Virginia sits within the Fourth Circuit, any appeal of the employment case would be to the U.S. Court of Appeals for the Fourth Circuit. An appeal of the district court judgment of the patent case would be heard by the Federal Circuit, however. The Supreme Court may resolve appeals decided by the Federal Circuit.

The History of the Federal Circuit

A long history concerns the concept of a single, national court of patent appeals. Legislative proposals to establish such a tribunal date back to at least 1887.[48] From that time through the World War II era, bills proposing similar arrangements were introduced in numerous sessions of Congress.[49] Paul Janicke, a member of the faculty of the University of Houston Law Center, observes that although debate over the merits of a national patent appeals court occurred over nearly a century, the points of contention remained substantially the same over the years.[50]

Proponents of a unified appeals court for patent matters observed that patent litigation involved issues of significant technical and legal complexity. Jurists with a doctrinal command of patent law principles would be better able to achieve fair

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[46]Federal Courts Improvement Act of 1982, Pub.L. No. 97-164, 96 Stat. 25 (1982).

[47]DeConcini, *supra* note 1.

[48]Paul Janicke, "To Be or Not to Be: The Long Gestation of the U.S. Court of Appeals for the Federal Circuit (1887-1982), 69 *Antitrust Law Journal* (2002), 645.

[49]*Ibid.*

[50]*Ibid.*

results in a timely fashion.[51] In addition, patent lawyers persistently reported significant disparities in the results of patent cases from various circuit courts of appeal. Some courts were believed to be very favorable towards patent proprietors, while others only rarely upheld a patent or found that there was patent infringement. These perceived differences in attitudes towards patents lead to large expenditures of time and money by litigants trying to maneuver their lawsuits into or out of a particular circuit.[52]

Opponents of a patent appeals court instead believed that judicial specialization would lead to negative consequences. Among other commentators, Judge Simon Rifkind argued that specialized courts, by considering only a narrow class of cases year after year, would grow distanced from the mainstream of legal and societal thinking.[53] As well, such a court might come to have a stake in the field of law in which it was meant to serve as an impartial decider of disputes. Much like an administrative agency subject to "industry capture," a specialized patents court might believe that a strong patent system, with frequent findings of patent validity, infringement and high damages awards, would be within the court's own interest.[54] Such a bias might overly strengthen the patent system, skewing economic incentives to innovate and discounting the interests of the public.

Although debate over the wisdom of a national patent appeals court continued, support for a national patent appeals court rose by the early 1970's. The increasing sophistication of technology was also believed to lead to increasingly complex, expensive and time-consuming patent litigation.[55] Concerns also grew that the technological competitiveness of the United States had weakened as compared to major trading partners such as Japan and Germany.[56] During this period, many commentators called for a strengthening of the U.S. patent system in order to increase incentives to innovate. A national patent appeals court was among the advocated reforms for invigorating the U.S. patent system.[57]

These themes were reflected in the work of a congressional commission formed in 1972 to study the entire federal appellate system. Chaired by Senator Roman Hruska, by whose name it became generally known, the commission considered possible changes in geographic boundaries of the judicial circuits, the effectiveness

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[51]Richard A. Posner, "Will the Federal Courts of Appeal Survive Until 1984? An Essay on Delegation and Specialization of the Judicial Function," 56 *Southern California Law Review* (1983), 761.

[52]Markey, *supra* note 3.

[53]Simon Rifkind, "A Specialized Court for Patent Litigation? The Danger of a Specialized Judiciary," 37 *American Bar Association Journal* (1951), 425.

[54]*Ibid.*

[55]John R. Allison & Mark A. Lemley, "The Growing Complexity of the United States Patent System," 82 *Boston University Law Review* (2002), 77.

[56]Pauline Newman, "Origins of the Federal Circuit: The Role of Industry," 11*Federal Circuit Bar Journal* (2001-2002), 541.

[57]*Ibid.*

of internal court procedures, and ways to improve the administration of appellate justice generally. The Hruska Commission released its final report in 1975. Among its conclusions was that the patent law could benefit from the unifying influence of a national court.[58]

Although Congress did not act upon the Hruska Commission proposal, the concept of a national court of patent appeals gained increasing acceptance. In 1978, the Department of Justice established the Office for Improvements in the Administration of Justice (OIAJ). A former member of the University of Virginia law faculty, Daniel J. Meador, headed the OIAJ. The OIAJ proposed that Congress merge two existing courts, the Court of Customs and Patent Appeals (CCPA) with another specialized tribunal, the Court of Claims. The Court of Claims possessed jurisdiction over a variety of lawsuits against the United States, including disputes over federal contracts and unlawful "takings" of private property by the federal government. This new, consolidated court would be termed the U.S. Court of Appeals for the Federal Circuit.

