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CRITIQUE AND CONSEQUENCES OF THE SUPREME COURT'S DECISION IN *HOLMES V. VORNADO**

Kenneth C. Bass, III, and Linda E. Alcorn**

I. INTRODUCTION

The Spring 2003 issue of this journal included a practice note assessing the impact that the Supreme Court's recent decision in *Holmes v. Vornado* might have on the practices of appellate lawyers who are not specialists in patent litigation.¹ This article analyzes *Holmes* from a different perspective. We will first discuss the fundamental flaws in the Court's decision—flaws that were perhaps induced by a failure of appellate counsel to pay close attention to the jurisdictional facts. We will also discuss the implications of the decision from the perspective of practitioners who focus on intellectual property trials and appeals. In the process we will explore the intricacies of the unique jurisdiction of the Court of Appeals for the Federal Circuit.

The *Holmes* case was little noticed as it progressed through the judicial system, being largely eclipsed by the contemporaneous and widely followed *Festo* litigation.² *Holmes*

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** Mr. Bass and Ms. Alcorn are attorneys in the Washington, D.C., firm of Sterne, Kessler, Goldstein & Fox P.L.L.C. This paper reflects only the present considerations and views of the authors, which should not be attributed to Sterne, Kessler, Goldstein & Fox P.L.L.C., or to any of its present or former clients. A prior version was presented at the Sedona Conference on Patent Litigation in November 2002.

1. See Peter O. Huang, *The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.: The Return of Patent Appeals to the Regional Circuits*, 5 J. App. Prac. & Process 197 (2003) (discussing *The Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002)).

2. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722 (2002). Like *Holmes*, *Festo* was presented as a case where the Federal Circuit had failed to follow Supreme Court precedents, and in both cases the Supreme Court disagreed with the Federal

may, however, turn out to be at least as significant. The issue in *Holmes* was whether the Federal Circuit or the appropriate regional court of appeals has jurisdiction over a case that involves a patent counterclaim. The law on point had been settled since the Federal Circuit held in *Aerojet-General Corporation v. Machine Tool Works, Oerlikon-Buehrle Ltd.*,³ that such appeals are to come before it. That practice appears never to have been seriously challenged until the plaintiff's counsel in *Holmes* decided to question it. Indeed, the issue was regarded as so well-settled that it was not even addressed by the Federal Circuit when it decided the appeal that resulted in the Supreme Court's decision to grant review.

The change in law wrought by *Holmes* rests on a tenuous base. Justice Scalia's majority opinion adopts his oft-invoked literalist methodology and rests on a linguistic analysis. The opinion thus eschews any reliance on the policy impact of the Court's decision, but even the linguistic analysis employed is faulty at its core. The opinion fails to quote and consider the most relevant language of the pertinent statute, focuses on the wrong words in that statute, and ultimately fails to consider the linchpin of a proper linguistic analysis. But these deficiencies cannot, in fairness, be attributed solely to the Court. None of the appellate counsel focused on the details of the jurisdictional statute that framed the appellate issue.⁴ Despite these apparent errors, however, the decision will remain as controlling law, providing litigation counsel with a potent new weapon that allows them effectively to avoid the Federal Circuit and channel patent cases to their favorite regional court of appeals.

Circuit's analysis. Somewhat surprisingly, however, the Supreme Court's *Festo* decision was unanimous and its *Holmes* decision resulted in three separate opinions. In the Federal Circuit, the decisions followed precisely the opposite pattern: *Festo* was decided by a deeply divided en banc court while *Holmes* was decided in a brief per curiam decision that did not address the issue that the Supreme Court eventually decided.

3. 895 F.2d 736 (Fed. Cir. 1990).

4. Supreme Court counsel for both parties had handled the case below. They might in consequence have believed that the case included no unresolved jurisdictional issues. See Br. of Pet., *The Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002) (available at 2002 WL 24105); Br. of Respt., *The Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002) (available at 2002 WL 225890); Reply Br. of Pet., *The Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002) (available at 2002 WL 417307); Tr. of Oral Argument, *The Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002) (available at 2002 WL 485037).

II. BACKGROUND

On its face the decision in *Holmes* seems reasonable and correct. A proper evaluation of the opinion, however, requires consideration of the history of the specific case as well as the prior Supreme Court and Federal Circuit decisions, and that consideration suggests a different conclusion.

A. The Parties and the Prior Litigation

The Supreme Court's decision in *Holmes* is the latest round in a ten-year battle between Vornado and its competitors. Vornado's corporate history began in the 1940s with the manufacture of fans in Wichita, Kansas.⁵ In 1990 it obtained a patent⁶ for a fan front-grill design with a series of spiral vanes, and it marketed the model incorporating this feature as having its "Patented AirTensity[®] Grill." In 1992, Vornado filed an action against one of its competitors, the Duracraft Corporation, alleging that a Duracraft fan infringed Vornado's trade dress in the configuration of its spiral grill design, but failing to assert a claim for patent infringement. The trial court found that Duracraft's fan infringed Vornado's trade dress,⁷ but the Tenth Circuit reversed, holding that because the claimed trade dress was "a significant inventive component" of a utility patent, it could not also be protected under the Lanham Act.⁸

In November 1999 Vornado filed a complaint with the International Trade Commission, claiming that *Holmes* was importing fans that infringed Vornado's patent as well as the trade dress that had been litigated in *Duracraft*.⁹ *Holmes* parried with a complaint in the United States District Court in Kansas,

5. An abbreviated history of the company can be found by clicking the "Our Philosophy" button on the Vornado website at <http://www.vornado.com/about.html> (accessed on Nov. 6, 2003; copy on file with Journal of Appellate Practice and Process).

