THE FEDERAL CIRCUIT UNDER FIRE

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The Supreme Court's 2013 Term produced many significant decisions, but one of its most lasting legacies may be a question it raised about patent law: why did Congress bother to grant the Federal Circuit exclusive jurisdiction over patent appeals, when the Supreme Court clearly knows better? Out of six patent cases this year, the Court unanimously reversed in the first five (a remarkable 0-for-45 record for the Federal Circuit in terms of persuading Supreme Court justices), and in a sixth and final case the Court upheld a splintered en banc Federal Circuit decision but took exception to much of the doctrine that had produced the ruling. In the wake of this jurisprudential thrashing, commentators have questioned whether the Federal Circuit's bench is overweighted with patent-friendly judges, and others have gone further and questioned whether the Federal Circuit (regardless of composition) should continue to be entrusted with exclusive jurisdiction over patent appeals at all. For Court watchers (particularly in the patent-rich Bay Area), the question why patent generalists and specialists seem to have diverged so dramatically may offer special insights into the future of patent law.

Patent Term 2013: A Recap

For those who don't ordinarily follow the Supreme Court's patent docket (but are still reading) the term's six patent decisions were the following:

• ***Medtronic v. Mirowski Family Ventures***: The Court (9–0) reversed the Federal Circuit on the issue of who bears the burden of proof when a licensee of a patent seeks a declaratory judgment that its products do not infringe the licensed patent. The Court held the burden rests with the patentee rather than the licensee.

• ***Octane Fitness v. ICON Health & Fitness:*** The Court (9–0) rejected the Federal Circuit's standard for allowing a prevailing party to obtain attorney's fees in patent disputes. The Court rejected the Federal Circuit's test (which allowed fee shifting only for "inappropriate conduct" or "bad faith") as "unduly rigid."

• ***Highmark v. Allcare Health Management System:*** The Court (9–0) rejected the Federal Circuit's standard of review for district court orders awarding attorney's fees. The Court held that the district court's decision should be upheld absent an abuse of discretion, discarding the Federal Circuit's rule that called in some instances for *de novo* review.

• ***Nautilus v. Biosig Instruments:*** The Court (9–0) reversed the Federal Circuit's standard for invalidating a patent as too indefinite. Removing the high bar the Federal Circuit constructed for invalidating a patent—that the patent must be either "insolubly ambiguous" or "not amenable to construction"—the Court adopted a more attainable test. Specifically, the Court found that a patent's claims were fatally indefinite if, "viewed in light of the specification and prosecution history," they fail to "inform those skilled in the art about the scope of the invention with reasonable certainty."

• ***Limelight Networks v. Akamai Technologies:*** The Court (9–0) rejected the Federal Circuit's rule establishing liability for inducing infringement even when no actual infringement occurred. The Court criticized the Federal Circuit for creating a form of liability that had no "ascertainable standards" and concluded that the Federal Circuit's analysis "fundamentally misunderstands what it means" to infringe a patent.

• ***Alice Corp. v. CLS Bank:*** The Court (9–0) affirmed the Federal Circuit, holding that a computerized process for settling financial transactions was not patent-eligible because it was drawn to an abstract idea. But the Court's ruling called into question substantial aspects of the Federal Circuit's multiple en banc opinions that had held (in part by an equally divided 5–5 vote) that the patents were invalid.

The simple reaction to these six cases is that the Federal Circuit has lost the confidence of the Supreme Court, joining the Sixth and Ninth Circuits in the doghouse at One First Street. But there is more to the story. This year's term involved six cases in which the Court rejected or modified rules that tended to protect the rights and interests of patent holders against alleged infringers or claims of invalidity. This continues a trend stretching back several years now, in which the Supreme Court has repeatedly rejected the Federal Circuit's patent-friendly approach in a range of cases, from standards governing the issuance of injunctions (*eBay v. MercExchange* (2006)) to the ability of a licensee to seek declaratory relief (*MedImmune v. Genentech* (2007)) to patent exhaustion (*Quanta Computer v. LG Electronics* (2008)) to the patentability of certain medical innovations and treatments (*Mayo Collaborative Services v. Prometheus Laboratories* (2012) and *Association for Molecular Pathology v. Myriad Genetics* (2013)).

The gap between the Supreme Court's and Federal Circuit's views seems to be the result of a vast divide in their overall orientation. The Federal Circuit boasts several excellent judges with unrivaled patent law experience. But selecting judges who have devoted most or all of their careers to patent law ensures that those judges' orientation and experience will be distinctly different from justices whose careers invariably combine various aspects of law, policy, and politics. The starkly different conclusions they reach invite the question: Is the Supreme Court too unsophisticated in patent law to appreciate the wise insights of expert Federal Circuit judges, or are those Federal Circuit judges too narrowly focused on patent law to

appreciate broader rules of jurisprudence, procedure, and statutory interpretation? A number of commentators, including Chief Judge Diane Wood of the Seventh Circuit, have reached the latter conclusion. According to Chief Judge Wood, whatever assumptions compelled Congress to establish the Federal Circuit's exclusive jurisdiction in the first place, it is now clear that having one court of experts decide all patent appeals has not yielded better results, and the Federal Circuit's exclusive jurisdiction over patent appeals should be abolished.

