The Well-Pleased Complaint Rule and Jurisdiction over Patent Law Counterclaims: An Empirical Assessment of Holmes Group and Proposals for Improvement

Jiwen Chen
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I. INTRODUCTION

Patent rights were created by the U.S. Congress according to the U.S. Constitution to promote the progress of useful arts.1 Original jurisdiction of civil actions arising under patent statutes lies in U.S. district courts.2 Such original jurisdiction is exclusive of state courts.3 Traditionally, the appeals of final judgments of the U.S. district courts on patent cases went to regional circuit courts of appeals (“Regional Circuits”).4 This resulted in serious forum-shopping problems and undermined the uniformity of patent law.5 Partly to address these problems, in 1982, the U.S. Congress created the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) to assume exclusive appellate jurisdiction of patent cases from the district courts.6 The Federal Circuit has generally been considered a success in developing uniformity of patent law.7 Prior to 2002, the Federal Circuit had jurisdiction over appealed patent cases where the patent claims had been raised by the

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1 U.S. CONST. art. I, § 8, cl. 8 (“The Congress shall have Power . . . to promote the Progress of Science and useful Arts, by securing for limited Times to Authors & Inventors the exclusive Right to their respective Writings and Discoveries.”); The U.S. Patent Act of 1952, 35 U.S.C. §§ 1, et seq. (2006).
3 Id.
4 28 U.S.C. § 1294 (2006) (“appeals from reviewable decisions of the district . . . courts shall be taken . . . (1) [f]rom a district court of the United States to the court of appeals for the circuit embracing the district;”); see The 1982 Amendments. Pub.L. No. 97-164, 96 Stat. 25, (substituting “Except as provided in sections 1292(c), 1292(d), and 1295 of this title, appeals from reviewable decisions” for “Appeals from reviewable decisions” in the introductory provisions preceding ¶ (1).).
plaintiffs or as a part of the compulsory and permissive counterclaims raised by the defendants. In 2002, such allocation of jurisdiction of patent claims was dramatically changed by the U.S. Supreme Court’s decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.* Under *Holmes Group*, the well-pleaded complaint rule prevents the Federal Circuit from obtaining appellate jurisdiction over cases where the complaints did not allege claims arising under federal patent law, although the defendants’ answers contained patent law counterclaims. Most commentators disfavored the holding of *Holmes Group* and predicted revival of pre-1982 forum shopping problems. Scholars and judges have expressed concerns over the impact of *Holmes Group* on the jurisdiction of patent law claims in courts other than the Federal Circuit.

This article recounts the creation of the Federal Circuit, analyzes the case law leading to *Holmes Group*, and reviews published cases containing patent law counterclaims decided by the Federal Circuit, Regional Circuits, federal district courts (based on diversity jurisdiction), and state courts since *Holmes Group*. For the Federal Circuit cases, the focus is on how the Federal Circuit has adopted strategies to obtain appellate review of patent law counterclaims. For cases from other courts, special attention is directed to whether and how the Federal Circuit’s patent law precedents were applied. Based on such empirical evidence and new developments in the well-pleaded complaint rule in *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, and *Vaden v. Discover Bank*, this article proposes a new interpretation of the well-pleaded complaint rule that will allow the Federal Circuit to maintain appellate review of patent law counterclaims in some types of cases. To fundamentally solve the problem of patent law non-uniformity caused by *Holmes Group*, this article proposes a legislative amendment to 28 U.S.C. § 1295 so that the Federal Circuit may assume appellate jurisdiction whenever a substantial patent law claim is adjudicated by the district courts. These proposals fully align with the original legislative intent of creating the Federal Circuit.

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10 Id. at 830.
12 See DONALD S. CHISUM ET AL., PRINCIPLES OF PATENT LAW: CASES AND MATERIALS 1185 (3d. ed. 2004) (“The full impact of the Holmes decision will not be understood for some time. In general, it will be interesting to see what patent issues make their way to the Regional Circuits.”); KIMBERLY A. MOORE ET AL., PATENT LITIGATION AND STRATEGY 16 (3d. ed. 2008) (“Should the Regional Circuits apply their own pre-1982 case law or should they adopt Federal Circuit law . . . ? If a court chooses the former course, what effect will this have on the tendency towards forum shopping?”).
II. CREATION AND JURISDICTION OF THE FEDERAL CIRCUIT

By the Federal Courts Improvement Act of 1982,15 Congress created the Federal Circuit to “reduce the widespread lack of uniformity and uncertainty of legal doctrine that existed in the administration of patent law”16 and to “improve the administration of the patent law by centralizing appeals in patent cases.”17 The Federal Circuit is unique among its peer Regional Circuits in that its jurisdiction is defined by subject matter rather than geography.18 Its subject matter jurisdiction includes appeals related to patents, copyrights, trademarks, international trade, veteran affairs, government contracts and others from eight sources of lower courts and administrative agencies.19

