# STATUS REPORT ON DEVELOPMENTS RELATING TO THE JURISDICTION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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## I. Executive Summary and Introduction

The Federal Circuit has played an increasingly prominent role in recent years defining issues at the intersection of antitrust and patent law. The expansion of the Federal Circuit's role in this area and related areas of the law has resulted, at least in part, from that court's expanding view of its exclusive jurisdiction to decide federal appeals in actions "arising under" the patent laws and the court's tendency to develop its own legal rules, rather than applying regional circuit precedent, to many of the substantive questions involved. This has led to some concern among the antitrust bar that the Federal Circuit may, *de facto*, end up the sole appellate voice heard on the important and difficult issues residing at the antitrust-patent frontier.[1] A Task Force of the ABA Section of Antitrust Law reported that "[t]he Federal Circuit's importance in [the intellectual property-antitrust debate] has increased significantly as a result of the court's recent jurisprudence on its own jurisdiction and choice of law rules."[2]

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1 *See* ABA Section of Antitrust Law, *Report on the United States Court of Appeals for the Federal Circuit* (July 2002), *available at* http://www.abanet.org/antitrust/home.html [hereinafter "Task Force Report"]. The Task Force concluded that the Federal Circuit had been increasingly applying its own law, not that of regional circuits, to non-patent matters, and had been expanding the scope of its jurisdiction. *See id.* at 85-86. *See* Noblepharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1068 (Fed. Cir. 1998) (extending exclusive jurisdiction over matters that may strip a patentee of immunity).

The Federal Trade Commission and Department of Justice held hearings and issued a report addressing the complex issues at the intersection of antitrust and patent law, including the role of the Federal Circuit. *See Competition & Intellectual Property Law and Policy in the Knowledge-Based Economy, Federal Circuit Jurisprudence: Jurisdiction, Choice of Law, and Competition Policy Perspectives, Joint Hearings Before the Federal Trade Commission and Department of Justice* (July 11, 2002) [hereinafter "FTC/DOJ Hearings"]; *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy: A Report by the Federal Trade Commission* (Oct. 2003), *available at* http://www.ftc.gov/os/2003/10/innovationrpt.pdf) [hereinafter "FTC IP Report"].

2 Task Force Report, *supra* note 1, at 1.

The Supreme Court recently circumscribed the Federal Circuit's exclusive jurisdiction in *Holmes Group, Inc. v. Vornado Air Circulation Sys, Inc*.[3] Overturning prior Federal Circuit precedent,[4] the Court held that a compulsory patent counterclaim does not provide a basis for Federal Circuit appellate jurisdiction.[5] Instead, the Court held that the Federal Circuit's jurisdiction ultimately depends on the well-pleaded complaint rule, which "provides that whether a case 'arises under' patent law 'must be determined from what necessarily appears in the plaintiff's statement of his own claim in the bill or declaration . . . .'"[6]

The Supreme Court's decision in *Holmes Group* provoked a flurry of activity among the intellectual property bar. Many practitioners and commentators criticized *Holmes Group*. Both the Intellectual Property Section of the ABA and the Federal Circuit Bar Association formed committees to explore the implications of *Holmes Group* for the development of the patent laws. Both of these groups have expressed grave concerns about the effects of *Holmes Group* on the uniformity of patent law interpretations. A committee of the Federal Circuit Bar Association (the "Ad Hoc Committee"), in fact, has proposed legislation overturning *Holmes Group*.[7]

The scope of the Federal Circuit's exclusive jurisdiction is important to antitrust lawyers for a number of reasons. The antitrust-patent interface is a complex and difficult area of law that is still in the formative stages of its development. Antitrust law has

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3 535 U.S. 826 (2002).

4 *See* Aerojet-General Corp. v. Machine Tool Works, Oehlikon-Buehrle, Ltd., 895 F.2d 736 (Fed. Cir. 1990).

5 Holmes Group, 535 U.S. at 831.

6 *Id.* at 830 (citing Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 809 (1988)).

7 *Report of the Federal Bar Association Ad Hoc Committee to Study* Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc., 12 FED. CIR. B.J. 713 (2002) [hereinafter "Ad Hoc Committee Report"].

historically evolved through regional circuit decisions that percolate, evolve and, if the regional circuits fail to reach consensus, get resolved by the Supreme Court. If *Holmes Group* is overturned, the Federal Circuit alone will resolve a great majority of the important antitrust-patent issues that are on the cutting edge of antitrust law. The Task Force is not suggesting that the Federal Circuit will fashion rules governing the antitrust-patent interface incorrectly, only that antitrust law benefits from being exposed to a diversity of decision-makers and, hence, a diversity of viewpoints.

For this reason, this report updates the Antitrust Section about recent legislative and legal developments regarding the scope of the Federal Circuit's jurisdiction. In particular, we discuss the *Holmes Group* decision, efforts to overturn *Holmes Group*, and case law and legal commentary discussing *Holmes Group*. We close with our analysis of these issues.

We have not seen any basis to believe that the decision in *Holmes Group* will dramatically affect the development of antitrust law. It is difficult to gauge the full effects of the rule established in *Holmes Group*, however, without the benefit of empirical information developed through the crucible of the normal litigation process. Ultimately, we recommend against supporting legislation designed to overturn *Holmes Group*. Until it has been demonstrated that *Holmes Group* has a significant negative impact on the development of patent, antitrust or any other area of the law, we do not believe that legislative repeal of the Supreme Court's holding is necessary or appropriate.

## II. The Supreme Court's Decision in *Holmes Group*

*Holmes Group* began in the United States District Court for the District of Kansas when Holmes Group, Inc., brought an action seeking a declaratory judgment that it did

not infringe the trade dress of its competitor, Vornado Air Circulation Systems.[8] In its response to the complaint, Vornado asserted a compulsory counterclaim alleging patent infringement.[9] The district court entered a judgment for Holmes Group on its declaratory judgment action, holding that the results of a prior action collaterally estopped Vornado from claiming that Holmes Group infringed its trade dress.[10] The court did not rule on the patent infringement claims, staying further proceedings on that counterclaim pending the results of the appeal.[11]

Relying on its patent counterclaim as a basis for jurisdiction, Vornado appealed to the Federal Circuit.[12] The Federal Circuit took jurisdiction over the appeal and reversed the lower court, remanding with instructions for the lower court to consider whether an intervening opinion of the Supreme Court had changed the law sufficiently to permit Vornado to re-litigate the trade dress issues at the heart of Holmes Group's declaratory injunction claim.[13] Holmes Group sought a writ of certiorari from the Supreme Court on the issue of the Federal Circuit's jurisdiction.[14]

The Supreme Court reversed, concluding that the Federal Circuit lacked jurisdiction to adjudicate Vornado's appeal. The Court's holding rested on the interplay between the two statutes, 28 U.S.C. § 1295 and 28 U.S.C. § 1338, that together create the basis for the Federal Circuit's appellate jurisdiction over patent claims.[15] The Federal

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8 Holmes Group, 535 U.S. at 828.

9 *Id*.

10 *Id.*

11 *Id*.

12 *Id.* at 829.

13 *Id.*

14 *Id.*

15 *Id.* at 829-34.

Circuit has exclusive jurisdiction over "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."[16] Thus, the Federal Circuit's appellate jurisdiction, the Court held, is wholly derivative of the district court's jurisdiction under 28 U.S.C. § 1338.[17]

The operative language of Section 1338 grants the federal district courts original and exclusive jurisdiction over "any civil action arising under any Act of Congress relating to patents . . . . Such jurisdiction shall be exclusive of the states in patent . . . cases." Affirming its previous decision in *Christianson v. Colt Indus. Operating Corp.*,[18] the Court held that the term "arising under" in Section 1338, like the term "arising under" in the statute granting federal question jurisdiction, 28 U.S.C. § 1331, required patent claims to appear on the face of a well-pleaded complaint in order to grant the district courts or, by extension, the Federal Circuit jurisdiction.[19] According to the Court, "[i]t 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."[20] Because Federal Circuit jurisdiction was predicated solely on a patent counterclaim, the Court reversed the decision of the Federal Circuit and remanded with an instruction to transfer the appeal to the Tenth Circuit.[21]

Justices Stevens, Ginsburg and O'Connor agreed with the Court's ultimate conclusion that the Federal Circuit lacked jurisdiction over the appeal in *Holmes Group* but disagreed with some portions of the Court's reasoning. Justice Stevens wrote

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16 28 U.S.C. § 1295(a)(1).

