"INTERPRETIVE NECROMANCY" OR PRUDENT PATENT POLICY? THE SUPREME COURT'S "ARISING UNDER" BLUNDER IN *HOLMES GROUP V. VORNADO*

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INTRODUCTION

In a June 3, 2002 opinion authored by Justice Scalia, the United States Supreme Court held in *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*,[1] that when a claim of patent infringement is asserted in a defendant's *counterclaim* rather than in a plaintiff's complaint, the patent infringement counterclaim cannot serve as the basis for a U.S. District Court's "arising under any Act of Congress relating to patents" jurisdiction as defined by 28 U.S.C. § 1338(a) [hereinafter, § 1338 "arising under" jurisdiction]. Consequently, such a case does not trigger the patent-specific *appellate* subject matter jurisdiction of the U.S. Court of Appeals for the Federal Circuit under 28 U.S.C. § 1295(a).[2] Rather, appeal will be directed to the regional U.S. Circuit Court of Appeals for the geographic jurisdiction in which the case was tried. For example, if a plaintiff asserts a Sherman Act § 2 monopolization claim in a lawsuit filed in the U.S. District Court for the District of Kansas and the antitrust defendant answers by filing a counterclaim asserting patent infringement (as was the case in the closely-watched *CSU v. Xerox* litigation[3]), the district court's final decision will now be appealed to the U.S. Court of Appeals for the Tenth Circuit rather than to the Federal Circuit.

This result is obtained under *Holmes Group* even though the patent infringement counterclaim is compulsory rather than permissive. Recall that under the Federal Rules of Civil Procedure, a "compulsory" counterclaim is one that "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."[4] These counterclaims are deemed "compulsory" because a pleading "shall state" such counterclaims as the pleader has

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[1] __U.S.__, 122 S. Ct. 1889, 153 L. Ed. 2d 13, 2002 U.S. LEXIS 4022, 70 U.S.L.W. 4489 (June 3, 2002).

[2] The Federal Circuit's appellate jurisdiction is defined by 28 U.S.C. § 1295(a), which provides that the court shall have exclusive jurisdiction "(1) of an appeal from a final decision of a district court of the United States . . ., if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title . . . ." Section 1338 of 28 U.S.C. in turn provides in relevant part that the federal district courts, exclusive of state courts, shall have original jurisdiction "(a) . . . of any civil action arising under any Act of Congress relating to patents . . . ."

[3] The *Holmes Group* decision puts an end to the Federal Circuit's prior practice of taking appellate jurisdiction in antitrust cases in which patent infringement is raised as a counterclaim. *See, e.g.,* In re Independent Serv. Organizations Antitrust Litigation (CSU, L.L.C. v. Xerox Corp.), 203 F.3d 1322 (Fed. Cir. 2000) (deciding appeal of case in which plaintiff alleged violation of Sherman Act and defendant counterclaimed for patent and copyright infringement).

[4] Fed. R. Civ. P. 13(a).

against any opposing party at the time of serving the pleading.[5] In contrast, a "permissive" counterclaim is one that does not arise out of the same transaction or occurrence that is the subject matter of the opposing party's claim.[6] Although disputed by the parties, the Supreme Court characterized the patent infringement counterclaim in *Holmes Group* as compulsory.[7] Therefore, even when an independent jurisdictional basis exists under 28 U.S.C. § 1338(a) for the patent infringement allegation of the counterclaim, *Holmes Group* means that the matter will *not* be resolved by the Federal Circuit.

In holding that cases involving patent infringement counterclaims must henceforth be appealed to the regional Circuits, the Supreme Court in *Holmes Group* overruled contrary Federal Circuit decisions in *Aerojet-General Corp. v. Machine Tool Works*[8] and *DSC Communications Corp. v. Pulse Communications, Inc.*[9] These decisions (characterized by concurring Justice Stevens as "well-reasoned precedent")[10] established that the Federal Circuit had appellate jurisdiction over appeals from cases involving patent infringement counterclaims, whether compulsory or permissive. In particular, *Aerojet* effectively interpreted the "well-pleaded complaint" rule of *Christianson v. Colt Indus.*,[11] the Supreme Court's initial foray into Federal Circuit jurisdiction, as a rule of "well-pleaded complaint or counterclaim." Writing for a unanimous Federal Circuit in *Aerojet*, then-Chief Judge Markey found it apparent from the *Christianson* decision that the Supreme Court "did not intend to make a rigid application of the well-pleaded complaint rule a Procrustean bed for this court's jurisdiction."[12] Federal-state conflicts were not present in *Aerojet*, Judge Markey emphasized; the appeals court dealt "only with the direction of an appeal in a case already properly in the federal court system," and one where the "plaintiff's right to choose a federal trial forum has already been fully exercised."[13] In light of the legislative history of the Federal Courts Improvement Act of 1982, which gave birth to the Federal Circuit in order to make available "a clear, stable, uniform basis for evaluating matters of patent validity/invalidity and infringement/noninfringement," Judge Markey concluded in *Aerojet* that to read the well-pleaded complaint rule as mandating "a compelled disregard of compulsory

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[5] *Id.*

[6] *See* Fed. R. Civ. P. 13(b).

