

*HOLMES v. VORNADO: A RADICAL CHANGE IN APPELLATE JURISDICTION*

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Abstract

In a recent decision, *The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, the United States Supreme Court altered the treatment of patent cases at the appellate level, and, in doing so, significantly limited Federal Circuit jurisdiction. Prior to this decision, the Court of Appeals for the Federal Circuit heard both appeals of cases involving patent claims and those that involved only patent counterclaims. With the *Holmes* decision, the Supreme Court relied on the well-pleaded complaint rule to hold that appellate jurisdiction could only be based on claims on the face of the plaintiff's complaint and, thus, not the defendant's counterclaims. This decision will likely produce far-reaching effects in the world of patent litigation. In order to explore its possible monumental impact, this Note traces the development of the law prior to *Holmes*, and analyzes the *Holmes* decision in light of that history, finally concluding with a discussion of the holding's actual and likely ramifications.

Introduction

Through *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*<sup>1</sup> the United States Supreme Court handed down an important decision regarding appellate jurisdiction over cases including patent law claims. Ordinarily, appeals of district court decisions are heard by the court of appeals of the circuit containing the district court. In cases involving patent claims, however, appeals were generally heard by the Court of Appeals for the Federal Circuit. Congress formed this special court in 1982,<sup>2</sup> granting it exclusive jurisdiction over all cases involving patent claims. Even cases without patent law claims were appealed there if they contained patent law counterclaims. Such was the law until *Holmes*.

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<sup>1</sup> 535 U.S. 826 (2002).

<sup>2</sup> Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982).

In *Holmes*, the Supreme Court held that due to the well-pleaded complaint rule, appellate jurisdiction could only be based on claims on the face of the plaintiff's complaint. Thus, the defendant's counterclaims could not form the basis of appellate jurisdiction. This Note traces the evolution of the law leading up to *Holmes*, analyzes the Supreme Court opinions in that case, and discusses the actual and likely ramifications of the change in law.

Part I reviews the pre-*Holmes* evolution of jurisdiction over cases with patent law counterclaims. Beginning with the Federal Circuit's assertion of jurisdiction in dicta in *Schwarzkopf Development Corp. v. Ti-Coating, Inc.*,<sup>3</sup> and including the possibly contradictory Supreme Court decision in *Christianson v. Colt Industries Operating Corp.*,<sup>4</sup> this section concludes with the Federal Circuit's en banc rejoinder in *Aerojet-General Corp. v. Machine Tool Works*,<sup>5</sup> and *DSC Communications Corp. v. Pulse Communications, Inc.*<sup>6</sup>

After the law at the time of *Holmes* has been elucidated, *Holmes* itself is introduced and discussed in Part II. Included are the facts of the case, the procedural history leading up to the Supreme Court's decision, and the opinions of the various justices. Finally, Part III attempts to clarify both what has actually happened in the wake of the Supreme Court's *Holmes* decision and what might logically occur in the near future. Resultant problems, actual and potential, are presented and solutions and alternatives are suggested and discussed.

## I. A Brief History of the Law Prior to *Holmes*

Prior to the Supreme Court's decision in *Holmes*, a case's counterclaims were sufficient to create Federal Circuit jurisdiction. While the Supreme Court's only foray into the issue arguably mandated a contrary outcome,<sup>7</sup> the Federal Circuit has consistently asserted its jurisdiction over such cases. The most important milestones in the development of pre-*Holmes* jurisdiction over cases with patent counterclaims are discussed below.

### A. *Schwarzkopf Development Corp. v. Ti-Coating, Inc.*

In *Schwarzkopf Development*, the first case to deal with the issue of appellate jurisdiction based on counterclaims, the Federal Circuit asserted in dicta that a patent law counterclaim was sufficient to give it jurisdiction over a case.<sup>8</sup> *Schwarzkopf*

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<sup>3</sup> 800 F.2d 240 (Fed. Cir. 1986).

<sup>4</sup> 486 U.S. 800 (1988).

<sup>5</sup> 895 F.2d 736 (Fed. Cir. 1990).

<sup>6</sup> 170 F.3d 1354 (Fed. Cir. 1999).

<sup>7</sup> See *Christianson*, 486 U.S. 800.

<sup>8</sup> *Schwarzkopf*, 800 F.2d at 244.

Development owned two patents on coated cement carbide elements and granted a non-exclusive license to Ti-Coating. After no royalties were paid, Schwarzkopf sued in a New York State Court to collect the amount due under the license. Ti-Coating successfully removed the case to the United States District Court for the Southern District of New York based on diversity. There, they asserted several defenses including patent invalidity, unenforceability, misuse, and noninfringement. Ti-Coating also counterclaimed, *inter alia*, for a declaratory judgment that the patents were invalid, unenforceable, and not infringed. All of the counterclaims were subsequently dismissed on Schwarzkopf's unopposed motion and the court awarded damages to the plaintiff. Ti-Coating appealed to the Federal Circuit.<sup>9</sup>

The Federal Circuit was forced to decide whether it had jurisdiction over the appeal. Schwarzkopf argued that, since the cause of action did not arise under § 1338,<sup>10</sup> the Federal Circuit did not have jurisdiction. Ti-Coating, on the other hand, asserted that the Federal Circuit had jurisdiction based on its counterclaims. In formulating its decision, the court ruled out several theories on which it might have jurisdiction. According to the court, royalties under a patent licensing agreement do not "arise under" patent law and are not sufficient to bring a suit within § 1338.<sup>11</sup> Further, though they may lead to the application of patent law, defenses also cannot "arise under" patent law.<sup>12</sup> Regarding counterclaims, however, the court made a contrary statement. It stated:

Adjudication of a patent counterclaim is the exclusive province of federal courts. The patent counts of Ti-Coating's counterclaim, for declaratory judgment of patent invalidity, noninfringement, and unenforceability, are within the jurisdiction of the district court under § 1338. Under 28 U.S.C. § 1295(a)(1), when the district court's jurisdiction is based in part on

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<sup>9</sup> *Id.* at 240—42.

<sup>10</sup> 28 U.S.C. § 1338 (2003).

Patents, plant variety protection, copyrights, mask works, designs, trademarks, and unfair competition

(a) 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. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17 [17 USCS §§ 901 et seq.], and to exclusive rights in designs under chapter 13 of title 17 [17 USCS §§ 1301 et seq.], to the same extent as such subsections apply to copyrights.

<sup>11</sup> *Schwarzkopf*, 800 F.2d at 244.

<sup>12</sup> *Id.* (citing *Am. Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916) ("A suit arises under the law that creates the cause of action.")); *see also* *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 879 (Fed. Cir. 1983) ("It is well settled that a case cannot 'arise under' federal law where the claim is merely a defense to a state court action.").

§ 1338, the appeal of the entire case, not solely the patent claims, lies in this court. Thus appellate jurisdiction over suits involving a § 1338 counterclaim is assigned to the Federal Circuit.<sup>13</sup>

However, citing the House Report, the court stated that “immaterial, inferential, and frivolous” allegations of patent questions would not create appellate jurisdiction since they would not be sufficient to create lower court jurisdiction.<sup>14</sup> Thus, the Federal Circuit decided that as the counterclaims were dismissed during the pleading stage and not subject to appeal, their “transient appearance” in the case was insufficient to create jurisdiction, thereby rendering this a contract case with federal jurisdiction based solely on diversity. Accordingly, the Federal Circuit transferred the appeal to the Second Circuit.<sup>15</sup>

Despite the outcome of *Schwarzkopf*, this case was the definitive word on counterclaim-induced appellate jurisdiction for the next two years. It was undisputed that the Federal Circuit was the appropriate forum for such cases. This arguably changed with the Supreme Court’s decision in *Christianson*.

#### B. *Christianson v. Colt Industries Operating Corp.*

Two years later, in *Christianson*, the Supreme Court was faced with similar issues as in *Schwarzkopf*. Colt held many patents relating to the M16 rifle and its parts. Various specifications essential to mass production, however, were kept as trade secrets, disclosed only as necessary to those who signed non-disclosure agreements.<sup>16</sup> While employed at Colt, Christianson was one such person. After he left Colt, however, he started a company, ITS, which required the use of Colt’s proprietary information to sell M16 parts. This prompted Colt to sue Christianson and ITS, among others, asserting patent infringement. Even after Colt withdrew its claims, Colt notified ITS’s customers of the misappropriation of trade secrets and discouraged them from doing business with ITS.<sup>17</sup> In response, Christianson filed suit under the Clayton and Sherman Acts. He later added a claim for state law tortious interference with a business relationship. When Christianson moved for summary judgment of liability, he argued that Colt’s patents were invalid on enablement and best mode grounds,<sup>18</sup> and as such, the trade secrets that should have been disclosed lost state law protection. The district court granted this motion. Colt appealed to the Federal Circuit, which decided that it did not have jurisdiction, and transferred the case to the Seventh Circuit. That court decided that the transfer was incorrect and returned it to the Federal Circuit. Despite maintaining that it

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<sup>13</sup> *Schwarzkopf*, 800 F.2d at 244.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at 245.

<sup>16</sup> *Christianson*, 486 U.S. at 804.

<sup>17</sup> *Id.* at 805.

<sup>18</sup> Both requirements of 35 U.S.C. § 112 (2003).

did not have jurisdiction, the Federal Circuit addressed the merits of the case in the “interest of justice” and reversed the district court decision. Certiorari was granted to determine whether the Federal Circuit was correct to assert jurisdiction over the case.<sup>19</sup>

As this case was an appeal of an antitrust action with patent defenses and grounds for liability, the judges dealt with jurisdiction under § 1338.<sup>20</sup> Citing its own precedent, the Supreme Court argued that in order for the Federal Circuit to assert jurisdiction, the cause of action must be based on an issue of patent law:

In interpreting § 1338’s precursor, we held long ago that in order to demonstrate that a case is “arising under” federal patent law “the plaintiff must set up some right, title or interest under the patent laws, or at least make it appear that some right or privilege will be defeated by one construction, or sustained by the opposite construction of these laws.” *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 259, 42 L.Ed. 458, 18 S.Ct. 62 (1897). Our cases interpreting identical language in other jurisdictional provisions, particularly the general federal-question provision, 28 U.S.C. § 1331..., have quite naturally applied the same test.<sup>21</sup>

Further, the Court argued, just as the well-pleaded complaint rule applies to district court jurisdiction, linguistic consistency requires extending the same rule to § 1338 cases.<sup>22</sup> According to the Court, § 1338 jurisdiction can be accomplished in two ways. The first is if the cause of action is federal patent law. The second is if the plaintiff’s right to relief cannot be decided except based on a substantial issue of patent law.<sup>23</sup>

The Supreme Court further limited § 1338 jurisdiction. Citing *Franchise Tax Board v. Construction Laborers Vacation Trust*,<sup>24</sup> it argued that “a case raising a federal patent-law defense does not, for that reason alone, ‘arise under’ patent law, ‘even if the defense is anticipated in the plaintiff’s complaint, and even if both parties admit that the defense is the only question truly at issue in the case.’”<sup>25</sup> Further, even if the plaintiff alleges a theory dependent on patent law, there is no § 1338 jurisdiction if there are other unrelated, non-patent theories upon which the plaintiff could be entitled to the relief sought.<sup>26</sup> Applying this analysis to the facts at hand, the Supreme Court found that the

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<sup>19</sup> *Christianson*, 486 U.S. at 806—07.

<sup>20</sup> 28 U.S.C. § 1338 (2003).