The OIAJ offered a number of arguments in favor of this proposal. The OIAJ believed that the consolidation of patent appeals would bring about a significant degree of appellate decision uniformity. In addition, rather than creating an additional court, this proposal actually eliminated one, while avoiding the difficulty of adding new judges or confining the court to a single area of expertise. The OIAJ also observed that, as a practical matter, the two courts to be merged already occupied the same building in downtown Washington, DC.[59]

The OIAJ proposal was ultimately implemented through the Federal Courts Improvement Act.[60] Congress passed this legislation in early 1982, with President Reagan signing the bill into law on April 2, 1982. The Federal Circuit heard its first appeal on October 1, 1982.[61]

As structured by the Federal Courts Improvement Act, Congress authorized twelve seats on the Federal Circuit bench, but generally ten or eleven actually sit on the court.[62] A number of senior judges, who have a semi-retired status, also work on

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[58]Commission on Revision of the Federal Court Appellate System, *Structure and Internal Procedures: Recommendations for Change*, 67 F.R.D. 195 (1975).

[59] Office for Improvements in the Administration of Justice, *A Proposal to Improve the Federal Appellate System* (1978).

[60]Federal Courts Improvement Act of 1982, Pub.L. No. 97-164, 96 Stat. 25 (1982).

[61]*See South Corp. v. United States*, 690 F.2d 1368 (Fed. Cir. 1983).

[62]Paul R. Michel, "The Court of Appeals for the Federal Circuit Must Evolve to Meet the Challenges Ahead," 48 *American University Law Review* (1999), 1177.

the court.[63] Federal Circuit judges ordinarily hear cases in panels of three. For cases of particular importance, all active judges sit *en banc*.[64]

As originally structured by the Federal Courts Improvement Act, and as subsequently augmented by Congress, the Federal Circuit possesses appellate jurisdiction over a number of cases not involving the patent law.[65] The Federal Circuit also hears appeals from two special trial courts with nationwide jurisdiction over certain types of cases: the Court of International Trade addresses cases involving international trade and customs issues,[66] and the United States Court of Federal Claims which hears certain cases involving claims against the United States.[67] In addition, the court hears appeals in the following cases:

- Denials of applications for trademark registrations by the USPTO Board of Trademark Appeals;[68]
- Decisions of the International Trade Commission;[69]
- Decisions of the Merit Systems Protection Board;[70]
- Government contract decisions under the Contract Disputes Act of 1978;[71]
- Cases transferred from the now abolished Temporary Emergency Court of Appeals (TECA);[72]
- Vaccine cases arising under the National Childhood Vaccine Injury Act;[73]
- Decisions under the Veterans' Judicial Review Act;[74] and
- Decisions of the Senate Select Committee on Ethics.[75]

The following table displays the number of appeals filed at the Federal Circuit for the past five years, organized by the tribunal of their origin.

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[63]The Sixteenth Annual Judicial Conference of the United States Court of Appeals for the Federal Circuit, 193 Fed. R. Dec. 263 (1999).

[64]*See* William C. Rooklidge & Matthew F. Weil, "En Banc Review, Horror Pleni, and the Resolution of Patent Law Conflicts," 40 *Santa Clara Law Review* (2000), 787.

[65]28 U.S.C. § 1295 (2002).

[66]28 U.S.C. § 1295(a)(5)-(7) (2002).

[67]28 U.S.C. § 1295(a)(3) (2002).

[68]28 U.S.C. § 1295(a)(4) (2002).

[69]28 U.S.C. § 1295(a)(6) (2002).

[70]28 U.S.C. § 1295(a)(9) (2002).

[71]28 U.S.C. § 1295(a)(10), (b), (c).

[72]28 U.S.C. § 1295(a)(11)-(14). which includes actions under the Economic Stabilization Act of 1970, Emergency Petroleum Allocation Act of 1973, Natural Gas Policy Act of 1978, and Energy Policy and Conservation Act.

[73]28 U.S.C. § 1295(a)(3) (2002).

[74]38 U.S.C. § 7292 (2002).

[75]2 U.S.C. § 1209 (2002).