17 Holmes Group, 535 U.S. at 832.

18 486 U.S. 800 (1988).

19 Holmes Group, 535 U.S. at 830.

20 *Id.* at 831.

21 *Id.* at 832.

separately to reiterate the position he advocated previously in *Christianson*[22] that the Federal Circuit's jurisdiction should be determined based on the claims actually litigated in the lower court instead of the claims asserted in the plaintiff's initial pleading.[23]

In a concurring opinion joined by Justice O'Connor, Justice Ginsburg expressed disagreement with the Court's conclusion that the well-pleaded complaint rule divests the Federal Circuit of jurisdiction to hear appeals in cases where patent claims are asserted solely in counterclaims.[24] According to Justice Ginsburg, the Federal Circuit should have exclusive jurisdiction over a patent matter that is raised in a counterclaim and actually adjudicated. Nonetheless, the Federal Circuit lacked jurisdiction over the appeal in *Holmes Group,* according to Justice Ginsburg, because the patent counterclaim had not actually been litigated in the lower court.[25]

## III. Pending Legislative Efforts and Policy Positions

We are unaware of any pending legislative efforts in Congress to repeal *Holmes Group*. We have been told on several occasions that Congress is unlikely to act until the proponents of legislation can point to a "wrongly decided case" that, but for *Holmes Group*, would have been decided by the Federal Circuit.[26] Nonetheless, the ABA Intellectual Property Section and the Ad Hoc Committee have taken the position that *Holmes Group* should be overturned, and the Ad Hoc Committee has proposed some

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22 Christianson, 486 U.S. at 822-824 (Stevens, J. concurring).

23 Holmes Group, 535 U.S. at 834-38 (Stevens, J. concurring).

24 *Id.* at 839-40 (Ginsberg, J. concurring).

25 *Id.* at 840 (Ginsberg, J. concurring).

26 While this term has not be defined clearly, we expect that it means a regional circuit addressed a patent law issue and applied the legal principle in conflict with the Federal Circuit and the Supreme Court did not address the circuit split.

legislative language to accomplish that goal.[27] Other commentators have suggested varying methods of returning to pre-*Holmes Group* jurisdictional law. This section of the report summarizes the various legislative solutions and policy positions that have been proposed.

A. ABA Intellectual Property Section Position

The Patent System Policy Planning Committee of the ABA Intellectual Property Law Section, under the leadership of Q. Todd Dickinson and Sharon R. Barner, debated the merits of reversing *Holmes Group* and adopted the following resolution (Resolution 108-6):

> RESOLVED, that the Section of Intellectual Property Law supports in principle the uniformity, predictability and consistency in the administration of the patent law fostered by having the Federal Circuit Court of Appeals decide appeals of all cases involving a claim which "arises under" the patent laws; and
> Specifically the Section supports the proposition that a claim stated in the Complaint or Counterclaim can be relied upon to determine whether a civil action "arises under" federal patent law.

In its discussion of the issue, the committee noted that it would work with other "ABA sections to study the impact of [*Holmes Group*]."[28] The committee appeared most concerned that regional circuits and state courts would hear patent appeals and cases if jurisdiction were based on the well-pleaded complaint rule. Decisions by those courts would interfere with the Congressional goal of creating "a uniform, reliable, predictable,

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[27] Although the Ad Hoc Committee of the Federal Bar Association recommended and proposed legislation, no action has been taken, to our knowledge, to move that legislation through Congress.

[28] Proposed Resolution 108-7, Committee 108, Patent System Policy Planning, ABA Section of Intellectual Property Law, *available at* www.abanet.org/intelprop/summer2003/108.doc.

nationally-applicable body of law . . . ."[29] The Committee noted that after *Holmes Group*, the Federal Circuit remanded 13 cases to regional circuits.[30] The committee was concerned that patent law would be made by judges who were "not experts in the patent field and who rarely decide patent cases" and that regional circuits may not apply Federal Circuit law, but their own law.[31]

We understand that there was a vigorous and lengthy debate on this resolution. Apparently, the proponents of the resolution were primarily concerned about promoting the uniformity of patent law. Opponents of the resolution argued that a plaintiff should be able to choose the forum in which the case is heard. The resolution passed, but not by an overwhelming margin. We understand that the resolution has become a policy statement of the Section of Intellectual Property Law, but that Section has not asked the ABA House of Delegates to adopt this as ABA policy and has not sought Blanket Authority to advance the policy in testimony or public comments.

B. Federal Circuit Bar, Ad Hoc Committee Position

Following *Holmes Group*, the Federal Bar Association created an ad hoc committee "to study the wisdom of pursuing a legislative response to *Holmes Group*."[32]

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29 *Id.* (citing Molly Mosley-Goren, *Jurisdictional Gerrymandering? Responding To* Holmes Group v. Vornado Air Circulation Systems, Inc., 36 J. MARSHALL L. REV. 1 (2002); Howard T. Markey, *The Court of Appeals for the Federal Circuit: Challenge and Opportunity*, 34 AM. U. L. REV. 595, 595 (1985)).

30 *Id.*

31 The Committee cited to Judge Posner's "Seventh Circuit" decision in SmithKline Beecham Corp. v. Apotex Corp., 247 F. Supp. 2d 1011 (N.D. Ill. 2003), as the first circuit court to determine a substantive patent case in 20 years, but noted that "[n]either the decision in that case nor the analysis strayed widely from the Federal Circuit's guidance." Ad Hoc Committee Report, *supra* note 7. In fact, Judge Posner's decision was made in his capacity as trial judge sitting by designation in the Northern District of Illinois and is not a decision of the 7th Circuit.

32 Ad Hoc Committee Report, *supra* note 7, at 713.

Committee members include Don Dunner, Mark Lemley, Molly Mosley-Goren, Joseph Re, Edward Reines, and Steve Carlson.

The Ad Hoc Committee reported that *Holmes Group* had significantly altered the patent-jurisdiction landscape. The Ad Hoc Committee noted that prior to *Holmes Group* it was well accepted that the Federal Circuit had exclusive jurisdiction over all patent appeals in the federal system (even if asserted in a counterclaim), and that federal – not state – courts had exclusive jurisdiction over patent issues.[33] The Ad Hoc Committee states that "*Holmes Group* has now changed the fundamental rules as to which courts should resolve patent claims."[34] The Committee cited two cases that were transferred from the Federal Circuit to a regional circuit because the patent claims were not raised in the well-pleaded complaint.[35] The Ad Hoc Committee also cited a state court case asserting jurisdiction over a federal copyright matter raised in a counterclaim based on *Holmes Group*.[36]

The Ad Hoc Committee expressed its view that *Holmes Group* is inconsistent with Congressional intent. The Committee stated that "[t]he Federal Circuit was unquestionably created, among other things, to resolve *all* patent appeals so as to create uniformity in the application and development of the patent law."[37] The Report expressed

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33 *Id.* at 715.

34 *Id.*

35 *Id*. (citing Telecomm Technical Servs., Inc. v. Siemens Rolm Communications, Inc., 295 F.3d 1249 (Fed. Cir. 2002); Medigene AG v. Loyola Univ. of Chicago, 41 Fed. Appx. 450 (Fed. Cir. 2002)).

36 *Id.* (citing Green v. Hendrickson Publishers, Inc., 770 N.E.2d 784, 793 (Ind. 2002) ("we think Holmes Group requires us to reject the federal authorities stating or implying that a state court may not entertain a counterclaim under patent or copyright law")).