6. U.S. Patent No. 4,927,324, issued in 1990 and reissued in 1994 as U.S. Patent No. Re34,551.

7. *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 1994 WL 1064319 (D. Kan. Mar. 4, 1994).

8. *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498, 1500 (10th Cir. 1995).

9. *See The Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 93 F. Supp. 2d 1140, 1141 (D. Kan. 2000) (summarizing procedural background).

seeking a declaratory judgment that its fan did not infringe Vornado's trade dress, and asserting a variety of claims based on Vornado's advertising and the institution of the ITC proceedings.¹⁰ Holmes argued that Vornado was estopped by virtue of the *Duracraft* decision from alleging protectible trade dress, but apparently avoided making a claim for a declaratory judgment that its product did not infringe Vornado's patent.¹¹ Vornado's riposte was a compulsory counterclaim in the Kansas court alleging patent infringement.¹²

B. The Trial Court Decision

Holmes moved for summary judgment on a theory of collateral estoppel, arguing that the Tenth Circuit's *Duracraft* decision precluded Vornado's assertion of trade-dress protection. The court agreed, entering summary judgment in favor of Holmes on this issue,¹³ and granting the parties' joint motion to enter partial final judgment under Rule 54(b) of the Federal Rules of Civil Procedure. The parties then agreed to a conditional dismissal of Vornado's counterclaim that allowed Vornado to appeal the adverse trade-dress decision and, if successful on appeal, to reinstate its patent counterclaim.¹⁴ Vornado timely filed a notice of appeal to the Federal Circuit. The stage was thus set for the eventual Supreme Court decision, but because familiarity with the relevant statutes and cases is useful to an understanding of the appellate courts' decisions, we turn first to a summary of those authorities.

C. The Statutes and the Precedents

1. The Statutes

The Federal Circuit has exclusive jurisdiction over appeals "from a final decision of a district court of the United States . . .

10. *Id.* (The case was assigned to Judge Brown, who had tried *Duracraft*.)

11. *Id.* at 1142.

12. *Id.* at 1143.

13. *Id.* at 1144-45.

14. Br. of Pet., *supra* n. 4, at *10 n. 8; Br. of Respt., *supra* n. 4, at *6.

if the jurisdiction of that court was based, in whole or in part, on [28 U.S.C.] section 1338.”¹⁵ Section 1338(a), in turn, provides that “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.”¹⁶

2. *The Cases*

a. The Supreme Court’s Decision in *Christianson*

The Supreme Court first addressed the interaction of these two provisions in *Christianson v. Colt Industries Operating Corp.*,¹⁷ considering in that case whether appellate jurisdiction over a long-running patent dispute lay with the Federal Circuit or the regional circuit. In *Colt*, the plaintiff had obtained a manufacturing license under a group of patents that covered “certain specifications essential to the mass production of interchangeable parts for the M16 rifle.” Colt had, however, used nondisclosure agreements as one means of concealing many of the manufacturing specifications that might otherwise have been revealed by the engineering drawings disclosed in the patents.¹⁸ Christianson was a Colt employee who learned about the secret specifications upon signing a nondisclosure agreement, eventually left Colt, and then established a company that “began selling M16 parts to various customers domestically and abroad.”¹⁹ Colt sued him, seeking an injunction against his further disclosure of the secret specifications and claiming that he was violating his nondisclosure agreement.

The district court denied Colt’s motion for an injunction, and Colt voluntarily dismissed its claims, but it continued to notify Christianson’s customers that he was allegedly misappropriating Colt’s trade secrets.²⁰ Christianson responded by suing Colt under the Sherman and Clayton Acts, claiming

15. 28 U.S.C. § 1295(a) (2002) (available at <http://uscode.house.gov>).

16. 28 U.S.C. § 1338 (2002) (available at <http://uscode.house.gov>).

17. 486 U.S. 800 (1988).

18. *Id.* at 804.

19. *Id.*

20. *Id.* at 805. The relevant patents had expired in 1980. *Id.*

that Colt had illegally monopolized the market through reliance on the patents.²¹ He claimed that the patents were invalid because the specifications failed to disclose the essential manufacturing details, and he specifically raised a patent-invalidity issue.²²

Christianson moved for summary judgment on the ground that the patent failed to disclose the “best mode of enablement” and was therefore invalid. The district court granted Christianson’s motion.²³ Colt then appealed to the Federal Circuit. After full briefing and argument, that court decided that it did not have jurisdiction, and ordered the case transferred to the Seventh Circuit.²⁴ The Seventh Circuit responded by deciding that the Federal Circuit decision was “clearly wrong,” and ordered the appeal transferred back.²⁵ The Federal Circuit, finding that the Seventh Circuit decision was itself “clearly wrong,” and that its decision reflected “a monumental misunderstanding of the patent jurisdiction” of the Federal Circuit, nonetheless proceeded to decide the merits “in the interests of justice,” and reversed the district court.²⁶ Christianson sought and obtained review by the Supreme Court.