The Federal Circuit’s exclusive jurisdiction on patent appeal is defined in 28 U.S.C. §1295(a)(1) and tied to the jurisdiction of a U.S. district court:

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 of the United States . . . , if the jurisdiction of that court was based, in whole or in part, on [28 U.S.C.] section 1338 . . . .20

28 U.S.C. § 1338 defines that:

(a) [t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents . . . . Such jurisdiction shall be exclusive of the courts of the states in patent . . . cases [and] (b) [t]he 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 . . . patent . . . law[].21

The legislative history indicates that “[s]hould questions legitimately arise respecting . . . the direction of appeals in particular cases, the Committee expects the courts to establish, as they have in similar situations, jurisdictional guidelines respecting such cases.”22 There are four theories of the Federal Circuit’s jurisdiction—“arising under” jurisdiction, case jurisdiction, issue jurisdiction and a combination of case and issue jurisdiction.23 In addition, the Federal Circuit may determine its jurisdiction by

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looking at what substantial patent law claim was actually decided in the district proceedings. Commentators generally agree that the Federal Circuit has largely achieved its goal of establishing uniformity in patent jurisprudence. Statistical analysis of empirical data suggests that the Federal Circuit, through its decisions, has had a significant positive effect on the number of patent applications, the number of patent granted, the success rate of patent application, the amount of patent litigation, and possibly the level of R&D expenditure.

III. APPLYING THE WELL-PLEADED COMPLAINT RULE TO PATENT CASES

¶7 As indicated above, the appellate jurisdiction of the Federal Circuit is tied, in whole or in part, to the original jurisdiction of the district courts. 27 28 U.S.C. § 1338 defines the original jurisdiction of district courts over patent cases by using “arising under” language. 28 The same “arising under” language is also used in defining the federal question jurisdiction of the federal courts under 28 U.S.C. § 1331. 29 The U.S. Supreme Court has adopted the same rule of interpretation because of “linguistic consistency,” starting with Christianson v. Colt Industries Operating Corp. 30 and later in Holmes Group. 31

¶8 Prior to Holmes Group, the Federal Circuit held that patent counterclaims, at least compulsory patent counterclaims, were sufficient to implicate its appellate jurisdiction. 32 In a 1986 case, Schwartzkopf Development Corp. v. Ti-Coating, Inc., the Federal Circuit indicated in dictum that:

> [a]djudication of a patent counterclaim is the exclusive province of the federal courts. The patent counts of Ti-Coating’s counterclaim, for declaratory judgment of patent invalidity, noninfringement, and unenforceability, are within the jurisdiction of the district court under § 1338. Under 28 U.S.C. § 1295(a)(1), when the district court’s jurisdiction is based in part on § 1338, the appeal of the entire case, not solely the patent claims, lies in this court. 33

¶9 This view was also adopted in another 1986 case—In re Innotron Diagnostics, where an antitrust action and a patent infringement action were consolidated. 34 The court held that consolidation of a separate suit including a patent infringement claim and filing of a patent infringement counterclaim had the same effect for appellate jurisdiction

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24 See Handgards, Inc., 743 F.2d at 1287 n. 5 (citing C. WRIGHT & A. MILLER, FEDERAL PRACTICE AND PROCEDURE: CIVIL § 1206, at 77 (1969) (An appellate court must look beyond the stated jurisdictional basis to determine the nature of the claims actually litigated.)).
25 See supra note 7.
26 LANDES & POSNER, supra note 7, at 352.
32 See Schwarzkopf Dev. Corp. v. Ti-Coating, Inc., 800 F.2d 240, 244 (Fed. Cir. 1986).
33 Id.
34 800 F.2d 1077, 1080 (Fed. Cir. 1986).
purposes. Since the district court’s jurisdiction was based “in part” on 28 U.S.C. § 1338(a), the Federal Circuit had exclusive appellate jurisdiction over the whole case.

Some circuit courts of appeals agreed with such a view. For example, in a 1987 case, XETA, Inc. v. ATEX, Inc., the plaintiff asserted antitrust and state business torts claims in its complaint, and the defendant raised a patent infringement counterclaim. The District Court of New Hampshire’s decision was appealed to the First Circuit. The First Circuit noted the Federal Circuit’s dictum in Ti-Coating, Inc. and the holding of In re Innotron Diagnostics, and transferred the appeal to the Federal Circuit.