Appeals to the Federal Circuit Oganized by Tribunal of Origin

Source of Appeals	**1997**	**1998**	**1999**	**2000**	**2001**
Board of Contract Appeals	71	54	40	38	44
Court of International Trade	83	75	43	43	71
Court of Veterans Appeals	84	122	194	186	151
Department of Veterans' Affairs	3	1	10	9	3
Court of Federal Claims	151	193	165	144	163
U.S. District Courts	395	419	466	455	420
International Trade Commission	7	12	5	2	8
Merit Systems Protection Board	544	462	523	501	455
Patent and Trademark Office	72	68	69	91	83
Senate Select Committee on Ethics	3	6	0	3	1
Writs	41	42	28	37	55
Total	1458	1454	1543	1509	1454

Sometimes cases appealed to the Federal Circuit involve legal issues over which the Federal Circuit has exclusive jurisdiction – such as the patent law – as well as legal issues in which it does not. For example, a case involving a breach of a patent license could involve both contract law and patent law issues. In reviewing district court judgments in patent cases, the Federal Circuit applies its own law with respect to patent law issues, but with respect to nonpatent issues the Federal Circuit generally applies the law of the circuit in which the district court sits. The Federal Circuit

reasons that it should "apply Federal Circuit law to patent issues in order to serve one of the principal purposes for the creation of this court: to promote uniformity in the law with regard to subject matter within our exclusive appellate jurisdiction."[76]

Impact of the Federal Circuit Upon Innovation

Congress created the Federal Circuit with the specific goals of harmonizing patent law and improving the environment for technological innovation. Two decades of experience have resulted in varying viewpoints about the court. This report surveys differing opinions concerning the impact of the Federal Circuit upon the patent system and innovation policy.

Perceived Benefits of the Federal Circuit

A number of commentators believe that the Federal Circuit has strengthened the economic, legal and commercial significance of patents to U.S. industry. As explained by patent attorney Robert P. Taylor:

> By any measure chosen, the economic importance of patent property in 2002 is greater by an order of magnitude than that of a generation ago. The moment and volume of patent litigation, the attention that patents receive in financial transactions and corporate boardrooms, the magnitude of judgments and settlements -- all attest to the aggregate impact that the Federal Circuit has made on the patent right and the procedures for asserting it.[77]

Many commentators believe that Federal Circuit case law concerning the standard of obviousness has had an important impact by strengthening the patent right.[78] Under the Patent Act, in order to be patentable, an invention would not have been obvious to a person of ordinary skill in the art at the time the invention was made.[79] Some observers believed that the regional courts of appeals applied a very stringent standard of obviousness, such that many patents issued by the USPTO were declared invalid during enforcement proceedings.[80] In contrast to some earlier courts, the Federal Circuit requires patent challengers to show that there was some motivation in the prior art to make the patented invention, relying upon specific teachings from the prior art.[81] Some experts believe that under the Federal Circuit's

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[76]*Atari, Inc. v. JS&A Group, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984).

[77]Robert P. Taylor, "Twenty Years of the Federal Circuit: An Overview," 716 *Practising Law Institute, Patents, Copyrights, Trademarks and Literary Property Course Handbook Series* (2002), 9.

[78]*Ibid.*

[79]35 U.S.C. § 103(a) (2002).

[80]Martin J. Adelman *et al., Patent Law: Cases and Materials* (West Publishing Co., St. Paul, Minnesota 1998), 413.

[81]Alan P. Klein, "A Funny Thing Happened to the Non-Obvious Subject Matter Condition for Patentability on Its Way to the Federal Circuit," 6 *University of Baltimore Intellectual Property Law Journal* (1997), 19.

obviousness standard, it is more difficult to have an issued patent declared invalid in court.[82]

The Federal Circuit is also said to have heightened an issued patent's presumption of validity.[83] The Patent Act stipulates that each issued patent is presumed to be valid.[84] The burden of proof therefore lies with an individual attempting to defeat the patent. Prior to the creation of the Federal Circuit, however, some commentators believe that the regional circuit courts of appeal gave this presumption little weight.[85] The Federal Circuit has held that the statutory presumption of validity must be overcome by a patent challenger through "clear and convincing evidence" of a patent's invalidity.[86]

The Federal Circuit is also said to have clarified the range of subject matter that innovators may patent.[87] Federal Circuit case law has broadly confirmed the patentability of inventions in such fields as computer software, business methods and biotechnology.[88] Many commentators believe that a broad approach to patentable subject matter best responds to the need of contemporary U.S. industry that has advanced beyond the traditional chemical, electrical and mechanical inventions of heavy industry.[89]

The Federal Circuit has also been perceived as increasing the remedies available to patent owners in cases of infringement. One possible remedy available in patent litigation is a preliminary injunction.[90] A preliminary injunction is a provisional order, issued by a court and directed towards the defendant in a litigation. The injunction forbids the party from performing a specified act which, in patent cases, is ordinarily the practice of the patented invention. Patent owners may seek a

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[82]*Ibid.*

[83]Gerald Sobel, "The Court of Appeals for the Federal Circuit: A Fifth Anniversary Look at Its Impact on Patent Law and Litigation," 37 *American University Law Review* (1988), 1087.

