FOREWORD

THE FEDERAL CIRCUIT IN PERSPECTIVE

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The Federal Circuit Court of Appeals is a court of commerce, industry, and governmental obligation, flowing from its many and varied areas of jurisdiction. The court's concerns are with the nation's business and trade, for both government and the private sector, and with the nation's human obligations: to federal employees, to vaccine-injured children, to veterans, to Native Americans. This Annual Review is an ideal occasion to take stock of our jurisprudence, to trace the evolution of these areas of law through judicial decision, and to review the legal reasoning by which judges decide each case. It is a foundation of the rule of law that judges are required to explain themselves—thereby providing fresh material for these scholarly reviews.

Twenty-three years ago the United States embarked on a juridical experiment, the only major change in federal court structure in a hundred years. This new structure, the formation of a circuit court of national jurisdiction in assigned areas of law, was not directed at changing the law; it was focused and targeted, and the target was the nation's economic future. The purpose was to reinvigorate the nation's industrial strength and technologic leadership, with the assistance of a revived and effective patent system.

It was recognized then, as now, that our economic strength as a nation depends on technologic leadership, the balance of trade, and a culture that favors creativity, entrepreneurship, and industrial activity. These aspects can be fostered or deterred by governmental policy. The provision of an optimum policy of innovation incentive in a system of private enterprise is a complex question of industrial economics and scientific advance, a question whose answer varies among industries, markets, subject matter,

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and nations.

Despite this complexity, history shows a direct relationship between the development of new technologies and the vigor of national economies. Consider the circumstances that led to the formation of the Federal Circuit. The late 1970s saw economic recession, high unemployment, mass layoffs of scientists and engineers, and extreme inflation. Seeking remedy, in 1978-79 a major study of technology-based industry was conducted by the Carter administration. This study, called a Domestic Policy Review, was directed to the factors believed to contribute to the weakness in industrial innovation, including such factors as the increase in governmental regulation of industry, changing environmental attitudes and laws, taxation policy, competition laws and enforcement, labor practices, and the patent system. The study reflected the concern of industry that the diminished commercial development of new technologies and innovative products was due to flawed legal/economic governmental policies. Only technology-based products were showing strength in the faltering economy and had retained a favorable balance of trade, yet industry was encountering national policies that reduced the incentive to generate new products.

I was a member of the subcommittee studying the patent system. It was believed that the diminished capability of patents to support investment in new or improved products contributed to the weakness of the economy. The committee heard witnesses from large and small industry, individual inventors and entrepreneurs, who pointed out that investment in research and the development and marketing of new products are affected at every stage by factors that balance risk against potential return. The role of patents in shifting that balance was explored, as economists and lawyers discussed the relation between legal uncertainty and commercial activity.

The conclusion was straightforward: that patents had lost significant value as support for the creation and commercialization of new technologies, that no reasonable alternative existed or could be readily implemented, and that some form of economic incentive was needed in order to support investment in new technologies and improved productivity. The sources of this diminished value of patents were traced primarily to examination problems in the Patent and Trademark Office due to inadequate funding, and to the way some courts were interpreting and applying the patent law. It was concluded that improvements in these areas were feasible, and the Domestic Policy Review developed several well-supported recommendations: it was proposed to provide increased funding to the Patent and Trademark Office through the imposition of maintenance fees, to institute a system of reexamination of issued patents, and to achieve national consistency in the application of patent law through a national

court.[1]

The need for national consistency was apparent, for it was notorious that some of the regional circuits were so hostile to patents that the selection of the forum often decided the case. Thus the Domestic Policy Review proposed a major change in the system of adjudication of patent cases, whereby all patent appeals from the district courts would be consolidated in a single circuit court. It was believed that a national appellate court with experience in the complexities of technology would understand the policies underlying the patent law, eliminate forum differences, and contribute stability and thus incentive to patent-based commerce. It was believed that this change would have a significant salutary effect on industrial innovation.

