Holmes and the Erosion of Exclusive Federal Jurisdiction over Patent Claims

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In the federal judicial system, the authority of courts inferior to the United States Supreme Court is limited to the boundaries prescribed by Congress. With respect to cases arising under patent law, Congress gave exclusive original jurisdiction to the federal district courts under 28 U.S.C. § 1338 and exclusive appellate jurisdiction to the Court of Appeals for the Federal Circuit under 28 U.S.C. § 1295. Interestingly, interpretation of the two statutes turns largely on the meaning of "arising under" in § 1338 due to the dependence of the Federal Circuit's appellate jurisdiction on the existence of original jurisdiction in the federal district court.

1. Sheldon v. Sill, 49 U.S. 441, 449 (1850) ("Courts created by statute can have no jurisdiction but such as the statute confers.").

2. "The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases." 28 U.S.C. § 1338(a) (2000).

3. The text reads,

The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction 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, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claim under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title.

Id. § 1295(a).
Until recently, courts interpreted both statutes to create exclusive federal jurisdiction over cases involving nonfrivolous patent claims alleged in a complaint or in a counterclaim. In June 2002, however, the United States Supreme Court overruled this practice in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, in which it held that § 1295 did not create exclusive appellate jurisdiction in the Federal Circuit over a compulsory patent counterclaim.

Depriving the Federal Circuit of exclusive jurisdiction over patent counterclaims is problematic because it undermines the Federal Circuit's objective of creating uniformity and predictability in the application of patent law. Furthermore, any resulting regional discrepancies in the application of patent law by the federal circuit courts of appeals will now provide an incentive for a manipulative plaintiff to forum shop throughout the federal circuits. The implication of *Holmes* at the trial court level is even more alarming because it provides state courts with a basis for retaining jurisdiction over compulsory patent counterclaims. Allowing state courts to entertain patent claims will only further unsettle patent law, which will

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4. See supra notes 2-3.

5. See infra Part I.B.3.


7. See infra Part I.A.2.

8. See infra Part III.C. Prior to the *Holmes* decision, regional discrepancies in patent law among the federal district courts already provided an incentive for forum shopping. See generally Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 83 J. PAT. & TRADEMARK OFF. SOC'Y 558, 569-88 (2001) (describing how the procedural and substantive differences among the district courts provided a forum-shopping incentive). The *Holmes* decision will likely increase the prevalence of this forum shopping because the Federal Circuit will no longer have jurisdiction to review cases in which the only patent claim was raised in a patent counterclaim. See Anne M. Maher, *The 'Holmes' Decision*, NAT'L L.J., July 8, 2002, at B11 (describing how the forum-shopping problem is worsened by the Federal Circuit's lack of appellate jurisdiction over patent counterclaims).

9. The Indiana Supreme Court reached this precise conclusion with respect to compulsory copyright counterclaims in *Green v. Hendrickson Publishers, Inc.*, 770 N.E.2d 784, 793-94 (Ind. 2002). Note that although § 1295 refers to exclusive appellate jurisdiction over cases arising under patent and plant variety protection law, § 1338 refers to exclusive original jurisdiction over patent, plant variety protection, and copyright law. 28 U.S.C. §§ 1295(a), 1338(a) (2000).

in turn exacerbate the forum-shopping problem. Finally, in view of the economic significance attributed to patents, unsettling the predictability of patent law and providing an incentive for forum shopping is threatening to the economy and to technological innovation.

This Comment explains the rationale behind Congress's choice to remove the adjudication of patent claims to the exclusive province of the federal courts and describes how the *Holmes* decision will subvert the policy behind this choice. Part I provides an overview of the original and appellate subject matter jurisdiction of the federal courts in patent cases. Part II describes the Supreme Court's decision in *Holmes*. Part III analyzes the accuracy and propriety of the Court's holding in view of prior court decisions, legislative history, and public policy. Part IV proposes the correct interpretation of §1295 and §1338 and concludes that because it is unlikely the Court will reverse itself in the near future, Congress must enact legislation clarifying its intent that only federal courts can exercise jurisdiction over patent claims regardless of whether the claim appears in a complaint or counterclaim.

court would lead to even more disparities in the application of patent law because state judges may lack patent law expertise); Moore, *supra* note 8, at 592 (explaining that "unpredictability in the legal system ... intensifies as the number of potential jurisdictions in which to bring suit increases"). Note that even among the federal district courts, the difficulty of consistently applying patent law has led commentators to advocate for the creation of a specialized patent trial court. Cooper, *supra*, at 380; Moore, *supra* note 8, at 596-98.

11. See infra text accompanying notes 199-201, 213-19 (describing scenarios in which the *Holmes* decision will foster forum shopping among the state courts).


13. See Moore, *supra* note 8, at 592-95 (describing how regional variations in patent law encourage forum shopping, which in turn decreases the value of patents, and thus the incentive for innovation).
I. THE JURISDICTIONAL BASIS OF PATENT CLAIMS

In order to obtain a patent for an invention, a patentee must successfully prosecute a patent application through the United States Patent & Trademark Office (PTO). Upon issuance of a patent, a patentee obtains the right to exclude others from practicing the invention for a specified term. This exclusive right allows the patentee to enforce the patent against unauthorized users through an action for patent infringement. At the same time, under appropriate circumstances, a third party wishing to practice a patented invention may bring a declaratory judgment action for invalidity or noninfringement against a patentee. In either situation, the federal district courts have exclusive original jurisdiction. With respect to appeals, the Federal Circuit exercises exclusive appellate jurisdiction over final decisions of the district courts on patent claims. As a forum of last resort, a litigant may appeal a decision of the Federal Circuit to the United States Supreme Court.

Although patent claims must be filed in the federal district court, determining when a claim actually "arises under" patent law is more complicated. It is generally accepted, for example, that a claim that merely invokes patent law as one of multiple theories of recovery does not arise under patent law. The United States Supreme Court also recently held that a patent counterclaim does not arise under patent law.

16. Id. § 271; SCHWARTZ, supra note 14, at 39-42.
17. SCHWARTZ, supra note 14, at 42-44.
19. Id. § 1295(a).
20. See infra note 44 (describing the constitutional limits of the Supreme Court's jurisdiction); see also ROBERT PATRICK MERGES & JOHN FITZGERALD DUFFY, PATENT LAW AND POLICY 50 figs. 1-5, 53-54 (3d ed. 2002) (explaining civil procedure in the context of patent litigation).
21. See infra text accompanying notes 93-94.
22. See infra Part II.
The requirement that a court have subject matter jurisdiction before entertaining a lawsuit is a fundamental edict of civil procedure jurisprudence. Subject matter jurisdiction confers power over the court to hear and render a decision on the subject matter of a particular case. As set forth in Article III, section 1 of the Constitution, it is Congress's role to establish the jurisdiction of the federal courts inferior to the United States Supreme Court. The interpretation and application of Congress's determinations, however, is in the province of the judiciary. Even when the issue is not raised by a litigant, courts have an affirmative duty to initiate an inquiry into the existence of subject matter jurisdiction.

1. The Well-Pleaded Complaint Rule: Striking the Balance Between Federal and State Sovereignty

Provided that the federal courts possess subject matter jurisdiction, a plaintiff may ordinarily file a claim in either state or federal court due to concurrent jurisdiction between

23. Ruhrgas AG v. Marathon Oil Co., 526 U.S. 574, 583 (1999) (explaining that subject matter jurisdiction keeps the federal courts "within the bounds the Constitution and Congress have prescribed"); Ex parte McCardle, 74 U.S. 506, 514 (1868) ("Without jurisdiction the court cannot proceed at all in any cause. Jurisdiction is power to declare the law, and when it ceases to exist, the only function remaining to the court is that of announcing the fact and dismissing the cause."); see also FED. R. CIV. P. 12(h)(3) ("Whenever it appears ... that the court lacks jurisdiction of the subject matter, the court shall dismiss the action.").

24. See McCardle, 74 U.S. at 514.

25. Lockerty v. Phillips, 319 U.S. 182, 187 (1943) ("All federal courts, other than the Supreme Court, derive their jurisdiction wholly from the exercise of the authority to 'ordain and establish' inferior courts.") (quoting U.S. CONST. art. III, § 1).

26. See Marbury v. Madison, 5 U.S. 137, 177 (1803) (explaining that "[i]t is emphatically the province and duty of the judicial department to say what the law is").

27. Mansfield, C. & L.M. Ry. Co. v. Swan, 111 U.S. 379, 382 (1884) ("[T]he first and fundamental question is that of jurisdiction, first, of this court, and then of the court from which the record comes. This question the court is bound to ask and answer for itself, even when not otherwise suggested.").

28. Federal subject matter jurisdiction can be established in two ways: diversity of citizenship between the parties, 28 U.S.C. § 1332 (2000), or the presence of a federal question, id. § 1331. Supplemental jurisdiction is a third way to establish federal jurisdiction, although it requires that the court already possess original jurisdiction based on either a federal question or diversity of citizenship. Id. § 1367.
the state and federal judicial systems. As a result of concurrent jurisdiction, federal courts must carefully construe their jurisdiction so as to not deprive a sovereign state of a matter otherwise within its jurisdiction. Determinations of the existence of federal subject matter jurisdiction consequently involve balancing federal and state sovereignty concerns, and more specifically, deciphering the limitations on the power of the federal courts sitting in a sovereign state. Leaving aside the issue of diversity of citizenship as a basis for jurisdiction, federal question jurisdiction maintains this balance as codified in 28 U.S.C. § 1331.

In enacting § 1331, Congress did not clearly demark the jurisdiction of the federal courts due to the ambiguity surrounding the import of “arising under” as it appears in the statute. This has allowed the judiciary to play a prominent role in determining the circumstances that raise a federal question. These judicial interpretations of § 1331 have

29. See Claflin v. Houseman, 93 U.S. 130, 136-37 (1876) (explaining that, unless Congress has enacted a law granting exclusive federal jurisdiction, concurrent jurisdiction exists, and the plaintiff can file suit in either state or federal court).

30. Cf. Finley v. United States, 490 U.S. 545, 552-53 (1989) (explaining that with respect to removal of a case from state to federal court, “due regard for the rightful independence of state governments ... requires that [federal courts] scrupulously confine their own jurisdiction to the precise limits which the statute has defined”).


33. “The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.” Id. § 1331.