[7] *Holmes Group,* 122 S. Ct. at 1892 (noting that "Respondent's answer asserted a compulsory counterclaim alleging patent infringement").

[8] 895 F.2d 736, 745 (Fed. Cir. 1990) (Markey, C.J., for a unanimous *en banc* court) (holding that Federal Circuit, rather than regional circuit, had appellate jurisdiction over a Lanham Act "false representation" case that included compulsory counterclaim for patent infringement, where counterclaim was "a separate, nonfrivolous claim, having its own section 1338 jurisdictional basis independent of the jurisdictional basis of the complaint").

[9] 170 F.3d 1354, 1358-59 (Fed. Cir. 1999) (holding that actions "arising under" the patent laws, which trigger Federal Circuit's appellate jurisdiction, include permissive as well as compulsory counterclaims that assert a nonfrivolous claim of patent infringement).

[10] *Holmes Group*, 122 S. Ct. at 1896 (Stevens, J., concurring) (citing Federal Circuit's decision in *Aerojet* and regional circuit authority cited therein).

[11] 486 U.S. 800 (1988).

[12] *Aerojet*, 895 F.2d at 741.

[13] *Id.* at 744-45.

counterclaims for patent infringement . . . would disserve the intent of Congress in creating [the Federal Circuit]."[14]

Writing for the Supreme Court in *Holmes Group*, Justice Scalia derides this reasoning as an act of "interpretative necromancy."[15] The startling result of *Holmes Group* is that for the first time since the Federal Circuit's creation twenty years ago, the regional circuit courts of appeal will be asked to resolve patent law-based *claims* (*i.e.*, causes of action), not merely the occasional patent law-based *issue* that might be tangentially encountered in non-patent actions.[16] The decision in *Holmes Group* resurrects the specter of regional circuit-specific, non-uniform patent jurisprudence and the potential for forum shopping that entails, the very problems that the Federal Circuit was created to remedy. By narrowly construing statutory text and non-analogous judicial decisions while purposefully ignoring the legislative intent expressed in the Federal Courts Improvement Act of 1982,[17] the Supreme Court in *Holmes Group* has frustrated Congress's goal of creating a more uniform and stable patent law jurisprudence.[18]

Contrary to the Supreme Court's ruling in *Holmes Group*, this article contends that when a plaintiff files a non-patent law-based claim in federal court (*e.g.,* an antitrust action, copyright infringement action, or Lanham Act trademark or trade dress infringement action), and the defendant asserts a non-frivolous counterclaim for patent infringement, the case should be construed as one "arising under" the patent laws in accordance with 28 U.S.C. § 1338. Hence, any appeal from a final decision should be taken to the U.S. Court of Appeals for the Federal Circuit under

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[14] *Id.* at 745. Congress created the U.S. Court of Appeals for the Federal Circuit in 1982 with the goal of reducing forum shopping and enhancing uniformity in the development of patent law. Although its first Chief Judge, Howard T. Markey, and others, objected to characterizations of the court as a "specialized" forum, the Federal Circuit is unique among the U.S. Courts of Appeals because its existence is premised on a specialized subject matter, rather than geographic, jurisdiction.

[15] *See Holmes Group,*122 S. Ct. at 1895.

[16] "Claims" (or causes of action) should be distinguished from "issues." The Supreme Court has previously made clear that the Federal Circuit does not have exclusive appellate jurisdiction over cases raising patent issues that are not necessarily determinative of a non-patent law cause of action. *See* Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 811-12 (establishing that a non-patent claim involving a patent issue will go to the regional circuit rather than the Federal Circuit if patent law is not a "necessary element" of the claim).

[17] Pub. L. No. 97-164, 96 Stat. 25 (1982).

[18] *See* H.R.Rep. No. 312, 97th Cong., 1st Sess. 41 (1981) [hereafter House Report], at 20 ("The establishment of a single court to hear patent appeals was repeatedly singled out by the witnesses who appeared before the Committee as one of the most far-reaching reforms that could be made to strengthen the United States patent system in such a way as to foster technological growth and industrial innovation. The new Court of Appeals of the Federal Circuit will provide nationwide uniformity in patent law, will make the rules applied in patent litigation more predictable and will eliminate the expensive, time-consuming and unseemly forum-shopping that characterizes litigation in the field."); *see also* S.Rep. No. 275, 97th Cong., 1st Sess. 19-20 (1981) [hereafter Senate Report], at 3-6, 29 ("The committee is concerned that the exclusive jurisdiction over patent claims of the new Federal Circuit not be manipulated. This measure is intended to alleviate the serious problems of forum shopping among the regional's [sic] courts of appeals on patent claims by investing exclusive jurisdiction in one court of appeals."); House Report at 23 ("the central purpose [in creating the Federal Circuit] is to reduce the widespread lack of uniformity and uncertainty of legal doctrine that existed in the administration of patent law.").

28 U.S.C. § 1295(a), on the basis that the district court's jurisdiction was based, "in part" if not "in whole," upon the patent laws.