37 *Id.* at 713 (emphasis added). The Ad Hoc Committee notes that Congress did not intend the Federal Circuit to hear "frivolous" patent appeals. *Id.* at 718. Thus, a frivolous patent counterclaim could not be asserted to create Federal Circuit jurisdiction.

concern that the Federal Circuit would not have jurisdiction over a significant number of appeals, including antitrust cases against patentees asserting patent counterclaims.[38] The Ad Hoc Committee further expressed concern that *Holmes Group* would promote wasteful forum shopping and (because of the sporadic number of cases to be heard by the regional circuits) that a coherent body of non-Federal Circuit law is unlikely to develop.[39] The Ad Hoc Committee concluded that Congress did not intend for regional circuits or state courts to resolve non-frivolous patent claims.[40]

Based on these observations, the Ad Hoc Committee recommended that 28 U.S.C. § 1338(a) be amended. That statute grants jurisdiction to the federal district courts to hear patent cases and, by extension, defines the scope of the Federal Circuit's exclusive appellate jurisdiction.[41] The Ad Hoc Committee's recommended legislation would amend Section 1338 to make clear that only federal district courts, not state courts, have jurisdiction over patent claims, including those arising solely in counterclaims. The Committee proposed the following language: "[t]he district courts shall have original jurisdiction of any civil action *involving any claim for relief* arising under any Act of Congress relating to patents . . . ."[42] Because the Federal Circuit's jurisdiction is based "in whole or in part" on the district court's jurisdiction, the amendment, according to the

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38 *Id.* at 716.

39 *Id.* at 717-18.

40 *Id.* at 714.

41 28 U.S.C. § 1338(a) ("[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents."); 28 U.S.C. § 1295(a) (Federal Circuit has exclusive jurisdiction over appeals from U.S. district courts if "the jurisdiction of that court was based, in whole or in part, on section 1338").

42 Ad Hoc Committee Report, *supra* note 7, at 719.

Ad Hoc Committee, would require all patent issues to be heard in federal court and all appeals of such cases to be heard by the Federal Circuit.[43]

C. Proposals in the Literature By the Commentators

Two commentators have also proposed legislation to restore the Federal Circuit's exclusive jurisdiction over appeals that present patent issues only in counterclaims. These authors suggest altering the Federal Circuit's jurisdictional statute to permit the court to hear appeals of patent counterclaims.[44] One author suggests amending Section 1338 by removing "arising under" and replacing it with "asserting a claim under." With the amendment, Section 1338 would read: "[t]he district courts shall have original jurisdiction of any civil action *asserting a claim* under any Act of Congress relating to patents . . . ."[45] The author explained that such an amendment would permit the Federal Circuit to hear all patent claims, whether asserted in a complaint or counterclaim. The author also noted, however, that such an amendment would be overly broad in that it would also expand the U.S. district courts' removal jurisdiction.[46] If basing removal jurisdiction on counterclaims is problematic, the author suggested, then Section 1295 can be amended instead of Section 1338. That would prevent counterclaims from creating removal jurisdiction.[47]

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43 The Ad Hoc Committee Report, *supra* note 7, discussed alternative proposed amendments that were rejected, but they have little relevance here.

44 Christoper A. Cotropia, *"Arising Under" Jurisdiction and Uniformity in Patent Law*, 9 MICH. TELECOMM. & TECH. L. REV. 253, 306 (2003) [hereinafter "Cotropia"]; Elizabeth I. Rogers, *The Phoenix Precedents: The Unexpected Rebirth of Regional Circuit Jurisdiction Over Patent Appeals and the Need for Considered Congressional Response*, 16 HARV. J.L. & TECH. 411, 467 (2003) [hereinafter "Rogers"].

45 Cotropia, *supra* note 44, at 306.

46 *Id.* at 306-07. The reason for expanded removal jurisdiction is that Section 1338 would grant original and exclusive jurisdiction to the district court over federal counterclaims, allowing those claims to be removed from state courts.

47 *Id*.

The same author also proposed amending the second sentence to 1338 to say: "*The district courts shall have exclusive jurisdiction* of the courts of the states in patents, plant variety protection and copyright cases."[48] This amendment would, according to the author, ensure that the state courts could not exercise jurisdiction over patent cases.

Another legislative alternative proposed by the same author is to require sister circuits to follow Federal Circuit precedent when deciding issues of patent law.[49] This would help to ensure uniformity in the interpretation of the patent laws without directly overturning *Holmes Group* or directly affecting Federal Circuit jurisdiction.

Another commentator took issue with those who propose a "wait and see" approach.[50] Although there is a high likelihood that regional circuits will follow Federal Circuit precedent, the author expressed concern that this result is not entirely certain.[51] The uncertainty created by *Holmes Group*, the author argued, threatens to de-stabilize the system of patent enforcement.[52]

Another suggestion, consistent with that proposed by Justice Ginsburg in her concurrence in *Holmes Group*, is to base the Federal Circuit's appellate jurisdiction only on those issues actually litigated by the trial court.[53] However, the author expressed some concern that district courts will not know which circuit's precedent to apply in pre-trial rulings if appellate jurisdiction depends on the issues ultimately tried.[54]

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48 *Id.* at 308.

49 *Id.* at 308.

50 Rogers, *supra* note 44, at 462-63.

51 *Id.* at 463.

52 *Id*.

53 *Id.* at 465.

54 *Id*.

A final proposal considered by the commentary is to allow the appellate path to be bifurcated by issue. Under this proposal the Federal Circuit would hear appeals of patent matters and the regional circuits would address non-patent issues.[55] This raises questions, however, about the ease with which courts can delineate patent and non-patent matters. This proposal would also reduce the efficiency of having a single court hear all the appeals. The Federal Circuit could become a specialized court with its expertise being limited to patent law claims, creating the possibility that the Federal Circuit will develop an institutional bias.

## IV. Court Actions and Legal Commentary on *Holmes Group*

Most of the relevant legal commentary has been critical of the rule established in *Holmes Group*. Although various viewpoints have been expressed, the criticism has focused primarily on two main concerns. First, commentators have expressed concern that *Holmes Group* will undermine congressional intent to promote uniformity in the interpretation of patent law. Second, there is some concern that the rule in *Holmes Group* will lead to forum shopping.[56]

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55 *Id.* at 465-66.

56 *See, e.g.,* Christian J. Fox, *On Your Mark, Get Set, Go! A New Race to the Courthouse Sponsored by* Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc., 2003 BYU L. REV. 331 (2003) [hereinafter "Fox"]; C.J. Alice Chen, Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc., 18 BERKELEY TECH. L.J. 141 (2003); Molly Mosley-Goren, *Jurisdictional Gerrymandering? Responding to* Holmes Group v. Vornado Air Circulation Systems, 36 J. MARSHALL L. REV. 1 (2002) [hereinafter "Mosley-Goren"]; Timothy E. Grimsrud, Holmes *and the Erosion of Exclusive Federal Jurisdiction Over Patent Claims*, 87 MINN. L. REV. 2133 (2003) [hereinafter "Grimsrud"]; Rogers, *supra* note 44; Cotropia, *supra* note 44; James B. Kobak, Jr., "*Vornado* and its Effects on Patent Antitrust Litigation," Electronic Newsletter of the ABA Intellectual Property Committee (July 2002) *available at* http://www.abanet.org/antitrust/committees/intell-property/vornado.html [hereinafter "Kobak"]; Robert P. Taylor, *New Dawn for Forum Shopping: The Implications of "*Vornado*,"* Antitrust Source, at 1 (Nov. 2002), *available at* http://www.abanet.org/antitrust/source/nov02/taylor.pdf. *See also* Janice M. Mueller, "*Interpretive Necromancy" or Prudent Patent Policy? The Supreme Court's "Arising*

The Federal Circuit was created in order, among other things, to promote uniformity in the interpretation of the patent laws.[57] According to the commentary, that goal is threatened by the rule in *Holmes Group*, which requires appeals raising patent issues solely in counterclaims to be heard by the regional circuits or, potentially, state courts. As the number of voices heard on issues of patent law increases, so too, according to the commentary, does the potential for conflicting interpretations of that law.[58] Instead of having a single appellate tribunal, the Federal Circuit, to adjudicate all appeals in patent claims, *Holmes Group* assures that at least twelve coordinate appellate courts will have an opportunity to weigh-in on important issues of patent law.