<sup>21</sup> *Christianson*, 486 U.S. at 807—08.

<sup>22</sup> *Id.* at 808—09.

<sup>23</sup> *Id.* at 807—08.

<sup>24</sup> 463 U.S. 1, 14 (1983).

<sup>25</sup> *Christianson*, 486 U.S. at 809.

<sup>26</sup> *Id.* at 810 (“[A] claim supported by alternative theories in the complaint may not form the basis for § 1338(a) jurisdiction unless patent law is essential to each of those theories.”). For example, in this case, there was an alternative theory of liability. Colt could have been liable for monopolization under § 2 of the Sherman Act if they had given Christianson permission to use their trade secrets. In contrast, if the only theory supporting Christianson’s position was that Colt’s trade secrets were unprotectable since their

Federal Circuit was correct in its assertion that it lacked jurisdiction since there were theories of recovery independent of patent law.<sup>27</sup>

Justice Stevens, in a concurrence joined by Justice Blackmun, argued that the majority opinion<sup>28</sup> seemed to suggest that only the original complaint and not subsequent amendments and pretrial dismissals should be taken into account in determining appellate jurisdiction.<sup>29</sup> This, he argued, was illogical. Cases in which all the patent counts were dropped pre-trial would go to the Federal Circuit while cases in which the patent claims were added later and formed the basis of the decision would go to the regional circuits. This, Justice Stevens opined, could not have been what Congress intended. Instead, he argued, all of the plaintiff's pleadings should be taken into account when determining appellate jurisdiction.<sup>30</sup>

While this decision dealt with appellate jurisdiction based on defenses and potential grounds for liability but not counterclaims, there were those who felt that it contradicted the Federal Circuit's position in *Schwarzkopf*. Like defenses, counterclaims are found in the defendant's answer and not on the face of the plaintiff's complaint. Thus, the same logic that the Supreme Court used in *Christianson* would also foreclose Federal Circuit jurisdiction based solely on counterclaims. This lack of clarity remained until the Federal Circuit's opinion in *Aerojet*.

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patents were invalid, then the case would have arisen under patent law. On the other hand, in *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1329 (Fed. Cir. 1998), *overruled in part on other grounds*, *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359 (Fed. Cir. 1999), there was no other theory for liability in the complaint. As such, there was jurisdiction. *See infra* note 167 and related text for further discussion.

<sup>27</sup> As the Court stated in *Christianson*:

The patent-law issue, while arguably necessary to at least one theory under each claim, is not necessary to the overall success of either claim. Examination of the complaint reveals that the monopolization theory that Colt singles out ... is only one of several, and the only one for which the patent-law issue is even arguably essential. In fact, most of the conduct alleged in the complaint could be deemed wrongful quite apart from the truth or falsity of Colt's accusations. Since there are "reasons completely unrelated to the provisions and purposes" of federal patent law why petitioners "may or may not be entitled to the relief [they] see[k]" under their monopolization claim, ... the claim does not "arise under" federal patent law. [P]etitioners could have supported their group-boycott claim with any of several theories having nothing to do with the validity of Colt's patents. Once again, the appearance on the complaint's face of an alternative, non-patent theory compels the conclusion that the group-boycott claim does not "arise under" patent law.

486 U.S. at 810—813 (quoting *Franchise Tax Bd.*, 463 U.S. at 26).

<sup>28</sup> While agreeing that the majority left open the issue of whether an amendment to Fed.R.Civ.P. 15 can be grounds for jurisdiction, Justice Stevens argued that the majority's rejection of Colt's argument (that Congressional aims would be better served if Federal Circuit jurisdiction was based on the case actually litigated) demonstrated that they felt that only the original complaint should be taken into account. *Id.* at 813—15.

<sup>29</sup> *Id.* at 822.

<sup>30</sup> *Id.* at 823—24.

*C. Aerojet-General Corp. v. Machine Tool Works*

The Federal Circuit, sitting en banc, revisited the issue of appellate jurisdiction based on counterclaims soon after *Christianson* in *Aerojet*. Alleging that Machine Tool Works (MTW) knowingly made false statements that Aerojet misappropriated trade secrets from MTW, Aerojet filed suit. The grounds of the suit included unfair competition, interference with prospective advantage, false representation, and Aerojet sought declaratory judgment that trade secrets were not misappropriated.<sup>31</sup> Among MTW's allegations was a compulsory counterclaim that Aerojet infringed MTW's patents. The district court stayed the action and ordered arbitration on the claims and counterclaims. Aerojet appealed to the Federal Circuit.<sup>32</sup>

Chief Judge Markey, writing for the court, began by specifying the parameters of the situation to which its opinion was intended to apply. He stated that "[This opinion] deals only with cases in which a nonfrivolous compulsory counterclaim for patent infringement has been filed in an action originally and properly brought in a federal district court and with the court to which appeals in such cases should be directed."<sup>33</sup> Thus, the decision was specifically reserved on the issue of permissive counterclaims.<sup>34</sup>

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<sup>31</sup> 895 F.2d at 737.

<sup>32</sup> *See id.* at 738 n.2 (based on 28 USC § 1292(c)(1), Federal Circuit jurisdiction over appeals from interlocutory appeals is limited to cases where the court would have jurisdiction over an appeal from the final judgment in the underlying suit).

<sup>33</sup> *Id.* at 739.

<sup>34</sup> Federal Rules of Civil Procedure, Rule 13 deals with counterclaims. It states:

(a) Compulsory Counterclaims. A pleading shall state as a counterclaim any claim which at the time of serving the pleading the pleader has against any opposing party, if it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction. But the pleader need not state the claim if (1) at the time the action was commenced the claim was the subject of another pending action, or (2) the opposing party brought suit upon the claim by attachment or other process by which the court did not acquire jurisdiction to render a personal judgment on that claim, and the pleader is not stating any counterclaim under this Rule 13.

(b) Permissive Counterclaims. A pleading may state as a counterclaim any claim against an opposing party not arising out of the transaction or occurrence that is the subject matter of the opposing party's claim.

Fed. R.Civ.P. 13. The courts and commentators have attempted to clarify when a compulsory is compulsory. In *Vivid Tech., Inc. v. Am. Sci. & Eng'g., Inc.*, the Federal Circuit stated:

Fed.R.Civ.P. 13(a) requires that a party plead a counterclaim that "arises out of the transaction or occurrence that is the subject matter of the opposing party's claim," lest the subject of the counterclaim be deemed waived or abandoned. Rule 13(a) recognizes that when disputed issues arise from the same operative facts, fairness as well as efficiency require that the issues be raised for resolution in the same action. *See* 6 Charles Alan Wright, Arthur R. Miller & Mary Kay Kane, *Federal Practice and Procedure* § 1417, at 129 (2d ed.1990) ("failure to plead a compulsory counterclaim bars a party from bringing a later independent action on that claim"). Professor Wright identifies four tests, any one of which can render a counterclaim compulsory: (1) whether the legal and factual issues raised by the claim and counterclaim are largely the same; (2) whether, absent the

The decision then reviewed pre-*Christianson* statements allowing Federal Circuit jurisdiction based on counterclaims to determine whether the Supreme Court altered jurisdiction over such cases.<sup>35</sup> It decided that the Court did not. The Federal Circuit interpreted *Christianson* to stand for the proposition that a patent law defense is insufficient to create Federal Circuit jurisdiction in the absence of a patent law claim or counterclaim. The application of the well-pleaded complaint rule in the absence of patent counterclaims was not inconsistent with Federal Circuit jurisdiction in cases where such claims did exist. In *Aerojet*, the counterclaim would have “arisen under” the patent laws if it had been filed as a complaint in a separate suit. The Federal Circuit therefore held it would be incongruous to deny jurisdiction over the same claim simply because it was a counterclaim.<sup>36</sup> Further, MTW’s counterclaim constituted a well-pleaded claim with an independent jurisdictional basis. The Supreme Court held in *Christianson* that jurisdiction is based on claims, not issues<sup>37</sup>— and a counterclaim is a claim. It becomes part of the suit early enough to still allow a clear jurisdictional picture. Furthermore, district courts previously looked to counterclaims to create federal question jurisdiction. Even when a complaint is dismissed, suits have gone forward on the basis of counterclaims. The Federal Circuit further argued that the well-pleaded complaint rule is intended to prevent “potentially serious federal-state conflicts.”<sup>38</sup> This does not apply here, as the only issue is which federal appellate court has jurisdiction. Therefore, the Federal Circuit determined that *Christianson* did not foreclose Federal Circuit jurisdiction based on counterclaims.<sup>39</sup>

In its decision, the court suggested a major policy reason for giving the Federal Circuit jurisdiction. Congress’ stated goal in creating the court was to foster national uniformity in the area of patent law. Allowing the Federal Circuit jurisdiction based on the complaint and compulsory counterclaims worked toward this end. While clearly not every suit involving patents was intended to go to the Federal Circuit, cases including well-pleaded, non-frivolous claims were. Congress never mentioned the well-pleaded complaint rule. Since the rule would frustrate Congressional intent, it should not be

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compulsory counterclaim rule, *res judicata* would bar a subsequent suit on the counterclaim; (3) whether substantially the same evidence supports or refutes both the claim and counterclaim; or (4) whether there is a logical relation between the claim and counterclaim. *See id.* § 1410, at 52—58.

200 F.3d 795, 801 (Fed. Cir. 1999)

<sup>35</sup> *See Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604 (1st Cir. 1987) (Transferring case to the Federal Circuit since the defendant included a viable and legitimate patent infringement counterclaim); *In re: Innotron Diagnostics*, 800 F.2d 1077 (Fed.Cir. 1986) (Joined suits (one of which is patent), like counterclaims, still “aris[ing] under” § 1338); *Schwarzkopf*, 800 F.2d at 244 (If the patent counterclaim were still part of the suit, it would “arise under” § 1338 and the Federal Circuit would have jurisdiction.).

<sup>36</sup> *Aerojet*, 895 F.2d at 742.

<sup>37</sup> *Christianson*, 486 U.S. at 811.

<sup>38</sup> *Franchise Tax Bd.*, 463 U.S. at 9—10.

<sup>39</sup> *Aerojet*, 895 F.2d at 741.

strictly applied. As such, the Federal Circuit concluded that appellate jurisdiction could be based on non-frivolous, compulsory counterclaims.<sup>40</sup>

*D. DSC Communications Corp. v. Pulse Communications, Inc.*

In *DSC Communications*, the Federal Circuit expanded their holding in *Aerojet* to non-frivolous, permissive counterclaims. DSC sued Pulse asserting copyright infringement, misappropriation of trade secrets, and tortious interference with business expectancy. Pulse counterclaimed accusing DSC of patent infringement. The lower court decided in favor of the defendant on the plaintiff's claims and the plaintiff on the counterclaim.<sup>41</sup> Both parties appealed. The Federal Circuit decided that it had jurisdiction, stating:

[W]e see no sufficient basis in the language or purpose of section 1295(a)(1) to distinguish between compulsory and permissive counterclaims.... We therefore hold that any counterclaim raising a nonfrivolous claim of patent infringement is sufficient to support this court's appellate jurisdiction.<sup>42</sup>

This doctrine, that the Federal Circuit has jurisdiction over the appeal of cases involving patent law counterclaims, remained law until *Holmes*.

## II. The *Holmes* Decision

With the *Holmes* decision, the Supreme Court unanimously held that the regular circuit courts, as opposed to the Federal Circuit, was the proper forum for the appeal of cases with patent law counterclaims.<sup>43</sup> Three justices, in two separate concurrences, favored narrower bases for the decision than the majority. This section discusses the facts and procedural history of *Holmes* as well as the differing opinions of the justices.