However, the Federal Circuit and Regional Circuits sometimes gave little deference to each other and engaged in “jurisdictional ping-pong.” The Supreme Court observed that “few jurisdictional lines can be so finely drawn as to leave no room for disagreement on close cases.” Christianson v. Colt Industries Operating Corp. was such a case. In this case, Colt notified ITS’s customers of misappropriation of trade secrets and discouraged them from doing business with ITS. ITS and its owner Christianson filed a suit against Colt for violation of federal antitrust law and state business tort law. ITS and Christianson subsequently filed a motion for summary judgment to invalidate Colt’s patents alleging that Colt had hidden information from the U.S. Patent and Trademark Office. The district court granted the motion on both antitrust and business tort claims relying on the insufficient disclosure theory, and invalidated Colt’s patents. Colt filed an appeal to the Federal Circuit. The Federal Circuit, in a short unpublished order, concluded that it lacked jurisdiction and transferred the appeal to the Seventh Circuit. The Seventh Circuit, however, raising the jurisdictional issue sua sponte, concluded that the Federal Circuit was “clearly wrong” and transferred the case back. The Federal Circuit maintained that it lacked jurisdiction because the patent law issue appeared solely in “an argument against a defense” and such “[a]rguments are not the source of a court’s jurisdiction.” However, it addressed the merit of the case in the “interests of justice” and reversed the district court. The Supreme Court granted review and concluded that the Federal Circuit lacked jurisdiction to decide the case of an antitrust action where a patent law issue raised as a defense was not necessary to the antitrust claims.

In interpreting 28 U.S.C. § 1338(a), the Supreme Court turned to the identical language—“arising under”—in the general federal question provision of 28 U.S.C. § 1331. Linguistic consistency demands that § 1338(a) extend only to those cases in which a well-pleaded complaint establishes either (1) that federal patent law creates the cause of action or (2) that the plaintiff’s right to relief necessarily depends on resolution

35 Id.
36 825 F.2d 604, 606-07 (1st Cir. 1987).
37 Id. at 607-08.
39 Id.
41 Id.
42 Id. at 1547, 1551 n. 8.
43 Id. at 1559-60.
45 Id. at 809-10.
of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.\textsuperscript{46} These are the two prongs of \textit{Christianson}.

The Supreme Court recognized that Congress’s goals for patent law uniformity would be better served if the Federal Circuit’s jurisdiction was fixed “by reference to the case actually litigated,” rather than by an \textit{ex ante} hypothetical assessment of the elements of the complaint that might have been dispositive.\textsuperscript{47} However, Justice Brennan pointed to the statutory language of 28 U.S.C. § 1295(a)(1) that grants jurisdiction to the Federal Circuit over “an appeal from . . . a district court . . . if the jurisdiction of that court was based . . . on section 1338.”\textsuperscript{48} According to Justice Brennan, since the district court’s jurisdiction was determined by the well-pleaded complaint, not the well-tried case, the referent for the Federal Circuit’s jurisdiction must be the same.\textsuperscript{49}

Justice Stevens, in a concurring opinion joined by Justice Blackmun, noted that applying the well-pleaded complaint rule to appellate jurisdiction should be different from applying the same rule to the jurisdiction of a district court.\textsuperscript{50} In determining appellate jurisdiction at the time the final judgment of a district court is entered, whether the complaint is actually or constructively amended should also be considered, in addition to the initially filed complaint.\textsuperscript{51}

After \textit{Christianson}, the Federal Circuit soon distinguished patent law defenses from patent law counterclaims in a 1990 case, \textit{Aerojet-General Corp. v. Machine Tool Works}.\textsuperscript{52} In \textit{Aerojet}, the plaintiff raised unfair competition and other state business tort claims, and the defendant raised a compulsory counterclaim for patent infringement.\textsuperscript{53} The Federal Circuit interpreted \textit{Christianson} as standing for the proposition that a patent law \textit{defense} was insufficient to generate Federal Circuit jurisdiction in the absence of a patent law \textit{claim} or \textit{counterclaim}.\textsuperscript{54} However, because the counterclaim would have “arisen under” the patent laws if it had been filed as a complaint in a separate suit, the Federal Circuit held that the counterclaim constituted a well-pleaded claim with an independent jurisdictional basis.\textsuperscript{55} The court further argued that the well-pleaded complaint rule was intended to prevent potentially serious federal-state conflicts, not appellate jurisdiction conflicts.\textsuperscript{56} The court also cited the congressional purpose for national uniformity in patent law.\textsuperscript{57} Therefore, the Federal Circuit determined that it had appellate jurisdiction over patent law compulsory counterclaims.\textsuperscript{58} In 1999, the Federal Circuit expanded its holding in \textit{Aerojet} to hear appeals on permissive patent law counterclaims in \textit{DSC Communications Corp. v. Pulse Communications, Inc.}\textsuperscript{59}

