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COUNTERCLAIMS, THE WELL-PLEADED COMPLAINT, AND FEDERAL JURISDICTION

*Christopher A. Cotropia**

INTRODUCTION

The United States Supreme Court recently decided, in *Holmes Group, Inc. v. Vornado Circulation Systems, Inc.*, that the United States Court of Appeals for the Federal Circuit's exclusive appellate jurisdiction over a case could not rest solely on a counterclaim for patent infringement.[1] This decision represented a significant departure from over ten years of established Federal Circuit patent law jurisprudence confirming that even if the only patent claim present in a case was a counterclaim, the Federal Circuit still had appellate jurisdiction.[2] Federal Circuit jurisdiction over such cases made sense, considering that the Federal Circuit was created by Congress to be the exclusive venue for patent appeals.[3] In reaction to the Supreme Court's decision in *Holmes*,

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* Associate Professor of Law, Tulane University School of Law. Thanks and appreciation to Michael Collins, Jonathan Nash, Rafael Pardo, and Ed Sherman for their helpful comments and suggestions regarding earlier drafts of this article. Additional thanks to my research assistant Andrea Caron. Special thanks, as always, to Dawn-Marie Bey.

1. 535 U.S. 826 (2002).
2. Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd., 895 F.2d 736, 742 (Fed. Cir. 1990).
3. Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 7 (1989).

many commentators have discussed this change in the Federal Circuit's appellate jurisdiction and its effects on patent law.[4]

Notably, none of these commentators have discussed the fundamental holding at the core of the Court's decision—that federal law counterclaims cannot form the sole basis for federal question jurisdiction.[5] This rule of law, arguably, is a natural application of the already established well-pleaded complaint rule. However, the *Holmes* decision's revisiting of how one determines "arising under" jurisdiction presents a much needed opportunity to reexamine how the contours of federal question jurisdiction is determined. Specifically, the well-pleaded complaint rule and its application to federal law counterclaims, which lay at the base of the *Holmes* decision, should be reconsidered. Such a discussion is needed, considering that regional circuit courts and district courts, before and after *Holmes*, have had to determine the proper scope of federal question jurisdiction in cases where the only federal law claim is presented in a counterclaim.[6] Even a state supreme court, after *Holmes*, has discussed the ramifications of the well-pleaded complaint rule as applied to counterclaims and the interrelationship between federal and state jurisdiction over a federal claim.[7]

The well-pleaded complaint rule's interaction with counterclaims has implications far beyond the Federal Circuit's jurisdiction over patent cases discussed by the Supreme Court in *Holmes*. The fact that

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4. *See, e.g.*, C.J. Alice Chen, Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc., 18 BERKELEY TECH. L.J. 141 (2003); Christopher A. Cotropia, *"Arising Under" Jurisdiction and Uniformity in Patent Law*, 9 MICH. TELECOMM. & TECH. L. REV. 253 (2003); Molly Mosley-Goren, *Jurisdictional Gerrymandering? Responding to* Holmes Group v. Vornado Air Circulation Systems, 36 J. MARSHALL L. REV. 1 (2002); Janice M. Mueller, *"Interpretive Necromancy" or Prudent Patent Policy? The Supreme Court's "Arising Under" Blunder in* Holmes Group v. Vornado, J. MARSHALL REV. INTELL. PROP. L. 57 (2002); Elizabeth I. Rogers, *The Phoenix Precedents: The Unexpected Rebirth of Regional Circuit Jurisdiction Over Patent Appeals and the Need for a Considered Congressional Response*, 16 HARV. J.L. & TECH. 411 (2003); *Report of the Ad Hoc Committee to Study* Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc., 12 FED. CIR. B. J. 713 (2003); Scott Amy, Note, *Limiting the Jurisdiction of the Federal Circuit: How* Holmes *Alters the Landscape of Patent Cases on Appeal*, 38 GA. L. REV. 429 (2003); Christian A. Fox, Comment, *On Your Mark, Get Set, Go! A New Race to the Courthouse Sponsored by* Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc., 2003 BYU L. REV. 331 (2003); Timothy E. Grimsrud, Comment, Holmes *and the Erosion of Exclusive Federal Jurisdiction Over Patent Claims*, 87 MINN. L. REV. 2133 (2003); Gentry Crook McLean, Note, Vornado *Hits the Midwest: Federal Circuit Jurisdiction in Patent and Antitrust Cases after* Holmes v. Vornado, 82 TEX. L. REV. 1091 (2004).

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

6. *See, e.g.*, Adkins v. Ill. Cent. R.R., 326 F.3d 828 (7th Cir. 2003); Integra Bank., N.A. v. Greer, No. IP 4:02-CV-244 B/H, 2003 WL 21544260 (S.D. Ind. June 26, 2003).

7. Green v. Hendrickson Publishers, Inc., 770 N.E.2d 784, 788 (Ind. 2002).

counterclaims cannot form an independent basis for federal question jurisdiction creates the following effects: First, the well-pleaded complaint rule prevents federal law counterclaims from establishing original jurisdiction under 28 U.S.C. § 1331. While federal law may create the cause of action set forth in a counterclaim, such a counterclaim does not meet the "arising under" test because it falls outside the well-pleaded complaint. A district court cannot use a federal law counterclaim as a jurisdictional hook. Second, the well-pleaded complaint rule does not allow federal law counterclaims to make a state case removable under 28 U.S.C. § 1441. A district court's original jurisdiction defines its removal jurisdiction, and, just as a federal law counterclaim cannot create original federal question jurisdiction, it cannot form the basis for removal jurisdiction. Finally, the well-pleaded complaint rule's impact on counterclaims limits some areas of exclusive federal jurisdiction. This is specifically the case where Congress defined exclusive jurisdiction to be the same as a federal court's "arising under" jurisdiction. A perfect example of such a definition is 28 U.S.C. § 1338(a), defining the exclusive jurisdiction of federal courts over patent and copyright cases. Patent and copyright counterclaims do not "aris[e] under" federal law, and therefore fall outside exclusive federal jurisdiction.

The implications of the well-pleaded complaint rule as applied to federal law counterclaims are many. By excluding federal law counterclaims, the well-pleaded complaint rule frustrates the purposes behind federal question jurisdiction. The rule hampers the uniformity furthered by federal question jurisdiction by creating situations where federal questions may be stuck in state courts—outside of the federal system. The legitimate interests of the parties to avail themselves of a federal forum are also upset. Both plaintiffs and defendants, under certain circumstances, may have legitimate reasons to seek the expertise of a federal court to adjudicate a federal law counterclaim. The rule as applied to counterclaims also leads to inefficiencies, particularly where the rule prompts forum shopping and gamesmanship on the part of plaintiffs and defendants.

This Article proceeds as follows: Part I of the Article begins by laying the statutory and constitutional foundation of "arising under" jurisdiction. The current connection between "arising under" jurisdiction and federal question jurisdiction is discussed. Part I also fully sets forth the well-pleaded complaint rule, and discusses removal jurisdiction, which is governed by the concept of "arising under" jurisdiction. As

necessary background to understanding the Court's reasoning in *Holmes* and why the case prompts a general discussion on federal jurisdiction implications, Part I concludes by defining a district court's jurisdiction over patent cases, the Federal Circuit's appellate jurisdiction over patent cases, and how these two areas of jurisdiction fit within the broader scheme of federal question jurisdiction. Part II of the Article focuses on the Court's decision in *Holmes* and the basic holding of the case. The immediate ramifications of the *Holmes* decision on the Federal Circuit's appellate jurisdiction are briefly discussed. Part II concludes by discussing what the Supreme Court said about the well-pleaded complaint rule in general in the *Holmes* decision.

Part III of the Article discusses the implication of the well-pleaded complaint rule on a federal court's original jurisdiction, removal jurisdiction, and exclusive federal jurisdiction over a federal law counterclaim. Part IV evaluates the policy implications of the well-pleaded complaint rule as applied to counterclaims. The rule's ability to frustrate the purposes behind federal question jurisdiction is discussed. In addition, how the rule can disturb a plaintiff's or defendant's legitimate interests and introduce inefficiency into the judicial process are examined. Part V of the Article discusses potential statutory solutions—ways in which the detrimental effects of the well-pleaded complaint rule may be prevented. As a final note, the Article suggests that the Federal Circuit's appellate jurisdiction over patent cases be untied from federal district courts' "arising under" jurisdiction to stop decisions unique to this specialized appellate court from visiting general questions of federal jurisdiction jurisprudence.

I. "ARISING UNDER" JURISDICTION

A. *Constitutional and Statutory Basis for "Arising Under" Jurisdiction*

The phrase "arising under" originated from Article III of the Constitution, defining the jurisdiction of the federal court system.[8] The Supreme Court interpreted this phrase, as it appears in Article III, to extend the constitutional grant of federal judiciary power to every case where federal law potentially forms an ingredient of a claim.[9] Article III

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8. "The judicial Power shall extend to all Cases, in Law and Equity, *arising under* this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority..." U.S. CONST. art. III, § 2, cl. 1 (emphasis added).

9. Osborn v. Bank of the United States, 22 U.S. (9 Wheat.) 738, 822-27 (1824).

allowed "[t]he mere existence of a latent federal 'ingredient' that might in theory be dispositive of the outcome of a case . . . to bring the entire case, including ancillary nonfederal issues, within the jurisdiction of the federal courts."[10] An implementing statute is needed, however, for lower federal courts to exercise the powers conferred by Article III.[11] With such an implementing statute, lower federal courts could enjoy some or all of the constitutional "arising under" grant of jurisdiction.[12]

Such an implementing statute is provided by 28 U.S.C. § 1331, stating that the "district courts shall have original jurisdiction of all civil actions *arising under* the Constitution, laws, or treaties of the United States."[13] While § 1331 uses the same "arising under" language as Article III, the Supreme Court has interpreted this statutory grant of judicial power as defining a considerably narrower scope of jurisdiction than that provided by the Constitution:[14] "Art[icle] III 'arising under' jurisdiction is broader than federal-question jurisdiction under § 1331."[15] In order to define this narrower scope, the Supreme Court has defined a test to determine whether a case falls within the "arising under" jurisdiction, otherwise known as the federal question jurisdiction, defined by § 1331.

The test for determining "arising under" jurisdiction under § 1331 has both a procedural and substantive component.[16] The procedural component consists of an "analytical filter"[17] termed the "well-pleaded complaint rule."[18] "The first step dictates [where, *i.e.*, in which pleading or paper] the jurisdiction-conferring federal question must appear . . . ."[19]

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10. John B. Oakley, *Federal Jurisdiction and the Problem of the Litigative Unit: When Does What 'Arise Under' Federal Law?*, 76 TEX. L. REV. 1829, 1832-33 (1998) (citing *Osborn*, 22 U.S. at 823); *see also* William Cohen, *The Broken Compass: The Requirement that a Case Arise "Directly" Under Federal Law*, 115 U. PA. L. REV. 890, 890-91 (1967).

11. *Osborn*, 22 U.S. at 823.

12. *Id.*; *see also* Cohen, *supra* note 10, at 891.

13. 28 U.S.C. § 1331 (2000) (emphasis added).

14. Franchise Tax Bd. of Cal. v. Constr. Laborers Vacation Trust, 463 U.S. 1, 8 n.8 (1983); *see also* Cohen, *supra* note 10, at 891 (noting that "the statutory grant has been conceded to vest in the federal courts less than the scope of federal question jurisdiction which Congress might vest."); Paul J. Mishkin, *The Federal "Question" in the District Courts*, 53 COLUM. L. REV. 157, 160-63 (1953).

15. Verlinden B.V. v. Cent. Bank of Nigeria, 461 U.S. 480, 495 (1983); *see also* Merrell Dow Pharm. Inc. v. Thompson, 478 U.S. 804, 807 (1986).

16. Oakley, *supra* note 10, at 1834.

17. *Id.*

18. *Id.*; *see also* Phillips Petroleum Co. v. Texaco, Inc., 415 U.S. 125, 127 (1974) (per curiam).

19. Oakley, *supra* note 10, at 1834; *see also* Louisville & Nashville R.R. v. Mottley, 211 U.S. 149, 152 (1908).

The well-pleaded complaint rule defines the universe in which "arising under" jurisdiction can be found.[20]

The substantive component looks at the substance of those claims that can be seen through the well-pleaded complaint filter and determines if any of those claims found with that filter truly "aris[e] under" federal law.[21] Two types of federal claims qualify as substantively "arising under" federal jurisdiction.[22] The first types of claims to qualify are those where federal law creates the cause of action.[23] These claims are typically causes of action created by federal statute.[24] The second types of claims to qualify are those where "'it appears that some substantial, disputed question of federal law is a necessary element of one of the well-pleaded state claims.'"[25] Jurisdiction over these claims is predicated on the fact that "the mere presence of a federal issue in a state cause of action does not automatically confer federal-question jurisdiction"—the federal issue must be both "substantial" and "necessary."[26]

This Article will focus on the initial, procedural step of determining whether there is "arising under" jurisdiction pursuant to § 1331.[27] The "analytical filter," or lens, used to define the universe of claims that may be considered is termed the "well-pleaded complaint."[28] The Supreme Court articulates the well-pleaded complaint rule as follows:

> [W]hether a case is one arising under the Constitution or a law or treaty of the United States, in the sense of the jurisdictional statute, . . . must be determined from what necessarily appears in the plaintiff's statement of his own claim in the bill or declaration, unaided by

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20. Oakley, *supra* note 10, at 1834-35.

21. *Id.* at 1835.

22. *Id.* at 1837-43; *see also* Merrell Dow Pharm. Inc. v. Thompson, 478 U.S. 804, 808-09 (1986).

23. Oakley, *supra* note 10, at 1838-39. Oakley notes that these types of claims fall under Justice Holmes's test that " '[a] suit arises under the law that creates the cause of action.'" *Id.* at 1838 (quoting Am. Well Works Co. v. Layne & Bowler Co., 241 U.S. 257, 260 (1916)).

24. *See, e.g.*, Franchise Tax Bd. of Cal. v. Constr. Laborers Vacation Trust, 463 U.S. 1, 8-10 (1983).

25. Oakley, *supra* note 10, at 1839 (citing *Merrell Dow*, 478 U.S. at 813, quoting *Franchise Tax Bd.*, 463 U.S. at 13).

26. *Merrell Dow*, 478 U.S. at 813; *see also* Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 808-09 (1988).

27. Therefore, this Article will assume that the second, substantive step, of the "arising under" test is met when discussing issues regarding federal question jurisdiction.