It is possible, moreover, that far more voices have been added to the choir. Commentators are particularly concerned about the opportunity that the rule in *Holmes Group* permits state courts to adjudicate federal patent and copyright claims that are raised as counterclaims to state causes of action.[59] The Supreme Court's interpretation of Section 1338(a) effectively divests the United States district courts of original and exclusive jurisdiction over federal patent and copyright claims raised solely through counterclaims.[60] This has provided state courts an opportunity to adjudicate issues of federal patent and copyright law that would otherwise be the exclusive province of the federal courts.

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*Under" Blunder in* Holmes Group v. Vornado, 2 J. MARSHALL REV. INTELL. PROP. 57, 60 (2002) [hereinafter "Mueller"].

57 *See* H.R. REP. NO. 97-312 (1981) [hereinafter "House Report"].

58 *See, e.g.,* Mosley-Goren, *supra* note 56, at 3.

59 *See id.* at 4; Grimsrud, *supra* note 56, at 2134.

60 *See* Holmes Group, 535 U.S. at 829-31.

In *Green v. Hendrickson Publishers, Inc.*,[61] the Indiana Supreme Court, applying *Holmes Group*, concluded that the Indiana courts had jurisdiction to adjudicate federal copyright claims raised in a counterclaim to a state contract claim. The case arose out of a contract permitting Hendrickson Publishing to publish and distribute copyrighted books of Mary and Jay Green.[62] After the expiration of their agreement, Hendrickson Publishing sued the Greens in state court seeking monies due for books sold on account.[63] The Greens counterclaimed, alleging that Hendrickson Publishing owed them royalties for distributing their copyrighted books.[64] The lower court concluded that the state law claims asserted in the Greens' counterclaim were preempted by federal copyright law and dismissed the counterclaim for lack of jurisdiction, citing 28 U.S.C. § 1338, which establishes the federal courts' exclusive jurisdiction over copyright claims.[65]

On appeal the Indiana Supreme Court agreed with the lower court's conclusion that the Greens' counterclaim arose under federal copyright law not state contract law, and that federal law preempts state claims in this field.[66] Nevertheless, the court considered whether a state court could have jurisdiction over a federal copyright counterclaim. Finding "no difference" between patent and copyright counterclaims, the court stated that "we think *Holmes Group* requires us to reject the federal authorities

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61 770 N.E.2d 784 (Ind. 2002).

62 *Id.* at 787.

63 *Id*.

64 *Id*. The Greens originally asserted federal copyright counterclaims and sought removal of the action to federal court. The federal district court remanded the case to state court, concluding that the Greens' federal counterclaim failed to provide a basis for removal. The Greens then amended their counterclaim to assert state law claims based on the failure to pay royalties.

65 *Id.* at 788.

66 *Id.* at 790.

stating or implying that a state court may not entertain a counterclaim under patent or copyright law."[67]

According to at least one writer, the degree to which conflicting patent law develops after *Holmes Group* depends in part on how regional circuit courts and state courts wield their jurisdictional authority. "The potential for non-uniform development of patent law will . . . hinge on the 'choice of law' rules adopted by regional circuits and state courts when deciding patent law issues."[68] These courts could decide to apply Federal Circuit patent law or perhaps pre-Federal Circuit regional circuit or state law. From the commentary, it appears too early to tell what approach the courts will take and, thus, what the actual effect of *Holmes Group* will be on the uniform application of patent law.

The second major concern expressed in the commentary is that *Holmes Group* opens the door to forum shopping. By allowing the plaintiff's well-pleaded complaint to control the original and, ultimately, the appellate forum, several commentators have argued that *Holmes Group* creates an incentive to file first in order to control the forum.[69] Consequently, the commentators claim there will be "races to the courthouse between patent owners and alleged infringers as each group shops for the most favorable forum in which to litigate."[70] The commentators are most fearful of alleged infringers filing declaratory actions that exclude a patent claim in order to avoid Federal Circuit jurisdiction. The commentary does not indicate if there have been any cases where this has occurred post-*Holmes Group*.

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67 *Id.* at 793.

68 Cotropia, *supra* note 44, at 257.

69 *See, e.g.*, Fox, *supra* note 56, at 332, 333-34.

70 *Id.* at 332. *See also* Kobak, *supra* note 56, at 7.

The Federal Trade Commission (the "FTC") recently concluded hearings on the intersection of intellectual property law and antitrust, and published a report recommending legal and policy changes based on the views expressed in those hearings.[71] The report noted that the Federal Circuit was created to, and did, promote uniformity in the patent law, and that the Federal Circuit was expected to have a role in fashioning antitrust law.[72] According to the FTC, antitrust law benefits from exposure to a diversity of views as important antitrust issues percolate through the various regional circuits. With regard to patent-antitrust issues, the FTC[73] concluded that "[w]hile recognizing the value of certainty to participants in the patent system, the Commission views *Holmes* as a potentially salutary development from an antitrust perspective, in light of the importance of 'a multiplicity of views' to the development of antitrust law."[74]

## V. Analysis

### A. Scope of the Issue: Does *Holmes Group* Matter to Antitrust Lawyers?

Although *Holmes Group* defines the jurisdiction of the federal courts and the appellate jurisdiction of the Federal Circuit for patent cases, it has important implications for antitrust law and antitrust practitioners. Many of the most important current antitrust issues reside on the border shared by antitrust law and intellectual property law. By virtue of its exclusive appellate jurisdiction over cases "arising under the patent laws,"[75]

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71 FTC/DOJ Hearings, *supra* note 1; FTC IP Report, *supra* note 1.

72 FTC IP Report, *supra* note 1, Chapter VI, at 10. *See also* George G. Gordon, The Implications of Federal Circuit Jurisdiction for the Development of Antitrust Law, before the FTC/DOJ Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy (July 11, 2002), *available at* http://www.ftc.gov/opp/intellect/ 020711georgegordon.pdf [hereinafter "Gordon"].

73 FTC IP Report, *supra* note 1, Chapter VI, at 17.

74 *Id.* at 17-18.

75 *See* 28 U.S.C. §§ 1295(a)(1), 1338(a).

combined with its predilection for developing and applying its own legal rules to many patent-antitrust issues, the Federal Circuit has, *de facto*, become the dominant and in many cases only appellate voice heard on many important antitrust-patent issues. This prevents those from "percolating" among the various federal appellate courts. Many in the antitrust community have expressed concern that the development of the antitrust law will suffer as a result.[76]

*Holmes Group* affects this dynamic by reducing the gravitational pull of the Federal Circuit's exclusive appellate jurisdiction over patent cases. The holding in *Holmes Group* requires patent claims to appear on the face of a well-pleaded complaint to provide a basis for Federal Circuit appellate jurisdiction; patent claims asserted in counterclaims are not sufficient to confer jurisdiction. Thus, antitrust cases that previously would have been appealed to the Federal Circuit because the antitrust defendant filed a patent counterclaim now likely will be appealed to a regional circuit.[77] This has to be considered a positive development if one believes that the antitrust law benefits from the percolation of ideas through the various federal appellate courts.[78]

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76 *See* Task Force Report, *supra* note 1, at 2.

77 *See* Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle, Ltd., 895 F.2d 736 (Fed. Cir. 1990) (en banc) (compulsory patent counterclaims establish exclusive jurisdiction of Federal Circuit); DSC Comms. Corp. v. Pulse Comms., Inc., 170 F.3d 1354, 1358-59 (Fed. Cir. 1999) (Federal Circuit has jurisdiction over appeal in action when patent claims raised in a permissive counterclaim). Both of these cases were overruled by the Supreme Court's opinion in *Holmes Group*.

78 The FTC recently concluded, in fact, that "[w]hile recognizing the value of certainty to participants in the patent system, the Commission views *Holmes* as a potentially salutary development from an antitrust perspective, in light of the importance of 'a multiplicity of views' to the development of antitrust law." FTC IP Report, *supra* note 1, Chapter VI, at 17-18. *See also* Brief of Amicus Curiae United States at 8, CSU, L.L.C. v. Xerox Corp., No. 00-62 (2001) (suggesting "that the Court would benefit from further percolation of these difficult issues in the court of appeals").