\begin{thebibliography}{99}
\bibitem{footnote1} Id.
\bibitem{footnote2} Id. at 813.
\bibitem{footnote3} Id. at 807.
\bibitem{footnote4} Id. at 813–14.
\bibitem{footnote5} Id. at 822-23.
\bibitem{footnote6} Id. at 822-24.
\bibitem{footnote7} 895 F.2d 736 (Fed. Cir. 1990).
\bibitem{footnote8} Id. at 737-38.
\bibitem{footnote9} Id. at 741 (emphasis added).
\bibitem{footnote10} Id. at 742.
\bibitem{footnote11} Id. at 743-44.
\bibitem{footnote12} Id. at 744.
\bibitem{footnote13} Id.
\bibitem{footnote14} 170 F.3d 1354, 1359 (Fed. Cir. 1999).
\end{thebibliography}
The Federal Circuit’s exertion of appellate jurisdiction over patent law counterclaims did not last long. In the 2002 Holmes Group decision, the Supreme Court held that the Regional Circuits, as opposed to the Federal Circuit, were the proper fora for appealed cases containing patent law counterclaims.\textsuperscript{60} In Holmes Group, a fan importer—Holmes Group—filed a civil action in Kansas district court seeking a declaratory judgment for non-infringement of the trade secret of Vornado, a fan manufacturer. Vornado included a compulsory counterclaim for patent infringement in its answer.\textsuperscript{61} When Vornado appealed the district court’s decision to the Federal Circuit, the Federal Circuit vacated the district court’s decision.\textsuperscript{62} Holmes Group petitioned the Supreme Court to review whether the Federal Circuit properly exercised appellate jurisdiction.\textsuperscript{63}

In the majority opinion, Justice Scalia, relying on “linguistic consistency” between 28 U.S.C. § 1331 and § 1338(a), held that the well-pleaded complaint rule, as applied to cases arising under patent law, requires consideration solely of the plaintiff’s complaint.\textsuperscript{64} Federal patent law must provide the cause of action or plaintiff’s relief must depend on a substantial question of patent law. Because counterclaims appeared as a part of the answer, they should not be considered in determining the Federal Circuit’s jurisdiction. Justice Scalia noted three reasons for the holding. First, the plaintiff, not the defendant, should be the master of the complaint. Second, federal jurisdiction based on counterclaims would cause an undue amount of cases to be removed from state courts to federal courts. Finally, creating an exception for patent law would undermine “the clarity and ease of administration of the well-pleaded-complaint doctrine, which serves as a ‘quick rule of thumb’ for resolving jurisdictional conflicts.”\textsuperscript{65} While recognizing the congressional intent for national uniformity of patent law, Justice Scalia argued that maintaining linguistic consistency and applying the well-pleaded complaint rule are more important concerns. Therefore, the appeal of this case should go to the Tenth Circuit, where the patent counterclaim would be determined.\textsuperscript{66}

Justice Stevens, in his concurrence, again stressed the importance of timing to determine the Federal Circuit’s appellate jurisdiction—“the jurisdiction of the court of appeals is not ‘fixed’ until the notice of appeal is filed.”\textsuperscript{67} He indicated that the interest in preserving the plaintiff’s choice of forum includes not only the trial court, but also the appellate court. In particular, Justice Stevens noted that other circuits would have some role to play in the development of patent law. An occasional conflict in decisions might be useful in identifying questions that merit the Supreme Court’s attention. Moreover, occasional decisions by courts with broader jurisdiction would provide an antidote to the risk that the specialized court may develop an institutional bias.\textsuperscript{68}

\textsuperscript{60} 535 U.S. 826, 829 (2002).

\textsuperscript{61} Id. at 828.


\textsuperscript{63} Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 829 (2002).

\textsuperscript{64} Id. at 834.

\textsuperscript{65} Id. at 832.

\textsuperscript{66} Id. at 831-32.

\textsuperscript{67} Id. at 836.

\textsuperscript{68} Id. at 835-39.
Justice Ginsburg, in a concurring opinion joined by Justice O’Connor, argued that the logic set forth in *Aerojet* was convincing and that a counterclaim, at least a compulsory counterclaim, “arising under” patent law could create appellate jurisdiction at the Federal Circuit. They concurred with the majority because the patent counterclaim had not been adjudicated before reaching the Federal Circuit. Thus, they in effect adopted an actual adjudication test to determine the Federal Circuit’s appellate jurisdiction. Under this test, when a patent law counterclaim was adjudicated on the merits by a federal district court, the Federal Circuit would have exclusive appellate jurisdiction over that adjudication and other determinations made in the same case.\(^69\)

In summary, *Holmes Group* ended the patent law counterclaim jurisdiction of the Federal Circuit by strictly applying the well-pleaded complaint rule. Although the well-pleaded complaint rule has been strongly criticized for its rigidity,\(^70\) the Supreme Court has shown no indication to abolish it. However, its application is not always explained with “clarity and ease . . . for resolving jurisdictional conflicts,” as indicated by Justice Scalia.\(^71\) Problems usually arise in the cases based on state causes of action, where a federal element or interests are involved.