This article concedes that if the plaintiff filed its action in state court (*e.g.*, an action for trade secret misappropriation without diversity of citizenship), the general rule for removal of such cases should control, and the defendant should not be able to remove the case to federal court by filing a patent infringement counterclaim. This bifurcated approach ensures that Congress's goal of promoting a uniform, stable patent law jurisprudence is honored in the majority of cases involving a patent law counterclaim (the majority being those initially filed in federal court), while recognizing that federalism concerns will outweigh that policy interest in the relatively small number of cases where the plaintiff chooses state court as its preferred trial forum.

After reviewing the Supreme Court's earlier application of the "well-pleaded complaint" rule in *Christianson*, this article critiques the majority and two concurring opinions in *Holmes Group.* The majority opinion of Justice Scalia unwisely discounts the importance of Federal Circuit review of patent law-based causes of action by relying on case law interpreting "arising under" in the setting of removal of cases from state to federal court, a context of no relevance to the facts in *Holmes Group.* The tone of Justice Stevens' concurring opinion suggests that the Court may have intended to rein in the Federal Circuit's recent choice-of-law trend towards applying its own law, rather than that of the relevant regional circuit, to non-patent law issues that intersect with or implicate patent law. Regardless of the wisdom of the Federal Circuit's recent choice-of-law decisions, this article concludes that *Holmes Group*'s reliance on a formalistic "claim" versus "counterclaim" distinction to strip away an entire category of *patent law*-based claims from the Federal Circuit's appellate jurisdiction is not in the best interests of the U.S. patent system, nor does it promote the efficient functioning of the federal appellate court system.

THE SUPREME COURT'S FIRST FORAY INTO FEDERAL CIRCUIT JURISDICTION: CHRISTIANSON V. COLT INDUS. (1988) AND THE WELL-PLEADED COMPLAINT RULE

The Supreme Court in *Christianson v. Colt Indus.*[19] was called upon to interpret the meaning of "arising under" as used in 28 U.S.C. § 1338 when the plaintiff Christianson filed a federal lawsuit alleging antitrust violations (as well as state law-based tortious misrepresentation) by defendant Colt, a patent owner. Unlike *Holmes Group*, no patent law-based counterclaim was involved in *Christianson.* Rather, the central issue was whether patent law was "a necessary element of one of the [plaintiff's] well-pleaded [antitrust] claims."[20]

More particularly, the antitrust claim was premised on defendant Colt's alleged statements to current and potential customers of plaintiff Christianson that Christianson was misappropriating Colt's trade secrets, which statements Christianson alleged had caused a loss of business that ultimately drove Christianson out of business. Colt contended that the alleged invalidity of its patents

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[19] 486 U.S. 800 (1988).

[20] *See id.* at 809.

was an essential element to plaintiff Christianson's Sherman Act monopolization claim, thus making the case one that "arises under" the patent laws in accordance with 28 U.S.C. § 1338 and therefore appealable to the Federal Circuit under 28 U.S.C. § 1295(a). A "jurisdictional ping-pong match" ensued in which the Federal Circuit transferred the appeal to the Seventh Circuit, the Seventh Circuit transferred it back, and the Federal Circuit finally decided the case in "the interest of justice,"[21] still contending that the appeal properly belonged in the Seventh Circuit.

Granting *certiorari* to resolve the dispute, the Supreme Court in *Christianson* construed § 1338 "arising under" jurisdiction in terms of the "well-pleaded complaint rule," which had long been established in the § 1331 context of cases involving attempts to remove disputes from state to federal court on federal question grounds. The Court determined "linguistic consistency" required a parallel approach to the well-pleaded complaint rule as applied in patent cases.[22] A case "arises under" the federal patent law, and thus is appealed to the Federal Circuit rather than the applicable regional circuit, if "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."[23]

Christianson is an important case for this elucidation of the well-pleaded complaint rule in the patent law context but is of little applicability to the very different facts of *Holmes Group.* No patent law-based defense or counterclaim was asserted in *Christianson.* The facts of *Christianson* only addressed whether the plaintiff's *complaint* made clear that its right to relief "necessarily depend[ed] 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."[24] The Court concluded in *Christianson* that patent invalidity was only one out of several disparate theories in support of the plaintiff's antitrust claim, and that this was an insufficient basis to justify directing the appeal to the Federal Circuit.

Despite the fundamental factual distinctions between *Christianson* and *Holmes Group*, the seeds of respondent Vornado's jurisdictional defeat were most likely sown in the rather vague wording of footnote two of *Christianson*, raised several times by the Justices during the *Holmes Group* oral argument. That footnote stated:

> [Respondent/patentee] Colt correctly points out that in this case our interpretation of § 1338(a)'s "arising under" language will merely determine which of two federal appellate courts will decide the appeal, and suggests that our "arising under" jurisprudence might therefore be inapposite. Since, however, § 1338(a) delineates the jurisdiction of the federal and state courts over cases involving patent issues, the phrase (like the identical phrase in § 1331) "masks a welter of issues regarding the interrelation of federal and state authority and the proper management of the federal judicial system." See Franchise Tax Board of California v. Construction Laborers Vacation Trust, 463 U.S. 1, 8, 77 L. Ed. 2d 420, 103 S. Ct. 2841

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[21] *Id.* at 807.
[22] *Id.* at 808.
[23] *Id.* at 808-09.
[24] *Id.* at 809.