34. Id.

evolved into the "well-pleaded complaint rule," which dictates that "[t]he presence or absence of federal-question jurisdiction" is determined by whether "a federal question is presented on the face of the plaintiff's properly pleaded complaint."\(^{36}\) Accordingly, provided that the plaintiff properly pleads a federal question of law,\(^{37}\) the plaintiff is the master of the complaint and controls the forum for the lawsuit.\(^{38}\)

2. Exclusive Federal Jurisdiction over Patent Claims

Departing from the standard of concurrent jurisdiction, Congress has created exclusive federal jurisdiction in several areas of the law.\(^{39}\) In particular, Congress conferred exclusive jurisdiction over patents, plant variety protection, and copyright cases on the federal district courts when it enacted 28 U.S.C. § 1338.\(^{40}\) The statute provides that "[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks," and that "[s]uch jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases."\(^{41}\) With respect to patent claims, it is generally believed that Congress created exclusive jurisdiction to promote uniformity and expertise in the application of patent law.\(^{42}\)

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\(^{38}\) Caterpillar, 482 U.S. at 392; Fair v. Kohler Die Co., 228 U.S. 22, 25 (1913).


\(^{40}\) 28 U.S.C. § 1338(a).

\(^{41}\) Id. (emphasis added).

\(^{42}\) Donald Shelby Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 658 (1971) (explaining that patent infringement actions are of enormous importance because "they concern the scope of federally sanctioned monopolies"); Dutch D. Chung, *The Preclusive Effect of State Court Adjudication of Patent Issues and the Federal Courts' Choice of Preclusion Laws*, 69 FORDHAM L. REV. 707, 721 (2000); Cooper, supra note 10, at 315 (explaining that federal courts are better equipped than state courts to handle the complexity of patent litigation, and that the public has an interest in the uniform interpretation of monopolies);
Interpretation of § 1338 has hinged on the meaning attributed to the phrase "arising under." Depending upon its context, "arising under" has two significantly different meanings. A broad interpretation of "arising under" confers subject matter jurisdiction consonant with Article III of the Constitution, whereas a narrower interpretation limits "arising under" to the confines of the well-pleaded complaint rule. With respect to § 1338, the Article III interpretation of "arising under" would give federal district courts jurisdiction over any case in which an issue of patent, plant variety protection, or copyright law was raised, regardless of whether it was raised in the complaint, answer, or counterclaim. Alternately, an interpretation limited to the well-pleaded complaint rule would only grant exclusive jurisdiction to the federal courts in cases where a federal question of patent, plant variety protection, or copyright law was raised on the face of the plaintiff's well-pleaded complaint.

Most courts have interpreted § 1338 "arising under" to encompass some notion of the well-pleaded complaint rule.

Note, Exclusive Jurisdiction of the Federal Courts in Private Civil Actions, 70 Harv. L. Rev. 509, 511 (1957) [hereinafter Exclusive Jurisdiction] (stating that exclusive jurisdiction may decrease the number of conflicting decisions).

43. See Chisum, supra note 42, at 635-44 (depicting the two possible jurisdiction schemes created by § 1338(a) and "arising under," namely original jurisdiction consonant with the Article III interpretation versus original jurisdiction defined by the well-pleaded complaint rule); see also Christianson v. Cold Indus. Operating Corp., 486 U.S. 800, 807-11 (1988) (analyzing the meaning of "arising under").

44. In defining the jurisdiction of the United States Supreme Court, the Constitution states that the judicial power "shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties...." U.S. Const. art. III, § 2 (emphasis added). This has been interpreted to mean that the Supreme Court has jurisdiction over all cases that raise a federal question, regardless of whether the federal question is on the face of a well-pleaded complaint. See generally Louisville & Nashville R.R. v. Mottley, 211 U.S. 149 (1908) (exercising subject matter jurisdiction where the plaintiff had failed to raise a federal question for purposes of the well-pleaded complaint rule). The other "arising under" context pertains to jurisdiction predicated on 28 U.S.C. § 1331, in which case the well-pleaded complaint rule governs. See supra notes 33-38 and accompanying text.

45. See supra notes 33-38, 44.

46. See supra note 44.

47. See supra notes 33-38 and accompanying text.

48. E.g., Christianson, 486 U.S. at 809 (explaining that even if a defense is the only question at issue in a case, the defense is insufficient to satisfy the requirements of § 1338); see also Pratt v. Paris Gaslight & Coke Co., 168 U.S. 255, 261 (1897) (stating that it is "well established that any defence [sic] which goes to the validity of the patent is available in the state courts").
though few federal authorities have directly addressed the issue in the context of counterclaims.\textsuperscript{49} On several occasions the Federal Circuit has indicated that state courts lack the authority to hear a suit involving a patent counterclaim.\textsuperscript{50} In \textit{Schwarzkopf Development Corp. v. Ti-Coating, Inc.}, the Federal Circuit stated that "[a]djudication of a patent counterclaim is the exclusive province of the federal courts."\textsuperscript{51} Additionally, in \textit{Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.}, the Federal Circuit's statement that a "well-pleaded counterclaim" has an "independent federal jurisdictional basis" implied that a state court could not exercise jurisdiction over patent counterclaims.\textsuperscript{52} Through their continued refusal to

\textsuperscript{49} A counterclaim is a claim filed in response to an opposing party's claim. FED. R. CIV. P. 13(a)-(b). Counterclaims are characterized as compulsory or permissive. \textit{Id.} A compulsory counterclaim is a counterclaim that arises out of the same "transaction or occurrence that is the subject matter of the opposing party's claim." FED. R. CIV. P. 13(a). Courts have interpreted this to mean that when there is a logical relationship between the counterclaim and the opposing party's claim, the counterclaim is compulsory. \textit{E.g.}, Gilldorn Sav. Ass'n v. Commerce Sav. Ass'n, 804 F.2d 390, 396 (7th Cir. 1986); Xerox Corp. v. SCM Corp., 576 F.2d 1057, 1059 (3d Cir. 1978). Therefore, any counterclaim that does not have a logical relationship with the opposing party's claim is permissive.

Characterizing the counterclaim as compulsory or permissive can have significant procedural implications. In general, whenever a plaintiff files a claim against a defendant the defendant may bring a permissive counterclaim. FED. R. CIV. P. 13(b). The only proviso is that the court must have independent jurisdiction over the counterclaim. \textit{E.g.}, East-Bibb Twiggs Neighborhood Ass'n v. Macon Bibb Planning & Zoning, 888 F.2d 1576, 1578 (11th Cir. 1989). Alternatively, the defendant could also choose to withhold the counterclaim and file it in a subsequent lawsuit. Conversely, a defendant \textit{must} bring a compulsory counterclaim or suffer claim preclusion in a subsequent lawsuit. Mesker Bros. Iron Co. v. Donata Corp., 401 F.2d 275, 279 (4th Cir. 1968). Due to the lack of discretion in filing the counterclaim, and the close relationship between the original claim and the counterclaim, the court will exercise ancillary jurisdiction over a compulsory counterclaim. \textit{See}, \textit{e.g.}, Baker v. Gold Seal Liquors, Inc., 417 U.S. 467, 469 n.1 (1974); Zahn v. Int'l Paper Co., 414 U.S. 291, 306 (1973). As a result, a compulsory counterclaim does not need an independent jurisdictional basis.

\textsuperscript{50} See \textit{infra} notes 51-52 and accompanying text.

\textsuperscript{51} 800 F.2d 240, 244 (Fed. Cir. 1986).

\textsuperscript{52} 895 F.2d 736, 742 (Fed. Cir. 1990). The court further stated, however, that its decision had no bearing on the removal of patent infringement counterclaims from state court. \textit{Id.} at 739. Although the Federal Circuit did not analyze the propriety of the decision, the court recognized \textit{Rath Packing Co. v. Becker}, in which the Ninth Circuit held that filing a patent infringement counterclaim in state court will not, by itself, justify removal to federal court. \textit{Id.} at 739 n.4 (citing Rath Packing Co. v. Becker, 530 F.2d 1295, 1303 (9th Cir. 1975) (Rich, J., sitting by designation), \textit{aff'd on other grounds sub nom.}, Jones v. Rath Packing Co., 430 U.S. 519 (1977)).
exercise jurisdiction over patent or copyright counterclaims,\(^5\) state courts also appeared to accept the § 1338 interpretation depriving them of jurisdiction.\(^4\) Not surprisingly, commentators disagree as to whether § 1338 “arising under” invokes the well-pleaded complaint rule, or some modified version.\(^5\)

**B. APPPELLATE SUBJECT MATTER JURISDICTION OVER PATENT CLAIMS**

In 1982, in reaction largely to the lack of uniformity in the application of patent law among the circuit courts of appeals,\(^6\) Congress created the Court of Appeals for the Federal Circuit.\(^7\) By providing the Federal Circuit with exclusive appellate jurisdiction over patent claims, Congress intended to create a uniform body of patent law and reduce the pervasive forum

\(^5\) Exclusive jurisdiction under § 1338 applies to claims arising under patent, plant variety protection, and copyright and trademark law. 28 U.S.C. § 1338(a) (2000).

\(^4\) See, e.g., Tewarson v. Simon, 750 N.E.2d 176, 183 (Ohio Ct. App. 2001) (holding that the state had no jurisdiction over a counterclaim sounding in copyright law); EMSA Ltd. P'ship v. Lincoln, 691 So.2d 547, 549 (Fla. Dist. Ct. App. 1997) (affirming the lower court's dismissal of a copyright infringement counterclaim for lack of subject matter jurisdiction); Am. Home Prods. Corp. v. Norden Labs., Inc., No. 11615, 1992 WL 368604, at 3 (Del. Ch. Dec. 9, 1992) (“[T]here is no corresponding authority for state courts to exercise ancillary jurisdiction over counterclaims which, if brought as independent actions in state court, would have to be dismissed as being within the exclusive jurisdiction of the federal courts.”); Superior Clay Corp. v. Clay Sewer Pipe Ass'n, 215 N.E.2d 437, 440 (Ohio Com. Pl. 1963) (holding that the federal district court has exclusive jurisdiction over a counterclaim for patent infringement); Pleatmaster v. Consol. Trimming Corp., 156 N.Y.S.2d 662, 666 (N.Y. Sup. Ct. 1956) (“A counterclaim is equivalent to an affirmative action brought by a litigant and the relief requested is of the same nature as the judgment demanded in a complaint. A state court does not have jurisdiction of the subject of such a counterclaim and the counterclaim must accordingly be dismissed.”).

\(^5\) Compare Chisum, supra note 42, at 633-44 (explaining that, although an Article III interpretation of 28 U.S.C. § 1338 “arising under” is too broad, the well-pleaded complaint rule interpretation of “arising under” is too narrow), and Joseph R. Re, Federal Circuit Jurisdiction over Appeals from District Court Patent Decisions, 16 AIPLA Q. J. 169, 177-78 (1988) (indicating that the federal district courts have exclusive original jurisdiction over patent counterclaims), with Donofrio & Donovan, supra note 31, at 1873-74 (explaining that when a case is properly in state court, a compulsory patent counterclaim should not deprive the state court of jurisdiction).