### A. Facts of *Holmes*

Vornado Air Circulation Systems, Inc. ("Vornado") manufactures fans featuring spiral grills. In 1992, they sued a competitor, Duracraft, alleging trade dress infringement ("*Vornado F*").<sup>44</sup> The district court issued a preliminary injunction enjoining Duracraft

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<sup>40</sup> *Id.* at 741—42.

<sup>41</sup> *DSC Communications*, 170 F.3d at 1357.

<sup>42</sup> *Id.* at 1359.

<sup>43</sup> *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 830 (2002).

<sup>44</sup> *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10<sup>th</sup> Cir. 1995).

from manufacturing fans with spiral grills as Vornado requested,<sup>45</sup> but the Court of Appeals for the Tenth Circuit reversed, arguing that trade dress protection was inapplicable since the grill design was a “significant inventive aspect” of a utility patent owned by Vornado.<sup>46</sup>

On November 26, 1999, Vornado filed a complaint with the International Trade Commission (“ITC”) seeking to prohibit the Holmes Group (“Holmes”) from importing fans and heaters with spiral grills based on, among other things, the trade dress that had been held unenforceable in *Vornado I*. Shortly thereafter, Holmes filed an action in Kansas, a jurisdiction within the Tenth Circuit, seeking a declaratory judgment that its products did not infringe Vornado’s trade dress and an injunction preventing Vornado from accusing it of infringement. Vornado included a compulsory counterclaim for patent infringement in its answer. Holmes then moved for summary judgment on the trade dress issue. The court granted this motion, rejecting the argument that a 1999 opinion by the Court of Appeals for the Federal Circuit<sup>47</sup> constituted “change of law” and finding collateral estoppel to exist based on *Vornado I*.<sup>48</sup> Over Holmes’ jurisdictional objections, Vornado appealed this decision to the Court of Appeals for the Federal Circuit, which vacated the district court’s opinion and remanded for a determination as to whether the United States Supreme Court’s resolution of the circuit split would constitute “change in the law.”<sup>49</sup> Holmes petitioned the Supreme Court for certiorari to determine whether the Federal Circuit had the jurisdiction to entertain the appeal.<sup>50</sup> Certiorari was granted<sup>51</sup> as to the first<sup>52</sup> and third questions<sup>53</sup> posed by the petition.

### B. *The Supreme Court’s Decision in Holmes*

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<sup>45</sup> 1994 WL 1064319, at \*34 (D. Kans. Mar. 4, 1994).

<sup>46</sup> *Vornado*, 58 F.3d at 1510 (“We hold that where a disputed product configuration is part of a claim in a utility patent, and the configuration is a described, significant inventive aspect of the invention, see 35 U.S.C. 112, so that without it the invention could not fairly be said to be the same invention, patent law prevents its protection as trade dress, even if the configuration is nonfunctional.”).

<sup>47</sup> See *Midwest Indus.*, 175 F.3d at 1364 (expressly rejecting *Vornado I* and holding that trade dress protection could exist despite the product configuration being claimed as a significant inventive element of a patent).

<sup>48</sup> 93 F. Supp. 2d 1140, 1142—46 (D. Kan. 2000).

<sup>49</sup> 13 Fed.Appx. 961 (Fed. Cir. 2001).

<sup>50</sup> It is interesting to note that it is unlikely that the Tenth Circuit would have decided differently under these circumstances.

<sup>51</sup> 534 U.S. 1016 (2001) (mem.).

<sup>52</sup> “Does 28 U.S.C. § 1295(a)(1) divest regional circuits of jurisdiction to decide appeals of final decisions of district courts in cases wherein the well-pleaded complaint of the prevailing plaintiff does not allege any claim arising under federal patent law?” Petition for Writ of Certiorari, 2001 WL 34092086, at \*ii, *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002) (No. 01-408).

<sup>53</sup> “Did the Court of Appeals for the Federal Circuit err in concluding that this action “arises under” federal patent law for purposes of 28 §§ 1295(a)(1) and 1338(a)?” *Id.*

While the Supreme Court was unanimous in finding that the Federal Circuit did not have jurisdiction, there are three separate opinions that differ in significant regards. Justice Scalia, writing for a majority of six justices, treated this case as if its outcome were obvious based on general jurisdictional rules and Supreme Court precedent. He advocated determining whether there is Federal Circuit jurisdiction by applying the same type of test used for establishing federal jurisdiction. In concurrence, Justice Stevens also felt that the outcome was clear based on precedent, but called for a slightly modified test since the Federal Circuit is an appellate rather than a district court. Justice Ginsburg, writing for herself and Justice O'Connor, concurred in judgment but advocated an approach to appellate jurisdiction that was very different from that of the majority.

### 1. The Well-Pleaded Complaint Rule

There are several different bases upon which the jurisdiction of federal courts is based. One of the more common is "federal question jurisdiction," codified as 28 U.S.C. § 1331. The courts have found that this section's use of the phrase "arising under" raises "a welter of issues regarding the interrelation of federal and state authority and the proper management of the federal judicial system."<sup>54</sup> One of the best-known explanations of the phrase, that of Justice Oliver Wendell Holmes, is that "[a] suit arises under the law that creates the cause of action."<sup>55</sup> However, this better describes the majority of cases where federal jurisdiction is present rather than being a hard and fast rule as to when it is not. If we were to follow Justice Holmes' rule as written, we would mistakenly think that a case would not "arise under" if the complaint required determining the meaning and application of Federal law but the claims were state claims. Consequently, we determine "arising under" using the well-pleaded complaint rule.<sup>56</sup>

The Supreme Court has summarized the rule as follows:

Whether a case is one arising under the Constitution or a law of the United States, in the sense of the jurisdictional statute, ...must be determined from what necessarily appears in the plaintiff's statement of his own claim in the bill or declaration, unaided by anything alleged in anticipation of defenses which it is thought the defendant may interpose.<sup>57</sup>

In short, if the plaintiff's complaint provides sufficient grounds, there is federal jurisdiction. There are two ways in which this can be accomplished.<sup>58</sup> The first is Justice

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<sup>54</sup> *Franchise Tax Bd.*, 463 U.S. at 8.

<sup>55</sup> *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916).

<sup>56</sup> *Franchise Tax Bd.*, 463 U.S. at 9—10.

<sup>57</sup> *Id.* at 10 (quoting *Taylor v. Anderson*, 234 U.S. 74, 75—76 (1914)).

<sup>58</sup> Specifically, the Court stated:

Under our interpretations, Congress has given the lower federal courts jurisdiction to hear, originally or by removal from a state court, only those cases in which a well-pleaded complaint establishes either that federal law creates the cause of action or that

Oliver Wendell Holmes' test, that federal law creates the cause of action.<sup>59</sup> The other test is based on an old Supreme Court decision, *Smith v. Kansas City Title & Trust Co.*<sup>60</sup> If the vindication of the plaintiff's rights necessarily turns on some construction of federal law, there is federal jurisdiction. As long as one cause of action set forth in the plaintiff's complaint requires the resolution of a federal issue and cannot be decided on other grounds, this test is satisfied.

## 2. The Scalia Majority

In the majority opinion, Justice Scalia opined that the well-pleaded complaint rule applies to Federal Circuit jurisdiction, and not just to original federal jurisdiction.<sup>61</sup> 28 U.S.C. § 1295(a)(1),<sup>62</sup> which deals with Federal Circuit jurisdiction, references claims based on § 1338(a)<sup>63</sup> which grants original jurisdiction over patent, copyright and

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the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal law.

*Id.* at 27—28; *see also Christianson.*, 486 U.S. at 808—09 (1988). There, the Court stated:

§ 1338(a) jurisdiction likewise extend[s] only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.

<sup>59</sup> *American Well Works*, 241 U.S. at 260.

<sup>60</sup> In *Smith*, the Court stated:

The general rule is that where it appears from the bill or statement of the plaintiff that the right to relief depends upon the construction or application of the Constitution or laws of the United States, and that such federal claim is not merely colorable, and rests upon a reasonable foundation, the District Court has jurisdiction under this provision.

255 U.S. 180, 199 (1921). There is significant scholarly discussion of the apparent contradiction between *Smith* and *Moore v. Chesapeake & Ohio R. Co.*, 291 U.S. 205 (1934). *See Merrell Dow Pharm., Inc. v. Thompson*, 478 U.S. 804, 814 n.12 (1986) for a discussion and possible resolution.

<sup>61</sup> *Holmes*, 535 U.S. at 830.

<sup>62</sup> 28 U.S.C. § 1295 (1982) states:

(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, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title;

<sup>63</sup> *See* 28 U.S.C. § 1338.

trademark actions to federal district courts. Section 1338 uses the same operative language as § 1331, the general federal jurisdiction statute.<sup>64</sup> Justice Scalia stated that because linguistic consistency requires the Court to use the same standard, the “well-pleaded complaint” rule should determine jurisdiction over patent actions as well.<sup>65</sup> To do otherwise would be an “unprecedented feat of necromancy.”<sup>66</sup>

Under the holding in *Holmes* regarding the Federal Circuit, the well-pleaded complaint rule requires that the determination whether the case arises under patent law be based solely on the plaintiff’s complaint. Federal patent law must provide the cause of action or the plaintiff’s relief must depend on a substantial question of patent law.<sup>67</sup> The answer is not taken into account in determining jurisdiction. As the answer is where the counterclaims appear, they may not be the basis for jurisdiction. Justice Scalia identifies three reasons for this. First, the plaintiff is always the master of the complaint and can tailor it to avoid federal jurisdiction.<sup>68</sup> To allow the defendant to control the forum by adding a counterclaim is contrary to this idea. Second, federal jurisdiction based on counterclaims would produce an undue amount of removal jurisdiction, undermining the “independence of state governments.”<sup>69</sup> Finally, regarding appellate jurisdiction, allowing patent law to be different from other areas of federal jurisdiction would be confusing and would undermine the well-pleaded complaint rule.<sup>70</sup>

While Justice Scalia recognized that Congress intended to foster uniformity of federal patent law by creating the Federal Circuit, he argued that maintaining linguistic consistency and applying the well-pleaded complaint rule are the more important concerns.<sup>71</sup> Consequently, the regional circuits once again will have to deal with patent issues.

### 3. The Stevens Concurrence

While Justice Stevens also favored the use of the well-pleaded complaint rule, he advocated taking into account more than just the complaint. Unlike original jurisdiction that deals with the case from its inception, appellate jurisdiction takes place after additional pleadings are filed and decisions rendered. Thus, the time to determine

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<sup>64</sup> 28 U.S.C. § 1331 (1928) (“The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.”).

<sup>65</sup> *Holmes*, 535 U.S. at 830.

<sup>66</sup> *Id.* at 833 (“It would be an unprecedented feat of interpretive necromancy to say that § 1338(a)’s ‘arising under’ language means one thing (the well-pleaded-complaint rule) in its own right, but something quite different (respondent’s complaint-or-counterclaim rule) when referred to by § 1295(a)(1).”).

<sup>67</sup> As by federal original jurisdiction. This is a reaffirmance of the test set forth in *Christianson*.

<sup>68</sup> *Holmes*, 535 U.S. at 831.

<sup>69</sup> *Id.* at 832.