> (1983) (footnote omitted). See also Merrell Dow Pharmaceuticals Inc. v. Thompson, 478 U.S. 804, 810, 92 L. Ed. 2d 650, 106 S. Ct. 3229 (1986) ("Determinations about federal jurisdiction require sensitive judgments about congressional intent, judicial power, and the federal system").[25]

The *Holmes Group* majority's concern with footnote two of *Christianson* is overstated. The footnote's federalism focus is of little relevance to the procedural context of both *Holmes Group* and *Christianson.* Neither case involved an action first filed in state court; both were actions initially brought in federal district court.

THE SUPREME COURT CONSIDERS PATENT INFRINGEMENT COUNTERCLAIMS: HOLMES GROUP, INC. V. VORNADO AIR CIRCULATION SYS., INC. (2002)

The facts of *Holmes Group* are rather convoluted, but the essential procedural nugget is that the case was in federal court from the beginning. No state-federal conflict was presented. Nevertheless, the Court in *Holmes Group* exclusively applied case law interpreting § 1331's "arising under" terminology in the context of attempted removals from state to federal court to conclude that appeal had been taken to the wrong federal appellate forum.

Holmes Group commenced with the filing of an action by the petitioner Holmes Group in the U.S. District Court for the District of Kansas, seeking a declaratory judgment that it did not infringe upon respondent Vornado's trade dress under the federal trademark laws. Vornado filed an answer that included a compulsory counterclaim of patent infringement. The Kansas district court granted summary judgment to Holmes Group on the trade dress issue and stayed any consideration of Vornado's patent infringement counterclaim while the trade dress issue was on appeal. Vornado filed its appeal with the Federal Circuit. The Federal Circuit took jurisdiction in accordance with the rule of *Aerojet*, vacated the district court's decision of no trade dress infringement, and remanded the case for reconsideration of whether the "change in the law" exception to collateral estoppel applied in light of the Supreme Court's intervening decision on product configuration functionality in *TrafFix Devices, Inc. v. Marketing Displays, Inc.*[26] The Supreme Court granted *certiorari* to consider whether the Federal Circuit properly asserted jurisdiction over the appeal.

Writing for the Supreme Court majority in *Holmes Group*, Justice Scalia gave short shrift to the Congressional intent underlying the creation of the Federal Circuit. "Our task here," he wrote, "is not to determine what would further Congress's goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean."[27] Justice Scalia "decline[d] to transform the longstanding well-pleaded-complaint rule into the 'well-pleaded-complaint-or-counterclaim rule' urged by respondent"[28] Vornado and consistently

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[25] *Id.* at 808 n.2.
[26] 532 U.S. 23 (2001).
[27] *Holmes Group,* 122 S. Ct. at 1895.
[28] *Id.* at 1894.

applied by the Federal Circuit since its 1990 *Aerojet* decision, characterizing such a ruling as an "unprecedented feat of interpretive necromancy."[29]

Justice Scalia's primary concern with the respondent's proposed rule was the possibility that a defendant in a case brought in state court would be able to remove it to federal court by asserting a counterclaim for patent infringement, thus "radically expand[ing] the class of removable cases."[30] The key language in Justice Scalia's opinion relies on cases and commentary that involved an attempt to remove a case from state to federal court by virtue of a federal counterclaim:

> [O]ur prior cases . . . . were decided on the principle that federal jurisdiction generally exists "only when a federal question is presented on the face of the *plaintiff's* properly pleaded complaint." *Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987) (emphasis added). As we said in *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25, 57 L. Ed. 716, 33 S. Ct. 410, 1913 Dec. Comm'r Pat. 530 (1913), whether a case arises under federal patent law "cannot depend upon the answer." Moreover, we have declined to adopt proposals that "the answer as well as the complaint . . . be consulted before a determination [is] made whether the case 'arises under' federal law . . . ." *Franchise Tax Bd. of Cal. v. Construction Laborers Vacation Trust for Southern Cal.*, 463 U.S. 1, 10-11, n. 9 (1983) (citing American Law Institute, Study of the Division of Jurisdiction Between State and Federal Courts § 1312, pp. 188-194 (1969)). It follows that a counterclaim -- which appears as part of the defendant's answer, not as part of the plaintiff's complaint -- cannot serve as the basis for "arising under" jurisdiction. See, *e.g., In re Adams*, 809 F.2d 1187, 1188, n. 1 (CA5 1987); *FDIC v. Elefant*, 790 F.2d 661, 667 (CA7 1986); *Takeda v. Northwestern National Life Ins. Co.*, 765 F.2d 815, 822 (CA9 1985); 14B C. Wright, A. Miller, & E. Cooper, Federal Practice and Procedure § 3722, pp. 402-414 (3d ed. 1998).[31]

Notably, each of the authorities relied on by Justice Scalia in this portion of the *Holmes Group* opinion turned on *federalism* concerns, *i.e.,* holding that a defendant should not be able to raise a federal issue in a counterclaim for the purpose of removing an action originally brought in state court to federal court.[32] However,

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[29] *Id.* (opining that 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)").

[30] *Id.* at 1894.

[31] *Id.* at 1893-94.