[84]35 U.S.C. § 282 (2002).

[85]Sobel, *supra* note 83.

[86]*Lindemann Maschinenfabrik GmbH v. American Hoist & Derrick Co.*, 730 F.2d 1452 (Fed. Cir. 1984).

[87]Gregory J. Maier & Robert C. Mattson, "*State Street Bank* in the Context of the Software Patent Saga," 8 *George Mason Law Review* (1999), 307.

[88]*Ibid*; *see also* Lawrence T. Kass & Michael N. Nitabach, "A Roadmap for Biotechnology Patents? Federal Circuit Precedent and the PTO's New Examination Guidelines," 30 *American Intellectual Property Law Association Quarterly Journal* (2002), 233.

[89]Erik S. Maurer, "An Economic Justification for a Broad Interpretation of Patentable Subject Matter," 95 *Northwestern University Law Review* (2001), 1057.

[90]35 U.S.C. § 283 (2002).

preliminary injunction that is effective until the court conducts a full trial on the merits.[91]

Prior to the Federal Circuit, patent owners tended to encounter difficulty in obtaining preliminary injunctions. According to patent attorney Robert Taylor, regional circuit courts often required the patent owner to show that its patent had been upheld in a prior case before issuing a preliminary injunction in a subsequent case.[92] The Federal Circuit has instead allowed patent owners to rely more heavily upon the statutory presumption of validity.[93] As a result, the award of a preliminary injunction focuses more upon a showing that the patentee is likely to prevail in a full-fledged litigation. In turn, preliminary injunctions appear more likely to be awarded under the case law of the Federal Circuit than under the rulings of predecessor courts. Because a preliminary injunction has been described as a powerful weapon for patent owners, allowing a quick and effective remedy against infringers, this shift in the case law is said to have increased the value of the patent right.[94]

The Federal Circuit has also been viewed as increasing the amount of monetary damages owed by infringers to patent owners.[95] According to Mr. Taylor, case law from the regional circuits prior to the Federal Circuit "made a conscious policy to minimize patent damages."[96] The Federal Circuit's decisions instead allow patent owners to recover whatever losses are reasonably foreseeable consequences of infringement.[97]

The Federal Circuit has also achieved a number of procedural reforms within the patent law. For example, the Federal Circuit has determined that in jury trials, the trial judge should resolve disputes about the scope of patents involved in enforcement litigation.[98] The Federal Circuit has also delineated the types of

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[91]John Leubsdorf, "The Standard for Preliminary Injunctions," 91 *Harvard Law Review* (1978), 525.

[92]Taylor, *supra* note 77.

[93]James J. Foster, "The Preliminary Injunction - A 'New' and Potent Weapon in Patent Litigation," 68 *Journal of the Patent and Trademark Office Society* (1986), 281.

[94]William A. Morrison, "The Impact of the Creation of the Court of Appeals for the Federal Circuit on the Availability of Preliminary Injunctive Relief Against Patent Infringement," 23 *Indiana Law Journal* (1990), 169.

[95]Allan N. Litman, "Monopoly, Competition and Other Factors in Determining Patent Infringement Damages," 38 *IDEA: Journal of Law and Technology* (1997), 1.

[96]Taylor, *supra* note 77.

[97]*Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1368 (Fed. Cir. 1995) (*en banc).*

[98]*Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (*en banc*), *aff'd*, 517 U.S. 370 (1996).

evidence on which the trial court might appropriately rely.[99] Experts believe that this change provides more reliable and consistent procedures for interpreting patents.[100]

Many experts believe that, in total, the Federal Circuit has made the patent law more coherent and easier to apply. According to Rochelle Dreyfuss, a member of the faculty of the New York University School of Law, the Federal Circuit has begun to make patent law more accurate and precise.[101] With a single Federal Circuit considering patent law principles on a more regular basis than did any one of the regional circuit courts of appeal, Ms. Dreyfuss believes that the Federal Circuit "has taken the opportunity to rationalize and reconcile the entire body of patent doctrine."[102] In her view, with a patent law easier for the innovative industry to discern, a more predictable legal environment for technological advancement has resulted.