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

appellate jurisdiction is at the time of the appeal, not the time of the complaint.<sup>72</sup> All pleadings filed by the plaintiff should be taken into account. Such an interpretation remains true to the ideals of the well-pleaded complaint rule while taking into account the nature of the appellate system. Amended claims dealing with patents would create Federal Circuit jurisdiction, while the dropping of the original patent claims would eliminate it. This, Justice Stevens argued, would be appropriate.<sup>73</sup>

Like the majority position, Stevens' concurrence allows regional circuits to hear appeals with patent counterclaims. Justice Stevens felt, however, that permitting courts other than the Federal Circuit to deal with patent issues would benefit the system.<sup>74</sup> Conflicts between circuits would show the Supreme Court what areas of law need to be clarified and would lead them to grant certiorari to appropriately ripe cases. Further, the regional circuits have less institutional bias<sup>75</sup> than the Federal Circuit, and this would lead to a fresh perspective on the law.<sup>76</sup>

#### 4. The Ginsburg Concurrence

While concurring in the judgment, Justices Ginsburg and O'Connor took a very different approach in dealing with Federal Circuit jurisdiction in general. Unlike the other two factions, Justice Ginsburg argued that the logic set forth in *Aerojet*<sup>77</sup> is convincing and, thus, a counterclaim that "arises under" is sufficient to cause any consequent appeal to be sent to the Court of Appeals for the Federal Circuit. Further, the stated Congressional interests of eliminating forum shopping and fostering uniformity are also fostered by this position.<sup>78</sup>

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<sup>72</sup> *Id.* at 839.

<sup>73</sup> *Id.* at 837.

<sup>74</sup> Prof. Janice M. Mueller of John Marshall Law School argues that there is an additional element to Justice Stevens' opinion:

The tenor of Justice Steven's [sic] concurring opinion in *Holmes Group* suggests that the Court may have intended to rein in the Federal Circuit's choice-of-law trend towards applying its own law, rather than that of the relevant regional circuit, on non-patent issues bound up with patent law, as in the *CSU v. Xerox* antitrust case.

Janice M. Mueller, "*Interpretive Necromancy*" or *Prudent Patent Policy?*, The John Marshall Law School Center for Intellectual Property Law News Source, Fall 2002, at 26. Prof. Mueller bases this argument on comments made by James W. Dabney, the counsel for Holmes, at the oral argument. He pointed out that non-patent related Federal Circuit law gave great incentive to parties to find some way to direct appeals there. While Professor Mueller presents an interesting view, there does not appear to be any support for it from Justice Stevens' opinion itself.

<sup>75</sup> *Holmes*, 535 U.S. at 839 (According to Justice Stevens, because the Federal Circuit deals with patents on a regular basis, there might be a pro-patent bias to their decisions, especially those dealing with the interrelation of patent and non-patent law.).

<sup>76</sup> *Id.*

<sup>77</sup> See *supra* Section I, Part C.

<sup>78</sup> *Holmes*, 535 U.S. at 839.

The test advocated by Justices Ginsburg and O'Connor is simple and straightforward. If a patent law claim is actually adjudicated, the Federal Circuit has jurisdiction over the appeal.<sup>79</sup> As the patent claims in *Holmes* were stayed and only the trade secret issues were dealt with in the instant case, the circuit with jurisdiction over non-patent cases, i.e. the regional circuit, had jurisdiction.<sup>80</sup>

### III. The Post-*Holmes* World

#### A. *What Actually Has Happened*

Since the Supreme Court's decision, several types of cases have cited the majority opinion. The Federal Circuit has applied it to patent cases.<sup>81</sup> The Supreme Court of Indiana has expanded the decision to apply to federal jurisdiction over patent and copyright cases.<sup>82</sup> Further and less significantly for this note,<sup>83</sup> *Holmes* has been cited as a recent affirmation of the well-pleaded complaint rule and the proposition that counterclaims cannot be the basis for jurisdiction.<sup>84</sup> Some specific examples follow.

The Federal Circuit has had several situations in which to apply this landmark case. In *Medigene v. Loyola University of Chicago*, the parties consented to transfer the appeal to the Court of Appeals for the Seventh Circuit in light of *Holmes*.<sup>85</sup> The next

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<sup>79</sup> Justice Scalia points out that this was rejected in *Christianson*. *Id.* at n.3.

<sup>80</sup> *Id.*

<sup>81</sup> Additionally, in *Morgan v. Principi*, 327 F.3d 1357, 1363 (Fed. Cir. 2003), the court cited *Holmes* for the proposition that the task of a court interpreting a statute is to determine what the words mean regardless of Congressional intent. *Holmes* has also been cited by the Seventh Circuit as part of a discussion as to whether the existence of a third-party complaint affects the court's subject matter jurisdiction over the original suit. *Adkins v. Illinois Central RR Co.*, 326 F.3d 828, 836 (7th Cir. 2003).

<sup>82</sup> *Green v. Hendrickson Publishers*, 770 N.E.2d 784 (Ind. 2002).

<sup>83</sup> Because this is just a reaffirmance of a well-established legal principle, it will not be discussed further.

<sup>84</sup> *Mattel, Inc. v. Lehman*, 49 Fed.Appx. 889, 890 (Fed. Cir. 2002); *Flanders Diamond USA, Inc. v. Nat'l. Diamond Syndicate, Inc.*, 2002 WL 31681474, at \*2 (N.D.Ill. Nov. 27, 2002); *R.F. Shinn Contractors, Inc. v. Shinn*, 2002 WL 31942135, at \*2 (M.D.N.C. Nov. 8, 2002); *Spagnuolo v. Port Auth. of New York and New Jersey*, 245 F.Supp.2d 518, 520 (S.D.N.Y. 2002); *In re: Tamifloxacin Citrate Antitrust Litigation*, 222 F.Supp.2d 326, 330 (E.D.N.Y. 2002); *In re: Buspirone Patent Litigation*, 210 F.R.D. 43, 52 (S.D.N.Y. 2002); *United Mutual Houses, L. v. Andujar*, 230 F.Supp.2d 349, 350 (S.D.N.Y. 2002); *MDCM Holdings, Inc. v. Credit Suisse First Boston Corp.*, 216 F.Supp.2d 251, 259 (S.D.N.Y. 2002); *In re: Adelphia Communications Corp.*, 285 B.R. 127, 139 (Bankr.S.D.N.Y. 2002); *Castillo v. Texas CanA*, 2002 WL 1733727, at \*2 (N.D.Tex. July 25, 2002); *Data Recognition Corp. v. Scan Optics, Inc.*, 2003 WL 1962252 (Minn.App. Apr. 29, 2003); *Integra Bank, N.A. v. Greer*, 2003 WL 21544260, at \*3 (S.D.Ind. June 26, 2003); *Dallas County, Texas v. Teter*, 2003 WL 21801468, at \*1 (N.D.Tex. Aug. 1, 2003); *McNair v. Monsanto Co.*, 279 F.Supp.2d 1290, 1313 (M.D.Ga. 2003); *Wells Fargo Bank Northwest, N.A. v. Taca Int'l Airlines, S.A.*, 2003 WL 22047886, at \*3 (S.D.N.Y. Aug. 29, 2003); *see also Hampshire Paper Corporation v. Highland Supply Corp.*, 2002 WL 1676285, at \*1 (D.N.H. July 18, 2002) which uses *Holmes* to determine choice of law.

<sup>85</sup> 41 Fed.Appx. 450 (Fed. Cir. 2002).

mention was in a concurrence written by Judge Dyk in *Vardon Golf Co., v. Karsten Manufacturing Corp.*<sup>86</sup> He briefly commented that despite *Holmes*, uniformity of law is important and this has an effect on choice of law.<sup>87</sup> In *Telecomm Technical Services, Inc. v. Siemens Rolm Communications*, the case was transferred to the Eleventh Circuit since the patent law claims were only present in the counterclaims.<sup>88</sup> In *BBA Nonwovens Simpsonville, Inc. v. Superior Nonwovens L.L.C.*<sup>89</sup> and *Golan v. Pingel Enterprises*,<sup>90</sup> the Federal Circuit asserted that it did have jurisdiction based on the plaintiffs' complaints under *Holmes*. Thus, the *Holmes* decision has been followed.

The Supreme Court of Indiana also applied the *Holmes* holding in *Green v. Hendrickson Publishers*.<sup>91</sup> It opined that since a counterclaim cannot create Federal Circuit jurisdiction and, similarly, cannot create original federal jurisdiction, the state courts can hear patent law claims included in the answer and/or counterclaims. Since § 301 of the Copyright Act states that copyright claims "arising from" it have federal jurisdiction, a counterclaim is insufficient to create jurisdiction.<sup>92</sup> This allows the state courts to judge issues of federal copyright law.<sup>93</sup> Prior to *Holmes*, state courts very rarely dealt with federal patent and copyright law counterclaims. Although counterclaims could not be grounds for removal of the case to the federal court system<sup>94</sup> and state courts dealt with patent law defenses,<sup>95</sup> § 1338 provides the federal courts with exclusive jurisdiction

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<sup>86</sup> 294 F.3d 1330, 1335—1336 (Fed. Cir. 2002).

<sup>87</sup> *Id.* at 1336. Judge Dyk stated:

[W]e apply Federal Circuit law to non-patent issues ... "the disposition of nonpatent law issues is affected by the special circumstances of the patent law setting in which those issues arise" ... We do so in order to "promot[e] uniformity in the field of patent law..." Although the recent decision of the Supreme Court in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, ... may make that uniformity more elusive, it is still important.

*Id.* (internal citation omitted)

<sup>88</sup> 295 F.3d 1249, 1251—52 (Fed. Cir. 2002).

<sup>89</sup> 303 F.3d 1332, 1336 (Fed. Cir. 2002).

<sup>90</sup> 310 F.3d 1360, 1366—67 (Fed. Cir. 2002).

<sup>91</sup> 770 N.E.2d 784 (Ind. 2002).

<sup>92</sup> 17 U.S.C. § 301 (1976).

<sup>93</sup> This, of course, is true only where the plaintiff's claim for relief does not turn on the interpretation of federal law.

<sup>94</sup> See *Rath Packing Co. v. Becker*, 530 F.2d 1295, 1303 (9<sup>th</sup> Cir. 1975) (Judge Rich, sitting by designation).

<sup>95</sup> See *Lear, Inc. v. Adkins*, 395 U.S. 653, 674—76 (1969) (State court may decide patent validity in ruling on breach of licensing agreement); *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473, 475 (1912) ("The Federal courts have exclusive jurisdiction of all cases arising under the patent laws, but not of all questions in which a patent may be the subject-matter of the controversy. For courts of a state may try questions of title, and may construe and enforce contracts relating to patents."); *Pratt v. Paris Gaslight & Coke Co.*, 168 U.S. 255, 259 (1897); see also *Geni-Chlor Intern., Inc. v. Multisonics Dev. Corp.*, 580 F.2d 981, 983 (9<sup>th</sup> Cir. 1978) ("It is well established that notwithstanding the substantial federal

over patent claims. Because counterclaims are treated like separate actions regarding jurisdiction,<sup>96</sup> state courts may deal only with those with which they would have been able to deal had they been asserted in the plaintiff's complaint.<sup>97</sup> If there was exclusive federal jurisdiction over a counterclaim, it would have been dismissed with leave to refile as a separate suit in federal court.<sup>98</sup> As noted by the Supreme Court of Indiana in *Green*, this is no longer so.<sup>99</sup> Since counterclaims do not "arise under" at all, they cannot be the basis for federal jurisdiction.<sup>100</sup> Thus, following the precedent set in Indiana, state courts may now deal with patent claims.<sup>101</sup>

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interest in patent matters, enforcement and construction of patent contracts can be the business of state courts, even though a question arising under the patent laws is presented. Federal courts assume jurisdiction only when the Case 'arises under' the patent laws.").