28. Oakley, *supra* note 10, at 1834.

> anything alleged in anticipation of avoidance of defenses which it is thought the defendant may interpose.[29]

Federal question jurisdiction is established "only when a federal question is presented on the face of the plaintiff's properly pleaded complaint."[30]

The Supreme Court has continued to flesh out the contours of the well-pleaded complaint rule since the rule's inception.[31] A defense based on federal law falls outside the lens of the well-pleaded complaint, and therefore cannot form the basis for federal question jurisdiction.[32] In addition, parts of the complaint that merely "anticipate" a defense based on federal law do not fall within the well-pleaded complaint.[33] These anticipations, while part of the complaint, cannot be considered as a basis for "arising under" jurisdiction.[34]

B. *Removal Jurisdiction*

Pursuant to 28 U.S.C. § 1441(a), any civil action filed in state court may be removed by a defendant to federal court if the federal court would have original jurisdiction over the case.[35] "In general an action is removable to a federal court only if it might have been brought there originally."[36] Removal can be based on diversity of citizenship[37] or the existence of federal question jurisdiction.[38] As § 1441(a) indicates:

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29. Taylor v. Anderson, 234 U.S. 74, 75-76 (1914). The Supreme Court's decision in *Shreveport v. Cole*, 129 U.S. 36 (1889), is credited with the "ultimate articulation of the well-pleaded complaint rule." Donald L. Doernberg, *There's No Reason For It; It's Just Our Policy: Why the Well-Pleaded Complaint Rule Sabotages the Purposes of Federal Question Jurisdiction*, 38 HASTINGS L.J. 597, 615 (1987).

30. Caterpillar Inc. v. Williams, 482 U.S. 386, 392 (1987).

31. *See generally* Doernberg, *supra* note 29, at 611-26.

32. *See e.g.*, Louisville & Nashville R.R. v. Mottley, 211 U.S. 149, 152 (1908) (denying federal question jurisdiction based solely on a federal question presented in a defense or a reply to the plaintiff's complaint); *see also* Doernberg, *supra* note 28, at 614-20 (collecting Supreme Court cases defining the rule).

33. *Mottley*, 211 U.S. at 152; *see also* Tennessee v. Union & Planters' Bank, 152 U.S. 454, 459 (1894); *Shreveport*, 129 U.S. at 41-44.

34. *Mottley*, 211 U.S. at 152.

35. 28 U.S.C. § 1441(a) (2000); *see also* Metro. Life Ins. Co. v. Taylor, 481 U.S. 58, 63 (1987); 14 CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE § 3721 (1976) [hereinafter FEDERAL PRACTICE AND PROCEDURE].

36. FEDERAL PRACTICE AND PROCEDURE, *supra* note 35, § 3721.

37. *See id.*

38. Caterpillar Inc., v. Williams, 482 U.S. 386, 392 (1987).

> Except as otherwise expressly provided by Act of Congress, any civil action brought in a State court of which the district courts of the United States have original jurisdiction, may be removed by the defendant or the defendants, to the district court of the United States for the district and division embracing the place where such action is pending. For purposes of removal under this chapter, the citizenship of defendants sued under fictitious names shall be disregarded.[39]

A district court's removal jurisdiction is defined by its original jurisdiction.[40]

Therefore, the test for original jurisdiction applies to determination of removal jurisdiction. Of importance for this Article, the well-pleaded complaint rule governs what papers can be considered to decide questions of removal.[41] Removal is proper only if the federal question appears within the lens of the well-pleaded complaint.[42] The well-pleaded complaint rule limits removal jurisdiction of a federal district court just as it limits a court's original jurisdiction. A federal defense in a defendant's answer, for example, cannot form the basis for removal jurisdiction.[43]

C. *Patent Law Jurisdiction*

1. District Court Original and Exclusive Jurisdiction Over Patent Cases

A district court's jurisdiction over patent, copyright, and trademark cases falls within the general scheme of federal question jurisdiction defined by 28 U.S.C. § 1331. Section 1338, specifically § 1338(a), lists three federal causes of action, under patent, copyright, and federal trademark law, as falling within a district court's original jurisdiction.[44] Section 1338 continues, noting that federal district courts have exclusive jurisdiction over cases "arising under" patent and copyright cases.

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39. 28 U.S.C. § 1441(a) (2000).

40. *See* Doernberg, *supra* note 29, at 625-26.

41. *Id.*; *see also* Michael G. Collins, *The Unhappy History of Federal Question Removal*, 71 IOWA L. REV. 717, 717-18 (1986).

42. *Caterpillar*, 482 U.S. at 392; *see also* Gully v. First Nat'l Bank, 299 U.S. 109, 112-13 (1936).

43. *Caterpillar*, 482 U.S. at 392-93; *see also* Doernberg, *supra* note 29, at 625-26.

44. Section 1338(a) actually lists four causes of action—patents, plant variety protection, copyrights and trademarks. 28 U.S.C. § 1338(a) (2000). For the purposes of this Article, the first two—patents and plant variety protection—will be collectively referred to as patents.

Section 1338[45] reads, in relevant part:

> (a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.
>
> (b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.[46]

Section 1338(a) establishes the district court's original jurisdiction over those cases "arising under" federal patent, copyright, and trademark law. And this original jurisdiction, defined by the first sentence of § 1338(a), defines the breadth of "jurisdiction . . . [to be] exclusive of the courts of the states in patent, plant variety protection and copyright cases."[47] Pursuant to the plain language of the statute, if a case does not arise under patent or copyright law, it does not fall within a federal district court's exclusive jurisdiction, as defined by § 1338(a).

The phrase "arising under" is defined in the same manner under § 1338(a) and § 1331. The Supreme Court has linked the "arising under" language in 28 U.S.C. § 1338(a) to the same language in 28 U.S.C. § 1331.[48] The Court has noted that "[l]inguistic consistency, to which [the Supreme Court] historically adhered, demands that § 1338(a) jurisdiction" be determined in the same manner as general federal question jurisdiction under § 1331.[49] The Court has long applied the same test to determine "arising under" for patent cases and general federal question cases.[50]

The "linguistic consistency" between the two statutes, both using the same "arising under" language, forces courts to use the same test for determining jurisdiction under § 1338(a) as under § 1331.[51] Therefore, if a cause of action arises under federal patent, copyright, or trademark

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45. Section 1338(c), was added in 1998 by Pub. L. 105-304 to equate a district court's jurisdiction over rights in mask works with those defined in parts (a) and (b) of the statute with regards to copyrights. 28 U.S.C. § 1338(c) (2000).

46. 28 U.S.C. § 1338(a)-(b) (2000).

47. *Id.* § 1338(a).

48. Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 807 (1988).

49. *Id.* at 808.

50. *Id.* at 808-09.

51. *Id.* at 807-08.

law, then that cause of action must, by definition, arise under federal law. A case including one of the specified federal causes of action in § 1338(a) must, necessarily, fall within the scope of § 1331. Such a case arises within a district court's general federal question jurisdiction. That is, § 1338(a) defines a subset of cases within the broader set of potential federal question jurisdiction cases. This is displayed graphically in Figure 1 below, with a district court's statutory scope of jurisdiction under § 1338(a) falling completely within, but not totally consuming, the full statutory scope of jurisdiction—"arising under" jurisdiction—afforded by § 1331.

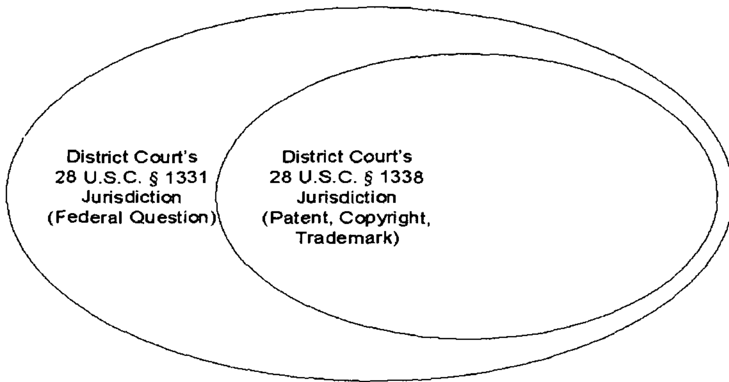

FIGURE 1

Because of this linguistic consistency between the two statutes, the well-pleaded complaint rule applies to determinations of jurisdiction under § 1338 as well as determinations under § 1331. The test under § 1338 is simply the general federal question jurisdiction test modified to apply only to patent, copyright, and trademark cases. The Court has applied this modified test before, indicating that:

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

patent law, in that patent law is a necessary element of one of the well-pleaded claims.[52]

Therefore, any change in the test for determining "arising under" jurisdiction in § 1331 necessarily changes the test for § 1338(a). Linguistic consistency requires such a reaction. The converse is also true—with changes in the test for determining "arising under" jurisdiction under § 1338(a) affecting the test under § 1331. Such a result is demonstrated empirically with the Supreme Court's decision in *Christianson*.[53] That decision, while focused on questions of patent law, "speaks in terms applicable to the more general question of when any case may be adjudicated by the district courts as one arising under federal law."[54] Linguistic consistency forces these general statements, affecting general "arising under" jurisdiction, when speaking of patent law jurisdiction and § 1338(a).

2. Federal Circuit's Exclusive Appellate Jurisdiction Over Patent Cases

The Federal Circuit's exclusive appellate jurisdiction over patent cases builds off of the jurisdictional definition of 28 U.S.C. § 1338.[55] Congress defined the scope of the Federal Circuit's appellate jurisdiction over patent appeals from district courts in 28 U.S.C. § 1295(a)(1). The Federal Circuit's appellate jurisdiction over district court patent cases[56] is based on § 1295(a)(1) jointly interpreted with the patent jurisdiction statute for district courts, 28 U.S.C. § 1338.[57] This linkage between § 1295(a)(1) and § 1338(a) is coded into the language of § 1295(a)(1).[58] Section 1295(a)(1) reads, in relevant part:

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52. *Id.* at 808-09.

53. *Id.*

54. Oakley, *supra* note 10, at 1830.

55. 28 U.S.C. § 1295(a)(1) (2000).

56. In addition to district courts of the United States, § 1295(a)(1) also gives the Federal Circuit jurisdiction over patent appeals from "the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands." *Id.*

57. Section 1295 also defines the Federal Circuit's jurisdiction over subject matter other then patent appeals from district courts. *See, e.g.*, 28 U.S.C. § 1295(a)(2-14), (b), (c) (2000).

58. 28 U.S.C. § 1295(a)(1) (2000); *see also* Emmette F. Hale, III, *The "Arising Under" Jurisdiction of the Federal Circuit: An Opportunity for Uniformity in Patent Law*, 14 FLA. ST. U. L. REV. 229, 238-39 (1986); Thomas H. Case & Scott R. Miller, Note, *An Appraisal of the Court of Appeals for the Federal Circuit*, 57 S. CAL. L. REV. 301, 303 n.18 (1984).

> The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—(1) of an appeal from a final decision of a district court . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of [28 U.S.C.], 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.[59]

As noted in the language of § 1295(a)(1), the Federal Circuit has exclusive appellate jurisdiction over a final district court decision as long as the district court's jurisdiction "was based, in whole or in part, on" patent jurisdiction defined in "section 1338."[60]

These two statutes—28 U.S.C. §§ 1295(a)(1) and 1338—linked together by the language in § 1295(a)(1), define the Federal Circuit's "exclusive" appellate jurisdiction over patent appeals from district court final decisions.[61] The jurisdiction over patent cases for both the Federal Circuit and federal district courts is tied to § 1338.[62] Furthermore, both § 1295(a)(1) and § 1338(a) use the same legally significant phrase, "arising under," to define those cases that the Federal Circuit and federal district courts have jurisdiction over.[63] In the legislative history of 28 U.S.C. § 1295(a)(1), Congress emphasized the "arising under" language of the statutes, noting that "[c]ases will be within the jurisdiction of the Court of Appeals for the Federal Circuit in the same sense that cases are

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59. 28 U.S.C. § 1295(a)(1) (2000).

60. *Id.* Congress specifically drafted § 1295(a)(1) to

> give[] the Court of Appeals for the Federal Circuit jurisdiction of any appeal in which the trial court jurisdiction was based, in whole or in part, on section 1338 of title 28 (which as stated above confers on the district courts original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyright and trademarks), except that jurisdiction of an appeal in a case involving a claim arising under any Act of Congress related to copyrights or trademarks, and no other claims under section 1338(a) will continue to go to the regional appellate courts, pursuant to section 1294 of title 28.

H.R. REP. NO. 97-312, at 41 (1981). "[T]he statutory language in question requires that the district court have jurisdiction under 28 U.S.C. § 1338." S. REP. NO. 97-275, at 19 (1981), *reprinted in* 1982 U.S.C.C.A.N. 11, 29. The Supreme Court and Federal Circuit have also observed that § 1295(a)(1), as drafted, defines the Federal Circuit's appellate jurisdiction with reference the district court's jurisdiction over the case on appeal. *See* Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 807 (1988); Atari, Inc. v. JS & A Group, Inc., 747 F.2d 1422, 1429 (Fed. Cir. 1984).

61. *Christianson*, 486 U.S. at 807.

62. *Id.*

63. 28 U.S.C. §§ 1295(a)(1), 1338(a).

said to 'arise under' federal law for purposes of federal question jurisdiction."[64]

The Supreme Court recognized this linkage, between the Federal Circuit's appellate jurisdiction over patent cases and the original jurisdiction afforded by 28 U.S.C. § 1338, in *Christianson*.[65] In that case, the Court considered whether antitrust claims plead by the plaintiff fell within the Federal Circuit's appellate jurisdiction defined by § 1295(a)(1).[66] After examining the statutory framework, the Court concluded that the question of the Federal Circuit's exclusive jurisdiction over patent appeals required a determination of the district court's original patent jurisdiction.[67] Questions concerning the Federal Circuit's jurisdiction in instances such as *Christianson* "turn[] on whether . . . a case 'aris[es] under' a federal patent statute, for if it [does] then the jurisdiction of the District Court was based at least 'in part' on § 1338," and therefore the Federal Circuit gains appellate jurisdiction under § 1295(a)(1).[68]

Thus, as the well-pleaded complaint rule plays a role in determining jurisdiction under § 1338(a), so does the rule play a role with regard to the Federal Circuit's appellate jurisdiction. "Since the district court's jurisdiction is determined by reference to the well-pleaded complaint . . . the referent for the Federal Circuit's jurisdiction must be the same."[69] The Federal Circuit's authority over a patent appeal pursuant to § 1295(a)(1) depends on the well-pleaded complaint just as the district court's authority over the case pursuant to § 1338(a) depends on it.[70]

Representing this graphically, Figure 2, shown below, visually depicts the Federal Circuit's appellate jurisdiction covering some of the cases falling within the district court's original jurisdiction under § 1338.