\(^6\) See infra Part I.B.1.

\(^7\) See infra Part I.B.2.
shopping that existed throughout the circuit courts.\textsuperscript{58}

1. The Circuit Courts of Appeals Crisis

Prior to 1982, the federal circuit courts of appeals had subject matter jurisdiction over final decisions of the district courts on patent claims.\textsuperscript{59} For a variety of reasons, predating the jurisdiction of the courts of appeals on the geographic location of patent lawsuits proved problematic.\textsuperscript{60} The most notable problem was the forum shopping that resulted from the inconsistent application of patent law among the circuits.\textsuperscript{61} Furthermore, the already burdened Supreme Court could not ameliorate the problem of forum shopping because the Court could not hear enough cases to establish a predictable and geographically neutral body of patent law.\textsuperscript{62}

The uncertainty and variation in the application of the law created a situation in which plaintiffs would file suit in particular circuits known to be proponents or opponents of the patent system.\textsuperscript{63} One judge described the situation as a race


\textsuperscript{59} Unless Congress has stated otherwise, the federal circuit courts of appeals take appellate jurisdiction of final decisions of the district courts. 28 U.S.C. § 1291 (2000).

\textsuperscript{60} See S. REP. NO. 97-275, at 2, reprinted in 1982 U.S.C.C.A.N. 11, 12 (indicating that the courts of appeals had difficulty in both efficiently applying patent law and maintaining uniformity in its application); see also H.R. REP. 97-312, at 17 (1981), microformed on CIS No. 81-H523-22 (Cong. Info. Serv.) (describing the general problem of overburdened federal appellate courts).

\textsuperscript{61} See, e.g., Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 813 (1988) (recognizing that one of Congress's goals in creating the Federal Circuit was to reduce uncertainty in the application of patent law); Commission on Revision of the Federal Court Appellate System, Structure and Internal Procedures: Recommendations for Change, 67 F.R.D. 195, 200 (1975) [hereinafter Federal Court Appellate System] (explaining that "the perceived disparity in results in different circuits leads to widespread forum shopping"); ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT 777 (4th ed. 1998) ("In creating the Federal Circuit, congressional emphasis was on the need for greater uniformity in patent law and for freeing the judicial process from the forum shopping caused by conflicting patent decisions of the regional circuits."); Donofrio & Donovan, supra note 31, at 1849 ("One of the strongest motivations for creating the court was the general dissatisfaction over the disparate application of the patent laws by the various regional circuits.").


\textsuperscript{63} See H.R. REP. 97-312, at 21, microformed on CIS No. 81-H523-22 (Cong. Info. Serv.) (stating that the lack of uniformity in the circuit courts application of patent law, and the varying attitudes toward patents generally, created "mad and undignified races" between alleged infringers and patent
“between a patentee who wishe[d] to sue for infringement in one circuit believed to be benign toward patents, and a user who want[ed] to obtain a declaration of invalidity or non-infringement in one believed to be hostile to” patents. As a result, the scope of a patentee’s property rights, which consisted of a national right to exclude competitors, often depended upon the particular geographical forum in which suit was filed.

2. The Federal Courts Improvement Act of 1982 and the Creation of the Court of Appeals for the Federal Circuit

Due to concerns regarding the uncertainty and disparate application of patent law, Congress decided to consolidate the appellate review of district court decisions through the creation of the Federal Circuit. In particular, Congress believed that an exclusive court of appeals for patent claims would “alleviate the serious problems of forum shopping among the regional courts of appeals.” This intent is codified in 28 U.S.C. § 1295(a), which states that for patent and plant variety holders to be the first to institute proceedings in the forum they considered most favorable to their situation).


67. See Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, § 127(a), 96 Stat. 37, 37-39 (1982) (codified as amended at 28 U.S.C. § 1295(a) (2000)). Note that prior to the passage of the Federal Courts Improvement Act of 1982, the creation of a specialized appeals court was a subject of frequent debate. See Cooper, supra note 10, at 380 (suggesting that problems with the disparate application of patent law can only be remedied through the creation of a specialized appeals court, and maybe even a specialized trial court); Thomas W. Shelton, Why a Special Patent Court!, 53 CHI. LEGAL NEWS 403, 403-04 (1921); Exclusive Jurisdiction, supra note 42, at 512 (citing C.A.P. Turner, Need of a Special Patent Court—The Engineers’ Point of View, 93 CENT. L.J. 96, 96-101 (1921)).

protection cases, the Federal Circuit takes exclusive jurisdiction 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." 69

Commentators disagree on the propriety of the Federal Circuit and specialized courts in general. 70 Typically, the proponents of the Federal Circuit stress that it increases efficiency and uniformity in the application of patent law to highly complex and technical issues, thereby reducing forum shopping and increasing the predictability of the law. 71 Proponents also contend that, from an administrative standpoint, differentiation based on subject matter as opposed to geographic location is the only solution to the overburdened caseloads of the court system. 72 Conversely, opponents of specialized courts argue that caseload variety is critical to the proficiency of a court. 73 Concerning the Federal Circuit specifically, opponents argue that capture theory dictates that the specialized court will attract jurists overly sympathetic to patents, and that the court's isolation will foster decisions at odds with current legal developments. 74 Opponents also fear that the most qualified jurists will not seek appointment to such a specialized court. 75

3. Traditional Interpretation of 28 U.S.C. § 1295

After the creation of the Federal Circuit, commentators were not in agreement as to the scope of the court's jurisdiction. 76 As a result of § 1295 predating the Federal Circuit's jurisdiction on the existence of original jurisdiction in the district courts, the debate largely concerned the significance of "arising under" in § 1338 and "in whole or in part" in § 1295. 77 With respect to "arising under," as described previously in the context of original jurisdiction, debate

70. Dreyfuss, supra note 62, at 2-3.
71. Id. at 2.
72. Id.
73. Id. at 2-3.
74. See id.
75. See id.
76. See id. at 30-52.
77. See id. (explaining the procedural confusion existing after the creation of the Federal Circuit, and highlighting the ambiguity of "arising under" and "in whole or in part"); supra text accompanying notes 41, 69 (providing the relevant statutory provisions).
centered on whether the Federal Circuit’s appellate jurisdiction would be confined to situations in which the district court had exercised jurisdiction over a plaintiff’s patent claim in accordance with the well-pleaded complaint rule.\(^7\)

Early Federal Circuit opinions indicated that appellate jurisdiction under § 1295 would not be limited by the well-pleaded complaint rule. In *Schwarzkopf Development Corp.*, the Federal Circuit explained that the patent counts of a counterclaim are within the court’s appellate jurisdiction because they are based “in part” on § 1338.\(^8\) In the same term, the Federal Circuit stated that “the mere labeling and sequencing of pleadings in the trial tribunal cannot be allowed to control every exercise of this court’s appellate jurisdiction.”\(^9\) Other circuit courts accepted this interpretation, transferring cases that presented a nonfrivolous patent counterclaim to the Federal Circuit.\(^10\) Although patent counterclaims appeared to be in the province of the Federal Circuit, other jurisdictional issues, such as situations in which the only patent issue was raised in a defense, remained unresolved.\(^11\)

a. Christianson v. Colt Industries: *Circumscribing Federal Circuit Jurisdiction*

The Supreme Court’s decision in *Christianson v. Colt Industries Operating Corp.*\(^12\) clarified some of the issues regarding the scope of the Federal Circuit’s subject matter jurisdiction.\(^13\) Christianson initiated a suit in federal district court against Colt, alleging that Colt’s conduct had driven Christianson out of business\(^14\) in violation of multiple federal

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79. 800 F.2d 240, 244 (Fed. Cir. 1986).

80. *In re Innotron Diagnostics*, 800 F.2d 1077, 1080 (Fed. Cir. 1986).


84. *See infra* text accompanying notes 93, 94.

85. Colt was a manufacturer of M16 rifles and M16 rifle parts. *Christianson*, 486 U.S. at 804. Although Colt had managed to obtain numerous patents pertaining to the mass production of the rifles and their associated parts, Colt had strategically made only limited disclosures in the patent specifications regarding aspects of the manufacturing processes. *Id.* Due to its trade secrecy, as a condition of employment, Colt contractually required Christianson to agree not to disclose any of the proprietary information withheld from Colt’s patent specifications that Christianson
antitrust provisions. Although the federal district court exercised original jurisdiction based on a cause of action arising under federal antitrust law, Christianson’s claims depended largely on whether Colt’s patents were valid. When the district court granted Christianson’s motion for summary judgment, it invalidated nine of Colt’s patents.

Colt appealed the decision to the Federal Circuit on the ground that the summary judgment decision required the resolution of a patent law issue, the validity of Colt’s patents. After a jurisdictional dispute between the Federal Circuit and the Seventh Circuit, the Supreme Court held that the Federal Circuit lacked appellate jurisdiction because the patent law issue was not necessary to the overall success of the claim. Drawing on the reasoning of the well-pleaded complaint rule, the Court stated that in order to “arise under” federal patent law, either patent law must create the cause of action, or the theory of recovery must depend on the resolution of a patent law question. Accordingly, the Court stated that neither a

obtained through employment with Colt. After leaving Colt in 1975, Christianson started selling M16 parts through his own business, International Trade Services, and obtained waivers regarding some of Colt’s trade secrets covered by the employment agreement. Colt answered with a defense asserting that its conduct was justified based on a need to protect trade secrets, and also included various counterclaims alleging misappropriation of proprietary information.

Christianson’s theories for recovery were premised on the argument that Colt’s patents were invalid for failure to satisfy the enablement and best mode requirements of 35 U.S.C. § 112. Specifically, Christianson argued that the patents were invalid for failure to disclose the information retained as trade secrets. Christianson further argued that, as a result of Colt benefiting from patents that were invalid due to the failure to disclose trade secrets, the court should treat the situation as if Colt had disclosed the information to the public, thereby invalidating the trade secrets. In sum, the theory for invalidating Colt’s trade secrets was dependent on finding Colt’s patents invalid.

Believing that it lacked jurisdiction, the Federal Circuit originally transferred the case to the Seventh Circuit. Refusing to accept jurisdiction, the Seventh Circuit then sent the case back to the Federal Circuit.
case containing a defense sounding in patent law nor one in which patent law was the basis for one of alternative theories of recovery would satisfy the "arising under" requirement of § 1338.  