[32] In re Adams, 809 F.2d 1187, 1188, n. 1 (5th Cir. 1987) (affirming federal district court's holding that appellant's counterclaims, based on federal antitrust law, were unavailing to compel federal court jurisdiction in lawsuit filed in state court but later removed to federal Bankruptcy court,); FDIC v. Elefant, 790 F.2d 661, 667 (7th Cir. 1986) (remanding case to state court in which FDIC sued as receiver for bank under state law, and noting "[t]hat something happened later, such as the filing of a counterclaim based on federal law, does not make the suit removable"); Takeda v. Northwestern National Life Ins. Co., 765 F.2d 815, 822 (9th Cir. 1985) (holding in breach of contract case that removal jurisdiction did not exist where "[p]laintiffs sued under state law; they did not allege that their claims were based on federal law" and "[t]he federal question defendants raise in their counterclaims does not provide a basis for removal"); 14B C. WRIGHT, A. MILLER, & E.

federalism concerns play no part in cases already in the federal system by virtue of a federal question in the complaint, for instance antitrust claims or federal non-patent intellectual property claims such as copyright or Lanham Act section 43(a) trade dress infringement claims. As stated by Justice Ginsburg, who concurred only in the *Holmes Group* judgment, the majority opinion of Justice Scalia "dwells on district court authority . . . [b]ut, all agree, Congress left that authority entirely untouched"[33] when it created the Federal Circuit.

Justice Scalia was plainly concerned about the potential impact of the Court's decision beyond the patent law realm, and it is most likely that concern that led to the Court's literalistic ruling. The following oral argument colloquy with respondent Vornado's counsel reveals the Court's discomfort with the possibility of its decision sweeping beyond patent cases:

> Counsel: [T]here is no issue of federalism here. The—the petitioner properly brought a case in—in the Federal district court in Kansas.
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> Court: Then you're—you're now defeating your first concession which was with footnote 2 in *Aerojet*, that we are to deal with this case exactly as if it were a removal case because it's a question of all Federal jurisdiction, not just patent. The word is arising under. That's in fact—I flag it because that's what frightens me. I thought if all that were at issue here were patent cases, we weren't going to make a big mistake either way.
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> Counsel: Well—[Laughter.]
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> Court: But once you tell me that this involves all cases of removal, I suddenly get quite nervous about departing from well-settled law.
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> Counsel: Then—then I must retract it. It does not—it does not involve all cases of removal. This is a patent case, and—and I think we're talking about patent issues and whether the Federal Circuit has proper jurisdiction of claims in a case involving patent issues.
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> Court: Well, that means that we interpret, under your view, "arising under" in different ways in the—in the patent statute [28 U.S.C. § 1338] and in—in the Federal [question] jurisdiction statute [28 U.S.C. § 1331].[34]

COOPER, FEDERAL PRACTICE AND PROCEDURE § 3722, pp. 402-14 (3d ed. 1998) (stating in treatise section on removal under 28 U.S.C. § 1441 that "[t]he federal claim or right that provides the predicate for removal to federal court must not be asserted as part of an issue that is merely collateral or incidental to a claim that is primarily based in state law, . . . nor can the federal question appear for the first time in the defendant's answer by way of defense, . . . nor is it sufficient for the federal question to enter the case as a counterclaim asserted by the defendant. . .") (footnotes and citations omitted).

[33] *Holmes Group,* 122 S. Ct. at 1898 (Ginsburg, J., concurring in judgment).

[34] Supreme Court Oral Argument Transcript, Holmes Group., Inc. v. Vornado Air Circ. Sys., Inc. (3/19/02), *available at* http://a257.g.akamaitech.net/7/257/2422/18apr20021445/www.supremecourtus.gov/oral_arguments/argument_transcripts/01-408.pdf (visited Oct. 23, 2002) [hereinafter "Oral Argument Transcript"], at 32-33.

There is no dispute that the phrase "arising under," as used in 28 U.S.C. § 1338, also appears in 28 U.S.C. § 1331, the general federal question subject matter jurisdiction provision, and that the legislative history of the Federal Circuit's jurisdictional provision supports a parallel interpretive focus.[35] Generally accepted principles of statutory construction would, admittedly, support the consistent interpretation of the same language in two different sections of the same statutory title, even when one section specifically deals with patent cases and the other with state-federal conflicts. The Federal Circuit faced an analogous scenario in *VE Holding Corp. v. Johnson Gas Appliance Co.*,[36] where the issue was whether Congress's 1988 amendment of subsection [c] of the general federal venue statute, 28 U.S.C. § 1391, to define a corporation's residence as including anywhere that it is subject to personal jurisdiction, should be read as having redefined the meaning of "resides" in the specific patent venue provision of 28 U.S.C. § 1400(b). Such a reading would broaden the potential venues for patent infringement litigation, because previous Supreme Court decisions had interpreted venue for corporate defendants in patent cases under § 1400(b) as being limited to the state of incorporation. The Federal Circuit in *VE Holdings* was ultimately persuaded that the new, broader definition of corporate residence should be applied in patent cases, in light of Congress's use of the "classic language of incorporation" (*i.e.,* § 1391's preamble phrase, "as defined *in this chapter*"), and the failure of the relevant legislative history to make any special recognition of patent cases.