But how many antitrust cases will *Holmes Group* affect? While *Holmes Group* changes the rule governing Federal Circuit jurisdiction predicated on patent counterclaims, it leaves intact the vast majority of the jurisdictional precedent the Federal Circuit has developed since *Christianson*. Under *Christianson* and its Federal Circuit progeny, the Federal Circuit has exclusive jurisdiction over non-patent claims, including antitrust claims that are presented in an action where either (a) patent claims are asserted in the plaintiff's well-pleaded complaint,[79] or (b) "plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law."[80] The expansion of the Federal Circuit's jurisdiction over the last few years has come largely through these procedural vehicles, not the exercise of jurisdiction over cases involving patent counterclaims.[81]

Thus, the Federal Circuit will continue to exercise jurisdiction over antitrust claims that require resolution of any "substantial question of federal patent law."[82] *Walker Process*[83] claims and *Handgards*[84]-type claims, for instance, will likely continue

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79 *See, e.g.*, Golan v. Pingel Enter., Inc., 310 F.3d 1360 (Fed. Cir. 2002) (taking jurisdiction over appeal of tort, unfair competition, and antitrust claims on the ground that the declaratory judgment action for, *inter alia*, noninfringement of patents arose, in part, under section 1338). Also, the Federal Circuit will continue to assert jurisdiction over patent cases even when counterclaimants raise antitrust matters.

80 Christianson, 486 U.S. at 809.

81 *See, e.g.,* Task Force Report, *supra* note 1, at 44-49 (discussing cases); *see also* Scott A. Stempel & John F. Terzaken, III, *Casting a Long IP Shadow Over Antitrust Jurisprudence: The Federal Circuit's Expanding Jurisdictional Reach,* 69 ANTITRUST L.J. 711, 721-22 (2002) ("Because the Federal Circuit is most often the court that determines whether a question of federal patent law is substantial enough to convey federal jurisdiction, it is the vehicle that has allowed the court to expand its reach significantly.").

82 Christianson, 468 U.S. at 808-9.

83 Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172 (1965). *Walker Process* holds that acquiring patents through fraud on the Patent and Trademark Office ("PTO") may violate the antitrust laws if it permits the patentee to acquire market power in a relevant market. *Id.* Because the antitrust plaintiff must prove that the defendant's

to be subject to the Federal Circuit's exclusive appellate jurisdiction because they typically require resolution of substantial questions of patent law.[85] The bulk of the Federal Circuit's antitrust jurisprudence has dealt with these types of claims.[86]

*Holmes Group* may have some effect on the appellate path of antitrust claims that do not require resolution of substantial questions of federal patent law. Previously, antitrust defendants could push the appeals in those cases to the Federal Circuit by filing a patent counterclaim. That was the basis for the Federal Circuit's jurisdiction over *In re*

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fraud on the PTO was "material," resolution of *Walker Process* claims likely requires the court to decide substantial issues of federal patent law. *But see* Union Oil Co. of California, F.T.C. Docket No. 9305, 65 (Initial Decision Nov. 25, 2003) (distinguishing American Cyanamid, 63 F.T.C. 1747, 1855-57 (1963), *vacated on other grounds*, 363 F.2d 757 (6th Cir. 1966), *aff'd sub nom.* Charles Pfizer & Co. v. F.T.C., 401 F.2d 574 (6th Cir. 1968) by explaining that Walker Process claims may not "require an examination of [patent] scope and infringement issues.") [hereinafter "Unocal Decision"].

84 Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986 (9th Cir. 1979); Handgards, Inc. v. Ethicon, Inc., 743 F.2d 1282 (9th Cir. 1984). The two *Handgards* cases define the elements of an antitrust cause of action predicated on the bad faith enforcement of patents that are either invalid or not infringed. The standard governing these type of cases was refined by the Supreme Court in *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49 (1993). Because the antitrust plaintiff must prove that the patents the defendant attempted to enforce were either invalid or not infringed, *Handgards* claims necessarily require the court to resolve substantial questions of federal patent law.

85 *See also* Kobak, *supra* note 56, at 7 (citing antitrust issues likely to fall within *Christianson's* second prong); Gordon, *supra* note 72, at 7 (same). *See also* Apotex, Inc. v. Thompson, 347 F.3d 1335 (Fed. Cir. 2003). *Apotex* held that the Federal Circuit has exclusive jurisdiction over claims by a generic drug manufacturer that the FDA was required to de-list certain patents for brand-name drugs from the FDA's Orange Book and approve the generic competitor. The case was a companion to an antitrust cause of action against the manufacturer of the brand-name drug for strategically using the FDA's rules and the Orange Book listing to exclude the generic competitor from the market. The private cause of action essentially asserted a *Handgards*-type theory of antitrust liability: the brand-name manufacturer filed frivolous patent infringement suits which, by virtue of the FDA's rules, effectively precluded the generic manufacturer from entering the market for a long period of time.

86 *See, e.g.,* Peter M. Boyle, Penelope M. Lister & J. Clayton Everett, Jr., *Antitrust Law at the Federal Circuit: Red Light or Green Light at the IP-Antitrust Intersection?*, 69 ANTITRUST L.J. 739, 768 (2002).

*Independent Servs. Org. Antitrust Litig.* ("*Xerox*").[87] There, various independent service organizations brought antitrust claims against Xerox, alleging that Xerox had monopolized the market for after-sale service for Xerox printers and copiers by refusing to deal with independent service organizations. Xerox counterclaimed for patent infringement. After trial, the case was appealed to the Federal Circuit, which took jurisdiction over the appeal on the basis of Xerox's patent counterclaims and applied its own views of whether a monopolist owning a patent had a duty to license its competitors. If *Holmes Group* had been on the books, *Xerox* would have been appealed to the Tenth Circuit. Whether the ultimate outcome of the case would have been any different is unclear because the Federal Circuit applied Tenth Circuit law to the antitrust claims involving the refusal to license copyrights.

Past history suggests, however, that *Holmes Group* will not decrease dramatically the number of antitrust cases heard by the Federal Circuit. Since *Holmes Group* was decided in the summer of 2002, the Federal Circuit has declined jurisdiction over three cases where the only patent claims were asserted in counterclaims.[88] Only one of those cases involved antitrust claims.[89] According to one commentator, moreover, the

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87 203 F.3d 1322 (Fed. Cir. 2000), *cert. denied*, 531 U.S. 1143 (2001). The Federal Circuit's opinion in that case has engendered a great deal of controversy. *See, e.g.,* Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, 68 ANTITRUST L.J. 913 (2001) (discussing case and commentary).

88 Telecomm. Tech. Servs. v. Siemens Rolm Comm'ns, Inc., 295 F.3d 1251 (Fed. Cir. 2002); Medigene AG v. Loyola Univ. of Chicago, 41 Fed. Appx. 450 (Fed. Cir. 2002); Mattel, Inc. v. Lehman, No. 02-1307, 49 Fed. Appx. 889 (Fed. Cir. Oct. 2, 2002).

89 *See* Telecomm. Tech. Servs., 295 F.3d 1251. The Task Force reported that, as of last July, the Federal Circuit had published only one antitrust opinion "in which the court's jurisdiction over antitrust issues was based solely on a patent infringement *counterclaim*." Task Force Report *supra* note 1, at 29 n.58 (citing *Xerox*) (emphasis in original).

"reported cases prior to *Holmes* which based Federal Circuit jurisdiction on patent law counterclaims total less than ten."[90]

The Federal Circuit will, therefore, continue to play a dominant role in deciding antitrust issues implicating intellectual property rights.[91] *Holmes Group* may change the litigation path of a few antitrust appeals, but it is not likely to affect a large number of antitrust cases. For this reason, we do not expect *Holmes Group* to have a profound impact on the development of the antitrust law.