Justice Brennan’s majority opinion sided with the Federal Circuit. The Supreme Court held that appellate jurisdiction was determined solely by reference to the district court’s jurisdiction, and resolution of that issue in turn rested on a proper construction of § 1338(a). The central question, then, was how to interpret the phrase “arising under” in § 1338. The Court pointed to the long history of cases interpreting the identical term in the general federal-question statute.²⁷ Jurisdiction under that statute exists only when “a well-pleaded complaint establishes either that a federal law creates the cause of action or that the plaintiff’s right to relief necessarily depends on

21. *Id.* (recounting procedural history).

22. *Id.* at 806.

23. *Id.*

24. *Id.*

25. *Id.* (citing *Christianson v. Colt Indus. Operating Corp.*, 798 F.2d 1051 (7th Cir. 1986)).

26. *Id.* at 807 (citing *Christianson v. Colt Indus. Operating Corp.*, 822 F.2d 1544 (Fed. Cir. 1987)).

27. 28 U.S.C. § 1331 (2002) (available at <http://uscode.house.gov>).

resolution of a substantial question of federal law.”²⁸ The Court held in *Christianson* that “arising under” had the same meaning in both statutes, and that jurisdiction under § 1338 existed only if “patent law is a necessary element of one of the well-pleaded claims” of the complaint.²⁹

While a patent issue had been raised in *Christianson*’s complaint, and despite the fact that the disposition in the district court rested entirely on resolution of that issue, the Court held that success under the Sherman Act claim was not entirely dependent on resolution of the patent issue. Jurisdiction, the Court explained, did not “arise under” the patent laws “unless patent law is essential to each of [the] theories” on which the complaint was founded.³⁰ Because some of the theories of recovery in *Christianson*’s complaint did not require resolution of any patent issue, his complaint did not arise under § 1338, and thus the Federal Circuit did not have jurisdiction. The Supreme Court therefore vacated the judgment of the Federal Circuit and remanded with instructions to transfer the case, once again, to the Seventh Circuit.³¹

Justice Stevens concurred in the Court’s disposition, but disagreed with the implication in the majority opinion that appellate jurisdiction was to be determined solely by reference to the claims asserted in the original complaint. He would instead have looked to the claims actually tried, finding appellate jurisdiction in the Federal Circuit even if the original complaint did not assert a patent claim, so long as a subsequent express or implicit amendment result in adjudication of a patent claim.³² Similarly, he concluded that jurisdiction lay with the regional circuit if the original complaint asserted a patent claim that was ultimately abandoned by the plaintiff in favor of other non-patent federal claims,³³ noting that in *Christianson*’s case a

28. *Christianson*, 486 U.S. at 808 (quoting *Fran. Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 27-28 (1983)).

29. *Id.* at 809.

30. *Id.* at 810.

31. *Id.* at 819.

32. *Id.* at 820 (Stevens & Blackmun, JJ., concurring) (acknowledging that “if the question is asked at the end of trial . . . , the answer may be different than if it had been asked at the outset”).

33. *Id.* at 822 (Stevens & Blackmun, JJ., concurring).

patent issue had been determined, but the only claim actually litigated was an antitrust claim.³⁴

b. The Federal Circuit's Decision in *Aerojet-General*

In *Aerojet-General*, the Federal Circuit faced the same issue decided earlier in *Christianson*, but in a substantially different context.³⁵ The complaint in *Aerojet* did not assert any patent claims, but the answer asserted a compulsory patent counterclaim. Sitting en banc, the Federal Circuit held that appellate jurisdiction in such cases lay with it because the compulsory counterclaim had its own separate jurisdictional basis. It concluded that the district court's jurisdiction rested—at least “in part”—on § 1338 in cases of this type.³⁶ The Supreme Court did not review the *Aerojet-General* decision, so it remained the controlling precedent, at least for the Federal Circuit, until the Supreme Court's decision in *Holmes*.

With this background in mind, we return to our analysis of the last two appellate decisions addressing the dispute between *Holmes* and *Vornado*.

D. The Appellate Proceedings in *Holmes*

1. The Federal Circuit

Vornado's brief in the Federal Circuit asserted appellate jurisdiction on the basis of the *Aerojet-General* decision.³⁷ *Holmes* did not move to dismiss the appeal, but did assert that the appeal should be dismissed or transferred to the Tenth Circuit for lack of jurisdiction.³⁸ Shortly after the appeal was argued, the Federal Circuit stayed further proceedings pending the Supreme Court's decision in *Traffix Devices, Inc. v. Marketing Displays, Inc.*,³⁹ which was expected to resolve a

34. *Id.* at 824 (Stevens & Blackmun, JJ., concurring).

35. See generally *Aerojet-General*, 895 F.2d 736.

36. *Id.* at 745.

37. Br. of Resp't., *supra* n. 4, at *1 (noting jurisdictional basis for proceeding below).

38. Br. of Pet., *supra* n. 4, at *11 (describing arguments made below).

39. 532 U.S. 23 (2001).

conflict between the Federal Circuit's interpretation of protectible trade dress and the Tenth Circuit's view as expressed in *Vornado I*.