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64. H.R. REP. NO. 97-312, at 41.
65. 486 U.S. at 807.
66. *Id.*
67. *Id.* at 807-08.
68. *Id.* at 807.
69. *Id.* at 814.
70. *Id.*

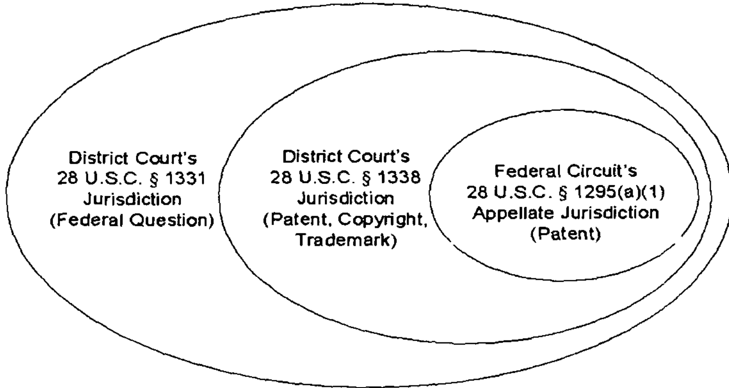

FIGURE 2

The Federal Circuit's jurisdiction only covers those patent cases falling within the district court's § 1338 jurisdiction, not the copyright and trademark cases.[71] Also, as the diagram suggests, just as § 1338 jurisdiction falls within § 1331 jurisdiction, § 1295(a)(1) appellate jurisdiction falls within § 1331 jurisdiction. All three statutes are linked, either by use of the same operative phrase—"arising under" in both § 1338 and § 1331—or by specific reference to the other statutes—§ 1295(a)(1)'s reference to § 1338.

With this background, it becomes clear that decisions regarding the Federal Circuit's appellate jurisdiction, such as the one in *Christianson*, directly implicate a district court's general "arising under" jurisdiction under § 1331.[72] Sections 1331 and 1338 are linked by "linguistic consistency"—the using of the same operative phrase "arising under." Sections 1338 and 1295(a)(1) are linked by the statutory coding—with § 1295(a)(1) specifically referencing a district court's jurisdiction under § 1338. Basically, via the transitive property, just as § 1295(a)(1) is tied to § 1338, the appellate jurisdiction statute is tied to § 1331.[73] This interrelationship, depicted graphically in Figure 2 above, causes decisions concerning the Federal Circuit's appellate jurisdiction to have ripples that, as a matter of law, effect general federal question

71. *See* 28 U.S.C. § 1295(a)(1) (2000).

72. Oakley, *supra* note 10, at 1829-30 (noting that the Court's decision in *Christianson* is applicable to the general issue of federal question jurisdiction).

73. *See Christianson*, 486 U.S. at 807-09.

jurisprudence. The resulting far-reaching effects of such decisions of patent law appellate jurisdiction have been seen once before, from the stone thrown in *Christianson*,[74] and have now been seen once again with the Supreme Court's recent decision in *Holmes*.

II. THE *HOLMES* DECISION, THE FEDERAL CIRCUIT'S APPELLATE JURISDICTION AND FEDERAL JURISDICTION IN GENERAL

A. The Supreme Court's Decision in Holmes

The Supreme Court revisits "arising under" jurisdiction and the well-pleaded complaint rule in *Holmes*. The case began in the United States District Court for the District of Kansas, where Holmes sued Vornado alleging seven causes of action: "(1) declaratory judgment of non-liability under 15 U.S.C. § 1125(a) [section 43 of the Lanham Act]; (2) violation of Mass. Gen. L. ch. 93A, §§ 2 and 11; (3) violation of 15 U.S.C. § 1125(a); (4) tortious interference with prospective economic advantage; (5) defamation; (6) unfair competition; and (7) injurious falsehood."[75] Vornado responded to Holmes's complaint, specifically alleging counterclaims based in federal law. Specifically, Vornado claimed that Holmes infringed some of Vornado's patents and its federally protected trade dress.[76]

The district court granted Holmes summary judgment of no infringement and Vornado appealed the case to the Federal Circuit.[77] Holmes argued that the appeal properly lay in the Tenth Circuit, not the Federal Circuit, because Holmes's complaint did not allege any claims "arising under" patent law.[78] Holmes contended that Vornado's patent infringement counterclaim cannot create "arising under" jurisdiction because such claims did not fall within the well-pleaded complaint rule.[79] After the appeal was heard, the Federal Circuit remanded the case

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74. *See generally* Oakley, *supra* note 10 (discussing the broad implications of the *Christianson* decision).

75. Brief for Petitioner at *2, Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826 (2002) (No. 01-408), *available at* 2002 WL 24105.

76. *See* Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 93 F. Supp. 2d 1140, 1141 (D. Kan. 2000). After unsuccessfully making this argument in the United States District Court, Vornado again asserted this claim in his brief to the United States Supreme Court. Brief for Petitioner, at *4-5 n.3, *Holmes* (No. 01-408).

77. *See id.* at *10 n.8-*11.

78. *See id.* at *11.

79. *Id.* at *12.

to have the district court reconsider its grant of summary judgment in light of the Supreme Court's decision in *Traffix Devices, Inc. v. Marketing Displays, Inc.*[80] The Federal Circuit did not address Holmes's jurisdictional challenge.[81]

Holmes challenged the Federal Circuit's appellate jurisdiction in its petition for certiorari to the Supreme Court. The Court granted Holmes's petition to consider whether the Federal Circuit properly asserted jurisdiction over [Vornado's] appeal.[82] The Court concluded that based on the plain text of 28 U.S.C. § 1295(a)(1), "the Federal Circuit's jurisdiction is fixed with reference to that of the district court, and turns on whether the action arises under federal patent law."[83] The Court noted that the language, "arising under," in § 1338(a), which gives district court's jurisdiction over patent cases, is "the same operative language as 28 U.S.C. § 1331, the statute conferring general federal question jurisdiction."[84] Looking to the Court's decision in *Christianson*, the Court stated that "[l]inguistic consistency" required it to apply the same "arising under" test employed under § 1338(a) as is applied under § 1331.[85] With the well-pleaded-complaint rule case law "long govern[ing] whether a case 'arises under' federal law for purposes of § 1331," the Court applied the rule to determine the appellate jurisdiction of the Federal Circuit.[86]

The Court determined that "'appropriately adapted to § 1338(a),' the well-pleaded complaint rule provides that whether a case 'arises under' patent law 'must be determined from what necessarily appears in the plaintiff's statement of his own claim in the bill or declaration . . . .'"[87] Holmes, the plaintiff below, did not assert any claim arising under federal patent law in its complaint, and therefore, based on the well-pleaded complaint rule, the civil action did not "aris[e] under" federal patent law under § 1338(a).[88] The Federal Circuit did not have

80. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 13 Fed. Appx. 961, 961 (Fed. Cir. 2001).

81. *See id.* at 961-62.

82. *Holmes*, 535 U.S. at 827.

83. *Id.* at 829.

84. *Id.*

85. *Id.* at 830.

86. *Id.* The Court also indicated, in a footnote, that the well-pleaded complaint rule governs the removability of a case from state to federal court under 28 U.S.C. § 1441(a). *Id.* at n.2 (citing Franchise Tax Bd. of Cal. v. Constr. Laborers Vacation Trust, 463 U.S. 1 (1983)).

87. *Holmes*, 535 U.S. at 830 (quoting Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 809 (1988)).

88. *Holmes*, 535 U.S. at 830.

appellate jurisdiction.[89] The Supreme Court found the requirements of § 1338(a) were not met, and, as a result, § 1295(a)(1) did not confer jurisdiction on the Federal Circuit.[90] The Federal Circuit's judgment was therefore vacated and the case remanded to the Federal Circuit with instructions to transfer the case to the Tenth Circuit.[91]

B. *The* Holmes *Decision's Effect on the Federal Circuit's Appellate Jurisdiction*

The Supreme Court's decision in *Holmes* speaks directly to the limits of the Federal Circuit's appellate jurisdiction.[92] The Court specifically indicated that:

> Not all cases involving a patent-law claim fall within the Federal Circuit's jurisdiction. By limiting the Federal Circuit's jurisdiction to cases in which district courts would have jurisdiction under § 1338, Congress referred to a well-established body of law that requires courts to consider whether a patent-law claim appears on the face of the plaintiff's well-pleaded complaint.[93]

Thus, for cases similar to *Holmes*, where the only patent law claim appears in a counterclaim, the appropriate venue for appeals is the regional circuit court.[94] This result is a significant departure from over ten years of case law, where such cases, upon appeal, were handled by the Federal Circuit.[95]

This result is the clearest impact of the *Holmes* decision—that the Federal Circuit's appellate jurisdiction cannot be based on patent law

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89. *See id.*
90. *Id.* at 829-30.
91. *Id.* at 834.
92. *Id.* at 829-32.
93. *Id.* at 834.
94. *Id.*; *see also* Rogers, *supra* note 4, at 457-59; Cotropia, *supra* note 4, at 286-88; Mosley-Goren, *supra* note 4, at 27-28.
95. Aerojet-Gen. Corp. v. Mach. Tool Works, Oerlikon-Buehrle, Ltd., 895 F.2d 736, 745 (Fed. Cir. 1990); *see also In re* Indep. Serv. Org. Antitrust Litig., 203 F.3d 1322, 1325 (Fed. Cir. 2000); DSC Communications Corp. v. Pulse Communications, Inc., 170 F.3d 1354, 1359 (Fed. Cir. 1999) (exercising jurisdiction over the judgment on DSC's copyright and trade secret claims and Pulse's unrelated patent infringement counterclaims); Leatherman Tool Group Inc. v. Cooper Indus., 131 F.3d 1011, 1013-15 (Fed. Cir. 1997) (considering whether a counterclaim to a complaint alleging trade dress infringement included a substantial and necessary issue of patent law so as to give the Federal Circuit appellate jurisdiction); Xeta, Inc. v. Atex, Inc., 825 F.2d 604, 606 (1st Cir. 1987); Mosley-Goren, *supra* note 4, at 11-20.

counterclaims.[96] The Federal Circuit, since the Court's decision, has applied the *Holmes* decision and transferred appeals to the appropriate regional circuit. For example, in *Telecomm Technical Services, Inc. v. Siemens Rolm Communications, Inc.*, the Federal Circuit, because of the Supreme Court's decision in *Holmes*, raised the question of appellate jurisdiction *sua sponte* after oral argument.[97] In *Telecomm*, a group of independent service organizations ("ISOs") sued Siemens claiming monopolization and attempted monopolization under the Sherman Act.[98] Siemens counterclaimed for patent and copyright infringement.[99] The ISOs appealed a jury verdict on the counterclaims of patent and copyright infringement and a grant of summary judgment on its Sherman Act claims.[100] The Federal Circuit concluded that "[w]hen the ISOs originally filed [the] appeal, [the Federal Circuit's] jurisdiction was predicated on the patent infringement counterclaim."[101] But, based on the Supreme Court's decision in *Holmes*, which was "directly on point," the Federal Circuit lacked jurisdiction over the appeal.[102] The case was, therefore, transferred to the Eleventh Circuit pursuant to 28 U.S.C. § 1631.[103]

The Federal Circuit and regional circuits have reached similar results in other cases since the *Holmes* decision.[104] The cases have either

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96. An argument can be made that *Holmes* removes other cases from the Federal Circuit's appellate jurisdiction, depending on the procedural posture of the patent claim. *See* Cotropia, *supra* note 4, at 286-94 (discussing, for example, the impact of the *Holmes* decision on patent law claims presented in a consolidated case). Consideration of these effects beyond patent law counterclaims is, however, beyond the scope of this Article.

97. 295 F.3d 1249, 1251-52 (Fed. Cir. 2002)

98. *Id.* at 1250-51.

99. *Id.* at 1251.

100. *Id.*

101. *Id.* at 1251-52 (citing *Aerojet*, 895 F.2d 736 (Fed. Cir. 1990)).

102. *Telecomm*, 295 F.3d at 1252.

103. *Id.* The Eleventh Circuit has since decided the case on the merits. *See* Telecom Tech. Servs., Inc. v. Rolm Co., No. 02-14131, 2004 WL 2360293 (11th Cir. 2004).

104. Pharm. Research & Mfg. of Am. v. Walsh, 81 Fed. Appx. 327, 328 (Fed. Cir. 2003) (transferring an appeal to the First Circuit because the plaintiff's "complaint is devoid of any patent claims, and thus, the district court's jurisdiction was not based on § 1338"); E.I. Du Pont De Nemours & Co. v. Okuley, 344 F.3d 578, 583 n.3 (6th Cir. 2002) (maintaining jurisdiction over an appeal because "Okuley's counterclaim [of sole patent inventorship] does not affect the issue of appellate jurisdiction of the Federal Circuit"); Medigene AG v. Loyola Univ. of Chicago, 41 Fed. Appx. 450, 450 (Fed. Cir. 2002) (transferring appeal to the United States Court of Appeals for the Seventh Circuit under principles established in *Holmes*); Mattel, Inc. v. Lehman, 49 Fed. Appx. 889, 890 (Fed. Cir. 2002) (noting that, after *Holmes*, the "court does not have jurisdiction over claims presented in an answer or counterclaim if the complaint does not involve patent issues.").

been transferred to the appropriate regional circuit or kept in a regional circuit because the only patent law claim arose in a counterclaim.[105]

C. The Holmes Decision and the Well-Pleaded Complaint Rule

The ramifications of the *Holmes* decision on the Federal Circuit's appellate jurisdiction and the doctrinal development of patent law is extremely interesting and important.[106] But, in a similar fashion as the Supreme Court's decision in *Christianson*, by answering questions regarding the Federal Circuit's jurisdiction, the Court necessarily spoke to federal question jurisdiction in general. The Supreme Court, for the first time, addressed whether a federal law counterclaim fell within the scope of the well-pleaded complaint, and therefore could lay the foundation for federal question jurisdiction. The Supreme Court was forced to address this broader issue concerning federal jurisdiction due to the connections between the Federal Circuit's appellate jurisdiction and the federal district court's jurisdiction. As explained in Part I, there are statutory and linguistic links between the jurisdiction of Federal Circuit and federal district courts.

In order to make its decision in *Holmes* regarding the Federal Circuit's appellate jurisdiction, the Supreme Court had to speak to a district court's jurisdiction over patent cases, pursuant to 28 U.S.C. § 1338.[107] Linguistic similarity between § 1338(a) and § 1331—the use of the phrase "arising under"—forced the Court to discuss a district court's jurisdiction over federal question cases.[108] From there, the Court was required to speak to how "arising under" jurisdiction is determined, and, more particularly, the scope of the well-pleaded complaint.[109]

The Court noted that "the Federal Circuit's jurisdiction is fixed with reference to that of the district court, and turns on whether the action *arises under* federal patent law."[110] The Supreme Court concluded that an action where the only patent claim is a counterclaim did not "aris[e] under federal patent" and therefore did not fall within the district court's § 1338 jurisdiction and thus, the Federal Circuit's appellate

105. *See* cases cited *supra* note 104.