### IV. The Evolving Well-Pleaded Complaint Rule

The well-pleaded complaint rule has not been static since its creation by the Supreme Court in *Louisville & Nashville Railroad Co. v. Motley* in 1908.\(^72\) In *Franchise Tax Board v. Construction Laborers Vacation Trust*, the Supreme Court held that a federal court has jurisdiction when a well-pleaded complaint establishes that plaintiff’s right of relief necessarily depends on resolution of a substantial question of federal law.\(^73\) However, such a formulation is abstract because the elements of necessary, dependency and a substantial question of federal law are not clear. In *Smith v. Kansas City Title & Trust Co.*, the Supreme Court held that a federal court had jurisdiction on shareholders’ state law cause of action to enjoin a corporation from purchasing federal bonds allegedly issued in violation of the U.S. Constitution.\(^74\) In *Moore v. Chesapeake & Ohio Railway Co.*, however, the Supreme Court rejected federal jurisdiction over a railroad worker’s state law injury claim for a railroad’s violation of a federal railroad safety statute.\(^75\) In the 1986 decision of *Merrell Dow Pharmaceuticals, Inc. v. Thompson*, Justice Stevens, writing for the majority, explained that the perceived conflict between *Smith* and *Moore* was due to differences in the nature of the federal interests at stake.\(^76\) In *Merrell Dow*, the Supreme Court found it lacked federal jurisdiction on a state law action for birth defect allegedly due to negligence of a drug company’s violation of federal Food, Drug, and Cosmetic Act, because this federal law did not create a federal cause of action.\(^77\)

\(^{69}\) Id. at 839-40.


\(^{71}\) *Holmes Group*, 535 U.S. at 832.

\(^{72}\) 211 U.S. 149 (1908).

\(^{73}\) 463 U.S. 1, 27-28 (1983).

\(^{74}\) 255 U.S. 180 (1921).

\(^{75}\) 291 U.S. 205 (1934).

\(^{76}\) 478 U.S. 804, 816 (1986).

\(^{77}\) Id.
¶22 In 2005, the Supreme Court spoke again on the well-pleaded complaint rule in *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, which involved a state quiet title suit based on the Internal Revenue Services’ failure to provide notice as required by a federal statute. By allowing federal jurisdiction, the Supreme Court stressed “the sensitive judgments about congressional intent” in dividing the cases between federal and state courts. The Court held that federal law creating a cause of action is not required for federal court jurisdiction. In particular, a federal law serving an important national interest that is an essential component of the plaintiff’s claim can create jurisdiction at the federal courts.

¶23 Therefore, after *Grable & Sons*, it may be argued that a federal court may exert federal jurisdiction when a plaintiff’s state law claim turns on the validity, infringement or enforceability of a patent, because patent law serves an important national interest. Such an important national interest may be that the uniformity of patent law, which was indicated by Congress as desirable, requires a federal forum. It remains true that mere state law claims that do not depend on the validity, infringement or enforceability of a patent would not invoke federal jurisdiction. These state law claims generally include breach of patent licensing contract claims, state unfair competition claims, or ownership (rather than inventorship) claims of the patented invention.

*Grable & Sons* involves federal versus state courts jurisdiction, not appellate jurisdiction among different federal appellate courts. However, because the Federal Circuit’s jurisdiction on patent appeals under 28 U.S.C. § 1295(a)(1) is tied to jurisdiction of a district court based on 28 U.S.C. § 1338, the application of *Grable & Sons* in district courts in patent cases affects appellate jurisdiction of the Federal Circuit. Under *Grable & Sons*, an expansive interpretation of national interest may allow the district court to retain and Federal Circuit to review cases that may otherwise be denied jurisdiction at the Federal Circuit under a strict application of *Holmes Group*. In assessing the national interest, achieving uniformity of patent law at the appellate level by the Federal Circuit is clearly supported by the congressional intent behind the creation of the Federal Circuit.

By looking deeper at the plaintiffs’ complaints for the presence of a national interest in the uniformity of patent law, federal courts, including the Federal Circuit, may avoid the formalistic approach of *Holmes Group*. Therefore, it is sensible to allow the Federal Circuit’s adjudication of patent law counterclaims under the refined well-pleaded complaint rule in *Grable & Sons*.