Soon after the Supreme Court issued its decision in *Traffix*, the Federal Circuit issued a brief order remanding the *Holmes* case to the District Court in Kansas with a direction "to consider whether the 'change in the law' exception to collateral estoppel applies in view of the *Traffix* decision."⁴⁰ The Federal Circuit did not address the jurisdictional issue, presumably concluding that it was controlled by the *Aerojet-General* rule. The Supreme Court granted *Holmes* a writ of certiorari to review the Federal Circuit's decision on the jurisdictional issue.⁴¹

2. *The Supreme Court*

The Supreme Court reversed the Federal Circuit, holding that the Federal Circuit's jurisdiction under § 1295 was to be determined solely by reference to the face of the complaint and not by reference to the counterclaim.⁴² Justice Scalia's majority opinion thus rejected the *Aerojet-General* rule, which had prevailed for more than ten years.

Justice Stevens concurred separately in the judgment, concluding—as he had in *Christianson*—that the focus should be on the jurisdiction of the district court at the time of the appeal, and not on the face of the complaint. He would, however, look to the plaintiff's claims as actually adjudicated, not solely to the original unamended complaint.⁴³ Justice Ginsburg, joined by Justice O'Connor, concluded that the *Aerojet-General* decision was sound, and that when a patent claim was asserted as a compulsory counterclaim, then the jurisdiction of the district court did rest—at least "in part"—on a claim under the patent law.⁴⁴ However, since "no patent claim

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

41. *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 534 U.S. 1016 (2001).

42. *Holmes*, 535 U.S. at 830 (pointing out that "it is undisputed that petitioner's well pleaded complaint did not assert any claim arising under federal patent law," and concluding that the Federal Circuit had erred in taking jurisdiction of the case).

43. *Holmes*, 535 U.S. at 835-37 (Stevens, J., concurring in part and concurring in the judgment).

44. *Holmes*, 535 U.S. at 839 (Ginsburg & O'Connor, JJ., concurring in the judgment).

was actually adjudicated” by the trial court in *Holmes*, she concurred in the majority’s judgment that the Federal Circuit did not have appellate jurisdiction.⁴⁵

III. CRITIQUE AND CONSEQUENCES OF THE SUPREME COURT’S DECISION IN *HOLMES*

The Supreme Court’s decision changes more than a decade of patent litigation practice. It provides litigators with an opportunity to engage in appellate forum shopping. And it is flawed at its foundation because the Court, as well as counsel, failed to focus on the relevant language of the statutory provisions. The *Holmes* case did not actually present the question the Supreme Court decided, and so the appeal should have been dismissed because certiorari was improvidently granted. But “should have beens” do not alter what has been, and the decision will remain as the governing law, unless Congress is persuaded to restore the *Aerojet-General* rule.

A. Critique

1. Justice Scalia’s Approach

Justice Scalia’s majority opinion adopts what might be characterized as a strict literalist construction of the statutory language, read in light of the judicial gloss placed on the same words in another statute. The logic of the opinion is straightforward: The appellate-jurisdiction statute refers to the provisions of the district court’s jurisdictional statute, and the latter provides for jurisdiction when the case “arises under” specific laws, including the patent laws.⁴⁶ Since the phrase “arises under” in a companion statute has a longstanding judicial gloss, the rules of statutory construction dictate that those words should have the same meaning in both statutes.⁴⁷ Thus courts must look to the face of the complaint, and to only

45. *Holmes*, 535 U.S. at 840.

46. See 28 U.S.C. §§ 1295(a)(1) (2002) (providing for Federal Circuit’s jurisdiction), 1338(a) (providing for district courts’ jurisdiction) (available at <http://uscode.house.gov>).

47. Compare 28 U.S.C. § 1331 (“arising under”) with 28 U.S.C. § 1338(a) (same).

that source, to see whether in a specific case the district court's jurisdiction was founded on § 1338 when deciding which appellate tribunal has jurisdiction in a particular case.

For the moment, let's assume that this construction is the right one. Applying it to the facts of the *Holmes* case, Justice Scalia concluded that Holmes's complaint "did not include any claim based on patent law," and that the rule therefore required the Court to "vacate the judgment of the Federal Circuit and remand the case with instructions to transfer the case to the Court of Appeals for the Tenth Circuit."⁴⁸ The preliminary conclusion that the complaint did not assert a patent law claim was clearly correct. However, the ultimate conclusion was flawed because the Court failed to quote and consider the complete language of § 1338.

When Justice Scalia quoted § 1338, he stated that "district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents"⁴⁹ That edited version of the statute was the same one quoted repeatedly by the parties in their briefs.⁵⁰ But the complete language of the provision—which only Holmes quoted in its brief, and then only in passing⁵¹—refers to "any Act of Congress relating to patents, plant variety protection, copyrights *and* trademarks."⁵² While Holmes's complaint did not assert a patent claim, it did assert a trade-dress claim, and trade-dress claims "arise under" § 43(a) of the Lanham Act.⁵³ Thus the Court was simply wrong in concluding that the District Court's jurisdiction—determined solely by reference to the original complaint—did not rest "in whole or in part" on § 1338(a).