106. The author examined such ramifications of the *Holmes* decision *in* Cotropia, *supra* note 4.

107. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 829 (2002); *see also* 28 U.S.C. § 1295(a)(1) (2000).

108. *Holmes*, 535 U.S. at 829-30.

109. *Id.* at 830-32.

110. *Id.* at 829 (emphasis added).

jurisdiction.[111] In fact, the Supreme Court rejected Vornado's argument to delink the Federal Circuit's appellate jurisdiction under § 1295(a)(1) from the district court's "arising under" jurisdiction over patent cases under § 1338(a).[112] The coded tie between § 1295(a)(1) and § 1338(a) prevented such a different interpretation.[113] Section 1295(a)(1) "refers to the jurisdiction under § 1338"—causing any jurisdictional decision regarding the Federal Circuit to, necessarily, create a jurisdictional decision regarding the district court.[114] The Court also rejected Vornado's contention that § 1338(a) could be interpreted differently when referring to the Federal Circuit's jurisdiction than when referring to the district court's jurisdiction.[115] Such a conclusion "would be an unprecedented feat of interpretative necromancy to say that § 1338(a)'s 'arising under' language means one thing (the well-pleaded-complaint rule) in its own right, but something quite different (respondent's complaint-or-counterclaim rule) when referred to by § 1295(a)(1)."[116] Thus, the Court held that a case where the only patent law claim is a counterclaim does not fall within the district court's "arising under" jurisdiction of § 1338(a) because such a claim lies outside the well-pleaded complaint's lens.[117]

For the Court to reach this decision, it also, necessarily, had to speak to the scope of a district court's general federal question jurisdiction under 28 U.S.C. § 1331.[118] When construing the "arising

111. *Id.* at 830.

112. *Id.* at 832-34.

113. *Id.*

114. *See id.* at 833; *see also* 28 U.S.C. § 1295(a)(1) (2000).

115. *Holmes*, 535 U.S. at 833-34.

116. *Id.*

117. *Id.* at 830-31.

118. *Id.* at 829-30; *see also* 28 U.S.C. §§ 1331, 1338(a) (2000).

A similar situation occurred as a result of the Supreme Court's decision in Christianson v. Colt Indus. Operating Corp., 486 U.S. 800 (1988). The Court was faced with an analogous question to the one it faced in *Holmes*—did the Federal Circuit have appellate jurisdiction under § 1295(a)(1)—and, the Court, just as in *Holmes*, had to answer questions concerning the "arising under" jurisdiction over federal district courts. *Id.* at 807-10. The Court in *Christianson*, as discussed *supra* in Part I, recognized the statutory link between § 1295(a)(1) and § 1338 and the linguistic link between § 1338 and § 1331. 486 U.S. at 807-09. The Court, as in *Holmes*, had to speak to the scope of "arising under" jurisdiction and the well-pleaded complaint rule in order to answer a question regarding the Federal Circuit's appellate jurisdiction. *Id.* As Oakley framed the situation, *Christianson* involved:

> [F]acts and legal contentions that superficially relate only to that arcane corner of federal jurisdiction concerned with appellate review of cases arising under the patent laws. But . . . the opinion speaks in terms applicable to the more general question of when any case may be adjudicated by the district courts as one arising under federal law.

under" language found in § 1338(a), the Court automatically interpreted the same language in § 1331. The "'[l]inguistic consistency' require[d] [the Court] to apply the same test to determine whether a case arises under § 1338(a) as under § 1331."[119] Therefore, when deciding the contours of the well-pleaded complaint rule under § 1338(a), the Court had to interpret the contours of the rule as applied to questions of jurisdiction under § 1331. So as counterclaims were filtered out as a foundation for patent law jurisdiction under § 1338(a), the Court also concluded that counterclaims are unable to form the basis for federal question jurisdiction under § 1331. Therefore, not only did Vornado's patent infringement counterclaim not create jurisdiction under § 1338(a), the counterclaim also did not vest the district court with jurisdiction pursuant to § 1331.

The Supreme Court's basic holding in *Holmes*, therefore, is that "counterclaim[s] . . . cannot serve as the basis for 'arising under' jurisdiction."[120] The Court based its decision to exclude counterclaims from the jurisdictional analysis on the well-pleaded complaint rule. The Court explicitly declined to "transform the long-standing well-pleaded-complaint rule into the 'well-pleaded-complaint-*or-counterclaim* rule.'"[121] This marked the first time the Court addressed whether counterclaims fell within the scope of the well-pleaded complaint. While arguably a natural application of previous case law concluding that a federal defense cannot establish arising under jurisdiction,[122] the Court noted that its prior cases had not required them to address whether counterclaims fell within the well-pleaded complaint.[123] The Supreme Court's addressing of counterclaims in relation to the well-pleaded complaint rule for the first time provides a perfect opportunity to address the implications of the rule in the counterclaim context.

Oakley, *supra* note 10, at 1830.

Holmes presents the same situation as the Court's decision in *Christianson*. While the case deals with a question regarding an "arcane corner of federal jurisdiction," the Court, in order to answer the question before it, must address general concepts of federal jurisdiction. Like *Christianson*, the Court must address the issue of "arising under" jurisdiction in general in order to determine the appropriate appellate court for Vornado's appeal.

119. *Holmes*, 535 U.S. at 830.

120. *Id.* at 831.

121. *Id.* at 832 (emphasis original).

122. *See, e.g.*, Louisville & Nashville R.R. v. Mottley, 211 U.S. 149, 152 (1908).

123. *Holmes*, 535 U.S. at 831.

III. THE IMPLICATIONS OF COUNTERCLAIMS FALLING OUTSIDE THE WELL-PLEADED COMPLAINT

The Supreme Court's recent examination of the relationship between counterclaims, the well-pleaded complaint, and federal jurisdiction prompts the need for a more complete analysis of this interrelationship. The facts in the *Holmes* decision, while prompting the Supreme Court to speak on this issue, do not fully explore the ramifications of leaving counterclaims outside the well-pleaded complaint. This part of the Article will explore in detail the implications of this facet of the well-pleaded complaint rule. Such an analysis can be divided up into three general areas. First, the implications of leaving counterclaims outside the well-pleaded complaint on a federal district court's original jurisdiction will be discussed. Due to the rule of law explained in the *Holmes* decision, a federal law counterclaim[124] cannot serve as an independent jurisdictional basis for a case. Second, the implications of the well-pleaded complaint on removal jurisdiction and federal law counterclaims will be discussed. The rule of law discussed in *Holmes* prevents a federal law counterclaim from forming the basis of removal jurisdiction from state to federal court. Thus, a defendant in state court cannot remove a case to federal court based solely on the presence of a federal law counterclaim. Third, the implications of counterclaims falling outside the well-pleaded complaint on areas of exclusive federal jurisdiction will be discussed. Counterclaims arising under areas of exclusive federal law may, depending on how their exclusivity statutes are drafted, fall outside of exclusive jurisdiction of federal courts and be litigated in state court. If the statute that gives a federal cause of action exclusivity to the federal courts uses the magical "arising under" language, such counterclaims will not fall within the exclusivity of the federal system.

A. Federal Question Jurisdiction Based on Federal Law Counterclaims

The facts of the *Holmes* case fail to fully demonstrate the implication of the well-pleaded complaint rule on a district court's original jurisdiction over a federal law counterclaim. The result of

124. The phrase "federal law counterclaim" is short-hand for a counterclaim that passes the substantive test for determining "arising under" jurisdiction discussed *supra* in Part I.A. That is, a "federal law counterclaim" is a claim where either (i) federal law creates the cause of action or (ii) it appears that some substantial, disputed question of federal law is a necessary element of the claim.

Holmes decision was that the case before the United States District Court for the District of Kansas did not "aris[e] under" patent law.[125] But, the district court maintained federal question jurisdiction over the case. In fact, the plaintiff's complaint contained claims of trademark infringement,[126] vesting the district court with original jurisdiction under § 1338(a), albeit due to the federal trademark law nature of the claims, not a patent law aspect of either parties' claims.[127] Therefore, after the *Holmes* decision, the case's appellate path changed,[128] but the case stayed in the federal court system.

If claims "arising under" federal law were not present in Holmes's complaint, the full implication of the well-pleaded complaint rule on federal law counterclaims would have played out. The district court could not look to the patent law counterclaims as a basis for jurisdiction.[129] With no federal claims in the plaintiff's complaint, the district court could have maintained jurisdiction over the case only if the diversity requirements of 28 U.S.C. § 1332 were met. If diversity was not present, the district court would have had to dismiss the case altogether for lack of subject matter jurisdiction. The full import of the well-pleaded complaint rule, as discussed by the Court in *Holmes*, creates this very result—a federal law counterclaim cannot form the independent basis for original jurisdiction. If it were not for the federal trademark claims in Holmes's complaint, the Court's decision in *Holmes* would have caused the case, absent a finding of diversity jurisdiction, to be dismissed from federal court altogether.

While such a complete dismissal was not the result under the facts in *Holmes*, it would be in other cases, given the appropriate set of facts. A district court starts its jurisdictional analysis based on the plaintiff's complaint.[130] That complaint may allege certain causes of action based on federal law—vesting the district court with federal question jurisdiction under 28 U.S.C. § 1331.[131] The complaint may, in the alternative or in addition, allege diversity between the plaintiff and defendant and the appropriate amount in controversy—vesting the

125. *Holmes*, 535 U.S. at 829-30.

126. Brief for Petitioner at *3, Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc. 535 U.S. 826 (2002) (No. 01-408), *available at* 2002 WL 24105.

127. *See* 28 U.S.C. § 1338(a) (2000).

128. *Holmes*, 535 U.S. at 834 (remanding with instructions to transfer to the Tenth Circuit).

129. *See id.* at 831.

130. *Id.* at 829-30; Caterpillar Inc. v. Williams, 482 U.S. 386, 392 (1987).

131. *Holmes*, 535 U.S. at 829-31; *see also* Oakley, *supra* note 10, at 1833-43.

district court with diversity jurisdiction under 28 U.S.C. § 1332.[132] From this starting point, a defendant may in her answer, among other allegations, allege certain counterclaims, either compulsory under Federal Rules of Civil Procedure (FRCP) 13(a) or permissive under FRCP 13(b).[133] The district court may entertain supplemental jurisdiction over these counterclaims given that the requirements of 28 U.S.C. § 1367 are met.[134]

However, the jurisdictional basis in the plaintiff's complaint may, after further investigation, not hold true. A party, or the court, may question whether the plaintiff's complaint truly alleges a cause of action substantively "arising under" federal law as required for jurisdiction under § 1331. Or, a party or the court may question whether there is truly diversity between the parties or the amount in controversy is sufficient to establish jurisdiction under § 1332. These challenges may be *sua sponte* from the court, or come in the form of a FRCP 12(b)(1) motion by a party.[135] Regardless how the challenge surfaces, if granted, the complaint provides no basis for subject matter jurisdiction.[136] The question then turns to the counterclaims which then determine whether the district court can still hear the case.

This is the circumstance under which the well-pleaded complaint rule as applied to counterclaims becomes an issue. If there is no other independent jurisdictional basis, can the federal district court find its subject matter jurisdiction in a federal law counterclaim?[137] The basic rule set forth in *Holmes*, that "a counterclaim . . . cannot serve as a basis for 'arising under' jurisdiction,"[138] answers the question in the negative. Counterclaims, not being part of the well-pleaded complaint, cannot form the basis for "arising under" jurisdiction pursuant to 28 U.S.C. § 1331.[139] They are filtered out of the "arising under" jurisdictional

132. *See, e.g.*, Wis. Dep't of Corr. v. Schacht, 524 U.S. 381, 388 (1998).

133. FED. R. CIV. P. 13(a)-(b).

134. 28 U.S.C. § 1367.

135. Chicago, Burlington & Quincy Ry. v. Willard, 220 U.S. 413, 419-21 (1911) (noting that a court may raise, on its own, questions of subject matter jurisdiction).

136. A dismissal under Fed. R. Civ. P. 12(b)(1) is a dismissal for lack of subject matter jurisdiction, ordinarily having the effect of disposing of the case as if it was never initially filed. *See, e.g.*, Hitt v. City of Pasadena, 561 F.2d 606, 608-09 (5th Cir. 1977).

137. If the counterclaim alleges a state cause of action, then it cannot arise under federal law, even if counterclaims can be considered to establish such jurisdiction. These claims fail, regardless of in which paper they appear, under the second, substantive part of the "arising under" jurisdictional test. *See supra* Part I.A.

138. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 831 (2002).

139. *Id.*

analysis before they can be analyzed substantively. And, if the case does not meet the diversity requirements of 28 U.S.C. § 1332, the district court, if it is to maintain jurisdiction over the case, must look elsewhere.[140] When the complaint provides no basis for jurisdiction, and there is no diversity, the case must be dismissed regardless of the federal nature of a counterclaim.

A recent example of this effect of the well-pleaded complaint rule on a district court's original jurisdiction can be found in *Salton, Inc. v. Philips Domestic Appliances & Personal Care B.V.*[141] In *Salton*, the district court lost diversity jurisdiction, and, applying the well-pleaded complaint rule discussed in *Holmes*, could not turn to a federal law counterclaim to save its subject matter jurisdiction.[142] Salton filed a complaint against Philips seeking a declaratory judgment that it did not tortiously interfere with an agreement between Philips and a third party, Electrical & Electronics, Ltd. ("E & E"), and that it did not misappropriate trade secrets from Philips.[143] Salton alleged federal jurisdiction based on the diversity of citizenship between Salton and Philips pursuant to 28 U.S.C. § 1332(a)(2).[144] Philips responded to Salton's complaint, counterclaiming that Salton violated the Illinois Trade Secret Act, tortiously interfered with the agreement between Philips and E & E, and infringed certain federal copyrights held by Philips.[145] The only claims based on federal law were presented in Philips's counterclaim.[146]

E & E moved to intervene in the lawsuit for the limited purpose of seeking dismissal of the action pursuant to FRCP 12(b)(7) for failure to join a party under FRCP 19.[147] E & E asserted that it was a necessary party, considering the claims surrounding E & E's agreement with Philips, that it could not be joined as a party and that the district court

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140. The supplemental jurisdiction statute, 28 U.S.C. § 1367, provides no relief for a district court in this situation. Section 1367 can only provide supplemental jurisdiction for courts that already have an independent basis for jurisdiction. *See* 28 U.S.C. § 1367(b) (2000).

141. No. 03 C 5660, 2004 WL 42371 (N.D. Ill. Jan. 5, 2004).

142. *Id.* at *5-7.

143. *Id.* at *2.

144. *Id.*

145. *Id.*

146. *Id.* The declaratory judgment actions by Salton, when converted into hypothetical claims, simply present state law based claims, and therefore do not vest the district court with federal question jurisdiction under § 1331. *See* Skelly Oil Co. v. Phillips Petroleum Co., 339 U.S. 667, 671-72 (1950).