V. Changes and Problems Caused by the *Holmes Group* Decision

¶25 After the *Holmes Group* decision in 2002, many commentators and practitioners have predicted the danger of forum shopping resurfacing after twenty-year hiatus since the establishment of the Federal Circuit in 1982. Some predicted that the Regional Circuits would revive their pre-1982 patent jurisprudence. Still others believed that

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78 545 U.S. 308 (2005).
79 Id. at 318.
80 Id.
81 Supra notes 16-17.
82 See supra note 11.
83 See Elizabeth I. Rogers, *The Phoenix Precedents: The Unexpected Rebirth of Regional Circuit*
there would be a race to the courthouse in order to obtain a favorable forum.84 There are also people who maintained that Holmes Group would not significantly affect patent law jurisprudence.85

This section evaluates the federal and state cases where Holmes Group has been applied in order to empirically assess the actual effects of Holmes Group on jurisdiction of patent claims, especially patent defense and counterclaims. The results indicate that some of the predictions have been fulfilled, while others have not.

A. The Regional Circuits’ Application of Holmes Group

After Holmes Group, the Regional Circuits obtained appellate jurisdiction on patent law counterclaims when (1) district courts’ cases were “arising under” federal law under 28 U.S.C. § 1331 and a patent law compulsory or permissive counterclaim was allowed to join; and (2) district courts’ cases were based on diversity under 28 U.S.C. § 1332 and a patent law compulsory or permissive counterclaim was allowed to join. Most cases with state law causes of action between diverse parties fall into the second group of cases.

Since Holmes Group in 2002, according to available data, the Regional Circuits have obtained appellate jurisdiction in five cases from 2002 to 2008 where patent law counterclaims were raised.86 In contrast, the Federal Circuit heard about 440 patent cases per year, totaling about 2976 patent cases from fiscal year 2002 to 2008.87 The startling contrast undermines one of Justice Scalia’s reasons for adopting the well-pleaded complaint rule in Holmes Group—“federal jurisdiction based on counterclaim would cause an undue amount of removed cases from state courts to federal courts.”88 Of course, it is possible that many diversity cases with patent law counterclaims were not appealed, or many non-diverse cases with patent law counterclaims were adjudicated by states courts. However, as the later part of this article indicates, neither district courts nor state courts have actually adjudicated a significant number of cases with patent law counterclaims since 2002. Therefore, Justice Scalia’s concern of undue burden on federal jurisdiction over patent appeals and the need for a considered congressional response, 16 Harv. J.L. & Tech. 411 (2003).

86 County Materials Corp. v. Allan Block Corp., 502 F.3d 730, 734 (7th Cir. 2007); Schinzing v. Mid-States Stainless, Inc., 415 F.3d 807 (8th Cir. 2005); Telecom Technical Servs. Inc. v. Rolm Co., 388 F.3d 820 (11th Cir. 2004); E.I. Du Pont de Nemours & Co. v. Okuley, 344 F.3d 578 (6th Cir. 2003); XCO Intern. Inc. v. Pac. Scientific Co., 369 F.3d 998 (7th Cir. 2003); Although no patent counterclaims were raised, the following cases applied Holmes Group: CytoLogix Corp. v. Ventana Med. Sys., Inc., 513 F.3d 271 (1st Cir. 2008) (holding that consolidation of patent and antitrust cases gives jurisdiction to the Federal Circuit) Maxwell v. Stanley Works, Inc., No. 06-6119, 2007 U.S. App. LEXIS 16029, at *1-2 (6th Cir. Apr. 23, 2007) (transferring a patent case to Federal Circuit because, applying Supreme Court precedent, the complaint and jurisdiction of the district court was based in part on 28 U.S.C. §1338, and the Federal Circuit has exclusive jurisdiction over the appeal). It is possible that there were patent counterclaim cases settled or disposed of without opinions. This paper does not include such cases.
courts was not supported by empirical data on court adjudications, at least, those from 2002 to 2008. Relevant cases adjudicated by the Regional Circuits involving issues of choice of law and the quality of legal analysis of patent law questions are described below.

In *E.I. Du Pont de Nemours & Co. v. Okuley*, a corporate assignee of an invention, later matured into a patent, sued a university researcher for breach of a research collaboration agreement. The researcher counterclaimed for a declaration that he was the sole inventor of the invention in dispute. The district court’s jurisdiction was based on diversity of the parties. The Sixth Circuit adopted the Federal Circuit’s law to distinguish inventorship from ownership of the invention. The Sixth Circuit noted that, because claim on inventorship was raised as a counterclaim, it was not in a well-pleaded complaint. Applying *Holmes Group*, it held that the question of inventorship was not necessary for resolution of the ownership issue, and even though it was a question of federal patent law, the Federal Circuit would not have appellate jurisdiction. The Sixth Circuit’s analysis is consistent with the Federal Circuit’s jurisprudence. It also correctly noted that if a plaintiff’s claim under breach of contract theory requires a resolution of a question of inventorship, then under the well-pleaded complaint rule, the Federal Circuit would have appellate jurisdiction.