48. *Holmes*, 535 U.S. at 834.

49. *Holmes*, 535 U.S. at 829.

50. See Br. of Pet., *supra* n. 4, at *12 (referring only to "patents" and "plant variety protection"), *14 (referring only to "patent"), *18 (referring only to "patents"); Br. of Resp., *supra* n. 4, at *5 (referring only to "patent"), *7 (referring only to "patents"), *10 (same).

51. See Br. of Pet., *supra* n. 4, at *15 (referring to "patents, plant variety protection, copyrights, and trademarks").

52. 28 U.S.C. § 1338(a) (emphasis added).

53. 15 U.S.C. § 1125 (a). It is well settled that trade-dress cases arise under the Lanham Act. See e.g. *Wal-Mart v. Samara Bros., Inc.*, 529 U.S. 205, 216 (2000) (indicating that in addition to protecting registered trademarks, the Lanham Act gives a producer a cause of action for the use by any person of his or her distinctive trade dress.)

2. Counsel's Critical Oversight

The Court's error was admittedly induced by counsel. Holmes's complaint alleged jurisdiction only under "15 U.S.C. § 1121, 28 U.S.C. §§ 1331 and 1332(a), and the principles of supplemental jurisdiction codified in 28 U.S.C. § 1367."⁵⁴ Whether the omission of a reference to § 1338(a) in the complaint was intentional or not, it appears that neither of the parties ever explicitly pointed out to either the Federal Circuit or the Supreme Court that jurisdiction in the District Court was based, at least in part, on an "Act of Congress relating to . . . trademarks." This oversight may be understandable, as the parties focused their attention on the patent counterclaim, but the Supreme Court's failure to notice this fundamental error in its analysis is troublesome.

Had counsel repeatedly quoted all of § 1338(a) and paid closer attention to the appellate-jurisdiction issue, the Court surely would have realized that the trade-dress claim arose under the trademark law.⁵⁵ Had the Court been aware of this reality, it should have concluded that the Federal Circuit had properly exercised appellate jurisdiction, without regard for the validity of the *Aerojet-General* rule.

Unfortunately, we cannot know why the Federal Circuit concluded that it had jurisdiction, as the *per curiam* order remanding the case to the District Court never addressed Holmes's jurisdiction argument.⁵⁶ Perhaps the Federal Circuit, given its expertise in patent and trademark law, well knew that jurisdiction over trade-dress claims was based on § 1338(a) and regarded Holmes's jurisdictional argument as frivolous. If so, it

54. Br. of Pet., *supra* n. 4, at *2 (summarizing Pl. Compl., *The Holmes Group, Inc. v. Vornado Circulation Sys., Inc.*, Civ. No. 00-1286 (D. Kan. Dec. 8, 1999)).

55. Justice Scalia himself wrote the opinion in *Samara*, in which the Court held that proof of trade-dress infringement in product configuration cases required evidence of secondary meaning. Interestingly, Justice Stevens noted when concurring in *Holmes* that "other areas of intellectual property law are not infrequently bound up with patent counterclaims," observing when he did so that the *Holmes* case involved those other intellectual property claims. *Holmes*, 535 U.S. at 837. He also referred to the complete language of § 1338 and noted the inclusion of trademark cases in that section. *Id.* He did not, however, extend those observations to the ultimate conclusion that the district court's jurisdiction over Holmes's original complaint should have been deemed to be based in part on § 1338 because the complaint included a trade-dress claim.

56. *Holmes*, 13 Fed. Appx. 961.

is unfortunate that the Federal Circuit did not say so in its order. If this point had been the basis for the Federal Circuit's assertion of appellate jurisdiction, the Supreme Court would almost certainly not have granted a writ of certiorari. Moreover, had the Supreme Court been alerted to the issue by counsel, it might well have decided that the case was not a "proper vehicle" for deciding to reverse the *Aerojet-General* rule, and could then have dismissed the petition as improvidently granted.⁵⁷

3. *The Court's Critical Omission*

Its failure to read the entire relevant statutory language of § 1338 was not the majority's only failure to pay close attention to the precise language of the relevant statutory provisions. Applying the established rule that when the same words are used in different statutes they should generally be given the same meaning, Justice Scalia pointed out that "§ 1295(a)(1) does not itself *use* the term [arising under], but rather refers to § 1338."⁵⁸ He was mistaken. Section 1295(a)(1) provides, in its relevant part:

The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction of an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of [title 28], *except* that a case involving a *claim arising under any Act of Congress* relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be [appealed to the regional circuit].⁵⁹

Thus the critical jurisdictional provision does in fact use the "arising under" terminology, but uses it to create an *exception* to the Federal Circuit's jurisdiction. That court's jurisdiction extends to any case in which jurisdiction in the district court was based "in whole or in part" on § 1338. As Justice Stevens

57. It is never too late to raise such issues, and appellate counsel should not assume that once cert has been granted, the Court will proceed to decide the case. It is, unfortunately, all too common for jurisdictional issues to be overlooked in the cert petition stage, only to emerge later when the merits are briefed or argued.

58. *Holmes*, 535 U.S. at 833 (emphasis in original).