Critiques of the Federal Circuit

The Federal Circuit has also been the subject of critical commentary over its twenty-year history. Some commentators have expressed concern over the unique nature of the Federal Circuit, which departs from the traditional structure of appellate courts. In a published judicial opinion, Chief Judge Young of the U.S. District Court for the District of Massachusetts stated:

> The Federal Circuit is different. Unlike the other regional circuit courts of appeal, the Federal Circuit came into being, in part, pursuant to an express Congressional mandate to foster uniformity in the law of patents. . . . Indeed, the Federal Circuit views itself as a substantive policymaker, a court with a mission . . . .
>
> Almost since its inception, the Federal Circuit has been dogged with criticism for straying from the path carefully delineated for appellate tribunals. Disappointed litigants and commentators have criticized the court for fact-finding and other forms of hyperactive judging. Increasingly, the bar is expressing concern over the court's decision-making procedures and its apparent willingness to take over the roles of patent examiner, advocate and trier of fact.[103]

Some commentators believe that the Federal Circuit has overly favored patent owners. For example, referring to the Federal Circuit, Chief Judge Richard Posner of the Seventh Circuit has stated that "a specialized court tends to view itself as a booster of its speciality."[104] Some observers have cited such legal developments as

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[99]*Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576 (Fed. Cir. 1996).

[100]Daniel J. Melman, "Post *Markman*: Claim Construction Trends in the Federal Circuit," 7 *Richmond Journal of Law and Technology* (2001), 4.

[101]Dreyfuss, *supra* note 2.

[102]*Ibid.*

[103]*Control Resources, Inc. v. Delta Electronics, Inc.*, 131 F.Supp.2d 121, 123-24 (D. Mass. 2001).

[104]Declan McCullagh, "Left gets nod from right on copyright law," CNETNews.com (Nov.

(continued...)

the expansion of patentable subject matter, an obviousness standard that is believed to be lenient, and a perceived restricted view of antitrust principles, as evidence that the Federal Circuit is a favorable forum for patent owners.

The trend towards an expansive sense of the subject matter that can be patented, including biotechnology, business methods and computer software, as well as the increased damages awards, have been noted previously.[105] Some observers see these developments not so much as reflecting the needs of modern industry or the actual economic consequence of patent infringement, but rather a bias towards increasing the importance of the patent law.[106]

As noted above, in the view of some commentators, the Federal Circuit has lowered the standard of nonobviousness.[107] For example, the Federal Circuit has prohibited USPTO examiners from relying upon "common sense" in its patentability determinations. Instead, examiners must cite specific earlier patents, publications and other references that prove the invention would have been obvious.[108] In addition, in contrast to predecessor courts, the Federal Circuit also allows patent owners to rely more heavily upon so-called "secondary considerations," such as the commercial success of the patented invention, in order to prove that the invention would not have been obvious.[109] As a result, some observers believe that USPTO examiners face more difficulty in rejecting patent applications on such inventions as business methods, and accused infringers have a harder time having issued patents declared invalid.[110]

In the view of some observers, the Federal Circuit has not rigorously upheld antitrust policies. According to attorneys Ronald S. Katz and Adam J. Safer, one "potential and unintended effect of the creation of the Federal Circuit is that the delicate balance maintained for many years between intellectual property law and antitrust law may have been tipped decisively in favor of intellectual property."[111] Katz and Safer contend that in cases covering such practices as refusals to license and tying – where the patent owner agrees to sell the patented product only where the

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[104](...continued)
20, 2002) (reporting remarks of Judge Richard Posner that: "A specialized court tends to see itself as a booster of its speciality.") (available at http://news.com.com /2100-1023-966595.html).

[105]*See supra* notes 87-89 and accompanying text.

[106]Malla Pollack, "The Multiple Unconstitutionality of Business Method Patents: Common Sense, Congressional Consideration, and Constitutional History," 28 *Rutgers Computer and Technology Law Journal* (2002), 61.

[107]*See supra* notes 78-82 and accompanying text.

[108]*In re Lee*, 277 F.3d 1338 (Fed. Cir. 2002).

[109]*See, e.g., Allen Archery Inc. v. Browning Mfg.*, 819 F.2d 1087 (Fed. Cir. 1987).

[110]Robert P. Merges, "Commercial Success and Patent Standards: Economic Perspectives on Innovation," 76 *California Law Review* (1988), 803.