### B. The Clarity of Congressional Intent With Respect to the Jurisdiction of Federal Circuit

The commentary suggests that Congress granted the Federal Circuit exclusive jurisdiction to hear all issues that affect the uniformity and stability of patent law. A careful review of the record leading to the creation of the Federal Circuit suggests that Congress left for the courts to determine significant questions involving the scope of the Federal Circuit's exclusive jurisdiction.[92]

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90 Cotropia, *supra* note 44, at 298. Cotropia notes that this understates the risk of *Holmes Group* because the case creates the opportunity for litigants to manipulate jurisdiction through clever pleading. *Id.*

91 It is unclear whether a disproportionate role for the Federal Circuit in antitrust matters would be problematic because the court's antitrust jurisprudence may not stray too far from the mainstream. *See* Gordon, *supra* note 72, at 12 (Federal Circuit decisions consistent with mainstream antitrust); Statement of Charles P. Baker, Presented to the Federal Trade Commission & Department of Justice in Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy 16-19 (July 11, 2002), *available at* http://www.ftc.gov/opp/intellect/020711charlesbaker.pdf; Statement of Robert P. Taylor on Behalf of Section of Intellectual Property Law, American Bar Association, on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy for Hearings of U.S. Federal Trade Commission and Antitrust Trust Division, U.S. Department of Justice (July 11, 2002) (Federal Circuit antitrust cases are largely consistent with other circuits), *available at* http://www.ftc.gov/opp/intellect/020711robertptaylor.pdf.

92 Rogers, *supra* note 44, at 432 (explaining that the statute leaves open questions as to the proper scope of the Federal Circuit jurisdiction and the legislative history provides no guidance).

It is beyond doubt that Congress created the Federal Circuit to "reduce the widespread lack of uniformity and uncertainty of legal doctrine that exists in the administration of patent law."[93] However, Congress relied on the term "arising under" to confer jurisdiction. According to one commentator, Congress understood that the term arising under had been interpreted in various ways by the courts.[94] Congress also knew that it was conferring jurisdiction based on the well-pleaded complaint rule, and that the well-pleaded complaint rule would prevent the Federal Circuit from hearing patent issues raised as defenses.[95] Congress apparently left the question of how to determine jurisdiction to the courts.

> Should questions legitimately arise respecting ancillary and pendent claims and for the direction of appeals in particular cases, the Committee expects the courts to establish, as they have in similar situations, jurisdictional guidelines respecting such cases. Whatever form such guidelines for particular cases may take, the proposal would continue to provide a consistent jurisprudence and a uniform body of patent law created over time by the Court of Appeals for the Federal Circuit, . . . or the Supreme Court.[96]

Congress was confident that the Federal Circuit would not overreach to extend its jurisdiction improperly. "[I]t is a canon of construction that courts strictly construe their jurisdiction. Therefore, the committee is confident that the present language [granting Federal Circuit jurisdiction over cases based 'in whole or part' on Section 1338] will not pose undue difficulties."[97]

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93 House Report, *supra* note 57, at 21-22. *See also* Task Force Report, *supra* note 1, at 20.

94 Rogers, *supra* note 44, at 433.

95 *Id.* at 433-34.

96 House Report, *supra* note 57, at 41.

97 S. Rep. No. 97-275, at 19-20 (1981), *reprinted in* 1982 U.S.C.A.A.N. 30, 44-45.

Not only did Congress expect the courts to develop guidance as to their jurisdiction, Congress expected courts to sever and segregate claims to prevent parties from manipulating jurisdiction. "If, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over the appeal should not be changed by this Act but should rest with the regional court of appeals."[98] It is not consistent for Congress to have granted appeals courts the authority to sever cases or segregate claims and at the same time rely solely on the well-pleaded complaint rule to determine jurisdiction.

The Congressional intent as to Federal Circuit jurisdiction generally, and with respect to the antitrust patent intersection in particular, is therefore not particularly illuminating. Congress recognized, as stated above, that an antitrust claim could be fashioned to sound in patent to confer jurisdiction, but that the courts should look to the gravaman of the action.[99] Similarly, Congress noted that "[a]llegations of patent-misuse type of antitrust violations do not change the nature of the case from one in which jurisdiction was based on section 1338 of title 28 . . . . As indicated, the issues raised are patent issues merely couched in antitrust terms. No difficulty would occur in the appeal of those cases to the Court of Appeals for the Federal Circuit."[100] Although Congress recognized the proximity between antitrust and intellectual property claims, it provided no guidance as to which appellate court or courts would determine, or have a role in determining, how the interplay would be resolved. Congress merely recognized that the

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98 *Id.* at 19-20 (emphasis added).

99 *Id*.

100 House Report, App. B., *supra* note 57, at 37 (Letter from William James Weller, Leg. Affairs Officer to Sen. Robert Dole, Chairman, Subcommittee on Courts, Committee on the Judiciary, United States Senate (Oct. 19, 1981)) (emphasis added).

Federal Circuit would resolve the "real" patent claim and a plaintiff could not manipulate a complaint to direct the appeal to that court.

C. *Holmes Group* and the Uniformity in Patent and Antitrust Law.

Several commentators have expressed concern that *Holmes Group* will result in a less uniform interpretation of the patent law, frustrating Congress's intent in creating the Federal Circuit.[101] As more patent issues are decided by regional circuits and state courts, these commentators argue, there is greater likelihood that differences in the application of patent law will develop. That is certainly true as a matter of logic, and the same logic suggests that there will be less uniformity in the antitrust law, as regional circuits instead of the Federal Circuit decide more antitrust-patent issues. It is not clear, however, that: (a) *Holmes Group* will significantly undermine the uniformity of either patent law or antitrust law; or (b) absolute uniformity is a desirable goal.

The magnitude of *Holmes Group's* effect on either the uniformity of patent and antitrust law is ultimately an empirical question that cannot be answered until additional cases have been decided under the *Holmes Group* standard. There are several reasons to believe, however, that *Holmes Group* will not have a profound impact on the uniformity of the patent law or the antitrust law.

First, *Holmes Group* is likely to affect the litigation path of only a small handful of cases. As noted above, the Federal Circuit has predicated its jurisdiction on patent issues asserted in counterclaims in less than ten reported cases over its entire history.[102] And even that small handful of cases may overstate the number of patent cases that will,

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101 *See, e.g.,* Cotropia, *supra* note 44, at 302-06; Rogers, *supra* note 44, at 457-62.

102 *See* Cotropia, *supra* note 44, at 298; *see also* Mueller, *supra* note 56, at 69 ("that 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.").

post-*Holmes Group*, be decided by regional circuits and state courts instead of the Federal Circuit because it does not distinguish between compulsory and permissive counterclaims. *Holmes Group* will affect the appellate path of cases involving compulsory patent counterclaims, *i.e.,* those patent claims arising from the same "transaction or occurrence" as some other (*e.g.,* antitrust) claim,[103] but it will not necessarily affect the appellate path of other patent claims. If patent claims are not compulsory counterclaims, the patent plaintiff can simply file a separate case focused solely and specifically on its patent claims.[104] The Federal Circuit will continue to exercise exclusive jurisdiction over those claims.

Second, even before *Holmes Group*, the regional circuits and the state courts decided some important issues of patent law and antitrust law implicating patent rights. Patent issues arising in the context of a defense to some other claim have historically been decided by regional circuits and state courts. As Chief Judge Markey explained in discussing the Federal Circuit's decision in *Atari v. JS&A Group, Inc.*,[105]

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103 *See* Fed. R. Civ. P. 13(a) (defining the standards for compulsory counterclaims). The interpretation of Rule 13(a) differs in each circuit.

104 *See* Kobak, *supra* note 56.

105 747 F.2d 1422 (Fed. Cir. 1984), *overruled in part by* Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059 (Fed. Cir. 1998).

> In Atari, it was also pointed out that the mere presence of a "patent issue" would not assure jurisdiction in the Federal Circuit. Suit by a patent licensor-citizen of one state against a licensee-citizen of another state may be filed in, or transferred from a State Court to a Federal District Court, whose jurisdiction would be based on "diversity of citizenship," not on 28 U.S.C. § 1338 (which is required for Federal Circuit jurisdiction. 28 U.S.C. § 1295(a)(1)). The suit is one for breach of contract, a matter of state law. The licensor may assert patent invalidity or non-infringement as defenses. Though those patent issues would be decided by the District Court, that Court's decision would be appealed to the involved regional circuit.[106]

*Holmes Group* may increase incrementally the number of patent issues decided by the regional circuits and the state courts, but those courts have been deciding important patent issues since the Federal Circuit's inception.