147. *Salton*, 2004 WL 42371, at *2-3.

should, therefore, dismiss the case.[148] If E & E was joined as a party, it would destroy diversity jurisdiction under § 1332.[149] The district court agreed with E & E finding E & E to be a necessary and indispensable party.[150] The court also concluded that E & E's inclusion "would destroy th[e] court's subject matter jurisdiction"—the court "would no longer have subject matter jurisdiction under" § 1332.[151]

Philips contested this conclusion by suggesting that the district court had "original jurisdiction under § 1331 . . . by virtue of its copyright claim arising under federal law." The court noted that the copyright claim "was raised in Philips'[s] counterclaim."[152] Applying the Supreme Court's decision in *Holmes*, which had recently been cited by the Seventh Circuit in *Adkins v. Illinois Central Railroad Company*, the court concluded that "Philips'[s] counterclaim, even if compulsory, cannot serve as the basis for this court's jurisdiction under § 1331."[153] The court reasoned that Philips's copyright counterclaim did not fall within the well-pleaded complaint and therefore could not serve as the basis for "arising under" jurisdiction under § 1331.[154] The case was dismissed because E & E was a necessary and indispensable party who, if joined, would destroy the district court's only basis for jurisdiction over the case.[155] The court in *Salton* applied the well-pleaded complaint rule and concluded that a federal law counterclaim, by itself, cannot vest the court with § 1331 jurisdiction.

The decision in *Salton* stands in contrast to a fair number of cases before the *Holmes* decision that based their original jurisdiction on a federal law counterclaim.[156] Some of these cases that the *Holmes*

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148. *Id.* at *3.

149. *Id.* at *6.

150. *Id.* at *5.

151. *Id.* at *5-7.

152. *Id.* at *6.

153. *Id.* In the *Adkins* decision, relied upon by the *Salton* court, the Seventh Circuit concluded that it could not rely on a third-party complaint filed pursuant to FRCP 14 as an independent basis for jurisdiction. Adkins v. Ill. Cent. R.R., 326 F.3d 828, 836 (7th Cir. 2003). The court concluded that, just as counterclaims fall outside the well-pleaded complaint, so do pleadings by third parties. *Id.* Therefore, even though a third party complaint presents questions "arising under" federal law, that complaint cannot, after *Holmes*, form an independent basis for federal question jurisdiction under § 1331. *Id.* The *Adkins* decision shows the even broader impact the *Holmes* decision may have, beyond federal jurisdiction over counterclaims. Such "even broader" implications are beyond the scope of this Article.

154. *Salton*, 2004 WL 42731, at *6.

155. *Id.* at *9.

156. *See, e.g.*, 6 CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE § 1414 n.32 (2d ed. 1990) (collecting cases where a court found a counterclaim

decision implicitly overturns were noted in Justice Stevens's concurrence.[157]

A good example of a case "improperly" applying the well-pleaded complaint rule, as set forth by the Court in *Holmes*, is *Great Lakes Rubber Corp. v. Herbert Cooper Co.*[158] In *Great Lakes*, the district court's jurisdiction was initially based on the alleged diversity between the plaintiff and defendant.[159] Great Lakes filed only state law claims against Cooper.[160] Cooper responded by filing a counterclaim asserting that Great Lakes violated sections one and two of the Sherman Act.[161]

Cooper then moved to dismiss Great Lakes' complaint on the grounds that there was no diversity of citizenship.[162] The district court granted Cooper's motion, dismissing the complaint for lack of jurisdiction.[163] However, "[j]urisdiction of Cooper's counterclaim was retained on the ground that it had an independent basis of jurisdiction in that it asserted a claim arising under the laws of the United States."[164] Presumably, from that statement, the district court maintained jurisdiction pursuant to 28 U.S.C. § 1331 based solely on the federal antitrust counterclaim. Great Lakes then filed counterclaims to Cooper's counterclaims—basically repeating "in substance the [state law] allegations of its [now dismissed] amended complaint."[165] The Third Circuit held that the district court properly had ancillary jurisdiction over these counter-counterclaims by Great Lakes because they were compulsory to Cooper's counterclaim.[166]

The well-pleaded complaint rule, as explained in *Holmes* and demonstrated by its application in *Salton*, commands a different outcome in *Great Lakes*. The district court, after granting Cooper's motion for lack of diversity, should have dismissed Cooper's counterclaims and not

"present[s] an independent basis of federal jurisdiction" that can be adjudicated even after a plaintiff's claim is dismissed).

157. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 835-36 (2002) (Stevens, J., concurring) (citing those cases cited in Aerojet-Gen. Corp. v. Mach. Tool Works, Oerlikon-Buehrle Ltd., 895 F.2d 736, 742-43 (Fed. Cir. 1990)).

158. 286 F.2d 631 (3d Cir. 1961).

159. *Id.* at 631.

160. *Id.* at 631-32.

161. *Id.* at 632.

162. *Id.* at 633.

163. *Id.*

164. *Id.*

165. *Id.*

166. *Id.* at 634.

entertained Great Lakes counter-counterclaims.[167] Cooper's counterclaim, while alleging a federal cause of action—antitrust—does not "aris[e] under" federal law because it does not fall within the scope of the well-pleaded complaint, it falls in the defendant's counterclaims.[168]

As another example, the well-pleaded complaint rule, as described in *Holmes*, would also dictate a different result in *Smalley v. United States*.[169] Marlin Smalley alleged in his complaint that the United States had violated various sections of the Internal Revenue Code when assessing his tax liability and instituting liens against his property.[170] The complaint alleged claims "arising under" federal law, giving the district court jurisdiction under 28 U.S.C. § 1331. With the United States being the defendant, the district court did not have diversity jurisdiction under § 1332.[171] The United States filed a counterclaim against Mr. Smalley seeking foreclosures on the liens it had on his property.[172]

After the court denied a United States motion for summary judgment, Mr. Smalley sought withdrawal of his claims against the United States.[173] The United States, in response, sought reconsideration of its summary judgment motion.[174] The district court granted Mr. Smalley's request for "withdrawal"—taking it as a motion for voluntary dismissal pursuant to FRCP 41(a)(2).[175] Notably, a dismissal under Rule 41(a)(2) is a dismissal without prejudice—operating as though Mr. Smalley never filed the now dismissed claims with the court.[176] Such claims, therefore, cannot serve as a jurisdictional footing for the district court over the case.[177] The court concluded that such a situation did "not impair Defendant's position. Defendant's counterclaim arises under

167. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 831 (2002) (finding that a federal law counterclaim cannot establish "arising under" jurisdiction).

168. *Id.* at 831-32.

169. No. 92-1052, 1992 WL 448499 (W.D. Tenn. Nov. 20, 1992).

170. *Id.* at *1.

171. 28 U.S.C. § 1332(a) (2004) (listing the situations in which district courts have diversity jurisdiction; situations in which the United States is a party is not included).

172. *Smalley*, 1992 WL 448499, at *1.

173. *Id.*

174. *Id.*

175. *Id.*

176. *See, e.g.*, Humphreys v. United States, 272 F.2d 411, 412 (9th Cir. 1959) (noting that a Rule 41(a)(2) dismissal "leaves the situation the same as if the suit had never been brought in the first place").

177. *Smalley*, 1992 WL 448499, at *1.

federal law, thus, dismissing Plaintiff's claim would not affect the court's jurisdiction to adjudicate the counterclaim."[178]

The well-pleaded complaint rule, however, prevents the district court from concluding that the United States counterclaims "arise under" federal law because of where they were plead. Once Mr. Smalley's claims were dismissed, the district court, under the well-pleaded complaint rule, would no longer have jurisdiction pursuant to § 1331.[179] In addition, § 1367 could not save its jurisdiction over the counterclaims because, without the independent jurisdiction based on Mr. Smalley's complaint, the court could not exercise supplemental jurisdiction over the United States counterclaims.[180] Most likely, the case would have been decided differently, with the district court not allowing Mr. Smalley to voluntarily dismiss his claims because, to do so, would unnecessarily prejudice the United States by forcing the dismissal of their counterclaims.[181]

The well-pleaded complaint rule, as set forth in *Holmes*, would also prompt a different decision in *Fax Telecommunicaciones, Inc. v. AT&T*.[182] Fax brought suit against AT&T in "New York State Supreme Court asserting state common law contract and tort claims."[183] AT&T removed the action to federal district court, asserting federal question jurisdiction over the case under the Federal Communications Act ("FCA").[184] Fax never objected or challenged the removal, and the case went to judgment.[185] On appeal, the Second Circuit, *sua sponte*, questioned whether the district court had jurisdiction over the case.[186]

The Second Circuit concluded that removal was improper, but Fax failed to make a timely objection to the removal and the question became whether the district court had jurisdiction when it entered judgment.[187] The court found jurisdiction based on AT&T's counterclaim that "plainly arose under federal law."[188] "AT&T's

178. *Id.*

179. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 830-32 (2002).

180. *See* 28 U.S.C. § 1367(b) (2000); 6 CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE § 1414 (2d ed. 1990).

181. FED. R. CIV. P. 41(a)(2).

182. 138 F.3d 479 (2d Cir. 1998).

183. *Id.* at 485.

184. *Id.*

185. *Id.*

186. *Id.*

187. *Id.* at 487 (citing Grubbs v. Gen. Elec. Credit Corp., 405 U.S. 699, 700, 702 (1972)).

188. *Id.* at 488.

counterclaim seeking to enforce the filed tariff provides a basis for federal question jurisdiction."[189]

The well-pleaded complaint rule requires a different answer in *Fax Telecommunicaciones*. AT&T's counterclaim falls outside the well-pleaded complaint and, therefore, cannot form an independent basis for federal question jurisdiction.[190] Interestingly, a district court faced a similar issue as that in *Fax Telecommunicaciones* and refused to apply the holding in *Holmes*.[191] The defendant argued that its federal law counterclaim could not create jurisdiction over the dispute at the time the judgment was entered because the *Holmes* decision prevented such counterclaims from creating "arising under" jurisdiction.[192] The court rejected this argument, refusing to ignore the Second Circuit's decision in *Fax Telecommunicaciones*.[193] The court found that defendant's argument "confuses the requirements for original jurisdiction with the determination of jurisdiction post-judgment."[194] With the reasoning behind the Court's application of the well-pleaded complaint rule in *Holmes*, it is tough to see such a distinction.

Claims that clearly present a federal question cannot independently vest a district court with federal question jurisdiction if such claims appear in a counterclaim.[195] Once a district court loses jurisdiction under § 1331, because of a voluntary dismissal as in *Smalley*, or loses jurisdiction under § 1332, because of the need to join a necessary and indispensable party as in *Salton*, the district court cannot turn to a federal law counterclaim for jurisdictional footing. Furthermore, when a court lacks jurisdiction initially, such as in *Fax Telecommunicaciones*, the court cannot turn to a federal law counterclaim to gain jurisdiction over the case, even at the time of judgment. The well-pleaded complaint rule, as recently discussed by the Supreme Court in *Holmes*, filters these federal law counterclaims out of the universe of claims substantively considered to form the basis of federal question jurisdiction.

189. *Id.*

190. The Supreme Court has found jurisdiction in a circumstance similar to *Fax Telecommunicaciones*, but the jurisdiction was based on diversity from the amount in controversy presented by a defendant's counterclaim. Mackay v. Uinta Dev. Co., 229 U.S. 173, 174-76 (1913). This distinction, while ignored by the Second Circuit in *Fax Telecommunicaciones*, 138 F.3d at 487 n.6, is significant in light of the rule discussed in the *Holmes* decision.

191. Wells Fargo Bank N.W. v. TACA Int'l Airlines, S.A., 314 F. Supp. 2d 195, 198 (S.D.N.Y. 2003).

192. *Id.* at 199.

193. *Id.* at 198.

194. *Id.* at 199.

195. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 831 (2002).

B. Removal Jurisdiction Based on Federal Law Counterclaims

The well-pleaded complaint rule also effects the scope of a federal district court's removal jurisdiction under 28 U.S.C. § 1441. As discussed in Part I.B., "where there is no diversity of citizenship between the parties—the propriety of removal turns on whether the case falls within the original 'federal question' jurisdiction of the United States district courts."[196] The scope of a district court's original jurisdiction defines which cases can be removed from state court to a federal district court[]".[197] A district court's original jurisdiction over federal questions is defined by 28 U.S.C. § 1331.[198] And, as discussed above, the well-pleaded complaint rule affects the scope of federal question jurisdiction over federal law counterclaims.[199] The well-pleaded complaint rule, therefore, also applies to questions of removal jurisdiction.[200] "The well-pleaded-complaint rule . . . governs whether a case is removable from state to federal court pursuant to 28 U.S.C. § 1441(a) . . . ."[201] Just as counterclaims can not form an independent basis for original jurisdiction because they fall outside the well-pleaded complaint, counterclaims can not form a basis for removal jurisdiction.

The Supreme Court in *Holmes* was particularly concerned with what effect allowing counterclaims to fall within the well-pleaded complaint would have on removal jurisdiction.[202] Allowing counterclaims to create "arising under" jurisdiction, the Court reasoned, would "radically expand the class of removable cases" to include those where the only federal claim in the state case is a counterclaim.[203] If counterclaims were eligible for consideration, "[i]t would allow a defendant to remove a case brought in state court under state law . . . simply by raising a federal counterclaim."[204] By defining the well-pleaded complaint to not include counterclaims, the Supreme Court blocked this very scenario where a defendant's counterclaim facilitated the removal of a case to federal court.

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196. Franchise Tax Bd. of Cal. v. Constr. Laborers Vacation Trust, 463 U.S. 1, 8 (1983).
197. *Id.* at 8-9.
198. 28 U.S.C. § 1331 (2000); *see also Franchise Tax Bd.*, 463 U.S. at 8.
199. *See supra* Part III.A.
200. *See* Doernberg, *supra* note 29, at 620-26.
201. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 830 n.2 (2002).
202. *Id.* at 832.
203. *Id.*
204. *Id.* at 831-32.