The determinative difference in *Holmes Group*, however, is that 28 U.S.C. § 1338 must be read in accordance with 28 U.S.C. § 1295(a), which inextricably links the two provisions for purposes of determining the Federal Circuit's appellate jurisdiction. That jurisdiction simply cannot be defined without reference to Congress's purpose in creating the Federal Circuit in 1982—the formation of one central appellate forum that would decide patent appeals from all U.S. federal district courts.

Entirely different concerns pervade the issue of federal question jurisdiction--whether a case "arises under" federal rather than state law--under 28 U.S.C. § 1331. The law is clear that a defendant in a case filed in state court cannot seek to remove it to federal court based on the presentation of a federal question in the defendant's answer or counterclaim.[37] The underlying policy is respect for state sovereignty and preservation of stable federal-state relations. That policy concern should not have controlled the result in *Holmes Group.* As one Justice responded to counsel's oral argument that "arising under" must be interpreted the same way in both the 28 U.S.C. § 1331 and § 1338 contexts:

> [I]n the context where there's a great concern about Federal-State relations, cases lodged in the State court being lifted out of that State court and put into a Federal court, this context is totally different. It is an entirely

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[35] *See Christianson*, 486 U.S. at 814 (citing H.R. Rep. No. 97-312 (1981), at 41 (stating that cases fall within the Federal Circuit's patent jurisdiction "in the same sense that cases are said to 'arise under' federal law for purposes of federal question jurisdiction")).

[36] 917 F.2d 1574 (Fed. Cir. 1990).

[37] *See supra* note 32.

> Federal context, and it's a question of which appellate forum it goes to. And it seems to me that you can't just say that what "arising under" means in the original jurisdiction context it necessarily means when we're talking about an exclusive appellate forum for a case that's colored Federal totally. There's no State element in it.[38]

JUSTICE GINSBURG'S CONCURRENCE IN *HOLMES GROUP*

Justice Ginsburg concurred only in the *Holmes Group* judgment and wrote separately, joined by Justice O'Connor. These Justices concluded that "when the claim stated in a compulsory counterclaim 'arises under' federal patent law and is adjudicated on the merits by a federal district court, the Federal Circuit has exclusive appellate jurisdiction over that adjudication and other determinations made in the same case."[39]

Justices Ginsburg and O'Connor joined the majority's judgment for one reason only: that the patent counterclaim had never been adjudicated on the merits by the district court in this particular case.[40] Rather, the district court stayed all proceedings relating to the patent law counterclaim and indicated that the patent counterclaim would be dismissed if the declaratory judgment of no trade dress infringement was affirmed on appeal.[41] Had the patent counterclaim been adjudicated on the merits, it seems clear that at least Justices Ginsburg and O'Connor would have dissented in *Holmes Group.*

JUSTICE STEVENS' CONCURRENCE IN *HOLMES GROUP*

Justice Stevens scolded Justice Scalia for slighting "well-reasoned precedent" such as Judge Markey's opinion for the Federal Circuit in *Aerojet,*[42] which interpreted the "in whole or in part" language of § 1295(a)(1) to encompass patent infringement claims asserted in a compulsory counterclaim. Justice Stevens nevertheless agreed with Justice Scalia that the *Holmes Group* appeal did not belong in the Federal Circuit on the basis of three policy reasons. First, Justice Stevens contended that a plaintiff's interest in choosing a forum includes not only the trial court but also the court that will hear the appeal. Moreover, Justice Stevens suggested that because claims sounding in other areas of intellectual property law (such as trademark and copyright law) are "not infrequently bound up with" patent law counterclaims, permitting the interpretation of § 1295 sought by respondent Vornado might direct a "significant" number of cases to the Federal Circuit that

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[38] Oral Argument Transcript, *supra* note 34, at 12.

[39] 122 S. Ct. at 1898 (Ginsburg, J., concurring in judgment).

[40] *See id.*

[41] *See id.* at 1892.

[42] 895 F.2d 736, 742-43 (Fed. Cir. 1990) (en banc) (Markey, C.J., for a unanimous court) (citing, *e.g.*, Rengo Co. v. Molins Machine Co., 657 F.2d 535, 539 (3d Cir. 1981); Dale Electronics, Inc. v. R. C. L. Electronics, Inc., 488 F.2d 382, 390 (1st Cir. 1973); Pioche Mines Consol., Inc. v. Fidelity-Philadelphia Trust Co., 206 F.2d 336, 336-337 (9th Cir. 1953); Lion Mfg. Corp. v. Chicago Flexible Shaft Co., 106 F.2d 930, 933 (7th Cir. 1939)).

Congress "specifically chose not to place within its exclusive jurisdiction."[43] Lastly, Justice Stevens cited the interest "in maintaining clarity and simplicity in rules governing appellate jurisdiction"[44] that would be served by limiting the number of pleadings that will mandate Federal Circuit review.