Third, permitting regional circuits and state courts to decide more patent issues will only undermine the uniformity of the patent law if those courts decide patent issues differently from the Federal Circuit. While Federal Circuit precedent may not be binding on the regional circuits or the state courts, it is likely to be considered highly persuasive. In addition, regional circuits could adopt choice of law rules requiring them to follow Federal Circuit precedent in patent matters, just as the Federal Circuit follows regional circuit law on non-patent specific antitrust issues. The Federal Circuit has the most experience of any court in the last twenty years dealing with patent issues, and the other regional circuits and state courts would undoubtedly recognize the Federal Circuit's institutional competence with these issues. The regional circuits often review and apply the law of other circuits to complex antitrust issues, and there is no reason to believe that

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[106] Howard T. Markey, *The Patent Jurisdiction of the United States Court of Appeals for the Federal Circuit*, 18 I.I.C. 693, 697 n.10 (1987); and *see, e.g.,* E.I. Dupont de Nemours & Co. v. Okuley, 344 F.3d 578, 583-4 (6th Cir 2003) (concluding that it, not the Federal Circuit, had appellate jurisdiction to decide owner of patent rights).

they will treat complex patent issues differently. Likewise, there is little reason to believe that the regional circuits will prefer stale precedent that they developed prior to the creation of the Federal Circuit to more recent precedent developed by the Federal Circuit.

There is one more question lurking in the background: is absolute uniformity a desirable goal? Many members of the antitrust bar, for instance, believe that permitting antitrust issues to "percolate" through the regional circuits helps to make the antitrust law stronger. The law often benefits from being exposed to a diversity of viewpoints. For example, the conflict between the Federal Circuit and Ninth Circuit standards in refusal to license cases illuminates differing perspectives on the scope of the patent holder's rights.[107] That conflict does not appear to have induced a race to the courthouse. As Justice Stevens explained in his concurrence in *Holmes Group*, "[a]n 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."[108]

Even if uniformity is a desired goal, it is not clear that the Federal Circuit creates such uniformity. The patent bar has noted that the decisions of the Federal Circuit are often panel-contingent. Thus, there is some variation in the law that emerges from the Federal Circuit.

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107 *Contrast* Xerox, 203 F.3d 1322 (a monopolist may refuse to deal absent fraud on the patent office, tying, or an unlawful extension of its patent rights) *with* Image Tech. Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195 (9th Cir. 1997) (a monopolist-patentee's unilateral refusal to deal is presumptively lawful, but that presumption may be rebutted if protecting the patent rights was pretextual.) Notably, some antitrust practitioners view *Xerox* as correctly deciding the issue.

108 Holmes Group, 535 U.S. at 839 (Stevens, J. concurring).

D. Will *Holmes Group* Result in Forum Shopping?

Another concern expressed by some commentators is that *Holmes Group* creates the opportunity for potential patent defendants to "shop" for an appellate forum that will be more sympathetic to their claims than the Federal Circuit.[109] Every jurisdictional rule creates an opportunity for forum shopping as long as: (a) at least two potential forums are available; and (b) litigants believe that outcomes are likely to differ in those forums. The *Holmes Group* rule is no different. If Federal Circuit law differs materially from regional circuit law, *Holmes Group* creates incentives for potential patent defendants to file non-patent claims that will draw compulsory patent counterclaims.

The forum-shopping path cut by *Holmes Group*, however, is extremely narrow. First, the law of the Federal Circuit must differ materially from the law that a regional circuit will apply. If the law does not materially differ, there is no reason to try and push patent claims into the regional circuits.[110] Second, a party seeking to avoid Federal Circuit jurisdiction must be able to assert a non-patent claim that draws a compulsory patent counterclaim. If the patent claims are not compulsory counterclaims, *i.e.,* they do not arise from the same transaction or occurrence as the non-patent claims, they can be filed as separate actions, assuring that the Federal Circuit will have exclusive jurisdiction

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109 *See, e.g.,* Grimsrud, *supra* note 56, at 2162.

110 Not only differences in the patent law are relevant. For instance, a party with an antitrust claim that arises from the same transaction or occurrence as a patent claim may try to file the antitrust claim first if the party prefers the law of a regional circuit over the law of the Federal Circuit on the antitrust issues. The Federal Circuit's exclusive appellate jurisdiction extends to all claims asserted in a case as long as any claim on the face of the well-pleaded complaint arises under the federal patent laws. 28 U.S.C. §§ 1295(a)(1), 1338(a).

over the appeal.[111] Third, the non-patent claim drawing a compulsory patent counterclaim must not require the court to resolve "substantial questions of federal patent law." If the non-patent claim cannot be decided without resolving substantial questions of patent law, then the Federal Circuit will have exclusive jurisdiction over both the non-patent claim and the patent counterclaim.

On the flip side of the coin, the *Holmes Group* rule also shuts the door on certain types of forum shopping. Under prior precedent, a defendant in a non-patent case (*e.g.,* an antitrust case) could ensure that the Federal Circuit exercised jurisdiction over all of the issues in the case by filing a patent counterclaim. Because the prior rule did not distinguish between compulsory and permissive counterclaims, moreover, the patent counterclaim did not have to arise from the same transaction or occurrence as the underlying antitrust (or other) claim to provide a basis for exclusive Federal Circuit jurisdiction. Indeed, one would expect that following *Xerox*, any target of an antitrust claim alleging an unlawful refusal to deal would find some way to assert a patent counterclaim to ensure that the case was heard by the Federal Circuit. At least one commentator believes, based on this analysis, that *Holmes Group* actually decreases forum shopping.[112]

### E. Implications of Holmes on Federal-State Allocation of Patent and Antitrust Claims

As indicated above, commentators raise concerns that *Holmes Group* will open the door to state court decisions on matters of federal patent law. Prior to *Holmes Group*

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[111] The law defining the scope of "compulsory counterclaims" also varies from circuit to circuit. Thus, it is possible that a claim will be a compulsory counterclaim in one circuit but not another, adding another wrinkle to the forum shopping equation.

[112] James W. Dabney, Holmes v. Vornado: *A Restatement of the "Arising Under" Jurisdiction of Federal Courts*, 11 NYSBA BRIGHT IDEAS 3 (Fall 2002).

state courts were excluded from the federal patent field. Section 1338 provides that district courts have original jurisdiction over "any civil action arising under any Act of Congress relating to patent, 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."[113] Thus, exclusive jurisdiction over patent matters derives from the original jurisdiction of the district court. This, in turn, depends on "arising under" jurisdiction. Prior to *Holmes Group,* Federal Circuit precedent required state courts to dismiss matters involving patent counterclaims. However, "arising under" jurisdiction did not reach patent defenses.[114] *Holmes Group* appears to expand the role of state courts in patent matters. Interpreting Section 1338 to apply only to those cases in which patent matters arise in the well-pleaded complaint or in which consideration of a substantial question of patent law is necessary to decide one or more claims means that state courts may hear patent matters that arise in compulsory counterclaims.[115]

The effect of this jurisdictional change is yet to be determined. As discussed above, the effect will be determined by both the number of cases to which the *Holmes Group* will apply and to choice of law issues. With respect to the number of cases at issue, we have found only one reported decision to date in which a state court has exercised jurisdiction over a federal copyright claim. [116] Moreover, under the Supremacy Clause of the Constitution, federal precedent binds state courts.[117] Thus, in the near term, state courts are bound to follow the law as determined by the Federal Circuit and

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113 28 U.S.C. § 1338.

114 Rogers, *supra* note 44, at 443.

115 If the patent matter arises in a permissible counterclaim, the patent holder may bring that action in federal court.

116 Green v. Hendrickson Publishers, Inc., 770 N.E.2d 784 (Ind. 2002).

117 Rogers, *supra* note 44, at 443.

Supreme Court. This question is only likely to raise significant conflicts if state courts apply the law of regional circuits, the circuit courts of appeal and the Federal Circuit apply patent law inconsistently, and the Supreme Court does not address the issue. Thus, the conflicts created by state court involvement in patent matters appears far from inevitable.