<sup>96</sup> See *Citadel Holding Corp. v. Roven*, 603 A.2d 818, 824 (Del. 1992) (Counterclaims "represent separate causes of action."); *Delaware Chem., Inc. v. Reichhold Chem., Inc.*, 121 A.2d 913, 918 (Del. Ch. 1956) (A counterclaim "has all the characteristics of an independent action."); *Pleatmaster, Inc. v. Conso. Trimming Corp.*, 156 N.Y.S.2d 662, 666 (N.Y. Sup. 1956) ("A counterclaim is equivalent to an affirmative action brought by a litigant and the relief requested is of the same nature as the judgment demanded in a complaint.").

<sup>97</sup> See *Schwarzkopf*, 800 F.2d at 244 ("Adjudication of a patent counterclaim is the exclusive province of the federal courts."); *Am. Home Prod. Corp. v. Norden Laboratories, Inc.*, 1992 Del. Ch. LEXIS 262, \*9 (Del.Ch. Nov. 4, 1992) ("[T]here is no corresponding authority for state courts to exercise ancillary jurisdiction over counterclaims which, if brought as independent actions in state court, would have to be dismissed as being within the exclusive jurisdiction of the federal courts."); *Western Elec. Co. v. Components, Inc.*, 1970 Del. Ch. LEXIS 114 (Del. Ch. Dec. 7, 1970); *Carbon Activation U.S., Inc. v. Gen. Carbon Corp.*, 278 A.D.2d 442, 444 (N.Y.App.Div. 2000) ("[Defendant's] claim for...the alleged pirating of his invention sounds in patent infringement, and such a claim may be brought only in Federal court..."); *Pleatmaster*, at 666; *Superior Clay Corp. v. Clay Sewer Pipe Ass'n.*, 215 N.E.2d 437, 440 (Ohio C.P. 1963) ("[F]rom a complete consideration of the amended counterclaim, it is apparent that the cause of action is for an alleged infringement of defendant's patent rights. Therefore the District Court of the United States has exclusive jurisdiction of the subject matter. This court does not have jurisdiction."); *Van Prod. Co. v. General Welding and Fabricating Co.*, 213 A.2d 769, 772 (Pa. 1965) ("It is established beyond question that the district courts of the United States have exclusive, original jurisdiction of all civil actions arising under the patent laws: 28 U.S.C. § 1338(A). See also *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, (1964), and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). As recognized by this Court in *Slemmer's Appeal*, 58 Pa. 155 (1868), if the validity of a patent or patentability is the principal issue involved, then the jurisdiction of the federal courts is exclusive.").

<sup>98</sup> *Green*, 770 N.E.2d at 787 ("As to the jurisdiction of a state court to entertain such a claim, at the time this case arrived at our Court we regarded the federal authorities cited in this opinion as requiring us to force bifurcated litigation by finding exclusive federal jurisdiction over the Greens' counterclaim.").

<sup>99</sup> *Id.* at 793.

<sup>100</sup> *Id.* at 793—79.

<sup>101</sup> As a result, it is possible that the patentee will file a separate suit in federal court as opposed to filing a counterclaim. One action, generally the second one to be filed, would be stayed if the issues overlap. This will lead to added expense and awkwardness. Little good could come from this. As Joseph Hosteny wrote:

[S]ince there won't be any removal from state court based on a patent counterclaim, two suits – one state and one federal – may now take the place of a single suit. This sounds a bit like the reverse of supplemental jurisdiction; instead of consolidating a dispute in front of one judge, the *Vornado* decision may give rise to two suits, especially if the

## B. Issues Raised by the Decision

The *Holmes* decision and its aftermath raise many issues and potential problems. Regional circuits and state courts will now have the opportunity to deal with substantive patent law claims. If regional circuit courts of appeals weigh in on substantive patent issues frequently, it may lead to choice of law problems. No guidelines have been given as to what law should and will be used by the courts that have not been dealing with such issues and, for that matter, the district courts that have. Forum shopping and races to the courtroom are likely to become rampant. Multiple suits emerging from the same facts and situations might also occur.<sup>102</sup> As a result, this may lead to great costs and strains on the judicial system. *Holmes* also left several loose ends that still need to be decided via litigation. As such, *Holmes* leaves the future of patent litigation in the United States very uncertain.

### 1. Choice of Law

As mentioned above, assuming that regional circuit courts of appeals weigh in on substantive patent issues frequently, the implications of the *Holmes* decision include choice of law problems. One factor that parties will consider in deciding whether to avoid the Federal Circuit is the regional circuits' choice as to whose law will be applied to patent appeals. It is clear from the *Holmes* opinions that the regional circuit courts are free to disagree with both new Federal Circuit decisions and precedents. While Justice Scalia only implied this,<sup>103</sup> Justice Stevens stated it outright. Explaining the potentially beneficial effects of circuit court decisions free from the institutional bias of the Federal Circuit, Justice Stevens opined that the resulting conflicts would highlight issues for the Supreme Court to review.<sup>104</sup> However, it is unclear whether this invitation to create new precedent will be accepted.

There are several possibilities as to which circuit's law the various regional circuits will use. Different circuits might choose different approaches.<sup>105</sup> Prior to the

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party, which wants to claim breach of contract, or breach of a license, or unfair competition, has a quick trigger finger. In my experience, a single dispute before more than one judge has a much better chance of being prolonged and intractable.

Joseph Hosteny, *What's Going on Out There?*, Intel. Prop. Today, Sept. 2002, at 36.

<sup>102</sup> In other words, if the defendants would not like the designated appellate jurisdiction, they would file their permissive counterclaims elsewhere as a separate suit.

<sup>103</sup> *Holmes*, 535 U.S. at 832—33.

<sup>104</sup> *Id.* at 838.

<sup>105</sup> The Federal Circuit has its own system as to choice of law. In *Atari, Inc. v. JS&A Group, Inc.*, 747 F.2d 1422, 1440 (Fed. Cir. 1984) (en banc), the court set forth its general policy. The court applies its own law to patent issues to promote uniformity within subject matter within its exclusive jurisdiction. The law of the source circuit is used regarding non-patent issues. This avoids the possibility that the litigants and

creation of the Federal Circuit in 1982, the appellate courts regularly heard patent cases, creating precedents of their own.<sup>106</sup> It is possible that they will pick up where they left off and apply their own pre-1982 precedents. Another possibility is that the regional circuits will use Federal Circuit law, as the district courts have been doing.<sup>107</sup> To do otherwise would make the job of a district court judge very difficult; in order to know which circuit's law to use, he would have to try to predict which court would hear the appeal. It is also possible that the regional circuits will adopt only the Federal Circuit precedents handed down prior to *Holmes*<sup>108</sup> and establish their own precedents for new issues. The final possibility is for the regional circuits to afford no precedential effect to previous decisions and treat each appeal as if it presents novel issues, creating new precedents. Under such circumstances, the prior decisions of the other circuits might be used only for advisory purposes. No matter which one or more of the four possibilities is actually used, unnecessary complexity will likely arise.

A more significant problem is likely to occur with the use of regional circuit law for non-patent law claims within the cases. One of the areas where this is expected to be evident is with antitrust law. The *Holmes* decision is good for antitrust lawyers since the Federal Circuit has been viewed as pro-patent and anti-antitrust.<sup>109</sup> In a position paper from Townsend and Townsend and Crew LLP, one attorney commented:

Some lawyers regard the Federal Circuit as hostile to patent antitrust claims. Decisions such as *Intergraph v. Intel* seem to support this view. I would expect those lawyers to be looking for opportunities to frame claims that will be considered by the regional circuits on appeal, rather than by the Federal Circuit. Now that the Supreme Court has spoken, the

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courts will have to select from competing authorities based on where the appeal would end up. Further, this policy minimizes forum shopping.

Since patent issues are intertwined with the rest of the case, this ruling has been adapted as the court felt necessary. *Midwest Indus.*, 175 F.3d at 1359—60, contains many examples of the court expanding the use of its own law.

<sup>106</sup> See *Radio Steel & Mfg. Co. v. MTD Prod. Inc.*, 566 F. Supp. 609, 614 (D. Ohio 1983) (“[T]he true predecessors of the new court in regard to appeals from decisions of district courts in patent cases are the other circuit courts.”), *reversed in part on other grounds*, 731 F.2d 840 (Fed. Cir. 1984).

<sup>107</sup> The Federal Circuit suggested this approach when the regional circuits had to make occasional patent decisions pre-*Holmes*. In *Atari*, the court stated:

...[I]t may well be that regional circuits will be required, in comparatively rare instances, to decide questions of substantive law in the three listed fields. In such instances, the regional circuits may find the body of decisions of this court a useful reference, in light of the considerations here expressed concerning the burden of conflicting views on the district courts.

747 F.2d at 1440, n.15.

<sup>108</sup> *Holmes* was decided on June 3, 2002.

<sup>109</sup> See *CSU, L.L.C. v. Xerox*, 203 F.3d 1322 (Fed. Cir. 2000) (showing the Federal Circuit's hostility to antitrust—if a patent is legally acquired, it is lawful to refuse to sell or license the invention); *cf. Image Tech. Serv., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1214—20 (9th Cir. 1997) (allowing rebuttal of the presumption).

regional Circuits are back in the ball game on patent antitrust issues. Thus I would expect to see considerably more activity in this area over the next few years, which may rein in some of the more aggressive patent licensing programs.<sup>110</sup>

Since antitrust cases often have patent counterclaims,<sup>111</sup> the ability to go to another circuit is good news for lawyers trying such cases. Following *Holmes*, *Telcomm Technical Services, Inc. v. Siemens Rolm Communications*, an antitrust case, was transferred to a regional circuit.<sup>112</sup>

Another area fraught with problems will be choice of law in situations where rules laid down by the Federal Circuit differ from those laid down by the Supreme Court, particularly when the Federal Circuit has a more stringent rule than that laid down by the Supreme Court. While the Supreme Court's limitation is certainly binding on the regional circuits, those courts have no obligation to follow the stricter rule of the Federal Circuit. This problem will also arise in circumstances where the Federal Circuit has ignored Supreme Court decisions, as in the area of claim construction. *Markman v. Westview Instruments*, decided by the Supreme Court,<sup>113</sup> would be binding on all courts while the Federal Circuit's narrower decision on the same matter, *Cybor Corp. v. FAS Technologies*,<sup>114</sup> would not.

## 2. Forum Shopping and the Rush to the Courtroom

In addition to affecting the judiciary, *Holmes* also creates issues for the litigating parties. While the choice of law issue applies to courts, for litigants *Holmes* creates the problem of forum shopping. Forum shopping concerns the plaintiff's choice of where to bring the case and which claims to include. Prior to the formation of the Federal Circuit, when the various appellate courts decided patent cases, choosing the forum constituted a pivotal element of any case. For example, the Eighth Circuit almost never upheld a patent's validity, making it a favorite forum for accused infringers.<sup>115</sup> Now, following *Holmes*, there will again be variety in the applied law and forum shopping will return with renewed vigor. Chief Judge H. Robert Mayer of the Federal Circuit agrees that *Holmes* is likely to foster forum shopping and may return the state of patent law to that

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<sup>110</sup> Townsend and Townsend and Crew LLP, *First Mover Advantage*, Intell. Prop. Update (July 2002) at [http://www.townsend.com/files/first\\_mover.pdf](http://www.townsend.com/files/first_mover.pdf) (quoting Roger Cook, a partner in Townsend and Townsend's San Francisco office).