[111]Ronald S. Katz & Adam J. Safer, "Should One Patent Court Be Making Antitrust Law for the Whole Country?," 69 *Antitrust Law Journal* (2002), 687.

purchaser also buys an unpatented product – the Federal Circuit has tended to decide in favor of the patent owner.[112] James Gambrell, a member of the University of Texas School of Law, concludes that Federal Circuit jurisprudence "elevates patent rights at the expense of unfair competition and core antitrust principles that [the Federal Circuit] was not given the jurisdiction to control."[113]

Some analysts also believe that the concentration of patent law appeals within the Federal Circuit leads to a rapid pace of legal development. In a speech delivered at the Marquette Law School, Judge Randall R. Rader of the Federal Circuit explained that the number of copyright lawsuits is comparable to the number of patent suits each year. Judge Rader further estimated that while the average circuit court decides an average of 3.5 copyright cases each year, the Federal Circuit has in recent years averaged 96 precedential patent cases annually.[114] Judge Rader concluded that the rate of common law development at the Federal Circuit proceeds "at twenty-five times the pace of the average circuit."[115] Such a concentration could conceivably lead to less, rather than more predictability within the patent law.

Other observers believe the specialized appeals court model provides less chance for sound development of the law. As explained by Judge Rader: "When the Federal Circuit speaks, that becomes the nationwide rule and in many cases, once it has spoken there is less percolation [and] less chance for experimentation . . . ." Channeling cases to a single forum may deprive the patent law of the collective wisdom of many jurists, some experts believe, as well as take the patent law outside the mainstream of legal thinking.[116]

Some critics have also suggested that difficulties exist in the relationship between district court judges and the Federal Circuit . Kimberly Moore, a member of the faculty of the George Mason University School of Law, completed an empirical study that shows that district court judges improperly interpret patent claim terms in 33% of the cases appealed to the Federal Circuit.[117] Because the proper interpretation of patent instruments is a central component of any patent litigtation, this reversal rate leads Ms. Moore to question whether "the patent system [can] flourish if the scope of the patentee's property right is wrongly assessed one-third of the time." Some observers appear to be of the view that some district court judges are frustrated by the large number of their opinions that are overturned by the Federal

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[112]*Ibid.*

[113]James B. Gambrell, "The Evolving Interplay of Patent Rights and Antitrust Restraints in the Federal Circuit," 9 *Texas Intellectual Property Journal* (2001), 137.

[114]Randall R. Rader, "The United States Court of Appeals for the Federal Circuit: The Promise and Perils of a Court of Limited Jurisdiction," 5 *Marquette Intellectual Property Law Review* (2001), 1.

[115]*Ibid.*

[116]*Ibid.*

[117]Kimberly A. Moore, "Are District Court Judges Equipped to Resolve Patent Cases?," 12 *Federal Circuit Bar Journal* (2002), 1.

Circuit. For example, Judge Samuel B. Kent, for the Southern District of Texas, once stated in open court:

> Frankly, I don't know why I'm so excited about trying to bring this thing [patent infringement trial] to closure. It goes to the Federal Circuit afterwards. You know, it's hard to deal with things that are ultimately resolved by people wearing propeller hats. But we'll just have to see what happens when we give it to them. I could say that with impunity because they've reversed everything I've ever done, so I expect fully they'll reverse this, too.[118]

According to some observers, inconsistencies between trial court and Federal Circuit opinions hold the potential to lengthen litigation, discourage settlement and increase uncertainty.[119] Ms. Moore questions whether the innovation is hampered by the seeming inability of trial judges to comply with Federal Circuit law.[120]

Recent Developments

Two recent events are notable for their analysis of the appropriate role of the Federal Circuit within the federal judiciary. The 1998 report of the so-called "White Commission" addressed the possibility of additional courts with specialized subject matter jurisdiction, as well as the possibility of transferring additional appeals from the regional circuits to the Federal Circuit. As well, the 2002 decision of the Supreme Court in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*,[121] appears to have restricted the exclusive appellate jurisdiction of the Federal Circuit. This report explores these two developments in turn.

The White Commission

Congress created the Commission on Structural Alternatives for the Federal Courts of Appeals in 1997.[122] The commission, headed by retired U.S. Supreme Court Justice Byron R. White, has been more commonly termed the "White Commission." The Commission was charged to "report to the President and the Congress its recommendations for such changes in circuit boundaries or structure as may be appropriate for the expeditious and effective disposition of the caseload of the Federal Courts of Appeals."[123] As part of this task, the Commission considered several issues pertinent to the current structure of the Federal Circuit.[124]

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[118]*O.I. Corp. v. Tekmar Co.*, No. 95-CV-113 (S.D. Tex. June 17, 1996). The Federal Circuit affirmed Judge Kent's ruling on appeal. *See O.I. Corp. v. Tekmar Co.*, 115 F.3d 1576 (Fed. Cir. 1997).