However, this change was not without controversy, for it was a dramatic departure from judicial tradition. The proposed new court structure was vigorously opposed by the Litigation Section of the American Bar Association, who argued that a national appellate court would lose the benefit of divergent viewpoints among the regional circuits. The ABA stressed that inter-circuit differences provide the "percolation" that is a primary path to Supreme Court review. I can report that this feared loss of the Court's attention did not come to pass, perhaps because the Federal Circuit itself airs divergent viewpoints in important cases, thereby focusing the issues and flagging those that may warrant further judicial or legislative consideration.

A related argument against the proposed national court was based on the historical antipathy to "specialized" courts, for common law tradition favors a generalist approach to adjudication, at least in the appellate courts. The concern is that specialists are likely to have a narrow viewpoint, and tend to favor vested interests and lose sight of the larger national interest. Indeed, this concern directed the design of the Federal Circuit to have extremely diverse subject matter jurisdiction to reduce the risks of specialization. This design originated with Professor Daniel Meador, who suggested combining the jurisdictions of the United States Court of Claims and the United States Court of Customs and Patent Appeals and then adding additional areas where national uniformity was of importance.

Within the mix of jurisdictions initially assigned to the Federal Circuit, patent cases were about twelve percent of the total. Since then the proportion of patent cases has significantly increased, as the vigor of technologic innovation and the importance of patents has increased. This year patent appeals from the district courts are about twenty-five percent of

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1. *See generally* INDUS. SUBCOMM. FOR PATENT & INFO. POLICY, ADVISORY COMM. ON INDUS. INNOVATION, REPORT ON PATENT POLICY 155 (1979).

our caseload, with another five percent the patent and trademark appeals from the tribunals of the Patent and Trademark Office, and another one percent from the International Trade Commission.

The majority of Federal Circuit cases are unrelated to intellectual property. The largest of these areas is our jurisdiction of all monetary claims against the United States based on the Constitution, statute, or contract. These cases reach us on appeal from the Court of Federal Claims, the district courts, and the agency boards of contract appeals, and include an extremely broad scope of issues; examples are Fifth Amendment compensation claims, tax refund cases, the savings-and-loan and other banking issues, Native American claims, various treaty disputes, and the great variety of issues flowing from the contract-based business of government. We also receive the appeals under the Childhood Vaccine Injury Act, appeals of importation and other trade issues from the Court of International Trade, and appeals from the Court of Appeals for Veterans Claims. We are also the appellate body for various agency tribunals dealing with federal employment matters such as adverse actions, whistle-blowing, retirement, reductions-in-force, and the like. Several other areas round out our exclusive national jurisdiction, assuring that the court is not overly specialized.

This year's Annual Review concentrates on our jurisprudence in patent and trademark law and government contracts. I discuss primarily the patent issues, for this Review has well observed that this is a year of increased interest in patent law and policy. Over the two decades in which I have served the Federal Circuit, the nation's technology-based industries have become of dominant economic importance, with increasing interest in the patent law that supports and enables industrial innovation. Over these two decades I have watched the changes in the nature of the issues that are brought to the court. The major issues have been resolved, and much of today's litigation is in the fact-dependent grey areas, raising not new principles of law, but difficult judgments on close facts. The concerns that are today being debated go not to the hard core of the law, but to refinement of the law in concert with advances in science and with changing forms of technology-based industry.

In the early years of the Federal Circuit, the court methodically restored the patent law to the legal mainstream, in decisions applying across all areas of technology, rigorously implementing the patent statute and reviving established legal principles. Examples are the rulings that summary judgment is as available in patent cases as in any other; that preliminary injunctions in patent cases are decided on the same criteria as in other fields; that consent judgments and settlement agreements in patent cases are not contrary to public policy; that an assignor can be estopped

from challenging the validity of the assigned patent, as others are estopped who transfer property for value; that infringement is a wrong, not a public service; that the measure of damages is to make the injured party whole, as for other torts; that patents are presumed valid; that proof of inequitable conduct in patent prosecution requires both materiality and deceptive intent. The court developed objective standards for determination of obviousness, applied the same law in the Patent Office as in the courts, eliminated forum shopping, and generally restored the effectiveness of the patent system as reliable support for industrial innovation. The impact was dramatic, and much publicity attended the "new strength" of patents.