59. § 1295(a)(1) (emphasis added).

expressly noted,⁶⁰ and as Justice Ginsburg implicitly recognized,⁶¹ no linguistic legerdemain is required to conclude that when a counterclaim arises under § 1338, at least “a part” of the district court’s jurisdiction is based on § 1338. It is not insignificant that Congress used the “arising under” language to limit the otherwise expansive scope of the jurisdictional grant so that appeals in non-patent cases arising under § 1338 would continue to go to the regional circuits.⁶² Given this explicit reference to the established terminology, it is surprising that Justice Scalia would overlook the language and mistakenly say that the words were not there. Had he taken cognizance of the precise language, he might have reached a different conclusion, or he might at a minimum have had to provide a different explanation for his literalist construction.

B. Consequences

It seems highly unlikely that the Supreme Court will revisit its construction of § 1295. Unless Congress intervenes, then, the patent litigation bar and the courts of appeal will follow the Court’s decision. Cases that do not present a patent claim in the complaint, but that are nonetheless patent litigations in substance, will be appealed in most cases to the regional circuits and not to the Federal Circuit. That result is likely to lead to the non-uniform treatment of patent issues that Congress wanted to avoid when it created the Federal Circuit. This is a significant change in the patent law, but the Supreme Court majority

60. *Holmes*, 535 U.S. at 836 n. 1 (Stevens, J., concurring in part and concurring in the judgment).

61. *Holmes*, 535 U.S. at 839 (Ginsburg and O’Connor, JJ., concurring in the judgment).

62. It is also significant that Congress used the “arising under” phrase only once in the exclusion. The exclusion refers to cases with non-patent claims “arising under” § 1338, but omits from the exclusion any case that has “other claims under section 1338.” Each of those terms come into play in the *Holmes* case. If the customary meaning of “arising under” in § 1331 jurisprudence is applied to § 1295, then the plaintiff’s complaint did “arise under” § 1338 because it included a trade-dress claim based on the Lanham Act. The proviso would then be invoked because that claim was one “arising under an[] Act of Congress relating to . . . trademarks.” But the exclusion to the provision would then be invoked because the “case,” which must necessarily refer to the entire case and not just the initial complaint, did involve “other claims under 1338(a)” once Vornado interposed its patent law counterclaim.

appears consciously to have avoided considering its policy implications.

1. The Legislative History

A fresh look at the legislative history surrounding the creation of the Federal Circuit shows that the goals behind formation of that court will be frustrated by the Court's decision in *Holmes*. Congress created the Federal Circuit by merging two existing Article III courts—the Court of Claims and Court of Customs and Patent Appeals. The three purposes of the act establishing it were:

to fill a void in the judicial system by creating an appellate forum capable of exercising nationwide jurisdiction over appeals in areas of the law where Congress determines there is a special need for nationwide uniformity;

to improve the administration of the patent law by centralizing appeals in patent cases; and

to provide an upgraded and better organized trial forum for government claims cases.⁶³

The legislative history of the Act demonstrates that a driving force behind it was an effort to ease the burden on the Supreme Court when there is a conflict among the circuits by providing a single court that can provide “reasonably quick and definitive answers to legal questions of nationwide significance.”⁶⁴ In patent cases in particular, the circuits were reaching inconsistent decisions on the same issue, or applying the law unevenly when faced with the facts of individual cases. However, the Supreme Court at the time was “operating at—or close to—full capacity,”⁶⁵ and so could not be expected to resolve all of the resulting conflicts.

Congress determined that in the case of patent law there was a special need for national uniformity. Based on the evidence compiled by the Hruska Commission,⁶⁶ Congress

63. Sen. Rep. No. 97-275, 97th Cong., 1st Sess. at 2 (1981) [hereinafter *Senate Report*].

64. *Id.* at 3.

65. *Id.*

66. Senator Roman Hruska chaired the Commission on Revision of the Federal Court Appellate System, which was popularly known as the Hruska Commission.

concluded that in patent cases, the application of the law to the facts often produced “different outcomes in different courtrooms in substantially similar cases.”⁶⁷ Some circuit courts were regarded as “pro-patent” and others as “anti-patent,” which led to widespread forum shopping.⁶⁸ The Commission found that

[p]erceived disparities between the circuits have led to “mad and undignified races” between alleged infringers and patent holders to be the first to institute proceedings in the forum they consider most favorable.⁶⁹

The Commission further noted that

[a]t present, the validity of a patent is too dependent upon geography (i.e., the accident of judicial venue) to make effective business planning possible. It is particularly difficult for small businesses to make useful and knowledgeable investment decisions where patents are involved when they fear a patent may be tied up for years in expensive litigation and when the standard of patentability varies from circuit to circuit. A single court of appeals for patent cases will promote certainty where it is lacking to a significant degree and will reduce, if not eliminate, the forum-shopping that now occurs.⁷⁰

The legislative history of the Act indicated that the “basic objective” of the Act was to provide for “uniformity of doctrinal development in the patent area.”⁷¹ Further, the legislative history surmised that as the new court brought uniformity to the patent law, “the number of appeals resulting from attempts to obtain different rulings on disputed legal points . . . [could] be expected to decrease.”⁷² A goal of uniformity was to “strengthen the United States patent system in

67. *Senate Report, supra* n. 63, at 5 (citing Commn. on Revision of the Fed. Ct. App. Sys., *Structure and Internal Procedures: Recommendations for Change*, 67 F.R.D. 195, 214 (1975) (reporting, in addition, the comments of then-Justice Rehnquist, who expressed concern about “litigants who are left at sea by conflicting decisions on questions of federal law”)); *see also id.* at 361-76 (reporting comments of other interested parties).