Whatever the weight of these observations, of much greater interest to Federal Circuit watchers is Justice Stevens' rather pointed suggestion that having the regional circuits occasionally decide appeals containing patent law-based causes of action would exert a healthy influence on the patent system. The language of the Stevens opinion can be interpreted as supporting a view that the Federal Circuit is a specialized court in need of some antidote for pro-patentee bias or insular thinking:

> [W]e have already decided that the Federal Circuit does not have exclusive jurisdiction over all cases raising patent issues. . . . Christianson, 486 U.S., at 811-812. Necessarily, therefore, other circuits will have some role to play in the development of this area of the law. An occasional conflict in decisions may be useful in identifying questions that merit this Court's attention. Moreover, occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias. . . .[45]

Similar views recently surfaced in the Federal Trade Commission and Department of Justice joint hearings on competition law and intellectual property policy.[46] For example, the American Bar Association's Section on Antitrust Law prepared for those hearings a *Report on the United States Court of Appeals for the Federal Circuit.*[47] The report's preparation was sparked in large part by a statement in the *amicus curiae* brief of the United States opposing certiorari in *CSU, LLC v. Xerox Corp.*, 203 F.3d 1322 (Fed. Cir. 2000), suggesting that "the Court allow the[] difficult issues [in that case] to percolate further in the Courts of Appeals." There was a perception among some observers that, given the Federal Circuit's expanding view with respect to its own jurisdiction, regional courts of appeals might never consider the patent-antitrust issues raised in *CSU* and other cases.[48]

The *Holmes Group* decision issued during preparation of the Antitrust Section's *Report.* The report's authors suggest, with apparent relief, that "while [*Holmes Group*] did not involve an antitrust claim, its effect on the Federal Circuit's role in the development of antitrust law is potentially significant."

The tone of Justice Stevens' concurring opinion in *Holmes Group* suggests that the Court may have intended to rein in the Federal Circuit's choice-of-law trend

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[43] *Holmes Group,* 122 S. Ct. at 1897.

[44] *Id.*

[45] *Id.* at 1897-98 (footnotes omitted).

[46] *See* Federal Trade Commission, Public Hearing Materials, *Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy* (2002), *available at* http://www.ftc.gov/opp/intellect/index.htm (visited Oct. 23, 2002).

[47] Section of Antitrust Law, American Bar Association, *Report on the United States Court of Appeals for the Federal Circuit* (July 2002), *available at* http://www.ftc.gov/opp/intellect/0207salabarpt.pdf (visited Oct. 23, 2002).

[48] *Id.* at 2.

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. Indeed, the trade dress dispute at the heart of *Holmes Group* reflects the Federal Circuit's disagreement with the U.S. Court of Appeals for the Tenth Circuit's reasoning in *Vornado Air Circulation Sys., Inc. v. Duracraft Corp. (Vornado I),*[49] in which the Tenth Circuit found that Vornado had no protectible trade dress rights in its spiral grill design for fans. In *Midwest Indus., Inc. v. Karavan Trailers, Inc.*,[50] the Federal Circuit flatly rejected the Tenth Circuit's *Vornado I* view that "trade dress protection is unavailable for a product configuration that is claimed in a patent and is a 'described, significant inventive aspect' of the patented invention, even if the configuration is nonfunctional,"[51] and chose to apply its own law on the trade dress issue. The district court in *Holmes Group* rejected respondent Vornado's argument that *Midwest Industries* represented a change in the law that warranted relitigation of its trade dress claim.[52] On appeal, however, the Federal Circuit in *Holmes Group* vacated the district court's judgment and remanded[53] for consideration of the Supreme Court's decision on trade dress functionality in *TrafFix Devices, Inc. v. Marketing Displays, Inc.*[54] Interpreting his take on this procedural history, counsel for the petitioner, James W. Dabney, contended at the Supreme Court oral argument that:

> [s]ince *Aerojet* in 1989, there has been a sea change in the Federal Circuit's approach to what law it chooses to apply in cases such as this, and it is the Federal Circuit's choice of law approach, adopted in the late 1990's, which has given birth to this entire action.[55]
>
> . . . .
>
> And the Federal Circuit, being a co-equal court of appeals, is fully entitled, I suppose, to fashion its own liability rules and apply them even to claims over which it has only nonexclusive or pendent jurisdiction. But by doing that, it has given rise to great incentives, which the respondent has attempted to avail itself of in this case, to get a case into the Federal Circuit and take advantage of the different law of the Federal Circuit on a non-patent claim.[56]

Justice Stevens' concurring opinion, read in light of the colloquy at oral argument, suggests that at least some members of the Supreme Court saw *Holmes Group* as a means of restraining the Federal Circuit from a perceived improper expansion of its authority through the Federal Circuit's recent choice-of-law jurisprudence.

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[49] 58 F.3d 1498 (10th Cir. 1995) (*Vornado I*).

[50] 175 F.3d 1356 (Fed. Cir. 1999).

[51] *Id. at* 1364 (citing *Vornado I*, 58 F.3d at 1510).

[52] *See Holmes Group*, 122 S. Ct. at 1892.

[53] *See* Order, Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 13 Fed. Appx. 961 (Fed. Cir. June 5, 2001).

[54] 532 U.S. 23 (2001).

[55] Oral Argument Transcript, *supra* note 34, at 14.

[56] *Id.* at 15.