Although a concurrence favored a more flexible application of the well-pleaded complaint rule, the majority's reasoning echoed the teachings of the well-pleaded complaint rule, and foretold a restriction on the Federal Circuit's appellate jurisdiction.

b. Aerojet: A Modified Well-Pleaded Complaint Rule

After Christianson, it appeared that a patent counterclaim would not establish a claim "arising under" patent law and thus would not confer appellate jurisdiction on the Federal Circuit. This perception proved unfounded in Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd. In January of 1987, Aerojet-General Corp. (Aerojet) filed a complaint against Machine Tool Works, Oerlikon-Buehrle Ltd. (MTW) in federal district court, alleging, among other things, unfair competition and seeking a declaratory judgment that Aerojet had not misappropriated MTW's trade secrets. The federal district court exercised original jurisdiction based on both federal question and diversity jurisdiction. In response, MTW filed a compulsory counterclaim containing two counts

94. Christianson, 486 U.S. at 809-10.
95. See id. at 822-24 (Stevens, J., concurring) (explaining that, in light of Congress's intent of unifying patent law and removing technically difficult cases from the purview of the circuit courts, it would be illogical to deny the Federal Circuit jurisdiction over amended complaints).
96. See Donofrio & Donovan, supra note 31, at 1837-38 (stating that the Christianson decision seemed to indicate that the Federal Circuit's jurisdiction would be governed by the well-pleaded complaint rule).
97. Although the Court did not explicitly address the jurisdictional issue in the context of patent counterclaims, the Court held that the Federal Circuit lacked jurisdiction over the case because a claim "arising under" patent law did not appear on the face of the plaintiff's complaint. Christianson, 486 U.S. at 809.
98. 895 F.2d 736, 745 (1990) (en banc) (holding that the well-pleaded complaint rule does not restrict the Federal Circuit's jurisdiction over compulsory patent counterclaims).
99. Id. at 737-38.
100. Id. at 738. The presence of a federal question was grounded on the declaratory judgment that Aerojet had not misappropriated trade secrets and, therefore, had not violated 28 U.S.C. § 2201. Id. at 737, 738 n.1.
101. Recall that a compulsory counterclaim means that the claim "arises out of the transaction or occurrence that is the subject matter of the opposing party's claim." FED. R. CIV. P. 19(a); see supra note 49.
of patent infringement.\textsuperscript{102} After the district court ordered arbitration of all the claims, Aerojet filed an interlocutory appeal to the Federal Circuit, which necessitated a determination of whether subject matter jurisdiction existed under § 1295.\textsuperscript{103} This required the Federal Circuit to confront the specific issue of whether the Supreme Court's decision in Christianson allowed the Federal Circuit to exercise appellate jurisdiction over a case in which the district court's original jurisdiction was not based on § 1338, but where there was a counterclaim that would have conferred § 1338 jurisdiction on the district court "if the counterclaim had been a complaint."\textsuperscript{104}

Notwithstanding the Christianson decision, the Federal Circuit concluded that it had exclusive jurisdiction over compulsory patent counterclaims regardless of whether a patent claim appeared in the complaint.\textsuperscript{105} In distinguishing Christianson, the Federal Circuit explained that Christianson merely held that patent issues would not create appellate jurisdiction under § 1295 and, consequently, had no binding effect on patent claims appearing in a nonfrivolous counterclaim.\textsuperscript{106} Although the court recognized the utility of the principles of the well-pleaded complaint rule in separating patent law claims from patent law issues, the Federal Circuit did not interpret Christianson as a mandate for a rigid application of this rule.\textsuperscript{107}

In support of this contention, the court emphasized Congress's goal of instilling uniformity in the application of the patent laws\textsuperscript{108} and highlighted Supreme Court precedent indicating that flexibility and pragmatism should be the focus of jurisdictional inquiries.\textsuperscript{109} Additionally, the court noted that given the purpose of the well-pleaded complaint rule to avoid

\textsuperscript{102} Aerojet, 895 F.2d at 738.
\textsuperscript{103} The Federal Circuit granted an interlocutory appeal pursuant to 28 U.S.C. § 1292. \textit{Id}. As a result of the predication of § 1292 on whether the Federal Circuit would have jurisdiction had the appeal been based on § 1295, the Federal Circuit first had to determine if it would have jurisdiction under § 1295. \textit{Id}. at 738 n.2.
\textsuperscript{104} \textit{Id}. at 738.
\textsuperscript{105} \textit{Id}.
\textsuperscript{106} \textit{Id}.
\textsuperscript{107} \textit{Id}. See \textit{id}.
\textsuperscript{108} \textit{Id}. at 744-45 (explaining that Congress intended to create uniform patent law and reduce the pervasive forum shopping among the circuit courts through the creation of the Federal Circuit).
\textsuperscript{109} \textit{See id}.
"potentially serious federal-state conflicts,"\(^{110}\) in the unique appellate context created by § 1295, it seemed illogical to distinguish between a well-pleaded claim labeled as a complaint and a well-pleaded claim labeled as a counterclaim.\(^{111}\) Finally, although the legislative history of § 1295 stated that cases would be within the Federal Circuit's jurisdiction "in the same sense that cases are said to 'arise under' federal law for purposes of federal question jurisdiction,"\(^{112}\) the court explained that counterclaims had been used frequently to establish federal question jurisdiction.\(^{113}\)

c. Post-Aerojet: Expansion of a Modified Well-Pleaded Complaint Rule

After Aerojet, the Federal Circuit continued to apply a relaxed version of the well-pleaded complaint rule to its jurisdiction inquiries.\(^{114}\) Other circuit courts also cited the Aerojet decision with approval.\(^{115}\) Nine years after Aerojet, in DSC Communications Corp. v. Pulse Communications, Inc., the Federal Circuit further expanded its jurisdiction by holding that, in addition to compulsory counterclaims, it also had appellate jurisdiction over permissive counterclaims.\(^{116}\)

\(^{110}\) Id. at 743 (quoting Franchise Tax Bd. v. Constr. Laborers Vacation Trust, 463 U.S. 1, 10 (1983)).

\(^{111}\) See id. at 742 (implying that in the appellate context there is not a dispute between federal and state jurisdiction).

\(^{112}\) Id. (quoting H.R. REP. 97-312, at 41 (1981), microformed on CIS No. 81-H523-22 (Cong. Info. Serv.)).

\(^{113}\) See id. at 742-43 (citing cases indicating that a counterclaim provides an independent basis for federal jurisdiction after the complaint is dismissed).

\(^{114}\) See infra notes 115-16 and accompanying text.

\(^{115}\) U.S. Valves, Inc. v. Dray, 190 F.3d 811, 813 n.6, 815 (7th Cir. 1999); Denbicare U.S.A. Inc. v. Toys "R" Us, Inc., 84 F.3d 1143, 1147 (9th Cir. 1996). Incidentally, it was with the Seventh Circuit that the Federal Circuit had its jurisdictional dispute in Christianson. See supra note 91 and accompanying text.

\(^{116}\) 170 F.3d 1354, 1359 (Fed. Cir. 1999) ("[A]ny counterclaim raising a nonfrivolous claim of patent infringement is sufficient to support this court's appellate jurisdiction."), cert. denied, 528 U.S. 923 (1999). See supra note 49 (distinguishing a compulsory counterclaim from a permissive counterclaim).
II. REINING IN THE SUBJECT MATTER JURISDICTION OF THE FEDERAL CIRCUIT
AND THE HOLMES FALL-OUT

Until recently, federal courts appeared resolute that, regardless of whether a patent claim was present in the complaint, the Federal Circuit had appellate jurisdiction over cases containing a patent counterclaim. In June 2002, however, in *Holmes Group, Inc. v. Vornado Air Circulation Systems*, the Supreme Court overruled all precedent subscribing to this notion by holding that the Federal Circuit did not have jurisdiction over a case containing a compulsory patent counterclaim unless a patent claim was also present on the face of the plaintiff's complaint. The ramifications of *Holmes* extend beyond the issue of the Federal Circuit's appellate jurisdiction due to the predication of the Federal Circuit's jurisdiction on the existence of original jurisdiction in the federal district court. In response to *Holmes*, one state court has already retained jurisdiction over a copyright counterclaim, indicating that it is only a matter of time before a state court retains jurisdiction over a patent counterclaim.

At the time of the litigation in *Holmes*, Vornado Air Circulation Systems, Inc. (Vornado) was a manufacturer of fans and heaters and had successfully prosecuted several patents pertaining to fans and heaters. In 1992, Vornado instigated a lawsuit alleging that Duracraft infringed Vornado's trade-dress relating to a "spiral grill design." On appeal, the Tenth

117. See supra Part I.B.3.b, c (explaining that the Federal Circuit interpreted § 1295 as conferring exclusive jurisdiction over all cases having a compulsory or permissive patent counterclaim).

118. 122 S. Ct. 1889, 1893-95 (2002).

119. Green v. Hendrickson Publishers, Inc., 770 N.E.2d 784, 790-94 (Ind. 2002) (following the reasoning of *Holmes* and holding that a state court may exercise jurisdiction over a copyright counterclaim when the complaint lacks a well-pleaded copyright claim); see also infra notes 150-51 and accompanying text.

120. Section 1338 governs exclusive federal jurisdiction over both patents and copyrights. See supra text accompanying note 41.

121. *Holmes Group*, 122 S. Ct. at 1892.

122. See Vornado Air Circulation Sys., Inc. v. Duracraft Corp., 58 F.3d 1498 (10th Cir. 1995).

Circuit held that Vornado did not have enforceable trade-dress rights in the grill design.\(^\text{124}\) In spite of the *Duracraft* decision, Vornado filed a complaint with the International Trade Commission (ITC) in 1999, alleging that The Holmes Group, Inc. (Holmes Group) infringed both its patent and the same trade-dress that the Tenth Circuit had previously held unenforceable in *Duracraft*.\(^\text{125}\) In response to the ITC filing, the Holmes Group filed a declaratory judgment in federal district court seeking a ruling that it did not infringe Vornado’s trade-dress.\(^\text{126}\) Vornado’s answer contained a compulsory counterclaim for patent infringement.\(^\text{127}\) The district court held that collateral estoppel\(^\text{128}\) prevented Vornado from relitigating its trade-dress rights and stayed the proceedings relating to the counterclaim.\(^\text{129}\) Vornado appealed the decision to the Federal Circuit.\(^\text{130}\) After dismissing the Holmes Group’s challenge to the Federal Circuit’s jurisdiction, the court vacated the district court’s decision and remanded the case.\(^\text{131}\) Subsequently, the Holmes Group appealed to the Supreme Court, specifically challenging the appellate jurisdiction of the Federal Circuit.\(^\text{132}\)

The issue before the Court was whether “the Federal Circuit has appellate jurisdiction over a case in which the complaint does not allege a claim arising under federal patent law, but the answer contains a patent-law counterclaim.”\(^\text{133}\) More specifically, because § 1295 is predicated on § 1338, the Court had to determine if a counterclaim “arises under” patent law.\(^\text{134}\) In concluding that a counterclaim could not “arise under” patent law, the Court explained that allowing a counterclaim to satisfy the requirements of the well-pleaded complaint rule would undermine the established policies that

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\(^{124}\) *Holmes Group*, 122 S. Ct. at 1892.
\(^{125}\) *Id.*
\(^{126}\) *Id.*
\(^{127}\) *Id.*
\(^{129}\) *Holmes Group*, 122 S. Ct. at 1892.
\(^{130}\) *Id.*
\(^{131}\) *Id.*
\(^{132}\) *Id.*
\(^{133}\) *Id.* at 1893.
the rule was designed to protect. First, it would undermine the notion that the plaintiff is the "master of the complaint" by allowing the defendant to remove a case to a federal court based on a counterclaim filed in state court. Second, allowing removal based on a federal counterclaim filed in state court would not properly respect the sovereignty of state courts. Third, if counterclaims could be used to determine jurisdiction, the well-pleaded complaint rule would no longer serve as a "quick rule of thumb" in determining jurisdiction at the inception of a lawsuit.