While this was the first statement by the Supreme Court on the issue of federal law counterclaims and removal,[205] other regional circuit and district courts have already spoken, concluding that counterclaims cannot form the basis for removal jurisdiction.[206] For example, the Ninth Circuit, in *Takeda v. Northwestern National Life Insurance Co.* specifically held that a federal counterclaim can not form the basis for removal jurisdiction.[207] Northwestern asserted that its counterclaim, under section 502 of ERISA, presented an independent basis for federal jurisdiction and therefore for removal.[208] The court in *Takeda* rejected Northwestern's argument, concluding that "[a] straight-forward application of the well-pleaded complaint rule persuades us that removal jurisdiction does not exist. . . . . The federal question defendants raise in their counterclaims does not provide a basis for removal."[209] Looking to the Supreme Court's decision in *Gully*, the court noted that, when determining whether a district court has jurisdiction to remove a case from state court based on a federal question, "[t]he federal question 'must be disclosed upon the face of the complaint, unaided by the answer or by the petition for removal.'"[210]

The Supreme Court's decision in *Holmes* follows the same analysis as that in *Takeda* and other circuit court cases—a counterclaim is not part of the well-pleaded complaint, and, therefore, cannot be the trigger for removal jurisdiction.[211] The ruling in *Holmes* affirms the lower court case law concluding that federal law counterclaims cannot create removal jurisdiction. Many federal district courts have already cited

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205. *Id.*

206. *See* Fed. Deposit Ins. Corp. v. Elefant, 790 F.2d 661, 667 (7th Cir. 1986); Takeda v. Northwestern Nat'l Life Ins. Co., 765 F.2d 815, 821-22 (9th Cir. 1985) (citing numerous cases supporting the proposition that "[r]emovability cannot be created by defendant pleading a counter-claim presenting a federal question..."); Duckson, Carlson, Bassinger, LLC v. Lake Bank, 139 F. Supp. 2d 1117, 1118-19 (D. Minn. 2001) (finding no removal jurisdiction based on counterclaims and a third party defendants' claims that were not separate and independent from the other claims in the case); Commercial Sales Network v. Sadler-Cisar, Inc., 755 F. Supp. 756, 758-60 (N.D. Ohio 1991) (granting a motion for remand because plaintiff's complaint contained no patent law claims and defendants' counter-suit, handled as counterclaims, could not form the basis for removal); Coditron Corp. v. AFA Protective Sys., Inc., 392 F. Supp. 158, 161 (S.D.N.Y. 1975) (holding that "the answer and [patent law] counterclaims of AFA do not provide a basis for removal"); Greene Home Owners Assoc., Inc. v. Vogel, No. CA3:98-CV-2966-R, 1999 WL 292718, *1 (N.D. Tex. Apr. 12, 1999).

207. 765 F.2d at 821-22.

208. *Id.* at 821.

209. *Id.* at 822.

210. *Id.* (quoting Gully v. First Nat'l Bank, 299 U.S. 109, 113 (1936)).

211. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 831 (2002).

Holmes for the proposition that "neither a federal defense nor counterclaim will create removal jurisdiction."[212]

C. Exclusive Jurisdiction Over Certain Federal Law Counterclaims

In addition to the effects on the original and removal jurisdiction of federal district court, the well-pleaded complaint rule also has ramifications for some areas of exclusive federal jurisdiction over federal law counterclaims. In particular, the well-pleaded complaint rule impacts exclusive federal jurisdiction when that exclusivity is defined in relation to the federal district court's "arising under" jurisdiction. Cases where the exclusive federal claim appears in a counterclaim do not arise under federal law because they do not meet the well-pleaded complaint rule.[213] Thus, state courts can handle such cases with counterclaims even though, if the claim were presented in the complaint, the case would have fallen in exclusive federal jurisdiction.

An example of an exclusive jurisdiction statute that defines the scope of exclusivity with regards to "arising under" jurisdiction is 28 U.S.C. § 1338(a)—the patent, copyright, and trademark jurisdictional statute at issue in *Holmes*.[214] Section 1338(a) first defines a district court's original jurisdiction over "any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks."[215] The statute then indicates that "[s]uch jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases."[216] A federal district court's exclusive jurisdiction over patent and copyright cases is the same as its original jurisdiction

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212. United Mut. Houses v. Andujar, 230 F. Supp. 2d 349, 350 (S.D.N.Y. 2002); *see also* Integra Bank, N.A. v. Greer, No. IP 4:02-CV-244 B/H, 2003 WL 21544260, *3-4 (S.D. Ind. June 26, 2003) (noting that even if a removal petition was timely filed, federal law counterclaims could not, pursuant to the ruling in *Holmes*, "establish federal question jurisdiction" and thus support removal); Flanders Diamond USA Inc. v. Nat'l Diamond Syndicate, Inc., No. 02 C 4605, 2002 WL 31681474, at *2-4 (N.D. Ill. Nov. 27, 2002) (denying removal to federal court because there were no claims arising under patent law in the plaintiff's well-pleaded complaint); R.F. Shinn Contractors, Inc. v. Shinn, No. 1:01CV00750, 2002 WL 31942135, at *2 (M.D.N.C. Nov. 8, 2002) (remanding a case that included a patent infringement counterclaim to state court because of lack of subject matter jurisdiction); *In re* Tamoxifen Citrate Antitrust Litig., 222 F. Supp. 2d 326, 330 (E.D.N.Y. 2002) (citing *Holmes* for the proposition that "answers and counterclaims cannot serve as the basis for 'arising under' jurisdiction") (patent case).

213. *Holmes*, 535 U.S. at 829-32.

214. *See* 28 U.S.C. § 1338(a) (2000); *see also supra* Part I.C.1.

215. 28 U.S.C. § 1338(a) (2000).

216. *Id.* Section 1338(a) excludes trademarks from the exclusive jurisdiction given to federal district courts. *Id.*

over such cases—an original jurisdiction determined if the case "aris[es] under" patent or copyright law.[217] Based on the plain language of the statute, the court's exclusive jurisdiction over such cases is coupled with its "arising under" jurisdiction.[218]

Cases in which the only patent or copyright claim presents itself in a counterclaim do not fall within a federal court's original jurisdiction under § 1338(a). If a case in which the only patent or copyright claim is presented in a counterclaim does not qualify as a "civil action arising under" patent or copyright law, then, based on the plain reading of the statute, § 1338(a) does not confer the federal court with exclusive jurisdiction over the case.[219] These counterclaims are not within the exclusive jurisdiction of federal courts, and, therefore, state courts can maintain jurisdiction over them.[220]

This result is a departure from existing case law in the patent and copyright area. Prior to the *Holmes* decision and its statement regarding the well-pleaded complaint rule, many state courts concluded that federal district courts had exclusive jurisdiction over all patent and copyright claims, even if they appear in the form of a counterclaim.[221] In *Tewarson*, the Court of Appeals of Ohio concluded that state courts do not have jurisdiction "over claims over which federal courts have exclusive jurisdiction."[222] The appeals court, therefore, dismissed the copyright counterclaim for lack of jurisdiction.[223] These cases are called into question by the decision in *Holmes*, because these patent and copyright counterclaims do not fall under a district court's original

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217. *Id.*; *see also supra* Part I.C.1.

218. *See* Cotropia, *supra* note 4, at 296.

219. One could argue that the second sentence in § 1338(a), which defines the scope of exclusive jurisdiction, refers to a federal court's exclusive jurisdiction over specific claims, not the whole case. The plain language of § 1338(a), however, defines both original and exclusive jurisdiction in terms of the "civil action," not particular claims. 28 U.S.C. § 1338(a) (2000). Therefore, any effect *Holmes* has on the district court's "arising under" jurisdiction over patent and copyright cases also impacts the federal court system's exclusive jurisdiction over such cases.

220. *See* Cotropia, *supra* note 4, at 294-97.

221. *See* Tewarson v. Simon, 750 N.E.2d 176, 183 (Ohio Ct. App. 2001) (holding that the state court lacked jurisdiction over copyright counterclaim because federal courts have exclusive jurisdiction "over claims arising under federal copyright law"); EMSA Ltd. P'ship v. Lincoln, 691 So. 2d 547, 549 (Fla. Dist. Ct. App. 1997) ("The trial court lacked subject matter jurisdiction over the counterclaim because it involved rights arising out of the federal copyright laws and pled copyright infringement."); Superior Clay Corp. v. Clay Sewer Pipe Ass'n, 215 N.E.2d 437, 440 (Ct. Common Plea Ohio 1963); Pleatmaster v. Consol. Trimming Corp., 156 N.Y.S.2d 662, 666 (N.Y. Sup. Ct. 1956); Am. Home Prod. Corp. v. Norden Lab., Civ. A. No. 11615, 1992 WL 368604, *3 (Del. Ch. Dec. 11, 1992) (unpublished opinion).

222. *Tewarson*, 750 N.E.2d at 183.

223. *Id.*

jurisdiction under § 1338(a), and, therefore, by operation of the statute, no longer fall under a district court's exclusive jurisdiction.[224]

The Indiana Supreme Court addressed the issue of exclusive federal jurisdiction over copyright claims after the *Holmes* decision in *Green v. Hendrickson Publishers, Inc.*[225] Hendrickson Publishers sued Mary and Jay Green in Superior Court in Indiana for breach of a publishing contract.[226] The Greens' counterclaimed, alleging, inter alia, that Hendrickson Publishers violated their copyrights on the books included in the publishing contract.[227] The Greens attempted to remove the case to federal district court, but the federal court remanded "because a defendant's counterclaim based on federal law does not confer federal court jurisdiction."[228] Hendrickson then argued that the Greens' counterclaims, now amended, were preempted by federal copyright law and the state court had no jurisdiction to decide them.[229] The trial court agreed and granted partial summary judgment, but the court of appeals reversed "holding that the copyright issues were merely tangential to the contract claims, and the trial court had jurisdiction over the offending portions of the counterclaim."[230] The Indiana Supreme Court granted the appeal and, in its opinion, noted that the appeal presented two issues: "whether the Greens have a valid state law claim" and "what court may entertain the Greens' claim."[231]

In response to the first question, the Indiana Supreme Court concluded that the Greens' counterclaim was preempted by federal copyright law and therefore relief was available to the Greens only under the federal Copyright Act.[232] This brought the Indiana Supreme Court to the second question, the question on which the *Holmes* decision impacts—can a state court hear a copyright counterclaim?[233] The Indiana Supreme Court noted that "until very recently the logic and language of a consistent body of federal decisions appeared to preclude a state court

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224. 28 U.S.C. § 1338(a) (2000).

225. 770 N.E.2d 784 (Ind. 2002).

226. *Id.* at 787.

227. *Id.*

228. *Id. See also, supra* Part III.B., where it is noted that this was already established law before the *Holmes* decision.

229. *Green*, 770 N.E.2d at 787-88.

230. *Id.* at 788 (citing Green v. Hendrickson Publishers, Inc., 751 N.E.2d 815, 824-25 (Ind. Ct. App. 2001)).

231. *Id.*

232. *Id.* at 790.

233. *Id.*

from entertaining a counterclaim under copyright law."[234] This body of case law, in the Indiana Supreme Court's eyes, is now "trumped by the Supreme Court's ruling in *Holmes*," opening the door for "a state court [to] entertain a counterclaim under patent or copyright law."[235] The Indiana Supreme Court noted that, under *Holmes*, a counterclaim does not confer "arising under" jurisdiction under § 1338(a), and therefore, counterclaims are not within the exclusive jurisdiction defined by § 1338(a).[236] The Court, therefore, remanded the case to the trial court to decide the copyright counterclaim.[237]

The Indiana Supreme Court decision gives a perfect example of the impact the well-pleaded complaint rule can have on exclusive federal jurisdiction over patent and copyright claims. If such claims are present in only a counterclaim, and no other basis for removal is present, these claims will stay in a state court's jurisdiction, with the Supreme Court being their only avenue for federal review.[238]

In contrast to 28 U.S.C. § 1338(a), other exclusive jurisdiction statutes do not tie exclusivity to a district court's "arising under" jurisdiction. Thus, these areas of exclusive federal jurisdiction are likely not affected by the well-pleaded complaint rule.[239]

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234. *Id.* at 792 (discussing Aerojet-Gen. Corp. v. Mach. Tool Works, Oerlikon-Buehrle Ltd., 895 F.2d 736 (Fed. Cir. 1990) and the subsequent cases that interpreted district court "arising under" jurisdiction in § 1338(a) to include counterclaims).

235. *Id.* at 793.

236. *Id.*

237. *Id.* at 793-94.

238. 28 U.S.C. § 1257(a) (2000).

239. For example, exclusive federal jurisdiction over admiralty and maritime cases is governed by 28 U.S.C. § 1333. The statute states that:

> The district courts shall have original jurisdiction, exclusive of the courts of the States, of:
>
> (1) Any civil case of admiralty or maritime jurisdiction, saving to suitors in all cases all other remedies to which they are otherwise entitled.
>
> (2) Any prize brought into the United States and all proceedings for the condemnation of property taken as prize.

28 U.S.C. § 1333 (2000). By not using the legally significant "arising under" phrase, the exclusive jurisdiction over admiralty cases is not linguistically tied to the general decision of federal question jurisdiction. *Compare* Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc. 535 U.S. 826, 829-32 (2002), *with* Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 808-09 (1988) (noting that the removal of actions against foreign states is removable while not using the "arising under" language).

IV. POLICY IMPLICATIONS OF PLACING FEDERAL LAW COUNTERCLAIMS OUTSIDE THE WELL-PLEADED COMPLAINT

The well-pleaded complaint rule places a universe of federal law counterclaims outside federal jurisdiction.[240] A federal district court cannot find an independent basis for federal question jurisdiction in a counterclaim.[241] A defendant cannot remove a case from state court based solely on a federal law counterclaim.[242] Furthermore, depending on the statute governing federal exclusivity, a state court may be able to exercise jurisdiction over what normally would be an exclusive federal claim if the claim appears in a counterclaim.[243]

The policy implications of the well-pleaded complaint rule as applied to federal law counterclaims are many. First, the well-pleaded complaint rule frustrates the purposes behind federal question jurisdiction. Federal law counterclaims can get stuck in state court, forcing federal claims to be tried before state judges. A defendant in such a suit cannot call upon the expertise of a federal judge to decide the federal counterclaim. By deciding such counterclaims, states frustrate the inherent uniformity furthered by federal question jurisdiction. Second, the legitimate interests of the parties may be frustrated by the well-pleaded complaint rule's application to federal law counterclaims. Both defendants and plaintiffs may, under certain circumstances, want, and have legitimate reason to want, a federal law counterclaim to be adjudicated in federal court. However, the well-pleaded complaint rule may force such claims, potentially claims that normally fall within exclusive federal jurisdiction, to be litigated in state court. Finally, by preventing counterclaims from establishing federal question jurisdiction, the well-pleaded complaint rule will lead to inefficiencies, particularly where the rule prompts forum shopping and gamesmanship on the part of plaintiffs and defendants. All three of these areas of policy concern will be explored in detail below.

A. *Frustrating the Purposes Behind Federal Question Jurisdiction*

The original purpose behind federal question jurisdiction is twofold: to address the fear of state hostility and bias against federal laws and the need for uniformity in the application and interpretation of

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240. *See supra* Part II.C.

241. *See supra* Part III.B.1.

242. *See supra* Part III.B.2.