[119]Rooklidge & Weil, *supra* note 64.

[120]Moore, *supra* note 117.

[121]535 U.S. 826 (2002).

[122]Pub. L. No. 105-119 (Nov. 26, 1997).

[123]*Ibid.*

[124]Commission on Structural Alternatives for the Federal Courts of Appeal, Final Report (continued...)

The White Commission initially circulated a “tentative draft report” that discussed the possibility of transferring copyright cases from the regional circuits to the Federal Circuit.[125] The draft report observed that patents and copyrights are linked in the Constitution, which permits Congress to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[126] Like patents, copyrights are governed by a single federal law, the Commission observed, suggesting that uniform interpretation of those laws is a desirable objective. The Commission further observed that the availability of both copyright and patent protection for computer programs has caused a convergence in the two legal disciplines. The Commission noted that these developments have led some observers to suggest that the same court be assigned exclusive jurisdiction over patent and copyright claims.[127]

The White Commission deleted this discussion from the final version of its report, however. Although the White Commission did not explain this omission, some commentary over this portion of the draft report was negative. Carl Tobias, a member of the faculty of the University of Nevada at Las Vegas Law School, observed that Federal Circuit judges had minimal experience with copyright.[128] Michael K. Kirk, Executive Director of the American Intellectual Property Law Association, stated that the Federal Circuit already possessed a busy caseload that should not be further weighted down by the imposition of copyright claims.[129] Finally, Mr. Kirk also believed that copyright on technologies formed a relatively small part of the copyright law, so that any perceived efficiency gains were minimal.[130] Mr. Kirk further stated that: “The Federal Circuit should not become a ‘catch-all’ court or ‘dumping ground’ for various types of appeals that can be neatly carved out of regional circuits’ jurisdiction.”[131]

The final report of the White Commission did address the possibility of additional courts that, like the Federal Circuit, would be organized not by geography, but by the subject matter over which they possessed jurisdiction. Finding no compelling need, the Commission therefore declined to recommend that Congress

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[124](...continued)
(Dec. 18, 1998) (available at http://app.comm. uscourts.gov/final/appstruc.pdf) [hereinafter “White Commission Report.”].

[125]See Commission on Structural Alternatives for the Federal Courts of Appeals, Tentative Draft Report (Oct. 7, 1998).

[126]U.S. Constitution, Article I, Section I, Clause 8.

[127]White Commission Report, *supra* note 124.

[128]Carl Tobias, “The White Commission and the Federal Circuit,” 10 *Cornell Journal of Law and Public Policy* (2000), 45.

[129]Letter from Michael K. Kirk, Executive Director of the American Intellectual Property Law Association to the Commission on Structural Alternatives for the Federal Courts of Appeals (Nov. 6, 1998) (available at http://app.comm.uscourts.gov/report/comments/PropLaw.htm).

[130]*Ibid.*

[131]*Ibid.*

create new courts with exclusive jurisdiction in cases concerning a particular legal discipline.[132] The Commission further observed that should Congress wish to invest a single appellate court with exclusive jurisdiction over particular subjects, the Federal Circuit might serve as the appropriate forum. The Commission took particular note of tax and social security benefit appeals as possible areas that might benefit from a consolidated appellate court.[133]

Holmes v. Vornado

On June 3, 2002, the U.S. Supreme Court issued its decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*[134] That case interprets the principal statutes establishing the jurisdiction of the Federal Circuit. The first of these statutes, 28 U.S.C. § 1295, provides in part:

> (a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction--
>
> (1) of an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title. . . .

In turn, 28 U.S.C. § 1338(a) states in part, with emphasis added:

> The district courts shall have original jurisdiction of any civil action *arising under* any Act of Congress relating to patents, plant variety protection, copyrights and trademarks.

Courts traditionally look to see whether a case is "arising under" a particular statute by looking solely at the documents the plaintiff files with a court to commence a particular litigation. These documents are termed the "complaint."[135] Thus, if the plaintiff's complaint stated a cause of action under the patent law, then the district court would possess jurisdiction and appeals would go to the Federal Circuit. Lawyers sometimes term this the doctrine as the "well-pleaded complaint rule."[136]

More difficult issues arise when the plaintiff's complaint does not state a cause of action in patent law, but the defendant's court filings do. The defendant's court filings, termed as the "answer," may contain so-called "counterclaims" that include a cause of action under the patent law.[137] For example, suppose that the plaintiff claims an antitrust violation in his complaint, while the defendant in turn asserts a claim of patent infringement against the plaintiff in her answer. The issue in *Holmes*

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[132]White Commission Report, *supra* note 124.