<sup>111</sup> *Walker Process Equip. Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965) (allowing antitrust counter-claims in an action for patent infringement).

<sup>112</sup> 295 F.3d 1249 (Fed. Cir. 2002).

<sup>113</sup> 517 U.S. 370 (1996).

<sup>114</sup> 138 F.3d 1448 (Fed. Cir. 1996).

<sup>115</sup> See United States Court of Appeals for the Federal Circuit 20<sup>th</sup> Anniversary Judicial Conference, 217 F.R.D. 548 (2002) (statement made by Donald Dunner).

existing before the Federal Circuit's creation.<sup>116</sup> Similarly, attorney Steven Lippman noted:

On a relatively narrow issue of law, the Supreme Court has continued the criticism of the Federal Circuit's unique role in the oversight of patent law. The Court's failure to adopt a pragmatic interpretation of Congress' grant of exclusive appellate jurisdiction of the Federal Circuit on patent issues, risks a return to the day of Circuit-shopping.<sup>117</sup>

Accordingly, cases most probably will be filed within circuits that are favorable on the particular issues of the case. Careful pleading will be in vogue as plaintiffs' attorneys attempt to artfully tailor the complaint to guarantee or avoid the Federal Circuit.

The "race to the courthouse" will also be present. As only the plaintiff can control jurisdiction, the two sides will each try to be the one to file first and reap the benefits of controlling the suit.<sup>118</sup> More hastily filed suits and increased litigation may result. The ordinary incentive to negotiate settlements and resolve matters out of court will be offset by the risk of losing the first-filer advantages and ending up in an unfavorable jurisdiction. Despite the fact that suits are expensive, parties are unlikely to continue talks that are not going well when doing so could come at a high cost if the opponent sues first.

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<sup>116</sup> Anne M. Maner, *The Facts Behind the Decision in Holmes Case May Result in Conflicts in Substantive Patent Law*, 24 Nat. L. J. 45, B11 (2002).

<sup>117</sup> See *Breaking News*, at <http://www.jaffeassociates.com/NewsService/i317-s2.html> (June 3, 2003) (quoting Steven Lippman of Oblon, Spivak, McClelland, Maier & Neustadt, P.C). Joshua R. Rich, an attorney at McDonnell Boehnen Hulbert & Berghoff, commented similarly:

The Federal Circuit was created for the purpose of harmonizing patent precedent because the regional appellate courts had reached widely divergent decisions in identical situations. Before the Federal Circuit, the situation had created races to the courthouse in which where a case was first filed was almost as important as the merits of the case itself. The *Holmes* decision revives that possibility by allowing non-patent claims arising out of the same facts or occurrences as a patent infringement counterclaim to dictate which regional appellate court will decide the appeal of the case... Thus, the *Holmes* decision undermines the efforts of the patent bar to reach precedential uniformity through the Federal Circuit.

*US Supreme Court Reverses Patent Decision* (June 4, 2002), at <http://www.aplf.org/mailler/issue21.html>.

<sup>118</sup> See, e.g., John Allcock & Stanley J. Panikowski III, *Supreme Court Limits Federal Circuit Jurisdiction*, Gray Cary Online News (Oct. 2000) at [http://www.gcwf.com/gcc/GrayCary-C/News--Arti/Newsletter/ip/0210/supremectdecision\\_article.html](http://www.gcwf.com/gcc/GrayCary-C/News--Arti/Newsletter/ip/0210/supremectdecision_article.html) (The jurisdiction and possible outcome of some suits will depend on who files first. For example, in *Holmes* itself, if *Holmes* filed a declaratory trade dress suit and *Vornado* filed a patent counterclaim, then the Tenth Circuit had jurisdiction; if *Vornado* had filed a patent suit and *Holmes* had filed a declaratory trade dress counterclaim, then the Federal Circuit would have had jurisdiction.); see also *Townsend and Townsend and Crew LLP*, *supra* note 116 ("There is clearly a first mover advantage in framing the issues and choosing the appropriate venue in which to proceed. *Holmes* put *Vornado* on the defensive by taking the initiative on the trade dress issue, and in effect, quashed any discussion whatsoever on the patent issue by staying out of the Federal Circuit court.").

### 3. Separate Suits Emerging From the Same Facts and Situations

The problem of multiple suits emerging from the same matter could also arise in the wake of *Holmes*. While compulsory counterclaims are lost if not asserted, permissive counterclaims can be withheld and used as grounds for a separate suit. As patent holders want their claims adjudicated with the option of appeal to the Federal Circuit, they will likely file a separate patent suit instead of bringing permissive counterclaims in a case that will go to a different circuit. This will further backlog the judicial system and increase expenses. Furthermore, there will likely be a large number of disagreements at the appellate level over whether a counterclaim was compulsory and a second suit may be estopped.

Another possible manifestation of the multiple suit problem is competing suits. Each party will attempt to file in a jurisdiction favorable to its cause. The judges will then have to determine whether to follow the first-filed rule or whether other considerations require a different outcome. There will also be tenuous claims of jurisdiction in a particular, favorable venue leading to many more Rule 12 motions to dismiss. In all likelihood, there will be substantially more suits and issues to litigate as a result of *Holmes*.

### 4. Delays, Poor Decisions, Uncertainty in the Bar

A serious strain on resources may result from the *Holmes* decision. Regional circuit judges and state judges are ill equipped to deal with technical matters. They are familiar with neither the technologies nor the precedents in the area. Almost none of them have dealt with patent issues and it is unlikely that they wish to start now. Consequently, it will take significantly more time and effort on the part of the parties and the jurists to successfully conclude a case in a reasonable amount of time. As one attorney commented, "The clear losers in this case are the appellate judges around the country who thought that with the creation of the Federal Circuit they would not have to hear another patent case – with all the esoteric questions of law and technology that tend to come with them."<sup>119</sup> This inexperience and dislike of patent cases will likely lead to large numbers of incorrect and/or poor decisions. Consistency may also suffer as the judges may not understand the technical science of the patents and the Supreme Court most probably will not have the time or inclination to rectify anything but the most egregious of problems.

Time delays may also result. Patent appeals will take a long time to be heard as the regional circuits and state courts will be hearing the cases in addition to their already full dockets. Additional delays are likely to result from the inexperience of the judges in dealing with these matters. These delays will be inherently problematic for patent holders. Since technology is constantly improving, there is a limited window for exploiting a given patent. While the validity, enforceability, etc. of a patent are tied up in

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<sup>119</sup> Brenda Sandburg, *High Court Limits Patent Reach of Federal Circuit*, Broward Daily Bus. Rev., June 7, 2002 at A10.

litigation, the owner is unable to take full advantage of her intellectual property. As such, increasing the length of suits poses serious problems.

Additionally, *Holmes* presents problems for attorneys. Before *Holmes*, a lawyer could count on the fact that Federal Circuit law would be used for patents and many other related areas. Only a limited knowledge of regional circuit law was necessary. Now attorneys will have to be well-versed and experienced to practice in front of multiple circuits, even at the district court level. Patent prosecutors and licensing agents will have to take into account the law of multiple circuits in drafting their work. They too can no longer count on Federal Circuit rules being applied.

## 5. History Shows That Problems are Likely

While only time will tell who is correct, an analysis of past cases in light of the *Holmes* decision could prove to be a good indicator as to the effects it will have on patent litigation. To this end, a one month period between the *Aerojet* and *Holmes* decisions was randomly selected and the fact patterns of twenty-six cases from this time period involving patent infringement were scrutinized to determine which could be artfully pleaded such that an appeal would have gone to a regional circuit or state court rather than the Federal Circuit.<sup>120</sup> No causes of action unsupported by the facts at hand were considered.<sup>121</sup> Although eighteen of the cases (69%) could not have been pleaded to avoid the Federal Circuit,<sup>122</sup> eight (31%) could have been so pleaded and are addressed below.<sup>123</sup>

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<sup>120</sup> From the period spanning February 1990 to June 2002, the month of March 2000 was analyzed. While this was the month that *Holmes* was decided on a district court level, this is purely coincidental. *Holmes* itself was not used as part of the study.

A twenty-seventh opinion, *McCook Metals L.L.C. v. Alcoa Inc.*, 192 F.R.D. 242 (N.D.Ill. 2000) was excluded since the facts of the case were not included in the opinion.

Many of the opinions listed only the facts necessary for deciding the motion at hand. In a few cases, more information was available by looking at other opinions from the same suit. If this lack of information had any effect on this analysis, it decreased the number of cases that could be artfully pleaded since additional information would have added rather than subtracted potential causes of action.

For the same reason, only the cases that could be artfully pleaded are discussed. Just as insufficient facts made it difficult to determine whether cases could have avoided the Federal Circuit, there is equally as little evidence to the contrary.

<sup>121</sup> In other words, the ability to sue on unfair competition, tortious interference with a business relationship, and other non-patent grounds were not assumed.

<sup>122</sup> *Canady v. Erbe Elektromedizin GmbH*, 99 F.Supp.2d 37 (D.D.C. 2000); *Cordis Corp. v. Advanced Cardiovascular Sys., Inc.*, 2000 WL 376416 (D.Del. Mar. 31, 2000); *Camo-Clad, Inc. v. Latent Image, Inc.*, 2000 WL 343324 (N.D.Ill. Mar. 31, 2000); *Softview Computer Pros. Corp. v. Haworth, Inc.*, 2000 WL 351411 (S.D.N.Y. Mar. 31, 2000); *Schreiber Foods, Inc. v. Beatrice Cheese, Inc.*, 92 F.Supp.2d 857 (E.D.Wis. 2000); *Robotic Vision Sys., Inc. v. View Eng'g, Inc.*, 2000 WL 33911304 (C.D.Cal. Mar. 29, 2000); *Hilgraev Corp. v. Symantec Corp.*, 90 F.Supp.2d 850 (E.D.Mich. 2000); *Sandisk Corp. v. Lexar Media, Inc.*, 91 F.Supp.2d 1327 (N.D.Cal. 2000); *Somfy, S.A. v. Springs Window Fashions Div., Inc.*, 2000 WL 336511 (N.D.Ill. Mar. 28, 2000); *Nat'l Research Labs. v. Eppert Oil Co., Inc.*, 104 F.Supp.2d 851 (S.D. Ohio 2000); *Knowles Elecs., LLC v. Microtronic U.S., Inc.*, 2000 WL 310305 (N.D.Ill. Mar. 24, 2000); *Alpha Enters., Inc. v. Tomato Land Display Sys., Inc.*, 92 F.Supp.2d 733 (S.D. Ohio 2000); *Ecix Corp. v. Exabyte Corp.*, 191 F.R.D. 611 (D.Colo. 2000); *CenterForce Techs., Inc. v. Austin Logistics, Inc.*, 2000 WL 652943 (D.Del. Mar. 10, 2000); *PTS Labs LLC v. Abbott Labs.*, 2000 WL 521722 (N.D.Ill.