PRACTICAL IMPACT OF THE SUPREME COURT'S *HOLMES GROUP* DECISION

The number of cases in which the regional circuit courts of appeal will now, post-*Holmes Group*, be obliged to decide patent law causes of action is most likely few in number. However, these cases can be relatively high-profile. For example, the controversial *CSU v. Xerox* decision, in which the Federal Circuit recently rejected the notion of an obligation to license on the part of a patent owner, was an antitrust case in which the defendant Xerox filed a patent infringement counterclaim. If tried today, the case would go to the Tenth Circuit rather than the Federal Circuit. What does the Supreme Court's decision in *Holmes Group* suggest about the precedential force of the Federal Circuit's *CSU* decision?[57]

For that matter, what does *Holmes Group* say about the rationale underlying the Supreme Court's own 1993 decision in *Cardinal Chem. Co. v. Morton Int'l, Inc.*?[58] That case held that the Federal Circuit should not maintain its earlier practice of vacating patent invalidity judgments after having reached a determination of non-infringement. Recall that *Cardinal Chemical* was a case in which the issue of patent invalidity was raised as a *counterclaim* for a declaratory judgment of invalidity. The Court in *Cardinal Chemical* recognized the importance of an independent determination of patent validity and review thereof by the Federal Circuit, stating:

> A party seeking a declaratory judgment of invalidity presents a claim independent of the patentee's charge of infringement. If the District Court has jurisdiction (established independently from its jurisdiction over the patentee's charge of infringement) to consider that claim, so does (barring any intervening events) *the Federal Circuit*.[59]

Even though the number of non-patent cases raising patent infringement counterclaims may be relatively small, they will nevertheless present a challenge for the regional appellate courts, which have not had to resolve patent-based causes of action since 1982. For example, what authority should the regional circuits consider to be binding precedent in such cases? Should the regional circuits now resurrect and apply their own pre-1982 patent case law when it conflicts with post-1982 Federal Circuit decisions? In a recent article for *The Recorder*, reporter Brenda Sandburg quotes Edward Reines, a partner at Weil, Gotshal & Manges' Redwood Shores, California, office, as stating that *Holmes Group* will place additional burdens on appellate judges: "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

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[57] Another recent antitrust case in which a patent infringement counterclaim resulted in appeal initially being taken to the Federal Circuit is *Telcomm Tech. Servs., Inc. v. Siemens Rolm Communs., Inc.*, 295 F.3d 1249 (Fed. Cir. July 2, 2002). The Federal Circuit did not reach the merits and instead transferred the appeal to the Eleventh Circuit in light of the Supreme Court's intervening decision in *Holmes Group*.

[58] 508 U.S. 83 (1993).

[59] *Id.* at 96 (emphasis added). The distinction between *Cardinal Chemical* and *Holmes Group* is, of course, that the plaintiff in *Cardinal Chemical* had asserted a claim of patent infringement in its complaint, filed in federal district court. *See id.* at 85-86. Thus no issue was presented of whether the appeal would go to the Federal Circuit rather than a regional circuit court of appeals.

technology that tend to come with them."[60] According to Reines, "additional losers are the attorneys in the country who now have to become familiar with patent decisions in all 11 [sic] regional circuits, in addition to the decisions of the Federal Circuit."[61]

CONCLUSION

In excluding patent infringement counterclaims from those cases that trigger Federal Circuit appellate jurisdiction, the Supreme Court in *Holmes Group* exalted textual literalism over prudent patent policy. The Court failed to heed its own guidance, recently provided in *Festo v. Shoketsu*,[62] in which it recognized that patent cases present a complex balancing of policy concerns that should not be swept aside in a quest for bright-line rules: "the clearest rule of patent interpretation, literalism, may conserve judicial resources but is not necessarily the most efficient rule."[63]

No interpretive magic is necessary to conclude that Judge Markey reached the better-reasoned result in *Aerojet*. So long as a case is originally brought in federal court, a non-frivolous patent infringement counterclaim should direct the appeal to the Federal Circuit. Whether or not the Supreme Court intended *Holmes Group* as criticism of the Federal Circuit's recent choice-of-law decision-making, *Holmes Group*'s cramped reading of 28 U.S.C. § 1338 "arising under" jurisdiction and the well-pleaded complaint rule was an unfortunately blunt instrument with which to cabin the Federal Circuit's Congressionally-mandated role as the source of uniform and stable U.S. patent law jurisprudence.

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[60] Brenda Sandburg, *U.S. Supreme Court Limits Reach of Federal Circuit,* THE RECORDER (June 6, 2002), *available at* http://www.law.com/jsp/printerfriendly.jsp?c=LawArticle&t=PrinterFriendlyArticle&cid=1022954285185 (last visited, Nov. 1, 2002).

[61] *Id.*

[62] 122 S. Ct. 1831 (2002) (rejecting Federal Circuit's "complete bar" rule of prosecution history estoppel).

[63] *Id.* at 1837.

AN INFORMATION SOCIETY APPROACH TO PRIVACY LEGISLATION: HOW TO ENHANCE PRIVACY WHILE MAXIMIZING INFORMATION VALUE

DANA BELDIMAN

Cite as 2 J. MARSHALL REV. INTELL. PROP. L. 71