In *XCO International Inc. v. Pacific Scientific Co.*, the plaintiff sued for breach of a patent license agreement, while the defendant counterclaimed for a royalty based on the defendant’s patent. The plaintiff then argued that it was practicing a new and different invention it developed by itself, for which it was seeking a new patent. Applying *Holmes Group*, the Seventh Circuit retained appellate jurisdiction. In deciding the case, the Seventh Circuit was required to determine whether the invention described in the patent under the license agreement and the new invention described in a new patent application of the plaintiff were the same. Judge Posner adopted the Federal Circuit’s law when explaining the doctrine of equivalents to compare the old patent and the new patent application. However, the explanation of the doctrine was brief. A complete analysis will require patent claim construction and a comparison of products with claims of the patent or application.

In *Schinzing v. Mid-States Stainless, Inc.*, the patentee licensor sued the licensee, who counterclaimed patent invalidity. The Eighth Circuit adopted the Federal Circuit’s law on patent claims construction. Applying *Holmes Group*, the Eighth Circuit retained appellate jurisdiction. In deciding the case, the Eighth Circuit indicated that it “adopt[s] the Federal Circuit’s precedent on substantive issue of patent law.” The Eighth Circuit

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89 344 F.3d 578, 582 (6th Cir. 2003).
90 Id. at 583.
91 See Beech Aircraft Corp. v. Edo Corp., 990 F.2d 1237, 1248 (Fed. Cir. 1993) (The “question of who actually invented the subject matter claimed in a patent,” is a question of federal patent law. “Ownership, however, is a question of who owns legal title to the subject matter claimed in a patent, patents having the attributes of personal property” and is not a question of federal patent law.).
92 Okuley, 344 F.3d at 582 (citing Rustevader Corp. v. Cowatch, 842 F. Supp. 171 (W.D. Pa. 1993)).
93 369 F.3d 998 (7th Cir. 2003).
94 Id. at 1006.
96 415 F.3d 807 (8th Cir. 2005).
97 Id. at 811.
held that the district court failed to construe patent claims as required by the Federal Circuit’s law. Thus, the case was remanded to the district court for claim construction and an element by element comparison.\textsuperscript{98} The explanation of the Federal Circuit law by the Eighth Circuit is generally sufficient.

However, not all of the Regional Circuits have applied the Federal Circuit’s law in applicable cases. In \textit{County Materials Corp. v. Allan Block Corp.},\textsuperscript{99} the Seventh Circuit, relying on its own precedent, concluded that the presence of a federal defense—patent misuse—was irrelevant to jurisdiction when the plaintiff filed a declaratory action on a covenant not to compete in a patent licensing agreement.\textsuperscript{100}

In \textit{Telecom Technical Services Inc. v. Rolm Co.},\textsuperscript{101} the Eleventh Circuit analyzed precedents from the Supreme Court, Federal Circuit, First Circuit, and Ninth Circuit in determining the relationship between patent law and antitrust law to formulate its own approach. In affirming the district court’s patent infringement ruling, the explanation was brief. The Eleventh Circuit used a “sufficient evidence” rule, rather than the “preponderance evidence rule” required by the Federal Circuit.\textsuperscript{102}

In summary, the Regional Circuits have applied \textit{Holmes Group} to retain appellate jurisdiction over cases with patent law counterclaims. Most Regional Circuits applied the Federal Circuit patent jurisprudence in these cases. However, the depth and scope of the analysis of the Federal Circuit’s law vary. In addition, some Regional Circuits have started to formulate their own law on patent issues. Therefore, there is potential for an adverse effect on patent law uniformity.

\textbf{B. The Federal Circuit’s Application of Holmes Group}

From 2002 to 2008, the Federal Circuit transferred three cases with patent law counterclaims to the Regional Circuits based on \textit{Holmes Group}.\textsuperscript{103} Although other commentators indicated that the Federal Circuit transferred about thirteen cases to the Regional Circuit by 2003, the specific citations of those cases were not provided.\textsuperscript{104} It is possible that those cases that warrant transfer in spite of \textit{Holmes Group} might have been counted. Therefore, the Federal Circuit has transferred a small number of cases to the Regional Circuits due to \textit{Holmes Group}.