One such case is *Unique Coupons, Inc. v. Northfield Corp.*<sup>124</sup> Unique accused Northfield of infringing its patents.<sup>125</sup> Northfield counterclaimed that the patents were invalid, that their product did not infringe, that the patents were unenforceable and that Unique engaged in federal and state unfair trade practices.<sup>126</sup> While the plaintiff's infringement claim and most of the counterclaims were clearly patent related, the unfair trade practice claim was not. Northfield based this cause of action on allegations supposedly made by Unique to Northfield's customers that the Model 3200 coupon inserter infringed their patents and that they would sue anyone who would buy it.<sup>127</sup> In a responsive brief, Northfield further explained that the statements in question alleged that they were violating an earlier injunction pertaining to the Model 1600 by marketing the Model 3200.<sup>128</sup> In a post-*Holmes* world, this suit could have been artfully pleaded to avoid the Federal Circuit. Northfield could have preemptively sued Unique alleging state and federal unfair trade practices. As the accused statements were that they were violating an injunction, whether or not they were infringing Unique's patent was truly irrelevant. To win, Northfield would have to prove the statements false – that the Model 3200 was not subject to the earlier injunction – not that the Model 3200 did not infringe the patents, thereby avoiding the Federal Circuit on appeal.

A second case where the Federal Circuit could have been avoided is *Townshend v. Rockwell International Corp.*<sup>129</sup> Townshend invented the technology underlying 56K modems.<sup>130</sup> In October 1997, he sued Rockwell and Conexant in San Mateo Superior Court alleging state law violations, including unfair competition, misappropriation of trade secrets, breach of contract, and breach of confidence. Patents on the technology were issued to Townshend in September and November 1998. In 1999, he filed a patent infringement action against Conexant and dismissed the state action without prejudice.<sup>131</sup> Besides claiming infringement of his three patents, he also asserted the four state law

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Mar. 17, 2000); *Eli Lilly & Co. v. Zenith Goldline Pharms., Inc.*, 101 F.Supp.2d 1139 (S.D.Ind. 2000); *Maytag Corp. v. Whirlpool Corp.*, 88 F.Supp.2d 894 (N.D.Ill. 2000); *Boler Co. v. Neway Anchorlok Int'l. Inc.*, 92 F.Supp.2d 671 (N.D. Ohio, 2000).

<sup>123</sup> *Unique Coupons, Inc. v. Northfield Corp.*, 2000 WL 343225 (N.D.Ill. Mar. 30, 2000); *Townshend v. Rockwell Int'l. Corp.*, 2000 WL 433505 (N.D.Cal. Mar. 28, 2000); *Superior Merch. Co., Inc. v. M.G.I. Wholesale, Inc.*, 2000 WL 322779 (E.D.La. Mar. 27, 2000); *Bristol-Myers Squibb Co. v. Ben Venue Labs.*, 90 F.Supp.2d 540 (D.N.J. 2000); *Whiteside Biomechanics, Inc. v. Sofamor Danek Group, Inc.*, 88 F.Supp.2d 1009 (E.D.Mo. 2000); *Hardwood Line Mfg. Co. v. Whyco Techs., Inc.*, 2000 WL 294832 (N.D.Ill. Mar. 21, 2000); *Windsor Indus., Inc. v. Pro-Team, Inc.*, 87 F.Supp.2d 1129 (D.Colo. 2000); *Sys. Mgmt. Arts, Inc.*, 87 F.Supp.2d 258.

<sup>124</sup> 2000 WL 631324 (N.D.Ill. May 16, 2000).

<sup>125</sup> *Id.* at \*1.

<sup>126</sup> *Id.* at \*1—2.

<sup>127</sup> *Id.* at \*1.

<sup>128</sup> *Id.* at \*1.

<sup>129</sup> 2000 WL 433505 (N.D.Cal. Mar. 28, 2000).

<sup>130</sup> *Id.* at \*1.

<sup>131</sup> *Id.*

claims. Conexant counterclaimed that Townshend had engaged in inequitable conduct and patent misuse. Additionally, it alleged that he and 3M (the owner of the patents) engaged in federal and state antitrust by obtaining invalid patents necessary to the operation of 56K modem chipsets, fraudulently procuring an industry standard requiring the use of their products, and denying the technology to the competition. Conexant further explained that Townshend and 3M lobbied the International Telecommunications Union (ITU) to adopt a standard including Townshend's technology but failed to tell them that they were suing to protect necessary elements of the proposed standard.<sup>132</sup> As Townshend had four state law claims prior to being awarded the patents, he certainly could have maintained a trade secret suit and avoided the Federal Circuit.

On March 20, 2000, the United States District Court, Eastern District of Louisiana issued an order in the *Superior Merchandise* case.<sup>133</sup> Based on a patent for decorative beads, Superior sued MGI for patent infringement and trade dress infringement under Section 43 of the Lanham Act. The defendants counterclaimed alleging patent invalidity and state law unfair competition.<sup>134</sup> The trade dress and unfair competition claims each could have been a basis to avoid the Federal Circuit.<sup>135</sup>

Another case that could have been artfully pleaded is *Bristol-Myers Squibb Co. v. Ben Venue Labs*.<sup>136</sup> Bristol-Myers Squibb ("Bristol") sued multiple drug companies alleging infringement of their patents covering methods for the use of Taxol, an anticancer drug. The defendants counterclaimed on multiple grounds. First, they accused Bristol-Myers Squibb of unfair competition under state law.<sup>137</sup> Second, based on Bristol's statements during Congressional hearings, the defendants claimed that they relinquished their patent monopoly and were, therefore, estopped from asserting it.<sup>138</sup> Additionally, the defendants claimed violations of the Sherman Act and *Walker Process*<sup>139</sup> counterclaims. More specifically, they alleged that Bristol improperly obtained exclusive licenses to government patents by employing a "blatantly incorrect" interpretation of their Cooperative Research and Development Agreement (CRADA) and secured orphan drug exclusivity to block a competitor's product that was approaching the

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<sup>132</sup> *Id.* at \*2.

<sup>133</sup> *Superior Merchandise Co., Inc. v. M.G.I. Wholesale, Inc.*, 2000 WL 322779, at \*1 (E.D.La. 2000).

<sup>134</sup> *Id.* at \*1—2.

<sup>135</sup> Note, however, that both were dismissed in the earlier opinion *Superior Merchandise Co., Inc. v. M.G.I. Wholesale, Inc.*, 1999 WL 977365, at \*8 (E.D.La. Oct. 26, 1999). As such, it would not have been advantageous to avoid dealing with the patent. Nonetheless, it could have been done.

<sup>136</sup> 90 F.Supp.2d 540 (D.N.J. 2000).

<sup>137</sup> *Bristol-Myers Squibb Co. v. Ivax Corp.*, 77 F.Supp.2d 606, 608 (D.N.J. 2000) (this claim is founded on the same allegations as the *Walker Process* counterclaims).

<sup>138</sup> *Id.* at 616 (Defendants "assert that Bristol promised during congressional hearings in 1991 and 1993 'that it would not bar all competition in the market for paclitaxel-based drugs and that its monopoly in the paclitaxel-based drug market was limited to ... non-patent exclusivity.'").

<sup>139</sup> *Walker Process Equip., Inc. v. Food Mach. & Chem. Co.*, 382 U.S. 172 (1965) (acquisition of a patent via inequitable conduct can create an antitrust violation under the Sherman Act and opens one up to treble damages for willfulness under the Clayton Act).

market.<sup>140</sup> Further, the defendants claimed that Bristol secured their patents through fraud and inequitable conduct and attempted to enforce these sham patents (*Walker Process* counterclaims).<sup>141</sup> Finally, the defendants counterclaimed for a declaratory judgment of noninfringement, invalidity, and unenforceability of the asserted patents.<sup>142</sup> As the estoppel and non-*Walker Process* antitrust counterclaims would not have been basis for Federal Circuit jurisdiction, this suit could have been pleaded in such a way as to direct its appeal to a regional circuit court of appeals.<sup>143</sup>

*Whiteside Biomechanics, Inc. v. Sofamor Danek Group, Inc.*<sup>144</sup> could also have avoided the Federal Circuit. This is a trade secrets case involving the patents resulting from both the secrets allegedly disclosed by the plaintiff, Whiteside, to the defendants, Danek and Danek's subsequent work. Whiteside claimed breach of common law duty, unfair competition, misappropriation of trade secrets, misappropriation of trade secrets through acquisition by improper wrongful means and breach of confidence, and requested correction of inventorship on three of Danek's patents.<sup>145</sup> The defendants counterclaimed on six grounds – patent infringement, correction of inventorship of a patent, breach of common law duty, unfair competition, misappropriation of trade secrets, and misappropriation of trade secrets through acquisition by improper wrongful means and breach of confidence.<sup>146</sup> Were this case to be pleaded based solely on trade secret law, resultant appeals would avoid the Federal Circuit.

Similarly, in *Hardwood Line Manufacturing Co. v. Whyco Technologies, Inc.*,<sup>147</sup> the plaintiff could have avoided Federal Circuit jurisdiction. Hardwood sued Whyco alleging patent infringement, trademark infringement, and unfair competition.<sup>148</sup> Thus, if Hardwood had omitted the patent infringement claim, it would have been a trademark suit that would have gone to a regional circuit court of appeals.<sup>149</sup>

*Windsor Industries, Inc. v. Pro-Team, Inc.*<sup>150</sup> is another case that could be selectively pleaded to ensure the regional circuit heard the appeal. Windsor filed a

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<sup>140</sup> *Bristol-Myers Squibb Co.*, 77 F.Supp.2d at 611.

<sup>141</sup> *Id.*

<sup>142</sup> *Id.* at 617.

<sup>143</sup> All of the counterclaims other than the *Walker Process* and unfair competition claims were thrown out. See *Bristol-Myers Squibb Co.*, 77 F.Supp.2d at 606. Still, the case could have been pleaded to avoid the Federal Circuit. Further, if the defendants had filed the suit, Bristol would likely have counterclaimed for patent infringement leading the defendants to amend their complaint with the patent related claims.

<sup>144</sup> 88 F.Supp.2d 1009 (E.D.Mo. 2000).

<sup>145</sup> *Id.* at 1010.

<sup>146</sup> *Id.* at 1010.

<sup>147</sup> 2000 WL 294832 (N.D.Ill. Mar. 21, 2000).

<sup>148</sup> *Id.* at \*1. It is a Rule 12(b) motion filed by the defendant prior to filing an answer. Thus, there are no counterclaims.

<sup>149</sup> In this case, Hardwood would have lost nothing by selective pleading—the patent infringement claim was thrown out anyway.

<sup>150</sup> 87 F.Supp.2d 1129 (D. Col. 2000).

declaratory judgment against Pro-Team alleging that its vacuums do not infringe Pro-Team's design patent. The defendants counterclaimed alleging patent infringement, trade dress infringement, dilution of trademark, and injury to business reputation in violation of 15 U.S.C. § 1125.<sup>151</sup> If Pro-Team had filed an action based solely on the trade dress and Lanham Act claims, there would have been no appellate jurisdiction for the Federal Circuit under § 1295.

Similarly, in the Southern District of New York, System Management Arts ("Smarts") sued Avesta Technologies ("Avesta") alleging patent infringement, unfair competition, breach of contract, interference with contractual relations and unjust enrichment. These claims were based on Avesta's software and confidential information supposedly appropriated by Avesta's Chief Technical Officer.<sup>152</sup> Counterclaims were filed for a declaratory judgment, Lanham Act unfair competition, patent misuse, common law unfair competition, and state law violations.<sup>153</sup> Smarts allegedly initiated the lawsuit to prevent Avesta from bringing a competing product to market. Further, Smarts and its president were said to have publicized false information about the lawsuit to Avesta's detriment.<sup>154</sup> The Federal Circuit could have been avoided had Smarts sued asserting only trade secret misappropriation.