The Court also rejected the argument that an exception should be created that allows the Federal Circuit to exercise appellate jurisdiction over patent counterclaims. As in Christianson, the Court emphasized that "[l]inguistic consistency" required interpreting § 1338 in the same manner as § 1331. Moreover, in executing its task of deciphering "what the words of the statute must fairly be understood to mean," the Court did not think it appropriate to consider Congress's objectives in enacting the statute. Although conceding that its prior decisions did not explicitly reach the issue of whether a counterclaim is sufficient to create federal question jurisdiction, the Court concluded that the only fair meaning of "arising under" in § 1338 was that of the well-pleaded complaint rule. As emphasized by the Court, this means the Federal Circuit's appellate jurisdiction is limited to cases in which the plaintiff stated a claim "arising under"

135. Id. at 1894.
136. Id.
137. Id.
138. Id.
139. Id. at 1894-95.
140. Id. at 1893 (alteration in original) (quoting Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 808 (1988)).
141. Id. at 1895.
142. Id. at 1893.
143. Id. at 1895. While arriving at the same conclusion, some members of the Court departed from this rigid application of the well-pleaded complaint rule in cases involving patent law. For example, Justice Stevens thought the Federal Circuit's jurisdiction should be limited to situations in which the patent claim appeared in either the plaintiff's original complaint or the plaintiff's amended complaint. Id. at 1896-97 (Stevens, J., concurring). More notably, Justices Ginsburg and O'Connor thought the Federal Circuit's jurisdiction should simply be limited to claims actually adjudicated by a federal district court. Id. at 1896 (Ginsburg, J., concurring). At the district court level, the proceedings were stayed before the patent counterclaim was actually litigated. Id. at 1892.
patent law.\textsuperscript{144}

III. IN ARRIVING AT A "FAIR UNDERSTANDING" OF "ARISING UNDER" THE COURT IGNORED ESTABLISHED PRECEDENT, LEGISLATIVE INTENT, AND PUBLIC POLICY

In \textit{Holmes}, the Supreme Court decided two issues. First, with respect to § 1331,\textsuperscript{145} a counterclaim grounded in federal law will not create a federal question due to the meaning that the well-pleaded complaint rule attributes to "arising under."\textsuperscript{146} Second, "arising under," in the context of § 1338, must be interpreted in an identical manner as § 1331.\textsuperscript{147} As a result, a patent counterclaim will not "arise under" patent law for purposes of the Federal Circuit's appellate jurisdiction.\textsuperscript{148} Although the Court did not explicitly hold that a state court may exercise jurisdiction over a patent counterclaim, such a conclusion was necessarily implicated by the \textit{Holmes} decision.\textsuperscript{149} In rejecting the Federal Circuit's jurisdiction, the Court reasoned that it would be "an unprecedented feat of interpretive necromancy" to interpret § 1338 in one manner for the Federal Circuit's jurisdiction and in another manner for the jurisdiction of the district courts.\textsuperscript{150} This suggests that federal district courts only have jurisdiction over a patent claim when it is present on the face of the plaintiff's well-pleaded complaint.\textsuperscript{151}

In concluding that "arising under" must be interpreted identically in § 1331 and § 1338, the Court adhered to its task of deciphering what "the words of the statute must fairly be
understood to mean." The Court indicated that Congress's choice to use "arising under" in a statute established "strong evidence" that Congress intended to invoke the well-pleaded complaint rule. Although the use of similar or identical language in multiple statutes may provide strong evidence of intent to enact similar meaning, the Court overlooked an important point: "Strong evidence" is not conclusive evidence. Even strong evidence can be rebutted, and a proper analysis of (1) precedent, (2) legislative intent, and (3) public policy reveals that Congress did not intend to invoke the Court's rigid interpretation of the well-pleaded complaint rule when it enacted § 1295.

A. **HOLMES IGNORED FEDERAL AND STATE COURT PRECEDENT**

The Court's holding in *Holmes* overruled decades of federal and state case law. In its decision, the Court stated that it is "well established that 'arising under any Act of Congress relating to patents' invokes, specifically, the well-pleaded complaint rule." Given the Court's prior holding in *Christianson*, this statement alone is not surprising or unsettling. The Court's conclusion that patent counterclaims do not arise under patent law, however, is a startling, rigid application of the well-pleaded complaint rule that was not "well-established," but unprecedented. The decision ignored

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152. *Holmes Group*, 122 S. Ct. at 1895 (emphasis added).
153. *Id.* (citing Coastal States Mktg., Inc. v. New England Petroleum Corp., 604 F.2d 179, 183 (2d Cir. 1979)).
155. At the federal level, the decision primarily overruled precedent regarding the exclusive appellate jurisdiction of the Federal Circuit over patent counterclaims. See supra notes 79-81, 97-116 and accompanying text (describing how courts interpreted § 1295 as conferring exclusive jurisdiction on the Federal Circuit over compulsory and permissive patent counterclaims); supra notes 51-52 and accompanying text (indicating that the Federal Circuit also did not consider state courts to have jurisdiction over patent counterclaims). At the state level, the decision overruled long standing precedent that state courts do not have jurisdiction over counterclaims based on patent or copyright law. See supra note 54 and accompanying text.
157. See *Christianson* v. Colt Indus. Operating Corp., 486 U.S. 800, 809-10 (1988) (explaining that a case does not arise under patent law unless patent law creates the cause of action or the theory of recovery necessarily depends on an issue of patent law).
158. *Holmes Group*, 122 S. Ct. at 1893 (admitting that the Court had not
years of contrary case law indicating that counterclaims, at least in patent cases, arise under federal law.\textsuperscript{159}

*Christianson* did not require the strict interpretation of the well-pleaded complaint rule applied in *Holmes*. Although in *Christianson* the Court held that § 1338 jurisdiction should only extend to cases in which a patent law claim appears on the face of the plaintiff's well-pleaded complaint,\textsuperscript{160} the jurisdictional dispute was limited to issues relating to the plaintiff's complaint\textsuperscript{161} and did not reach the unique jurisdictional issues presented by patent counterclaims.\textsuperscript{162} In *Christianson*, the well-pleaded complaint rule served as an administrative tool for determining whether the plaintiff's claim required the application of patent law, or if patent law merely constituted one of multiple theories of recovery.\textsuperscript{163} While administratively useful for determining the legal basis of a claim, such an application of the well-pleaded complaint rule does not dictate a conclusion that only the complaint can establish a claim that "arises under" patent law.

Prior to *Holmes*, the Federal Circuit's case law—which had not construed the well-pleaded complaint rule to bar jurisdiction over a nonfrivolous patent counterclaim\textsuperscript{164}—reflected an appreciation of this administrative purpose of the well-pleaded complaint rule. In *Aerojet*, the Federal Circuit interpreted *Christianson* as stating the proposition that the well-pleaded complaint rule "focuses on claims, not theories."\textsuperscript{165} The Federal Circuit correctly recognized that, although the well-pleaded complaint rule "helps ferret out claims from issues," it "says nothing about whether such separation should

\textsuperscript{159} *Id.* at 1896 (Stevens, J., concurring) (pointing out that the majority ignored "well-reasoned precedent supporting" federal jurisdiction over compulsory patent counterclaims).

\textsuperscript{160} *Christianson*, 486 U.S. at 808-09.

\textsuperscript{161} *Id.* at 805-07; see supra note 88 and accompanying text (discussing how the plaintiff's claims were premised on the validity of Colt's patents).

\textsuperscript{162} The patent counterclaim jurisdictional issues are unique given Congress's explicit intent of fostering uniformity in patent law through the creation of a specialized federal court of appeals. See supra notes 66-69 and accompanying text.

\textsuperscript{163} *Christianson*, 486 U.S. at 811-12.

\textsuperscript{164} See supra Part I.B.3.b, c.

\textsuperscript{165} *Aerojet-General Corp. v. Mach. Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 742 (Fed. Cir. 1990) (quoting *Christianson*, 486 U.S. at 801).
be made only on the basis of the original complaint.\textsuperscript{166} This interpretation was also consistent with the Federal Circuit's original holding in Christianson, where the Federal Circuit, like the Supreme Court, did not find subject matter jurisdiction.\textsuperscript{167} Consequently, although the Federal Circuit incorporated principles of the well-pleaded complaint rule into its jurisdictional case law, its application proved to be more expansive to decipher claims from issues.\textsuperscript{168}

Although Holmes concerned the Federal Circuit's appellate jurisdiction, the Court suggested that § 1338 had never been interpreted as depriving state courts of jurisdiction over patent counterclaims.\textsuperscript{169} This assertion was striking because the Court ignored over forty years of state court practice transferring cases containing patent counterclaims to the federal courts.\textsuperscript{170} Granted, on federal matters the Supreme Court's decisions are the law of the land,\textsuperscript{171} but an assertion in stark contrast to established state precedent seems at least deserving of a footnote. The Court apparently failed to consider the ramifications of the Holmes decision on state courts.\textsuperscript{172}

Finally, at least in the limited context of appellate jurisdiction, Justices Ginsburg and O'Connor agreed with the Federal Circuit's interpretation of the well-pleaded complaint rule in Aerojet.\textsuperscript{173} Justice Ginsburg indicated that the only

\textsuperscript{166.} Id. (quoting Christianson, 486 U.S. at 820 n.1 (Stevens, J., concurring)).