More recent decisions have been geared toward refining the law and adding precision to the decision of questions that are some of the most complex in adjudication. To this end the court adjusted the roles of judge and jury in interpreting patents, placed the Patent and Trademark Office under the Administrative Procedure Act, and is evolving guidelines for the writing and interpretation of patents. The question of the role of dictionaries in analysis of patent scope is currently before the court *en banc*, and is explored in this volume. These issues are important, complex, and difficult, and raise policy concerns that are a proper focus of the political branches. Yet experience shows the power of judicial decisions to affect technologic advance and commercial vigor, particularly as new technologies have arisen. The classic example is the *Chakrabarty* decision of the Court of Customs and Patent Appeals and the Supreme Court,[2] mired in controversy at the time, and now credited as the foundation of the biotechnology industry. Also controversial was the Federal Circuit's decision on patents for methods of doing business in *State Street Bank*,[3] a case still under debate. Today most of the issues before the court do not deal with dramatic new technologies, although rapidly evolving fields, such as software processes and genetic science, are the subject of ongoing discussion within the affected communities as to what the law should be, pointing up the difficulty of asking courts to adjudicate issues on which the interested communities have not reached consensus.

The overarching consideration in the development of patent jurisprudence should be the national interest, attuning the incentives to technologic advance and industrial growth to the social and economic policies of the nation. It is this national interest that is the ultimate beneficiary of legal stability. Despite the vast diversity of modern technology and the factual situations that can lead to dispute, the purposes served by the patent system should be the dominant consideration as the

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2. Diamond v. Chakrabarty, 447 U.S. 303 (1980).
3. State St. Bank & Trust Co. v. Signature Fin. Group, 149 F.3d 1368, 47 U.S.P.Q.2d (BNA) 1596 (Fed. Cir. 1998).

law evolves, whether judge made or through legislative action.

While the questions that today are litigated rarely raise major issues such as beset the patent system two decades ago, they reflect the never-ending need for adjustment. The cases that reach the court rarely are simple application of law to fact. Instead, today's appeals take us to the boundaries of the law, to the grey areas where competing policies abut and there are sound legal arguments on both sides. With close questions, diversity of judicial viewpoint is more frequent. Such diversity produces the "percolation" that scholars feared would be lost to the Federal Circuit, and indeed can lead to consensus strengthened by the deliberations in reaching it.

Policy ripening also is achieved by the Federal Circuit's procedure for changing its own precedent. The general judicial rule is that later appellate panels cannot overturn earlier panel holdings, and that precedent can be changed only by the court sitting *en banc*. This procedure was invoked this past year in the *Knorr-Bremse*[4] case, discussed in this volume. In *Knorr-Bremse*, the court reviewed its precedent in light of changed circumstances, and acted *en banc* to relieve the heavy burden previously placed on the attorney-client privilege.

In the perspective of the Federal Circuit's brief history, I marvel at the rapidity with which industrial and entrepreneurial activity responded to the restoration of basic stability to patent law. This history demonstrates that the appropriate application of patent law can indeed be a force for industrial and scientific advance—in research and disclosure of new science, and in investment in new technologies and new products. The formation and early decisions of the Federal Circuit produced a resurgence in commercial activity and in scientific and technologic creativity. Although changes in the law are today less dramatic, a well-wrought jurisprudence continues to evolve to meet new technologies, to answer new questions.

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4. Knorr-Bremse Sys. v. Dana Corp., 383 F.3d 1337, 72 U.S.P.Q.2d (BNA) 1560 (Fed. Cir. 2004) (*en banc*).