The commentary generally, and intellectual property bar in particular, discusses concerns arising from state courts encroaching into the patent sphere as a result of *Holmes Group*. There does not appear to be any similar concern with respect to federal antitrust law or the interface of federal antitrust and patent law. State courts do not have the authority to hear federal antitrust claims. Any such claim raised in state court can be dismissed. To the extent that a state court decides a matter relating to the interface between state antitrust law and federal patent law (in a compulsory counterclaim, for example), the decision is not binding on federal courts and most state courts apply federal antitrust law when interpreting their own statute. Thus, *Holmes Group* is unlikely to raise state court concerns for the federal antitrust bar.

F. The Effect of Holmes on FTC Administrative Enforcement

The discussion of *Holmes Group* in this report thus far and in the commentary focuses on the appellate path and federal jurisdiction of patent-antitrust matters. A recent decision by an FTC administrative law judge ("ALJ") highlights the application of the well-pleaded complaint rule to FTC administrative hearings.[118] The FTC commenced an administrative challenge alleging that Unocal violated Section 5 of the FTC Act. The Commission alleged that Unocal participated in a California Air Resources Board

[118] Unocal Decision, *supra* note 83. *See also* Task Force Report, *supra* note 1, at 55 (discussing the path of appeals from FTC decisions for patent antitrust matters).

("CARB") rulemaking proceeding to establish a low-emissions regulation for reformulated gasoline ("RFG"). Unocal allegedly participated in two private standard setting organizations, the Auto/Oil Air Quality Improvement Research Program ("Auto/Oil") and the Western States Petroleum Association ("WSPA"). Both associations participated in the CARB proceedings. The Commission alleged that Unocal failed to disclose to CARB, Auto/Oil and WSPA that its pending patents and proprietary interests overlapped with the proposed RFG standard. After CARB adopted the proposed standard, Unocal began enforcing its patent rights. The Commission alleged that had CARB and the associations known about Unocal's patent rights they "would have taken actions including, but not limited to . . . incorporating knowledge of Unocal's pending patent rights in their capital investment and refinery reconfiguration decisions to avoid and/or minimize potential infringement."[119] Unocal moved to dismiss the complaint for lack of jurisdiction. It argued that the Commission's complaint necessarily required a resolution of federal patent law. Therefore, according to Unocal, the district courts, not the Commission, had exclusive jurisdiction to hear the matter.[120]

The ALJ agreed, finding that "[a]ny alleged harm . . . cannot be determined without knowing the scope of Respondents' patents, whether or not Auto/Oil Group and WSPA could have invented around these patents, and whether any such newly created products or methods could have avoided infringement."[121] Under the second prong of *Christianson*, only federal district courts may adjudicate such matters. In dismissing the

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119 *See id.* at 59-60.

120 *Id.* at 61. The ALJ also dismissed the complaint with regard to Unocal's conduct before CARB based on the *Noerr-Pennington* Doctrine.

121 *Id.* at 61 (citing *Christianson*, not *Holmes Group*). The ALJ dismissed the complaint with regard to Unocal's conduct before CARB based on the *Noerr-Pennington* doctrine.

complaint, the ALJ rejected Complaint Counsel's argument that jurisdiction under Section 1338 is exclusive of state courts, not federal administrative bodies.[122] In addition, the ALJ distinguished prior Commission decisions at the patent-antitrust interface, including a *Walker Process* case, because the matters did not require an inquiry into the scope or validity of patents.[123]

Some may view this development, if upheld by the FTC and courts, as removing the FTC from enforcing the antitrust laws at the point of the patent-antitrust interface. We do not believe this to be the case. In addition to its administrative authority, Section 13(b) of the FTC Act allows the Commission to seek a permanent injunction if it has reason to believe the antitrust laws have been violated.[124] Thus, *Unocal* could shift the FTC enforcement emphasis away from an administrative forum to the district courts.

Additionally, the *Unocal* decision depends on the factual allegations of the complaint and the necessity for a resolution of federal patent law. Thus, there may be patent-antitrust issues that do not fall within the second prong of *Christianson*. For example, the FTC has taken the view that antitrust challenges to patent settlements do not require deciding any patent issues.[125] Thus, *Unocal*, if followed, may simply narrow the scope of those antitrust-patent matters that the FTC could challenge administratively.

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122 *Id*. at 63-64.

123 *Id.* at 64, 65. The ALJ explained that in *Decker v. FTC*, 176 F.2d 461, 463 (D.C. Cir. 1949), the "proceedings before the FTC related only to advertising. They did not draw into question the validity of the patent grant." He also distinguished *American Cyanamid*, 63 F.T.C. 1747, 1855-57 (1963), *vacated on other grounds*, 363 F.2d 757 (6th. Cir. 1966), *aff'd sub nom.* Charles Pfizer & Co. v. FTC, 401 F.2d 574 (6th Cir. 1968), because the allegations of fraud on the patent office "did not require an examination of scope and infringement issues."

124 15 U.S.C. § 53(b) ("That in proper cases the Commission may seek, and after proper proof, the court may issue, a permanent injunction.").

125 *See* Schering-Plough Corp., FTC Docket No. 9297 (Commission decision, Dec. 18, 2003) (the decision is silent on this jurisdictional issue). *But see* In re: Tamoxifen Citrate

Finally, the ALJ did not rely on *Holmes Group*. Instead he relied on *Christianson*. Thus, *Holmes Group* cannot be said to be the direct cause of any change in the ability of the FTC to use the administrative process to enforce the antitrust laws.

G. Legislative Proposals

This Task Force accepts that a wait and see approach is probably the most prudent. Commentaries have identified concerns that simply may no longer exist. They point to risks that have not materialized and may not do so for many years. Further, none of the commentary recognizes that legislation should be narrowly tailored to the identified harm. Absent an identified harm, any of the proposed legislative "fixes" identified above carry drawbacks and risks, including: (1) the risks that non-patent law does not percolate among the sister circuits because of broad Federal Circuit jurisdiction; (2) reduced administrative efficiency from the well-pleaded complaint rule; and (3) the consequence that a plaintiff will lose control of its case.[126] If any modification to the jurisdictional rules is ultimately deemed necessary, we suggest that it narrowly address the specific concern (*e.g.*, provide for exclusive federal court jurisdiction over all patent claims) rather than reverse *Holmes Group* and provide for Federal Circuit jurisdiction over all cases including a patent counterclaim.

Permitting the regional circuits a greater voice in issues residing on the border of patent law and antitrust law — something that *Holmes Group* allows – is, in our opinion, a desirable result. Viewed from this perspective, the legislative cure recommended by the Federal Bar Association may be worse than the problem it seeks to solve. The Ad

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Antitrust Litig., 222 F.Supp.2d 326 (E.D.N.Y. 2002) (denying motion to remand state antitrust claims on the ground that plaintiffs could not succeed on their claims without proving the invalidity or unenforceability of the patent).

[126] The *Holmes Group* commentary generally has not addressed this last risk associated with reversing *Holmes Group*.

Hoc Committee of the Federal Bar Association has recommended that Congress amend Section 1338(a) so that jurisdiction extends to all actions "involving any claim for relief arising under any Act of Congress relating to patents . . . ."[127] Although the goal of the legislative solution is to restore the status quo as it existed prior to *Holmes Group*, the use of the indefinite term "involving" invites litigation over the scope of the district courts' and the Federal Circuit's exclusive jurisdiction pursuant to Section 1338(a). That term could potentially be read in the context of the amended section to permit the exercise of jurisdiction over purely non-patent claims that, in some tangential way, "involve" claims for relief arising under the patent laws, copyright laws, etc., thus greatly extending the scope of the Federal Circuit's exclusive jurisdiction.

Respectfully Submitted,

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[127] Ad Hoc Committee, *supra* note 7, at 714 (emphasis added).