\textsuperscript{167.} Christianson, 822 F.2d at 1553-59 (explaining that the principles of the well-pleaded complaint rule apply to § 1338, and thus the Federal Circuit lacks jurisdiction when the patent law issues arise only in anticipation of a defense or are otherwise not the basis of the claim).

\textsuperscript{168.} See supra Part I.B.3.b, c.

\textsuperscript{169.} See Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 122 S. Ct. 1889, 1895 (2002) (implying that state courts are not deprived of jurisdiction over patent counterclaims because § 1338 must be interpreted in accordance with the well-pleaded complaint rule).

\textsuperscript{170.} See supra note 54 and accompanying text.

\textsuperscript{171.} All federal courts are inferior to the Supreme Court. U.S. CONST. art. III, § 1. Additionally, federal law prevails over state law due to the Supremacy Clause. U.S. CONST. art. VI, § 1, cl. 2.

\textsuperscript{172.} For example, the Court did not consider whether the state court practice of transferring patent cases to the federal district courts reflected a lack of desire to adjudicate such cases. If, as the Court suggests, "arising under" in § 1338 clearly invokes the well-pleaded complaint rule, it is difficult to explain the long-standing state court practice of transferring cases containing patent or copyright counterclaims to the federal courts. See supra note 54.

\textsuperscript{173.} See Holmes Group, 122 S. Ct. at 1898 (Ginsburg, J., concurring).
reason she agreed with the outcome was because a patent claim was not actually adjudicated.\textsuperscript{174} This suggests that if the district court had adjudicated the patent counterclaim, Justice Ginsburg would have found exclusive appellate jurisdiction in the Federal Circuit based “in whole or in part” on § 1338.\textsuperscript{175} The special circumstances underlying the creation of the Federal Circuit, however, were largely responsible for the concurrence’s departure from the majority’s reasoning.\textsuperscript{176} Additionally, Justice Ginsburg noted that the case involved only a question of jurisdictional authority among the Federal Circuit and the other federal courts of appeals, and not any question of the plaintiff’s choice of forum.\textsuperscript{177} Based on these comments, it appears Justices Ginsburg and O’Connor would likely agree that § 1338 does not deprive a state court from entertaining a patent counterclaim.

Although the Court may cast the \textit{Holmes} decision as a logical application of the well-pleaded complaint rule and a mere extension of its prior holding in \textit{Christianson}, the decision is in direct conflict with established federal and state court precedent.\textsuperscript{178} On multiple occasions the Federal Circuit exercised jurisdiction over cases in which the only patent claim appeared in the counterclaim.\textsuperscript{179} State courts also had a practice of transferring cases containing a patent or copyright counterclaim to the federal district courts.\textsuperscript{180} In reaching a fair understanding of “arising under,” the Court did not properly consider the precedential significance of these cases.

\textsuperscript{174} \textit{Id.} (Ginsburg, J., concurring). Recall that in \textit{Holmes}, the district court had stayed the proceedings relating to the counterclaim. \textit{Supra} note 129 and accompanying text.
\textsuperscript{176} \textit{See} Holmes Group, 122 S. Ct. at 1898 (Ginsburg, J., concurring) (citing Dreyfuss, \textit{supra} note 62, at 30-37, and explaining that Congress created the Federal Circuit in an attempt to “eliminate forum shopping and to advance uniformity in the interpretation and application of federal patent law”).
\textsuperscript{177} \textit{Id.}
\textsuperscript{178} \textit{See} \textit{supra} notes 54, 79-81, 97-98, 115-16 and accompanying text.
\textsuperscript{179} \textit{See} \textit{supra} notes 79-80, 98, 116 and accompanying text.
\textsuperscript{180} \textit{See} \textit{supra} note 54 and accompanying text.
B. HOLMES DOES NOT REFLECT THE LEGISLATIVE INTENT OF THE FCIA

The legislative history of the Federal Courts Improvement Act (FCIA) suggests that Congress intended a nonfrivolous counterclaim to invoke exclusive federal jurisdiction under § 1338, in both the original and appellate jurisdictional contexts. Unfortunately, the clarity of the evidence is obscured by the inclusion of one particular statement: “Cases will be within the jurisdiction of the Court of Appeals for the Federal Circuit in the same sense that cases are said to ‘arise under’ federal law for purposes of federal question jurisdiction.”

The Court has interpreted this statement as evidence that Congress intended the Federal Circuit’s jurisdiction to be governed by the well-pleaded complaint rule. Extending this interpretation to preclude exclusive jurisdiction over patent counterclaims, however, is unfounded for three reasons: (1) it promotes Congress’s knowledge of legal doctrine to an unwarranted status; (2) it considers the statement out of context; and (3) other legislative evidence suggests that when Congress enacted the FCIA, it assumed § 1338 conferred exclusive original jurisdiction over patent counterclaims on the federal district courts.

First, even if Congress intended “arising under” in § 1338 to have the identical meaning as in § 1331 when it enacted the FCIA, no federal authority had ruled on the issue of counterclaims in the § 1331 context. Consequently, although the Holmes opinion contends that it is an obvious corollary of Supreme Court case law that a counterclaim is insufficient to establish “arising under” jurisdiction, it is not reasonable to assume that Congress had such legal insight when it enacted § 1295. Similarly, it is also unreasonable to assume that

183. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 122 S. Ct. 1889, 1893 (2002) (explaining that to date, although the Court had used the well-pleaded complaint rule to establish that a defense could not arise under federal law, the rule had not been applied to a counterclaim).
184. Id. at 1894.
185. In 1983, the Court noted that a single definition of “arising under” had not been established. Franchise Tax Bd. v. Constr. Laborers Vacation Trust, 463 U.S. 1, 8 (1983); see Donofrio & Donovan, supra note 31, at 1841 (stating that a definition of “arises under” has consistently eluded courts).
Congress had such legal insight when it enacted § 1338. Because it is likely that Congress did not know how the courts would interpret counterclaim jurisdiction in the § 1331 context, the Court should have considered the collective legislative history in determining the § 1338 meaning of "arising under."

Second, the context of the "arising under" statement in the legislative history indicates that Congress was simply concerned with the disposition of frivolous or otherwise unfounded patent claims, and in no way intended to deprive the federal courts of jurisdiction over a well-pleaded patent counterclaim. The reference to federal question jurisdiction was made to alleviate concerns that "specious and peripheral patent claims" would give the Federal Circuit jurisdiction over cases that were otherwise governed by a non-patent area of the law. This indicates that Congress believed the "arising under" requirement would simply prevent a party from manipulating the disposition of a case on appeal by pleading frivolous patent claims or raising patent law issues in the trial court. Additionally, Congress explained that § 1338 created a substantial jurisdictional requirement, and that "[i]mmaterial, inferential, and frivolous allegations of patent questions" would not confer original jurisdiction in the district court, and therefore would also not establish appellate jurisdiction in the Federal Circuit. This again illustrates that Congress's motivation was only to ensure that mere patent law issues or frivolous patent claims would not "arise under" patent law.

Finally, other legislative evidence suggests that Congress intended the district courts to have subject matter jurisdiction over a nonfrivolous patent counterclaim. During the enactment of the FCIA, Congress explained the gate-keeping role of the district courts in distinguishing frivolous and nonfrivolous patent claims: "Federal district judges are encouraged... to ensure the integrity of the jurisdiction of the federal court of

186. Although Congress enacted § 1338 in 1948, the "arising under" language dates back to the Revised Statutes of 1874. See Chung, supra note 42, at 721.
188. See Hale, supra note 35, at 263 (explaining that Congress only intended § 1295 to preclude issue jurisdiction).
appeals by separating final decisions on claims involving substantial antitrust issues from trivial patent claims, counterclaims, cross-claims, or third party claims raised to manipulate appellate jurisdiction.\textsuperscript{190} This indicates that Congress believed the district courts to have jurisdiction over non-trivial patent counterclaims. Otherwise it would have only been necessary for Congress to state that the district courts should separate final decisions on antitrust issues from trivial patent claims.\textsuperscript{191}

Although Congress stated that § 1338 should be interpreted in the same manner as § 1331, when considered collectively, the foregoing arguments indicate that Congress did not intend to deprive the federal district courts, and thus the Federal Circuit, of § 1338 jurisdiction over patent counterclaims. In particular, the reference to § 1331 lacks significance in the counterclaim jurisdictional context because the Court only recently addressed the issue of counterclaim jurisdiction in the Holmes decision. It would be unreasonable to assume that Congress had the foresight required to anticipate the Court’s interpretation. Such lack of foresight is reflected in statements in the legislative history of the FCIA suggesting that nonfrivolous patent counterclaims would “arise under” patent law.\textsuperscript{192}

C. Holmes Threatens Public Policy

The Court’s distinction between patent claims appearing in a complaint and those appearing in a counterclaim also undermines public policy because it increases the likelihood of uncertainty and disparity in the application of patent law. With respect to federal appellate jurisdiction, directing appeals


\textsuperscript{191} Statements by Frank P. Cihlar, both an expert and a contributor to the FCIA, also support this contention that patent counterclaims have an independent jurisdictional basis, thereby giving the Federal Circuit jurisdiction based “in part” on § 1338. Judicial Conference, 94 F.R.D. 347, 404-05 (1982) (explaining that, by definition, a permissive counterclaim would have an independent jurisdictional basis, and suggesting that a compulsory counterclaim for patent infringement would too). In 1979, Cihlar was recruited to work on the FCIA as a member of the Improvements of Administration of Justice office. \textit{Id.} at 399. In addition to making the substantive legislative proposals, Cihlar acted as a liaison between Congress and the White House. \textit{Id.}

\textsuperscript{192} See \textit{supra} text accompanying notes 190-91.
that involve a patent counterclaim to the federal circuit courts conflicts directly with the specific FCIA objectives of creating uniformity and predictability in patent law.193 The Federal Circuit was created largely in reaction to the belief that the disparate application of patent law among the federal circuits and the resulting forum shopping weakened the patent system and hampered technological innovation.194 Allowing the federal circuit courts to render decisions on patent counterclaims hinders the effectiveness of Congress’s chosen solution. With respect to the state court ramifications of Holmes, given that Congress found impropriety in the adjudication of patent claims in the federal circuit courts, it is reasonable to assume that Congress would similarly find impropriety in state court adjudication of patent claims.