243. *See supra* Part III.B.3.

federal law.[244] While concerns of state hostility against federal law may now be unwarranted,[245] concerns for uniformity in the treatment of federal law still ring true. The Supreme Court has recognized, on more than one occasion, "the desirability of uniform decisions on federal law."[246] The more questions of federal law that are decided by federal courts, the more likely there will be uniformity in decisions concerning federal law. By allowing a particular forum—in this case the federal court system—to have a monopoly on issues of federal law, a level of doctrinal stability can be maintained.[247] While absolute doctrinal stability is tough to achieve, minimizing the number of courts that handle federal issues increases the chance for some level of uniformity.[248] Furthermore, by limiting the number of courts deciding federal questions, there is a potential for similarly situated litigants to be treated the same or equally under the law.[249] The ability to achieve such horizontal equality in federal cases becomes frustrated when the pool of courts eligible to handle such issues expands to include all state courts.[250]

Perhaps more importantly than limiting the number of courts that make decisions on federal law, federal question jurisdiction also puts those federal question cases in the hands of courts who have the superior expertise.[251] A federal court's experience with federal law increases the

244. Doernberg, *supra* note 29, at 647.

245. Merrell Dow Pharm. Inc. v. Thompson, 478 U.S. 804, 827 n.6 (1986) (Brennan, J., dissenting).

246. Doernberg, *supra* note 29, at 648 (citing *Merrell Dow*, 478 U.S. at 827-28 (Brennan, J., dissenting)).

247. *See, e.g.*, Dreyfuss, *supra* note 3, at 2 (discussing specialized courts). While Dreyfuss is examining specialized courts—particularly the Federal Circuit—her analysis applies to the federal court system because the federal system can be characterized as a specialized system, particularly in comparison to the universe of all courts in the United States. Arguably, Dreyfuss's analysis becomes a bit diluted when applied to the whole federal system, a system with such a large scale. But her analysis still has some application to the purpose of uniformity furthered by federal question jurisdiction.

248. *Merrell Dow*, 478 U.S. at 826 (Brennan, J., dissenting) (noting that "while perfect uniformity may not have been achieved [under § 1331], experience indicates that the availability of a federal forum in federal-question cases has done much to advance that goal").

249. *See* Dreyfuss, *supra* note 3, at 8.

250. This can be compared to the creation of the Federal Circuit that decreased the number of appellate courts that handled patent appeals from twelve to one in order to create "horizontal equity." Dreyfuss, *supra* note 3, at 8. While on a smaller scale, the same rationale applies to the federal court system.

251. *Merrell Dow*, 478 U.S. at 826-27 (Brennan, J., dissenting) (indicating that "§ 1331 has provided for adjudication in a forum that specializes in federal law and that is therefore more likely to apply that law correctly").

likelihood the law will be applied correctly—a result in which all parties to the suit, and the public, have an interest.[252] Federal courts, for example, are skilled in interpreting federal statutes because they engage in such interpretation in almost every case.[253] "[F]ederal question jurisdiction is necessary . . . to protect litigants relying on federal law from the danger that state courts will not properly apply that law."[254]

A state court, in contrast, does not see many questions of federal law, and therefore is not versed or experienced in federal questions.[255] Most state courts simply cannot answer federal questions in the same manner as federal courts, who see such issues at a higher frequency. There is, however, the opportunity for federal review of state decisions on federal law.[256] A party can apply for writ of certiorari to the United States Supreme Court from the final judgment of the "highest court of a State" when the "validity of a treaty or statute of the United States is drawn in question."[257] Review, however, is unlikely given the "reality that an extremely small percentage of the cases seeking Supreme Court review actually receive it."[258] Therefore, the maintenance of a federal district court's jurisdiction over federal questions plays a crucial role in the enforcement of federal law.

The exclusion of certain cases from a federal district court's jurisdiction due to the well-pleaded complaint rule frustrates the purposes behind federal question jurisdiction—particularly the goal of uniformity. The well-pleaded complaint rule forces certain federal law counterclaims to fall outside a federal court's jurisdiction.[259] Neither party to the suit can call upon the expertise of a federal court to adjudicate these federal issues. When presented in a counterclaim, with no other foundation for federal jurisdiction in the case, a question of federal law lies outside of a district court's original jurisdiction and its removal jurisdiction.[260] In cases such as *Salton*, the federal questions

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252. *Id.* at 826-27; *see also* A.L.I., STUDY OF THE DIVISION OF JURISDICTION BETWEEN STATE AND FEDERAL COURTS 164-65 (1969).

253. A.L.I., *supra* note 252, at 165; *see also* MARTIN H. REDISH, FEDERAL JURISDICTION: TENSIONS IN THE ALLOCATION OF JUDICIAL POWER 71 (1980).

254. A.L.I., *supra* note 252, at 168.

255. *Id.* at 165 (noting that "it is apparent that federal question cases must form a very small part of the business of [state] courts . . . .").

256. 28 U.S.C. § 1257(a) (2000).

257. *Id.*

258. Doernberg, *supra* note 29, at 655.

259. *See supra* Part III.B.

260. *See id.*

will not stay within a federal district court's jurisdiction.[261] Moreover, if such a counterclaim appears in state court, the counterclaim does not provide a basis for removal.[262]

Perhaps even more frustrating to the purposes behind federal question jurisdiction is the impact of the well-pleaded complaint rule on areas of federal law in which Congress wanted exclusive federal jurisdiction over a federal claim.[263] The Indiana Supreme Court's decision in *Green* provides a good example of this frustration, where a copyright counterclaim not only falls outside of federal jurisdiction, but stays in state court to be adjudicated.[264] Congress, pursuant to § 1338(a), wanted issues of patent and copyright law to be adjudicated by federal courts. For this area of federal law, not only is there a policy interest of federal uniformity and expertise in a copyright claim's adjudication, there is a policy interest to not have the claim decided by a state court.[265] The well-pleaded complaint rule as applied to federal law counterclaims frustrates these policy rationales. If the claim appears in a counterclaim, it falls outside of this exclusive federal jurisdiction.

Arguably, a litigant wanting to have her federal law counterclaim litigated in federal court can simply refile the counterclaim after the case is dismissed from state court for want of jurisdiction. The federal claim will now fall within the well-pleaded complaint and can qualify as an independent basis for federal jurisdiction.[266] While this may be a solution for some interested in federal uniformity and the use of the federal judiciary's expertise, certain defendants could find themselves, and their counterclaims, trapped in state court.

Take, as an example, a complaint filed in state court that forces a defendant, based on the complaint's allegations, to file a compulsory counterclaim. A plaintiff may assert state unfair competition claims in state court that require a responding party to file federal patent or copyright counterclaims. If, based on the facts surrounding the plaintiff's complaint, such claims are compulsory under state rules of procedure,

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261. Salton, Inc. v. Philips Domestic Appliances & Personal Care B.V., No. 03 C 5660, 2004 WL 42371, at *5-7 (N.D. Ill. Jan. 5, 2004).

262. *See, e.g.*, Integra Bank, N.A. v. Greer, No. IP 4:02-CV-244 B/H, 2003 WL 21544260, at *3-4 (S.D. Ind. June 26, 2003).

263. *See supra* Part III.B.3.

264. Green v. Hendrickson Publishers, Inc. 770 N.E.2d 784, 792-94 (Ind. 2002).

265. Donald Shelby Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 635-36 (1971) (noting that federal courts were given exclusive jurisdiction over patent cases to promote uniformity in federal patent law).

266. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 830 (2002).

failure to assert such claims in state court will, depending on state law, bar the defendant from presenting them in a future federal or state suit.[267] The defendant cannot remove the case to federal court because the federal law counterclaims provide no basis for removal.[268]

In addition, if such counterclaims are normally claims that fall within a federal court's exclusive jurisdiction, the defendant may not be able to get the counterclaims dismissed from state court for lack of jurisdiction, depending on how exclusivity is defined. In the example above, the state court can maintain jurisdiction over these compulsory patent or copyright counterclaims. As the Indiana Supreme Court noted in *Green*, since these claims appear in the form of a counterclaim, they are not within the exclusive sphere of jurisdiction defined by 28 U.S.C. § 1338(a).[269] The state court maintains jurisdiction over the compulsory counterclaims the defendant had to assert in order not to waive them. As a result, the claims are trapped in state court—even if the defendant wanted them decided at the federal level.

Just as a defendant's counterclaims in the above example are trapped in state court due to the well-pleaded complaint rule, a plaintiff may also find herself trapped in state court in a situation where she wants certain counterclaims adjudicated in federal court. The example discussed above applies just as fully to the plaintiff, who, like the defendant, cannot have the case removed or the counterclaims dismissed for want of jurisdiction. Situations may also arise where, depending on the state rules of procedure, a defendant may bring permissive counterclaims in a state case. These counterclaims would not be removable to the federal level to be decided. The only federal review open to either of these parties, in the situations outlined above, is review at the Supreme Court's discretion.[270]

The above discussion is, admittedly, focused solely on the federal interests at issue. There are also federalism concerns that should be considered when deciding between a federal or state forum for a lawsuit. "States have an obvious interest in enforcing state-created causes of action in their own courts."[271] The decision in *Holmes* was based, in part,

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267. *See, e.g.*, Montgomery Ward Dev. Corp. v. Juster, 932 F.2d 1378, 1381-82 (11th Cir. 1991); Marrese v. Am. Acad. of Orthopaedic Surgeons, 470 U.S. 373, 379-383 (1985); 3 JAMES W. MOORE ET AL., MOORE'S FEDERAL PRACTICE § 13.14[1] (3d ed. 2004).

268. *See supra* Part III.B.2.

269. *Green*, 770 N.E.2d at 793-94.

270. 28 U.S.C. § 1257(a) (2000).

271. Collins, *supra* note 40, at 758.

on observing these concerns.[272] This interest, however, must compete with the federal government's interests in having federal claims, even counterclaims, adjudicated in federal court. These federal interests increase when the claim at issue is one traditionally within exclusive federal jurisdiction. In addition, such federalism interests already take a back seat when a plaintiff's complaint contains both federal and state claims—with the whole case being eligible for removal.[273] Clearly federal interests win out when such a case is removed based on the complaint. It is hard to justify a different result when the claims raise similar questions of federal law, but appear instead in counterclaims.

The examples set forth above demonstrate how the well-pleaded complaint rule, when applied to exclude federal law counterclaims, frustrates the policy rationale of uniformity behind federal question jurisdiction. Both the plaintiff and the defendant may find themselves in situations where they cannot avail themselves of federal expertise to decide a federal law based counterclaim. Even more important, areas of federal exclusivity, such as patent and copyright law, may be decided by state courts. The need for uniformity and the use of federal expertise in these areas of federal law is heightened, and the well-pleaded complaint rule frustrates these policy goals.

B. Hindering the Legitimate Interests of the Parties

In addition to frustrating the purposes behind federal question jurisdiction, the well-pleaded complaint rule as applied to counterclaims hinders the legitimate interests of the parties to a lawsuit. First, a defendant with a counterclaim based on federal law has a legitimate interest in having access to federal court. This interest is particularly strong in a situation where the federal counterclaim is compulsory. If the counterclaim is permissive, the defendant can simply file it as a complaint in federal court. But, if the counterclaim is compulsory in the state case, the defendant must present the claim or lose her ability to assert the claim.[274] A defendant is forced to file the counterclaim—a claim that could, absent the circumstances, have been filed in a complaint and fallen within a federal court's jurisdiction. Just as the

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272. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 831-32 (2002).

273. 28 U.S.C. § 1441(c) (2000). The district court, in its discretion, may separate the state claims and remand them. *See id.*

274. *See, e.g.*, Montgomery Ward Dev. Corp. v. Juster, 932 F.2d 1378, 1381-82 (11th Cir. 1991); Marrese v. Am. Acad. of Orthopaedic Surgeons, 470 U.S. 373, 379-83 (1985); MOORE, *supra* note 267, at § 13.14 [1].

defendant could have filed the claim as a complaint in federal court, a defendant forced to bring a counterclaim has a legitimate interest in having it adjudicated in federal court—to gain access to federal court's expertise with the federal issue.

The plaintiff has a competing interest in having her state law claims adjudicated in state court. Furthermore, the plaintiff is the master of the complaint, and thus gains the ability to select the forum based on where she files and what she alleges.[275] If she alleges only state claims and files in state courts, there are equitable reasons to allow her selection of forum to trump the interests of the defendant.[276] True, "[a] defendant relying upon federal law to avoid a claim has just as great an interest in vindication of federal law as does a plaintiff relying upon it to establish his cause of action."[277] When comparing interests, however, a plaintiff's interest in a state forum for her causes of action outweighs a defendant's interest in her federal defenses. Put another way, interests in a claim, and where it is adjudicated, trump those of a defense. This argument gains further weight by the fact that the party asserting the claim, the plaintiff, acted first and chose the forum.

The same analysis does not apply as readily when comparing a plaintiff's claim and a defendant's counterclaim. The interest on the defendant's side is not in a defense to a plaintiff's claim, but in an actual claim. A defendant's interest in access to a federal tribunal for a claim, as opposed to a defense, is higher. This interest grows more legitimate when the counterclaim is compulsory.[278] Such a counterclaim is, in most cases, foreseeable by the plaintiff since the claim arises out of the same transaction or occurrence. In addition, because of its compulsory nature and the doctrine of claim preclusion, the defendant does not have the option of waiting and asserting the claim in a separate complaint in federal court. Finally, if the claim normally would fall within a federal court's exclusive jurisdiction, such as with patent and copyright claims

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275. *Holmes*, 535 U.S. at 831-32; Caterpillar Inc. v. Williams, 482 U.S. 386, 398-99 (1987).

276. *Caterpillar*, 482 U.S. at 399.

277. Doernberg, *supra* note 29, at 650.

278. A good argument can be made that permissive counterclaims should not be allowed to tip the scales in the defendant's favor. Allowing a defendant to force federal jurisdiction over a plaintiff by alleging any federal law counterclaim would upset the balance and frustrate the ability of a plaintiff to be the master of her complaint. *Holmes*, 535 U.S. at 831-32. Compulsory counterclaims present a different story, being prompted by the claims a plaintiff chooses to bring. Compulsory counterclaims are out of the defendant's control, and therefore cannot be used to game the system and illegitimately destroy the plaintiff's interests in the same way that a permissive counterclaim can.

under § 1338(a), the defendant's interest in having these claims resolved in federal court are even higher, clearly outweighing the interests of the plaintiff and, at the very least, justify the severing of the counterclaim from the lawsuit.