A Patent Law Culture Conflict?

Understanding why the Federal Circuit has exclusive jurisdiction over patent cases requires recalling a time before Silicon Valley was famous around the world. When Congress created the Federal Circuit in 1982, patent law was a relatively sleepy practice area and the patent bar was small and insular. Patent law tended to attract lawyers with engineering skills who were adept at prosecuting patents before the federal patent office. The subject generated relatively few high-stakes cases, and members of the patent bar rarely engaged in litigation warfare with one another. Few major law firms had even a single patent lawyer or any special expertise in patent litigation. Thus, thirty years ago, patent law fell in comfortably alongside the other technical, specialized subject areas often neglected by the larger bar over which the Federal Circuit was granted jurisdiction: claims for veterans' benefits, federal civil service personnel disputes, and appeals from the Court of International Trade and Court of Federal Claims. These were dry, remote planets in the legal universe that only a few intrepid lawyers cared to visit.

The information age radically changed the patent bar's reputation and orientation. The tech world emerged as a major economic force, and patent-heavy industries like medical devices and pharmaceuticals rapidly expanded as well, putting fortunes at stake and making patent disputes big business. Suddenly, law's most talented and aggressive players were venturing forth into the patent world, and epic courtroom battles quickly followed.

The result has been (to a broad first approximation) a continual tug of war in the field between, on the one hand, longtime patent law specialists who have a tradition of favoring patents and, on the other hand, generalist litigators who lack any particular affinity to patents and whose clients would in many cases benefit from relaxed patent protections. Specialists see patent law as a field that transcends traditional law; it requires a carefully trained eye, to know what is indeed an invention and what is not, and rules that give a heightened degree of protection to encourage inventors to keep inventing. Generalists have little sympathy for these attitudes. For them, patent cases require no more special knowledge than any other difficult and high-stakes area—from antitrust to copyright to employment to consumer class actions—where generalist judges are perfectly capable of resolving highly complex and nuanced questions of law.

This tug of war has played out in the conflict between the Federal Circuit and the Supreme Court as well. The Federal Circuit's rules make perfect sense to specialists focused on preserving the integrity of patents but tend to baffle the nine generalist justices who have other concerns. Thus, in *eBay v. MercExchange*, the Federal Circuit formalized a long-standing "general rule that courts will issue permanent injunctions against patent infringement"—a rule that flew in the face of the Supreme Court's decades-long effort to discourage federal courts from handing out permanent injunctions too eagerly. Likewise, the Federal Circuit's apparent belief that an expert eye can discern between a true invention and one that is not, obviating the need for broad exclusions on patentable subject matter, has invited consternation from the Court in cases like *Alice Corp.* and *Bilski v. Kappos* (2010), in which all nine justices rejected out of hand the notion that a method for hedging financial risk could be patented.

The Fate of the Federal Circuit

Despite the Federal Circuit's recent track record, and despite calls by respected jurists and commentators to extend patent jurisdiction to other circuits, it seems unlikely that Congress will do anything soon to alter the Federal Circuit's jurisdiction. In part, this is because Congress has been incapable recently of doing much of anything, but also because it may well be that time will sort out the present conflict. Today's younger generation of patent litiga-

tors and jurists have never been part of an old-style patent bar but instead have been raised in an era of high-stakes litigation in which the specialized rules for patent litigation have been systematically dismantled. Interestingly, a recent analysis by Stanford law professor Mark Lemley and two colleagues found that district judges who hear the most patent cases are actually *less* likely to rule for patentees than their less patent-experienced colleagues—a trend that may portend a future for the Federal Circuit different from its recent past.

To the extent further reform is necessary, it also isn't clear that eliminating the Federal Circuit's exclusive jurisdiction would advance that effort. Suddenly allowing all of the regional circuit court of appeals judges—most of whom have had virtually no experience deciding patent appeals and whose circuits have no patent case law from the past three decades—to decide patent appeals is a sure recipe for major confusion, circuit splits, forum shopping, and potentially an even messier set of decisions for the Supreme Court to review. Thus, it may well be that the current dialogue between the Federal Circuit's specialists and the Supreme Court's generalists (albeit one in which the generalists get the last word) is now the most efficient means of resolving patent cases.

One thing is certain, however: the dialogue is far from over. The Supreme Court already has another important patent law case on its docket for the 2014 term—*Teva Pharmaceuticals USA v. Sandoz*, in which the Court will review the Federal Circuit's rule that it reviews a district court's claim construction *de novo*. And there may be more to come, so patent aficionados should keep the popcorn handy.

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