Although forum shopping may not appear to be an obvious result of Holmes, it is one of the major causes of the public policy concerns attributable to Holmes. The decision allows a manipulative plaintiff to avoid Federal Circuit review by carefully filing a claim that does not “arise under” patent law but is sufficiently related to a defendant's potential patent claim as to create a compulsory patent counterclaim.195 In such a situation, the defendant must file the patent counterclaim or forego bringing the claim in a subsequent proceeding.196 At the federal level, this will result in horizontal forum shopping among the district courts with the intent of litigating the case in a circuit favorable to the plaintiff’s position.197 Allowing state court jurisdiction over patent counterclaims only

193. See supra Part I.B.1, 2 (describing the circuit courts of appeals crisis prior to 1982 and Congress’s solution through enactment of the FCIA).
194. See H.R. REP. NO. 97-312, at 20, microformed on CIS No. 81-H523-22 (Cong. Info. Serv.); supra notes 60-68 and accompanying text.
195. Holmes presents one scenario of how this type of forum manipulation could occur. See supra notes 125-27 and accompanying text (describing how Vornado first filed a complaint with the ITC alleging patent and trade-dress infringement by the Holmes Group, and in response, the Holmes Group filed a declaratory judgment with respect to the trade-dress issue, thereby forcing Vornado to respond with a compulsory counterclaim for patent infringement); see also supra note 49 (describing the differences between a compulsory and permissive counterclaim).
196. See Mesker Bros. Iron Co. v. Donata Corp., 401 F.2d 275, 279 (4th Cir. 1968) (describing the consequences of foregoing a counterclaim in contract law); supra note 49.
197. See Thomas G. Slater Jr. & Tyler Maddry, Analysis with Holmes, Supreme Court Expands Patent Jurisdiction of Regional Circuits and States, PAT. STRATEGY & MGMT., Nov. 2002, LEXIS, Secondary Legal, Legal News File (explaining that the Holmes decision will increase forum shopping).
increases the forum-shopping possibilities; the manipulative plaintiff will have the opportunity to forum shop vertically between the state and federal trial courts, as well as horizontally among the state courts.

In the federal courts, for example, a plaintiff's antitrust or trade-dress claim may be intimately related to a defendant's potential claim for patent infringement.\(^\text{198}\) Therefore, the plaintiff could manipulate the judicial system by filing the complaint within the circuit believed most favorable to its position regarding the defendant's potential patent counterclaim. Similarly, a plaintiff could file a complaint based on state law in state court, that is logically related to a potential patent counterclaim.\(^\text{199}\) Because of the legal system's deference to the plaintiff's choice of forum, the defendant would not be able to remove the case to federal court based on the existence of a patent counterclaim.\(^\text{200}\) The defendant would consequently be forced to choose between bringing the cause of action as a counterclaim in state court or being precluded from asserting it in a subsequent case.\(^\text{201}\)

Especially considering that the Court does not seem to expect other circuit courts to apply Federal Circuit precedent,\(^\text{202}\) allowing patent counterclaims in federal circuit

\(^{198}\) See supra note 195; supra notes 99-102 and accompanying text (explaining how the compulsory counterclaim in \textit{Aerojet} arose out of the plaintiff's claim for misappropriation of trade secrets).


\(^{200}\) Franchise Tax Bd. v. Constr. Laborers Vacation Trust, 463 U.S. 1, 10 (1983) ("[A] defendant may not remove a case to federal court unless the plaintiff's complaint establishes that the case 'arises under' federal law.").

\(^{201}\) See supra note 49 (discussing the preclusive effects of not filing a compulsory counterclaim). Note that generally a state court adjudication is given preclusive effect in other state and federal district courts. The Constitution mandates that judgments of a state court be given preclusive effect in the other state courts. See U.S. \textit{CONST.} art. IV, § 1. The full faith and credit statute directs the federal courts to give preclusive effect to final decisions of the state courts. See 28 U.S.C. § 1738 (2000); Chung, \textit{supra} note 42, at 736. Neither the Supreme Court nor the Federal Circuit has explicitly addressed whether full faith and credit must be given to state court adjudications of patent claims. See Chung, \textit{supra} note 42, at 737-45. The Court has held however, that the same basic approach to the full faith and credit analysis applies both to exclusive and concurrent federal jurisdiction. See \textit{id.} at 741.

\(^{202}\) Dreyfuss, \textit{supra} note 62, at 57; see Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 122 S. Ct. 1889, 1898 (2002) (Stevens, J., concurring) (supporting the outcome by explaining how conflicting decisions of patent claims by other circuits will help the Court to identify areas of the law needing
courts presents a significant risk of unsettling the certainty that has been created by the Federal Circuit's jurisprudence. Increased uncertainty will likely engender forum shopping, which will in turn lead to multiple problems that Congress explicitly intended to solve through the FCIA. For instance, the commission responsible for the research underlying the FCIA found that reducing the prevalence of forum shopping would reduce the overall costs of litigation. Additionally, the commission found that a specialized appeals court would reduce the burden on the judicial system by decreasing the number of appeals. Most importantly, predictable patent law was believed to increase innovation, foster growth, and encourage investment in technological industries.

All of these policies would be undermined if a litigant has an opportunity to forum shop throughout the circuit courts. The cost of litigation will most likely increase because litigants will pursue appeals to the circuit courts that they would not have brought to the Federal Circuit. An increased number of appeals will correspondingly increase the burden on the courts of appeals. Perhaps worst of all, the decreased uniformity in the application of patent law will likely reduce investor confidence in the value of patents, which will in turn reduce clarification and will serve as a protection against institutional bias in the Federal Circuit.

203. See Hale, supra note 35, at 264 (explaining that, even if the other circuit courts were to apply Federal Circuit precedent, it is unlikely that the precedent will be applied consistently to complex patent issues).

204. See Maher, supra note 8, at B11 (stating that the Chief Judge of the Federal Circuit explained that Holmes is likely to reduce certainty in patent law and consequently increase forum shopping and devalue patents); supra note 61 and accompanying text (explaining how forum shopping resulted from the disparate application of patent law among the circuit courts).


206. Id.

207. Id. at 6; see also Moore, supra note 8, at 592-93.


209. See id. at 23 ("Removing the incentive to forum-shop also will reduce costs to litigants."); Moore, supra note 8, at 590.

210. See H.R. REP. No. 97-312, at 23, microformed on CIS No. 81-H523-33 (Cong. Info. Serv.) (explaining that uniformity in the application of patent law will reduce the number of appeals).

211. See id. at 22 (explaining how, prior to the adoption of the Federal Circuit, investors were skeptical of technological markets due to the geographical dependence upon the value of a patent); see also Moore, supra note 8, at 592 (stating that inefficiency and unpredictability in patent law
the overall incentive for innovation.\textsuperscript{212}

Although directing appeals to the federal circuit courts undermines the objectives of the FCIA, these public policy concerns are not as troubling as the implications of the Holmes decision on state court jurisdiction over patent counterclaims.\textsuperscript{213} Given the value and importance attributed to intellectual property, and patents in particular,\textsuperscript{214} allowing state courts to adjudicate patent claims poses substantial threats to the validity of the patent system and the incentive for technological innovation. Principally this is because allowing state courts to adjudicate patent disputes will decrease the stability of patent law\textsuperscript{215} and create forum-shopping opportunities.\textsuperscript{216} Even under the pre-Holmes interpretation of § 1295 and § 1338, exclusive federal jurisdiction had not created uniform case law in the federal district courts.\textsuperscript{217} Vastly increasing the possible number of independent courts competent of rendering decisions on patent claims will undoubtedly compound the uncertainty.\textsuperscript{218} Additionally, merely requiring the state courts to apply Federal Circuit law will not alleviate the public policy concerns due to

\textsuperscript{212} See H.R. Rep. No. 97-312, at 23, microformed on CIS No. 81-H523-33 (Cong. Info. Serv.) (indicating that as the uniformity in the application of patent law increases, businesses will more easily extract value from the patent system, which will in turn stimulate technological innovation and strengthen the national economy); Moore, supra note 8, at 592-93.

\textsuperscript{213} See Green v. Hendrickson Publishers, Inc., 770 N.E.2d 784, 792-93 (Ind. 2002) (explaining that the Holmes decision has overruled all established precedent that held that a state court lacked jurisdiction over a counterclaim based on § 1338).

\textsuperscript{214} See supra note 12 and accompanying text.

\textsuperscript{215} See supra note 10 and accompanying text. For example, commentators have suggested that the limited experience of the state courts in determining the scope of a patent will create significant disparate outcomes in state court adjudications. Chung, supra note 42, at 755.

\textsuperscript{216} See supra note 199 and accompanying text.

\textsuperscript{217} See Kimberly A. Moore, Are District Court Judges Equipped to Resolve Patent Cases?, 15 HARV. J.L. & TECH. 1, 11-12 (2001) (providing empirical evidence that the district courts misconstrue patent claims in over 25% of the cases); Moore, supra note 8, at 57 tbl.1 (presenting empirical evidence that forum shopping occurs in the federal district courts in patent cases); Karen Southwick, Murky Waters in the Gene Pool, FORBES, June 24, 2002, at 58 (explaining that genomics patents are of limited value due to “confusing court decisions”).

\textsuperscript{218} See Moore, supra note 8, at 592 (explaining that the “unpredictability in the legal system . . . intensifies as the number of potential jurisdictions in which to bring suit increases”).
Finally, setting the evils of forum shopping aside, commentators are skeptical of a state court unilaterally determining the validity, invalidity, or scope of a national property right.221

The uncertainty in the application of patent law by the federal circuit courts and state trial courts is the underlying cause of the aforementioned policy concerns.222 Most notably, a lack of certainty and predictability will inevitably result in forum shopping throughout the federal circuit courts and the state trial courts.223 Forum shopping in turn will likely cause still higher litigation costs, overburdened courts, and decreased investor confidence in the patent system.224 The risk of reducing confidence in the patent system is especially acute when a manipulative plaintiff forces a defendant to bring a patent counterclaim in an unfavorable forum.225 This is because the value of a patent is intimately related to the ability of its owner to enforce the exclusive right.226 Therefore, by depriving a counterclaimant of Federal Circuit review or of a federal forum entirely, the Holmes decision diminishes the value of patents and the overall incentive for technological innovation.


220. Forum shopping in patent cases is believed to increase the cost of litigation, increase the burden on the courts, and decrease technological innovation and business growth. See S. Rep. No. 97-275, at 5-6, reprinted in 1982 U.S.C.C.A.N. 11, 15-16. It also "conjures negative images of a manipulable legal system." Moore, supra note 8, at 561.

221. See Cooper, supra note 10, at 315 & n.3 (explaining a common supposition that a federal court is better equipped to handle a patent dispute); Donofrio & Donovan, supra note 31, at 1863 (explaining that there is also a concern that state judges may be more hostile to federal interests than federal judges).