If this study proves representative, those who theorized that *Holmes* would have a significant effect on appellate jurisdiction over patent claims will be proven correct. From the results of this representative sampling—that 31% of cases could be artfully pleaded—it seems that the regional circuits and state courts will frequently be faced with counterclaims of patent law. The resultant issues are, thus, quite significant. While there is no evidence that the cases discussed would have been artfully pleaded to avoid the Federal Circuit, the mere fact that it could have been done is troublesome. As long as the possibility exists and litigants occasionally take advantage of it, the foreseen problems may ensue.

### C. Unresolved Issue: Amendments

It is unclear whether anything other than the plaintiff's original complaint should be taken into account in determining jurisdiction. In *Christianson*, the majority equated the basis for Federal Circuit jurisdiction with that of the district courts. In rejecting Colt's contention that the appropriate basis was the case actually litigated, the court favored an "ex ante hypothetical assessment of the elements of the complaint that might have been dispositive."<sup>155</sup> While the majority specifically refrained from deciding the

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<sup>151</sup> *Id.* at 1129—30.

<sup>152</sup> *Sys. Mgmt. Arts, Inc.*, 87 F.Supp.2d 258.

<sup>153</sup> *Id.* at 260.

<sup>154</sup> *Id.* at 270.

<sup>155</sup> *Christianson*, 486 U.S. at 813.

effect of amended complaints,<sup>156</sup> Justice Stevens pointed out that the “*ex ante* hypothetical assessment” might suggest “that whether patent claims are properly before the Federal Circuit on appeal should be determined by examining only the initial complaint and not by ascertaining whether a patent claim in fact was litigated in the case.”<sup>157</sup> Justice Stevens disagreed with this as well as the majority’s insistence that appellate jurisdiction is determined the same way as original jurisdiction. He demonstrated his point with an example. If a plaintiff filed a complaint alleging patent infringement and antitrust violations but dropped the infringement claim in advance of trial, it makes sense for the appeal to go to a regional circuit. If, however, the original complaint contained only an antitrust claim and the plaintiff later asserts a patent infringement claim that was actually litigated, the appeal would logically go to the Federal Circuit. As such, Justice Stevens argued, appellate jurisdiction should be based on the plaintiff’s claims that are tried – whether contained in the original or amended complaint – and not on those that are dropped.<sup>158</sup>

A similar uncertainty comes up in the majority of *Holmes*. The court again reserved judgment on the effect of amendments.<sup>159</sup> Justice Stevens pointed out that the court’s opinion relied solely on cases involving removal jurisdiction of the district courts.<sup>160</sup> This, like the majority’s statements in *Christianson*, might be taken as an endorsement to use only the plaintiff’s original complaint in determining appellate jurisdiction. Therefore, Justice Stevens reiterated his examples and arguments from *Christianson* and expressed his disagreement with the majority to the extent that its opinion encourages ignoring which of the plaintiff’s claims was actually litigated.<sup>161</sup>

The resolution of this issue is critical. Consideration of only the original complaint will afford the plaintiff unreasonable leeway. As Justice Stevens argued, “[t]hat approach would enable an unscrupulous plaintiff to manipulate appellate court jurisdiction by the timing of the amendments to its complaint.”<sup>162</sup> If a plaintiff wishes to avoid Federal Circuit jurisdiction, he could omit the patent law claims from the original complaint and include them in an amended complaint.<sup>163</sup> Similarly, to get Federal Circuit jurisdiction for a non-patent suit, a patent law claim could be included in the original

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<sup>156</sup> *Id.* at 814—15 (“We need not decide under what circumstances, if any, a court of appeals could furnish itself a jurisdictional basis unsupported by the pleadings by deeming the complaint amended...”) (Stevens, J., concurring).

<sup>157</sup> *Id.* at 822.

<sup>158</sup> *Id.* at 823.

<sup>159</sup> *Holmes*, 535 U.S. at 834 (2002).

<sup>160</sup> *Id.* at 835 (Stevens, J., concurring).

<sup>161</sup> *Id.*

<sup>162</sup> *Id.* (quoting *Christianson*, 800 U.S. at 824 (Stevens, J., concurring.)).

<sup>163</sup> Assuming that the amendment is made reasonably early in the case, there would be no reason for the court to disallow it.

complaint and dropped.<sup>164</sup> This forum manipulation could be advantageous to the plaintiffs and would be harmful to the system.

If, on the other hand, amendments are taken into account, the well-pleaded complaint rule would differ on the appellate level. This would be contrary to the court's arguments for "linguistic consistency" and identical application of the well-pleaded complaint rule on district and appellate levels. Were the Court to alter this by allowing the use of additional documents and a later point of fixing jurisdiction, it would be acting contrary to its own arguments in *Holmes*. Faced with the alternative, Justice Scalia might himself be forced into a "feat of interpretive necromancy."<sup>165</sup>

#### D. *What Should Be Done?*

There are several possible reactions in the wake of *Holmes*. On the one hand, there is an urge to do nothing, to wait and see whether the foreseen problems really materialize. If they do, solutions could be worked out to deal with what actually occurs. This inertial response, however, brings with it the risk of mayhem.

There are several suggestions as to what can actively be done. One suggestion calls for taking advantage of the second prong of the *Christianson* test.<sup>166</sup> If a question of patent law is necessary for relief, the Federal Circuit has jurisdiction.<sup>167</sup> The defendant-patent holder can stretch this and argue that in virtually all cases involving patents,

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<sup>164</sup> This would only work if there were sufficient grounds to make the patent claim part of a *well-pleaded* complaint.

<sup>165</sup> *Holmes*, 535 U.S. at 833.

<sup>166</sup> This prong is cited but not discussed by *Holmes*, 535 U.S. at 830.

<sup>167</sup> See, e.g., *Christianson*, 486 U.S. at 808—09 (“[Section] 1338(a) jurisdiction likewise extend[s] only to those cases in which a well-pleaded complaint establishes that the plaintiff’s right necessarily depends on resolution of a substantive question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.”); *US Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000) (“To show that Dray sold valves in contravention of U.S. Valves’ exclusive right to such sales, U.S. Valves must show that Dray sold valves that were covered by the licensed patents. Since some of the valves that Dray sold were of the sliding ring variety, a court must interpret the patents and then determine whether the sliding ring valve infringes these patents. Thus, patent law is a necessary element of U.S. Valves’ breach of contract action.”); *3D Sys., Inc. v. Aarotech Labs., Inc.*, 160 F.3d 1373, 1377 n.2 (Fed. Cir. 1998) (“Regarding 3D’s state law trade libel claim, we note that federal jurisdiction would also be proper pursuant to 28 U.S.C. § 1338(a) as ‘arising under any Act of Congress relating to patents’ in that whether 3D libeled the defendants by accusing them of infringing 3D’s patents necessarily depends on resolution of a substantial question of federal patent law.”); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1329 (Fed. Cir. 1998), *overruled in part on other grounds*; *Midwest Indus.*, 175 F.3d at 1359 (“[W]e hold that this count, as pleaded, arises under section 1338(a). First, the action satisfies the well pleaded complaint rule, for a required element of the state law cause of action—a falsity—necessarily depends on a question of federal patent law, in that either certain claims of the Harmonic patents are invalid or all of the claims are unenforceable. . . . Second, all the theories upon which Hunter Douglas could prevail depend on resolving a question of federal patent law, because Hunter Douglas does not plead, in its complaint, any other basis for a falsity on the Defendants’ part.”); *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 478-9 (Fed. Cir. 1993) (“Adcon must prove that Flowdata’s infringement accusations are false before it can recover for business disparagement . . . Adcon’s right to relief necessarily depends upon resolution of a substantial question of federal patent law.”).

regardless of whether the main issue is one of patent law, the case cannot be decided without patent law.<sup>168</sup> This argument, however, is unlikely to succeed unless an appellate court applies this principle. It is possible, though unlikely, that the Federal Circuit will support this approach in order to maintain its goal of uniformity.<sup>169</sup> A regional circuit desperate to get these cases off its docket might also aggressively apply the second prong of the *Christianson* test.

A second suggestion is for Congress to take action. The Supreme Court has destroyed the uniformity that Congress attempted to foster in forming the Federal Circuit. As such, there are those who think that Congress will mitigate the effects of *Holmes* through legislation.<sup>170</sup> As one attorney commented:

The original intent of Congress in forming the Federal Circuit was to establish some continuity and consistency when settling patent law disputes. This decision is contrary to Congress' clear mandate to have the Federal Circuit settle patent law disputes. Now it's just a question of how long it will take for a bill to be introduced which will reestablish the Federal Circuit's jurisdiction over patent law disputes.<sup>171</sup>

Not everyone, however, feels that *Holmes* will have much problematic effect on appellate jurisdiction over patent claims. As Neil Smith, an attorney at Howard, Rice, Nemerovski, Canady, Falk & Rabkin, said, "I think it's more saying the Federal Circuit will not be getting other-issue cases than it is saying regional circuit courts will get patent cases. Legitimate patent infringement cases will still go to the Federal Circuit."<sup>172</sup> Similarly, David Bassett of Hale & Dorr wrote that very few cases will be affected by the *Holmes* holding, since most actions and counterclaims will either be sufficiently related to "arise under" due to a dependence on federal patent law, or sufficiently unrelated to allow the defendant to file the counterclaim separately. Very few cases will fall in

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<sup>168</sup> A permissive approach could be taken toward determining whether or not patent law is necessary to permit the plaintiff to get relief. While some areas (like licenses) have been specifically excluded from this sort of use by the courts, see, e.g., *Luckett v. Delpark, Inc.*, 270 U.S. 496, 502 (1926), others (like unfair competition) have not.

<sup>169</sup> See *supra* note 42 and related text.

<sup>170</sup> The Ad Hoc Committee appointed by the Board of Governors of the Federal Circuit Bar Association suggested adding the italicized phrase to § 1338(a) to read as follows:

The district courts shall have original jurisdiction of any civil action *involving any claim for relief* arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

Report of the Ad Hoc Committee to Study *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 12 Fed. Cir. B.J. 713, 714 (2003).

<sup>171</sup> *Breaking News*, *supra* note 123 (quoting Bernard Rhee of Powell, Goldstein, Frazer & Murphy).

<sup>172</sup> Brenda Sandburg, *High Court Limits Patent Reach of Federal Circuit*, *Broward Daily Bus. Rev.*, June 7, 2002 at A10.

between.<sup>173</sup> Thus, there are those who argue that *Holmes* will have little effect on the Federal Circuit's jurisdiction over patent counterclaims.

#### IV. Conclusion

*Holmes* has radically changed appellate jurisdiction by taking jurisdiction over cases with patent law counterclaims that lack patent claims away from the Federal Circuit. As many cases can be artfully pleaded to avoid the Federal Circuit, litigants, as well as courts, will be faced with many decisions. Choice of law issues will have to be addressed by the regional circuits and state courts. Judges who have had minimal dealings with patent issues will likely need to learn on the job. Cases are likely to take longer to litigate. Forum shopping and races to the courthouse may become frequent. Congressional response to this decision, which is clearly contrary to their intent, is uncertain. Tremendous uncertainty regarding the future of patent litigation exists. The coming years should prove particularly interesting.

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<sup>173</sup> David Bassett, *Recent Decisions on Patent and Copyright Jurisdiction*, Hale & Dorr e-mail alert August 14, 2002, at [http://www.hutchlaw.com/downloads/techlaw/09\\_25\\_2002\\_Techlaw.doc](http://www.hutchlaw.com/downloads/techlaw/09_25_2002_Techlaw.doc).