There is another set of interests that must be explored—the plaintiff's interests to have the federal law counterclaim adjudicated in federal court. While the "expertise [of federal court] will often benefit the party relying upon federal law, it also may benefit the party opposing the assertion."[279] "[T]he federal courts' expertise may be as essential to a party wishing to avoid an overbroad sweep of federal law as to one seeking to avoid grudging indulgence of it."[280] A plaintiff's interest in a federal forum is particularly heightened when the asserted federal law comes in the form of a counterclaim, not simply a defense. The impact of a state court decision on a claim has potentially broader implications then a decision on a defense—the court may hold her liable under the counterclaim, for example. A plaintiff, once a counterclaim is presented in a case—either permissive or compulsory—may have a real interest in moving the case to the federal level.[281]

Therefore, both the plaintiff and the defendant have legitimate interests to have a federal law counterclaim decided by a federal court. The equities, under certain circumstances, dictate that the counterclaim be adjudicated at the federal level. This is particularly true when considering questions of federal law traditionally falling within the federal courts' exclusive jurisdiction. The well-pleaded complaint rule that prevents such counterclaims from forming the basis for removal prohibits the exercising of these legitimate interests and any court's recognition of the equities. In fact, in trying to protect the plaintiff's ability to master the complaint and keep the case in state court, the well-pleaded complaint rule may be ignoring the plaintiff's own interests in removing the case to federal court once a federal law counterclaim appears in the suit. The well-pleaded complaint rule, as applied to counterclaims, "operates blindly to preclude original federal jurisdiction

279. Doernberg, *supra* note 29, at 650.

280. *Id.*

281. The defendant, pursuant to 28 U.S.C. § 1446(a) is the only party that can seek removal. *See* FEDERAL PRACTICE PROCEDURE, *supra* note 35, at § 3731. Therefore, the plaintiff cannot exercise this interest in having the counterclaim adjudicated in state court. But, this does not negate the fact that in some instances the plaintiff's and defendant's interests may align, and both parties will want the case removed.

in cases where, as a matter of sound policy, the parties ought to be permitted to choose a federal forum."[282]

C. *Introducing Judicial Inefficiencies*

The well-pleaded complaint rule was established to provide a "quick rule of thumb" as to whether there was federal question jurisdiction over a case.[283] By being able to focus solely on the plaintiff's complaint, a court could easily, and efficiently, determine whether it had "arising under" jurisdiction over the case.[284] In addition, the rule "permits the determination of jurisdiction when the complaint is filed, without awaiting the defendant's pleading."[285] The Supreme Court's decision in *Holmes* was based, in part, on the apparent efficiency benefits to the well-pleaded complaint rule.[286] By "allowing responsive pleadings by the defendant to establish 'arising under' jurisdiction," the Court "would undermine the clarity and the ease of administration of the well-pleaded-complaint doctrine . . . ."[287]

While there may be some truth to the efficiency benefits of the well-pleaded complaint rule,[288] the well-pleaded complaint rule as applied to counterclaims introduces its own host of judicial inefficiencies into both the federal and the state court system. These inefficiencies outweigh any efficiency gains from excluding counterclaims from the well-pleaded complaint. In addition, any benefits to the judicial economy from the well-pleaded complaint rule must be measured against the substantive implications discussed above.

The first inefficiency is exemplified by those cases in which, some time after the filing of the lawsuit, a district court must dismiss a case for want of subject matter jurisdiction, even though a federal law counterclaim is present in the suit. Admittedly, this is black letter law

282. Cohen, *supra* note 10, at 894 (discussing the well-pleaded complaint rule's denial of jurisdiction based on a federal defense).

283. Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 832 (2002) (citing Franchise Tax Bd. v. Constr. Laborers Vacation Trust, 463 U.S. 1, 11 (1983).

284. Collins, *supra* note 41, at 757.

285. Cohen, *supra* note 10, at 894.

286. *Holmes*, 535 U.S. at 832.

287. *Id.*

288. A good argument can be made that forcing courts to look at responsive pleadings to decide questions of jurisdiction does not produce any real judicial burden. "Making a jurisdictional determination based on both parties' pleadings rather than on the plaintiff's alone would not . . . [add] significantly to the cost of that inquiry." Collins, *supra* note 41, at 757. Additionally, the district court could also, for questions of removal, simply look to the defendant's petition for removal for the existence of a federal question. Doernberg, *supra* note 29, at 653.

with questions of jurisdiction—they may be raised at anytime and any stage of the proceeding.[289] The well-pleaded complaint rule creates such dismissal situations not because the case lacks a federal question, but because of where the federal question appears. Cases such as *Salton* provide perfect examples of this type of inefficiency.[290] The apparent indispensability of a third party, E & E, surfaced in that case, and the district court was faced with the choice of joining E & E and losing diversity and its jurisdiction or dismissing the case altogether. This dismissal occurred even though the case included a federal law counterclaim, concerning an exclusive area of federal law—copyright law.[291] The court dismissed the case and, presumably, Salton, the plaintiff, refiled in state court or Philips filed its counterclaims as part of a complaint in federal court. If the district court was able to use Philips's copyright counterclaim as an independent basis for jurisdiction, E & E would have been joined and the case would have continued. Instead, the well-pleaded complaint rule, by denying the district court the ability to use the counterclaim as a foundation for original jurisdiction, introduced the inefficiencies of dismissing the case and making the parties rush to file in either state or federal court.

The inefficiencies of the well-pleaded complaint rule become magnified if the case has already gone to judgment before the lack of jurisdiction is recognized. This was the situation in *Fax Telecommunicaciones*, where the case went to judgment before the improper removal was recognized.[292] Instead of dismissing this already tried case for lack of jurisdiction, erasing all of the work of the parties and the district court, the Second Circuit found jurisdiction based on a counterclaim that substantively arose under federal law.[293] The well-pleaded complaint rule articulated by the Supreme Court in *Holmes* would require the court to dismiss this case, forcing the parties to refile and retry the case. A district court followed the ruling in *Fax Telecommunicaciones*, even after the *Holmes* decision, noting that "once the 'district court has proceeded to final judgment, considerations of finality, efficiency and economy become overwhelming, and federal

289. *See, e.g.*, Grupo Dataflux v. Atlas Global Group, L.P., 124 S. Ct. 1920, 1924 (2004) (noting that challenges to jurisdiction can be raised at any time prior to final judgment).

290. *See generally* Salton v. Philips Domestic Appliances & Personal Care B.V., No. 03 C 5660, 2004 WL 42371, at *6 (N.D. Ill. Jan. 5, 2004).

291. *Id.* at *6-7.

292. Fax Telecommunicaciones Inc. v. AT&T, 138 F.3d 479, 485-86 (2d Cir. 1998).

293. *Id.* at 488.

courts must salvage jurisdiction where possible.'"[294] The district court recognized the inefficiencies the well-pleaded complaint rule would create if applied to the factual situation before it and how arbitrary a dismissal would be simply because the federal claim appeared in a defendant's pleading.

Inefficiencies will also manifest themselves through forum shopping and gamesmanship on the part of litigants. A plaintiff has a tool—the well-pleaded complaint rule—to trap a federal law counterclaim in state court. As mentioned above, the plaintiff simply files state law claims in state court that, based on the factual underpinnings of the allegations, force compulsory federal law counterclaims.[295] The defendant is forced to bring such federal law counterclaims in state court or waive her rights to assert such claims.[296] The defendant cannot remove such claims to federal court because of the well-pleaded complaint rule.[297] In reaction, or anticipation to these tactics, a defendant may file her claims in another forum, converting her counterclaims to a complaint in federal or state court. A race to the courthouse will therefore ensue, with a potential defendant wanting to file her counterclaims in a complaint to ensure federal jurisdiction. Even if the race is lost, a defendant, now plaintiff in a possibly co-pending case, may ask for consolidation of the cases or dismissal of the plaintiff's case. This race and surrounding litigation gymnastics spring from the jurisdictional situation created by the well-pleaded complaint rule as applied to counterclaims.[298]

Finally, the well-pleaded complaint as applied to counterclaims will have a potentially negative effect on the federal judicial economy. Arguably, since the rule limits a federal district court's original, removal, and exclusive jurisdiction, the rule decreases the burden on the federal court system. However, just as the number of federal cases is limited, the number of state cases increases. More importantly, the increase in caseload for state courts includes claims outside a state court's area of expertise, requiring even more resources to bring such a case to judgment or disposal. In addition, the only venue for federal

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294. Wells Fargo Bank North v. Taca Int'l Airlines, 314 F. Supp. 2d 195, 199 (S.D.N.Y. 2003) (quoting United Republic Ins. Co. v. Chase Manhattan Bank, 315 F.3d 168, 170 (2d Cir. 2003)).

295. *See supra* Part III.B.1.

296. *Id.*

297. *Id.*

298. This inefficiency is unique to the rule's application to counterclaims. Federal defenses, in contrast to counterclaims, cannot be filed in a competing complaint. Thus, the forum shopping described is unique to counterclaims.

review of these cases is now the Supreme Court.[299] The Supreme Court will likely be called upon to maintain some uniformity in the interpretation of these federal issues, and therefore must become more active in its review of state court decisions.[300] An increase in review by the Supreme Court is a "costly use of federal resources even if fewer cases overall [make] it into the federal system."[301] And, if litigants engage in the forum shopping using the well-pleaded complaint rule, the rule as applied to counterclaims may mean a substantial workload for the top of the federal judicial system.

V. POTENTIAL SOLUTIONS

The detrimental effects of the well-pleaded complaint rule discussed above are, at their base, extensions of arguments that have already been made against the well-pleaded complaint rule as applied to federal defenses.[302] However, the extent of the well-pleaded complaint's impact on sound policy concerns becomes amplified when dealing with a defendant's federal law counterclaims—particularly compulsory counterclaims. While judicial solutions, such as reinterpreting the well-pleaded complaint rule or redefining statutory "arising under" jurisdiction have been offered before,[303] the *Holmes* decision demonstrates the Supreme Court's strict adherence to its test for "arising under" jurisdiction. Therefore, a statutory solution should be considered.[304]

A potential statutory solution is to change the removal statute, 28 U.S.C. § 1441, to allow parts of a defendant's pleading to vest a district court with removal jurisdiction.[305] Section 1441 could be amended to

299. 28 U.S.C. § 1257(a) (2000); *see also* Collins, *supra* note 41, at 759.

300. Collins, *supra* note 41, at 758. The Supreme Court's review is discretionary, but even reviewing more writs for certiorari from these state cases with federal law counterclaims will increase the Court's workload. Furthermore, the Court may feel obligated to review state court decisions, particularly in areas of exclusive jurisdiction such as patent and copyright, since the Court will be the only avenue for review of those decisions.

301. *Id.*

302. *See generally* Doernberg, *supra* note 29; Collins, *supra* note 41.

303. *See* Doernberg, *supra* note 29, at 656-69.

304. This author is not the first to discuss a statutory solution to the well-pleaded complaint rule. *See*, A.L.I., *supra* note 252, at 94-95. However, a solution tailored to the well-pleaded complaint's impact on federal law counterclaims has not yet been investigated. Presumably, such a tailored solution has not been considered because the issue was addressed by the Supreme Court for the first time in *Holmes*.

305. Such an amendment could mimic the language of § 1441(d) governing the removal of actions against foreign states. 28 U.S.C. § 1441(d); *see also* Jonathan R. Nash, *Pendant Party*

allow a district court to consider a defendant's counterclaim when looking at a removal petition to determine whether these claims arise under federal law.[306] Removal jurisdiction would be decoupled from original jurisdiction, and a defendant would no longer be forced to pursue her federal law counterclaim in state court.

However, a cleaner solution would be to amend the scope of the district court's original jurisdiction to allow a federal law counterclaim to form the basis of the court's jurisdiction. Then, the counterclaim would both vest the district court with original jurisdiction and removal jurisdiction. This would allow a district court to maintain jurisdiction in situations such as those presented in *Fax Telecommunicaciones* and save judicial resources. In addition, allowing a defendant to remove a federal law counterclaim preserves the defendant's interests and allows such a claim to be litigated in a federal forum. The interests in having federal claims decided in a federal forum will be preserved, providing an increased opportunity for uniformity at the federal level. Finally, allowing counterclaims to be considered for "arising under" jurisdiction would also address any concerns regarding areas of exclusive federal jurisdiction, such as with the patent and copyright jurisdiction under 28 U.S.C. § 1338(a).

Any amendment to 28 U.S.C. § 1331 to include counterclaims as part of the original federal jurisdiction analysis should take into account whether it should limit this extension of jurisdiction to only compulsory counterclaims. The potential for a defendant to hijack a plaintiff's choice of forum is lowered if a statutory amendment is limited to compulsory counterclaims.[307] In addition, the universe of counterclaims a defendant could bring to force a lawsuit to become federal are limited by the plaintiff's allegation. This would also bring a statutory amendment in line with the concerns discussed by the Supreme Court in *Holmes*.

Finally, on a related point, serious consideration should be given to amending the Federal Circuit's jurisdictional statute to decouple it from basic "arising under" jurisdiction.[308] By delinking the two, decisions

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Jurisdiction Under the Foreign Sovereign Immunity Act, 16 B.U. INT'L L. J. 71, 106-21 (1998) (discussing § 1441(d)).

306. A similar solution was offered by the ALI study in the 1960's. *See id.* at 25-29 (suggesting modifying § 1312 to allow removal for defendants who properly assert compulsory counterclaims if the counterclaim sets forth a substantial federal claim); David P. Currie, *The Federal Courts and the American Law Institute: Part II*, 36 U. CHI. L. REV. 268, 275 (1968).

307. *See supra* Part IV.A.

308. This was suggested by the author in an earlier article, albeit for a different purpose. *See* Cotropia, *supra* note 4, at 306-09.

such as *Christianson* and *Holmes*, that implicate questions unique to the jurisdiction of the Federal Circuit and issues of patent law, will no longer also address general questions of federal jurisdiction. Such an amendment would allow courts, when dealing with questions of patent appellate jurisdiction, to only deal with those specific questions and not be concerned with, or perhaps oblivious to, the implications of their decision on broader jurisdictional issues.

CONCLUSION

The aspect of the well-pleaded complaint rule discussed in the *Holmes* decision affects more than just the Federal Circuit's appellate jurisdiction over patent cases. The Supreme Court stated for the first time in *Holmes* that counterclaims do not fall within the well-pleaded complaint and therefore cannot form the basis for "arising under" jurisdiction. The decision is a logical application of the well-pleaded complaint rule. However, after examining the complete implications such a rule has on a federal court's original, removal, and exclusive jurisdiction over counterclaims, such an application of the well-pleaded complaint rule should be rethought. The inability for cases whose only federal law claim is presented in a counterclaim to be heard in a federal forum frustrates both the purposes behind federal question jurisdiction and the legitimate interests of all parties to the lawsuit. In addition, the rule as applied to counterclaims introduces inefficiencies that outweigh any reduction in judicial burdens from using this "quick rule of thumb." The consequences of such a rule should force Congress and the courts to reevaluate the well-pleaded complaint rule's application to federal law counterclaims, particularly compulsory counterclaims.