[133]White Commission Report, *supra* note 124.

[134]535 U.S. 826 (2002).

[135]Federal Rules of Civil Procedure Rule 7(a).

[136]*See, e.g.*, Richard E. Levy, "Federal Preemption, Removal Jurisdiction, and the Well-Pleaded Complaint Rule," 51 *University of Chicago Law Review* (1984), 634.

[137]Federal Rules of Civil Procedure Rule 7(a).

v. Vornado was whether such a case "arises under" the patent law within the meaning of the statutes establishing the jurisdiction of the Federal Circuit.

Numerous earlier Federal Circuit cases looked to whether either the plaintiff's complaint or the defendant's answer asserted a cause of action based upon the patent law.[138] If so, then the Federal Circuit believed that it possessed jurisdiction to resolve that appeal. The Federal Circuit justified its interpretation of the statute based upon its congressional mandate to prevent forum shopping and provide consistent interpretation of the patent laws nationwide.[139]

In *Holmes v. Vornado*, the Supreme Court overturned the Federal Circuit. The Supreme Court held that "a counterclaim – which appears as part of the defendant's answer, not as part of the plaintiff's complaint – cannot serve as the basis for 'arising under' jurisdiction."[140] The Supreme Court held that the "well-pleaded complaint rule" was of long standing and could not be converted into a "well-pleaded complaint-*or-counterclaim* rule."[141] The consequence of *Holmes v. Vornado* is that appeals of cases based upon a complaint that does not state a cause of action in patent law, but nonetheless involve considerable patent issues, will be heard by the regional courts of appeals rather than the Federal Circuit. Although the Supreme Court recognized that having regional circuits decide patent counterclaims could undermine consistency in the patent law, the concurring opinion of Justice Stevens observed:

> An occasional conflict in decisions may be useful in identifying questions that merit this Court's attention. Moreover, occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias.[142]

Attorney James W. Dabney has stated that *Holmes v. Vornado* "strengthens the traditional right of plaintiffs to choose their own law and forum" and "contracts the exclusive appellate jurisdiction of the Federal Circuit."[143] Attorneys Bruce M. Wexler and Joseph M. O'Malley, Jr. are somewhat more concerned over the impact of the decision, predicting that *Holmes v. Vornado* "is almost certain to introduce some strategic forum shopping, pleading strategies and races to the courthouse, since plaintiffs will now have more ability to direct their non-patent claims to the forum of their choosing."[144] Given that *Holmes v. Vornado* was only recently decided, its full impact upon patent litigation cannot yet be confidently assessed.

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[138]*Aerojet-General Corp. v. Machine Tool Works*, 895 F.2d 736 (Fed. Cir. 1990) (*en banc).*

[139]*Ibid.*

[140]122 S.Ct. at 1894.

[141]122 S.Ct. at 1893.

[142]122 S.Ct. at 1898.

[143]James W. Dabney, "*Holmes v. Vornado*: A Restatement of the 'Arising Under' Jurisdiction of the Federal Courts," 11 *New York State Bar Association Bright Ideas* no. 2 (Autumn 2002), 3.

[144]Bruce M. Wexler and Joseph M. O'Malley, Jr., "Deciding Jurisdiction in Patent Cases," *New York Law Journal* (August 12, 2002).

Concluding Observations

Twenty years of experience has led to varying perceptions of the Federal Circuit. There can be little question that during the past two decades, the patent system has become a more prominent intellectual property discipline. Whether this development has increased the rewards for innovation, or instead creates a legal environment that makes it more difficult for innovative firms to do business, remains an open question. With recent developments continuing to shape the jurisdiction of the court, the Federal Circuit remains a work in progress.

Congress has not created another court modeled after the Court of Appeals for the Federal Circuit, possessing nationwide appellate jurisdiction over particular subject matter. However, there has been some congressional interest in creating a court to hear pharmaceutical patent disputes, investing a single trial court with exclusive jurisdiction to preside over patent trials, and introducing additional judicial specialization in such fields as tax and commercial law.[145] Continued experience with the Federal Circuit may provide insights on the possible benefits and detriments of creating these additional tribunals. Identification of the factors that make judicial specialization desirable, as well as the impact of specialized courts upon the fields of law within their jurisdiction, may guide future changes to the federal judicial system.

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[145] *See* Arti K. Rai, "Specialized Trial Courts: Concentrating Expertise on Fact," 17 *Berkeley Technology Law Journal* (2002), 877.