68. H.R. Rep. No. 97-312, 97th Cong., 1st Sess. at 20-21 (1981) [hereinafter *House Report*].

69. *Id.* at 21.

70. *Id.* at 22 (footnotes omitted).

71. *Senate Report, supra* n. 63, at 5.

72. *Id.*

such a way as to foster technological growth and industrial innovation.”⁷³

With respect to the issue of the Federal Circuit’s jurisdiction, there was a concern that the court would appropriate for itself other elements of federal law under its grant of jurisdiction. For example, there was a fear that specious patent claims would be tied to substantial antitrust claims in order to create jurisdiction in the Federal Circuit. With regard to this concern, the legislative history notes that

[t]he statutory language in question [28 U.S.C. § 1295] requires that the district court have jurisdiction under 28 U.S.C. § 1338. This is a substantial requirement. Immaterial, inferential, and frivolous allegations of patent questions will not create jurisdiction in the lower court, and therefore there will be no jurisdiction over these questions in the appellate court. As stated above, it is a canon of construction that courts strictly construe their jurisdiction. Therefore, the committee is confident that the present language will not pose undue difficulties.

The Committee is concerned that the exclusive jurisdiction over patent claims of the new Federal Circuit not be manipulated. This measure is intended to alleviate the serious problems of forum shopping among the regional courts of appeals on patent claims by investing exclusive jurisdiction in one court of appeals. It is not intended to create forum shopping opportunities between the Federal Circuit and the regional courts of appeals on other claims.

Thus, for example, mere joinder of a patent claim in a case whose gravamen is antitrust should not be permitted to avail a plaintiff of the jurisdiction of the Federal Circuit in avoidance of the traditional jurisdiction and governing legal interpretations of a regional court of appeals. Federal District judges are encouraged to use their authority under the Federal Rules of Civil Procedure, *see* Rules 13(i), 16, 20(b), 42(b), 54(b), to ensure the integrity of the jurisdiction of the federal court of appeals by separating final decisions on claims involving substantial antitrust issues from trivial patent claims, counterclaims, cross-

73. *House Report, supra* n. 68, at 20.

claims, or third party claims raised to manipulate appellate jurisdiction.

The Committee intends for the jurisdictional language to be construed in accordance with the objectives of the Act and these concerns. If, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over appeal of the antitrust claim should not be changed by this Act but should rest with the regional court of appeals.⁷⁴

It appears from this last paragraph that Congress intended the question of Federal Circuit jurisdiction to be decided at the time of the appeal, and not at the time of filing of the complaint in district court. Ironically, if the well-pleaded complaint rule applied by the Court in *Holmes* were applied to the scenario described above, jurisdiction would rest with the Federal Circuit, and not with the regional court of appeals as was clearly intended, because the complaint as filed included a patent claim.

2. Frustration of Congressional Goals

The goals of the act establishing the Federal Circuit will be frustrated by the Court's decision in *Holmes*. First, the goal of creating an appellate forum capable of exercising nationwide jurisdiction over appeals in order to create uniformity in the area of patent law will be frustrated because the regional circuits will now decide issues of patent law. They will hear and decide patent cases in which the patent issue is raised as a counterclaim by the defendant.⁷⁵

74. *Senate Report, supra* n. 63, at 19-20.

75. At the time of this writing, at least three cases containing issues of patent law have been appealed to the regional circuits. *See e.g. E.I. DuPont de Nemours & Co. v. Okuley*, 344 F.3d 578 (6th Cir. 2003) (affirming district court's application of 35 U.S.C. § 116 to defendant's counterclaim concerning inventorship); *Medigene AG v. Loyola U. of Chi.*, 41 Fed. Appx. 450 (Fed. Cir. 2002) (transferring appeal to Seventh Circuit "under the principles established in *Holmes*"); *Telcomm Technical Serv., Inc. v. Siemens Rolm Commun., Inc.*, 295 F.3d 1249 (Fed. Cir. 2002) (transferring appeal to Eleventh Circuit because patent-infringement issue was raised only in counterclaims) The *Medigene* case, which became Appeal No. 02-2743 at the Seventh Circuit, was subsequently dismissed by joint motion of the parties pursuant to Fed. R. App. P. 42(b). Although oral arguments in the *Telcomm* appeal were held on November 20, 2003, the case was still pending in the Eleventh Circuit as Appeal No. 02-14131-TT at the time of this writing.

Second, the regional circuits will not be bound by Federal Circuit precedent, and will be free to decide issues such as claim construction, literal infringement, doctrine of equivalents and invalidity without being bound by prior Federal Circuit case law on these issues. Further, even if the regional circuits were to follow the Federal Circuit precedent, each regional circuit will interpret that precedent differently. Some regional courts will limit the prior cases to their specific facts, and other regional courts will interpret the cases to create broad, sweeping rules of law. This will inevitably lead to conflicts among the circuits, which the Supreme Court will be called upon to resolve with increasing frequency.