222. See supra text accompanying notes 203-07.

223. See supra text accompanying notes 195-97, 204.

224. See supra notes 205-07 and accompanying text.

225. See supra notes 198-201 and accompanying text.

226. Moore, supra note 8, at 592.
IV. THE WELL-PLEADED PATENT COUNTERCLAIM RULE: A MODIFIED VERSION OF THE WELL-PLEADED COMPLAINT RULE

Congress should immediately consider legislation to remedy the result of the Holmes decision. Specifically, Congress should clarify that subject matter jurisdiction determinations over patent counterclaims require the application of a modified version of the well-pleaded complaint rule. This modified version—the well-pleaded patent counterclaim rule—must retain the principles of the well-pleaded complaint rule directed at disposing of frivolous claims without acting as a per se bar to legitimate patent claims appearing in a counterclaim instead of in a complaint. Under this modified standard, rather than dismissing a patent counterclaim simply based on the absence of a patent claim in the complaint, the court should apply the principles of the well-pleaded complaint rule to determine if the counterclaim consists of a nonfrivolous claim arising under patent law. Depending upon the stage of the litigation, the presence of a nonfrivolous patent counterclaim under the well-pleaded patent counterclaim rule will either direct an appeal from a federal district court to the Federal Circuit, or it will require the removal of a case originally filed in state court to a federal district court.

227. For an overview of the well-pleaded complaint rule, see supra note 36 and accompanying text.

228. For example, the modified version of the well-pleaded complaint rule would still focus on whether the resolution of a counterclaim required the application of patent law. See Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 810 (1988) (finding that the claim did not arise under patent law because resolution of the claim did not necessarily depend on the application of patent law).

229. See supra notes 106-07 and accompanying text (explaining the Federal Circuit's interpretation of the § 1338 "arising under" requirement).

230. At the appellate level, this modified version of the well-pleaded complaint rule is also applicable to counterclaims arising under plant variety protection law. 28 U.S.C. § 1295(a) (2000). If the issue concerns state or federal jurisdiction at the trial court level, then this analysis is also applicable to copyright counterclaims. Id. § 1338(a).

231. If a claim "arises under" patent or plant variety protection law, the Federal Circuit retains exclusive appellate jurisdiction. Id. § 1295(a).

232. The Jurisdiction of State Courts over Cases Involving Patents, 31 COLUM. L. REV. 461, 468 & n.39 (1931) (suggesting that if a patent question is raised by an answer during a state court proceeding, the entire case should be removed to federal court); see also Cooper, supra note 10, at 391 (stating that legislation should be enacted for “allowing removal to federal courts” whenever
The application of the well-pleaded patent counterclaim rule to determine subject matter jurisdiction over patent counterclaims is consistent with decades old precedent\textsuperscript{233} and with Congress's goal of creating certainty and predictability in patent law.\textsuperscript{234} This modification also does not substantially undermine the stated policies of the well-pleaded complaint rule.\textsuperscript{235} With respect to the Federal Circuit's appellate jurisdiction, the policy concern of protecting the plaintiff's forum choice is minimal because the plaintiff has already chosen a federal forum for the trial.\textsuperscript{236} Allowing the Federal Circuit to exercise jurisdiction over patent counterclaims would similarly not complicate the administrative process because the case already would be in federal district court with the only remaining issue concerning the direction of the appeal.\textsuperscript{237} State sovereignty concerns are similarly not present because the plaintiff would already have filed the case in federal district court.\textsuperscript{238}

The Court's policy concerns regarding original jurisdiction over patent counterclaims deserve more consideration. The concerns are outweighed, however, by Congress's intent to create uniform and predictable patent law.\textsuperscript{239} The Court's strongest argument is with respect to the plaintiff's choice of forum, since allowing a patent counterclaim to establish

\begin{itemize}
  \item \textsuperscript{233} See supra notes 50-54 and accompanying text; supra Part I.B.3.
  \item \textsuperscript{234} See supra notes 42, 66-69 and accompanying text (explaining Congress's intent of creating uniformity and predictability in the application of patent law); supra Part III.B, C (explaining how the rigid application of the well-pleaded complaint rule in Holmes undermines legislative intent and public policy).
  \item \textsuperscript{235} In Homes, the court stated that the well-pleaded complaint rule serves to preserve the plaintiff's forum choice, respects the independence of the sovereign states in adjudicating disputes, and serves as a "quick rule of thumb" in resolving conflicts of jurisdiction. See supra notes 135-38 and accompanying text.
  \item \textsuperscript{236} The issue in the appellate context concerns the direction of an appeal from the final decision of a federal district court, thus the plaintiff would have already filed suit in federal district court.
  \item \textsuperscript{237} Dreyfuss, supra note 62, at 36 (arguing that postponing the decision as to the direction of the appeal until all the pleadings are filed does not substantially burden the administrative process).
  \item \textsuperscript{238} Donofrio & Donovan, supra note 31, at 1863.
  \item \textsuperscript{239} See Hale, supra note 35, at 263 (stating that, given Congress's intent of creating uniformity of patent law, the Federal Circuit should not be bound by the well-pleaded complaint rule in determining if a case "arises under" patent law).
\end{itemize}
exclusive federal jurisdiction would deprive the plaintiff of its state court choice of forum.\textsuperscript{240} This concern is mitigated by the fact that the federal court will only exercise jurisdiction over a case in which the counterclaim is not frivolous.\textsuperscript{241} Additionally, limiting removal to compulsory counterclaims would further protect the plaintiff's forum choice.\textsuperscript{242} Therefore, the defendant would not be able to invoke a counterclaim simply to remove the case from state to federal court.\textsuperscript{243}

The second concern the Court voiced is that exclusive federal jurisdiction over counterclaims would disrespect the sovereignty of the state courts in which the complaint was originally filed.\textsuperscript{244} This argument is undermined due to Congress's grant of exclusive jurisdiction to the federal courts.\textsuperscript{245} In the case of patent law, Congress has decided that the public interest in uniform and predictable law is important enough to preempt concurrent jurisdiction.\textsuperscript{246} The state practice prior to the \textit{Holmes} decision of transferring cases involving § 1338 counterclaims to the federal district courts

\begin{footnotes}
\item 240. \textit{Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.}, 122 S. Ct. 1889, 1894 (2002). The presence of a nonfrivolous patent counterclaim would require the removal of the case from state court to federal court. \textit{See supra} note 232 and accompanying text.

\item 241. The legislative history of the FCIA explicitly states that Congress did not intend the Federal Circuit, and thus the district courts, to have jurisdiction over frivolous patent claims or counterclaims. \textit{See supra} notes 189-90 and accompanying text.

\item 242. A party with a permissive patent counterclaim would be required to file the claim as an independent lawsuit in federal court. \textit{See supra} note 49 (explaining that a party is free to file a permissive counterclaim in a subsequent lawsuit).

\item 243. In the event that a federal district court determined a patent counterclaim to be frivolous after the removal from a state court, the federal district court should remand the case back to state court. Furthermore, if evidence substantiated that the defendant had filed the claim simply for the purposes of delay, or for an otherwise improper motive, the federal district court would have the option of imposing Rule 11 sanctions. \textit{FED. R. CIV. P.} 11(b)(1), (c).

\item 244. \textit{Holmes Group}, 122 S. Ct. at 1894.

\item 245. 28 U.S.C. § 1338(a) (2000).

\item 246. \textit{See supra} note 42 and accompanying text (explaining that the general consensus is that exclusive jurisdiction is intended to create uniformity and expertise in the application of patent law); \textit{cf. supra} notes 66-69 and accompanying text (explaining that Congress created exclusive appellate jurisdiction in the Federal Circuit to promote patent law uniformity). If Congress has not invoked exclusive jurisdiction, state and federal courts exercise concurrent jurisdiction. \textit{See supra} note 29 and accompanying text.
\end{footnotes}
also mitigates the concern regarding state sovereignty.\textsuperscript{247}

The objective of ensuring the quick disposition of jurisdictional disputes\textsuperscript{248} is also not substantially undermined by exclusive federal jurisdiction over patent, plant variety protection, or copyright counterclaims. Counterclaims will generally be brought in response to the plaintiff's pleadings, so a jurisdictional dispute will not occur late in trial. And, when a jurisdictional dispute does arise from a counterclaim, the principles of the well-pleaded complaint rule will still serve as a "quick rule of thumb"\textsuperscript{249} to determine if the counterclaim arises under patent, plant variety protection, or copyright law.

Admittedly, the strict application of the well-pleaded complaint rule in \textit{Holmes} more closely protects the stated policy concerns underlying the rule; however, the policy concerns are substantially weakened in the context of patent claims due to the legislative goal of creating uniform patent law. Congress placed the original jurisdiction over patent claims in the exclusive province of the federal district courts in order to create uniformity in the application of patent law.\textsuperscript{250} Congress also created the Federal Circuit, providing it with exclusive appellate jurisdiction over patent cases, to further increase the uniformity in patent law.\textsuperscript{251} In order to continue to foster a uniform and predictable body of patent law, Congress should enact legislation clarifying that § 1338 "arising under" does not bar exclusive federal jurisdiction over patent counterclaims. This well-pleaded patent counterclaim rule more clearly reflects Congress's intent regarding the exclusivity of federal jurisdiction in patent law while still ensuring that only nonfrivolous claims invoke the exclusive jurisdiction of the federal courts.

CONCLUSION

The strict textual analysis of "arising under" applied in the \textit{Holmes} decision to § 1338 "arising under" jurisdiction has created a doctrine not warranted by precedent, legislative history, or public policy. Most strikingly, the decision provides

\begin{itemize}
  \item \textsuperscript{247} See supra note 54; see also supra note 172 (suggesting that state courts may not even be interested in retaining jurisdiction over patent counterclaims).
  \item \textsuperscript{248} \textit{Holmes Group}, 122 S. Ct. at 1894.
  \item \textsuperscript{249} Id.
  \item \textsuperscript{250} See supra note 42 and accompanying text.
  \item \textsuperscript{251} See supra notes 66-69 and accompanying text.
\end{itemize}
a means by which a manipulative plaintiff can forum shop throughout both the federal circuit courts and the state trial courts. To remedy this result, Congress should enact legislation clarifying its intent that courts should apply a more expansive version of the well-pleaded complaint rule to § 1338 jurisdiction determinations. Under this well-pleaded patent counterclaim rule, the principles of the well-pleaded complaint rule would still determine if a counterclaim is nonfrivolous, but the rule would not serve as a per se bar against federal jurisdiction over patent counterclaims. The well-pleaded patent counterclaim rule would require the federal district courts to exercise exclusive original jurisdiction over patent counterclaims, and the Federal Circuit would consequently have exclusive appellate jurisdiction based “in part” on § 1338 over any appeal from the district court. Such a construction of § 1338 furthers Congress’s objective of creating uniformity and predictability in the application of patent law, thereby fostering technological innovation and economic stability.