One of the problems noted in the legislative history prior to the formation of the Federal Circuit was that “the infrequency of Supreme Court review of patent cases leaves the present judicial system without any effective means of assuring even-handedness nationwide in the administration of the patent laws.”⁷⁶ Unless the Supreme Court now plans to hear patent cases with some frequency in order to resolve conflicts among the circuits, the same uncertainty in the application of patent laws will result from its decision in *Holmes*. At least one judge on the Federal Circuit apparently agrees with this assessment, because he has pointed out that the Federal Circuit applies its own law on personal jurisdiction

in order to “promot[e] uniformity in the field of patent law” Although the recent decision of the Supreme Court in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.* may make that uniformity more elusive, it is still important.⁷⁷

These circuit conflicts will also re-create the problem of forum shopping that was so prevalent prior to the formation of the Federal Circuit. After *Holmes*, if a plaintiff files a lawsuit expecting a patent counterclaim to be filed, it will choose a district court whose regional court of appeals is anti-patent. Also, in many legitimate patent disputes in which a patentee has notified an alleged infringer of a possible claim against it, the alleged infringer will be more inclined to file an action based on

76. *House Report*, *supra* n. 68, at 22.

77. *Vardon Golf Co. v. Karsten Mfg. Corp.*, 294 F.3d 1330, 1336 (Fed. Cir. 2002) (Dyk, J., concurring) (internal citations omitted).

non-frivolous claims of tortious interference, product disparagement, or other claims that counsel knows will precipitate a patent infringement counterclaim. The infringer's lawyers will thus not only be able to choose the district court in which patent litigation will begin,⁷⁸ they will be able to choose the appellate tribunal as well. It is not clear how significant this potential will be, but it seems likely to have at least some effect on the course of patent litigation across the country.

This forum shopping will weaken the patent system because uncertainty as to the value and enforceability of patents will make business planning more difficult. It may also stifle the innovative process, for corporations facing the risk that a patent-infringement claim will be decided by a regional circuit that is anti-patent may start to question the value of obtaining patents at all.

3. State-Court Jurisdiction as an Unforeseen Consequence

A further result of the Court's decision, one that may not have been foreseen, is application of the *Holmes* interpretation of the "arising under" provision as a basis for finding subject-matter jurisdiction in state courts. In cases that include counterclaims arising under federal law, for example, a federal district court could rely on *Holmes* to remand to state courts even cases that include a patent-infringement counterclaim.⁷⁹ State courts could apply *Holmes* broadly to extend beyond cases involving patent counterclaims, such that they might also reach the conclusion that there is no need to bifurcate a case that includes a counterclaim under the Copyright Act, because under *Holmes* there is no exclusive federal jurisdiction over such counterclaims.⁸⁰ State courts could also conclude that state-law

78. Use of the declaratory judgment procedure can in many cases allow the alleged infringer to determine the venue of the infringement action against it.

79. See e.g. *R.F. Shinn Contractors, Inc. v. Shinn*, 2002 WL 31942135 (M.D.N.C. Nov. 8, 2002).

80. See e.g. *Green v. Hendrickson Publishers, Inc.*, 770 N.E.2d 784 (Ind. 2002). This result is an extension of the Court's interpretation of "arising under" in *Holmes* to the Copyright Act, because causes of action arising in the first instance under the Copyright Act may be decided only in the federal courts. See 28 U.S.C. § 1338(a) (2002) (granting exclusive jurisdiction to federal district courts in copyright cases) (available at <http://uscode.house.gov>).

claims for breach of a patent-license warranty can proceed in state court so long as the complaint fails to include a challenge to the patent's validity.⁸¹

IV. CONCLUSION

The consequence of *Holmes* is not to improve the administration of the patent law by centralizing appeals, but rather to create a disparate and unorganized approach to the application and interpretation of the patent law. The authors fear that patent jurisprudence will in consequence devolve into a quagmire similar to the one that preceded the creation of the Federal Circuit.

The Supreme Court majority apparently understood that confusion of this sort was likely to result from its decision in *Holmes*, but rejected its implications, insisting that its task was "not to determine what would further Congress's goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean."⁸² This strictly literal approach to statutory construction is excessively rigid in its expectations of precision, ignores the all too frequent elasticity in Congressional language, and is in consequence problematic enough when correctly applied. When it is applied with inadequate intellectual rigor—as it was in *Holmes*—it can easily lead to unfortunate consequences.

The authors believe the patent system is not well served by decisions like *Holmes* that create different rules for the Federal Circuit and the regional circuits, compromising the Congressional vision of national uniformity. They believe in addition that the possibility of such conflicts is now increased, for *Holmes* encourages litigators to frame their complaints in a way calculated to avoid review by the Federal Circuit and enables them when filing those complaints to choose potentially more favorable courts of appeals instead. They hope that the resulting forum shopping and conflicts among the regional

81. *Data Recognition Corp. v. Scan-Optics, Inc.*, 2003 WL 1962252 (Minn. App. Apr. 29, 2003).

82. *Holmes*, 535 U.S. at 833.

circuits will soon prompt Congress to restore the *Aerojet-General* rule.