On the other hand, in applying the well-pleaded complaint rule, the Federal Circuit has taken a flexible approach to broaden its jurisdiction by expanding the second-prong of \textit{Chriistianson}. The net result is that cases with patent law counterclaims, which may be deprived of the Federal Circuit forum under a strict application of \textit{Holmes Group}, may

\begin{itemize}
\item \textsuperscript{98} \textit{Id.} at 815.
\item \textsuperscript{99} 502 F.3d 730 (7th Cir. 2007).
\item \textsuperscript{100} \textit{Id.} at 734 (citing Scheiber v. Dolby Labs., Inc., 293 F.3d 1014 (7th Cir. 2002)).
\item \textsuperscript{101} 388 F.3d 820, 826-27 (11th Cir. 2004).
\item \textsuperscript{102} \textit{Id.} \textit{But see} KIMBERLY A. MOORE ET AL., \textit{PATENT LITIGATION AND STRATEGY} 323 (3d ed. 2008).
\item \textsuperscript{103} Pharm. Research & Mfrs. of Am. v. Walsh, 81 F. App’x 327 (Fed. Cir. 2003) (transferred to the First Circuit, containing intervener patent counterclaims); Telecom Tech. Servs., Inc. v. Siemens Rolm Commc’ns, Inc., 295 F.3d 1249 (Fed. Cir. 2002) (transferred to the Eleventh Circuit, containing patent counterclaim in response to antitrust claim in the complaint); Medigene AG v. Loyola Univ., 41 F. App’x 450 (Fed. Cir. 2002) (transferred to the Seventh Circuit). It is possible that there were patent counterclaim cases settled, disposed of or transferred without published opinions. This paper does not include such cases.
\end{itemize}
still be heard by the Federal Circuit. By focusing on the plaintiff’s complaint, the Federal Circuit does not violate *Holmes Group*. This flexible approach is reflected in two ways. First, the Federal Circuit has been more willing to find a substantial question of patent law in state law causes of action by relying on congressional intent for patent law uniformity, especially in light of the Supreme Court’s *Grable & Sons* decision. Second, the Federal Circuit appears to pick and choose alternative theories in favor of finding for jurisdiction based on the initial complaint, actual complaint or constructively amended complaint.

A recent Federal Circuit decision on malpractice claims represents the first approach. In *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, the plaintiff—AMT—sued the defendant law firm—Akin Gump—in state court for malpractice based on alleged errors in patent prosecution and litigation. Akin Gump counterclaimed for a declaration of invalidity of the patent, arguing that it was not at fault in losing the patent litigation. The Federal Circuit noted that, under Texas malpractice law, the plaintiffs must establish that they *would have prevailed* in the prior patent litigation but for Akin Gump’s negligence. This is the “case within a case” requirement of the proximate cause element of a malpractice action. Because the underlying suit was a patent infringement action, the district court would have to adjudicate, hypothetically, the merits of the infringement claim. Because proof of patent infringement was a “necessary element” of AMT’s malpractice claim, it presented a substantial question of patent law conferring § 1338 jurisdiction. More importantly, the Federal Circuit indicated that *Grable & Sons* requires consideration of substantiality and federalism factors, and it does not change § 1338 case law. According to the Federal Circuit, there is a strong federal interest in the adjudication of patent infringement claims in federal court because patents are issued by a federal agency. The litigants will also benefit from federal judges who have experience in claim construction and infringement matters. Under these circumstances, patent infringement justifies “resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues.”

By adopting an expansive interpretation of substantiality and federalism of the well-pleaded complaint rule, the Federal Circuit obtained appellate jurisdiction over arguably many potential patent malpractice cases. Some commentators support such an approach.

A second approach through which the Federal Circuit obtained jurisdiction on patent counterclaims was to dynamically choose the temporal reference point favorable for finding jurisdiction. For example, in *Baum Research & Development Co., Inc. v. University of Massachusetts at Lowell*, both patent infringement and contract claims were alleged, but the patent claim was subsequently dropped. The parties only appealed

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105 504 F.3d 1262 (Fed. Cir. 2007).
106 Id. at 1262-69.
107 Id. at 1272 (citing *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 315 (2005)).
108 Id. (citing *Grable*, 545 U.S. at 312).
111 188 F. App’x 979 (Fed. Cir. 2006).
the contract claim. The Federal Circuit held that, based on the complaint as originally filed, it had jurisdiction over the contract claim.

¶40 In other circumstances, the Federal Circuit looked at what happened during the trial. In *Sunbeam Products, Inc. v. Wing Shing Products (BVI) Ltd.*, the plaintiff's original claim was on ownership of patent and stay of bankruptcy proceeding, while the defendant raised patent infringement counterclaims. Although the plaintiff did not actually amend its claims, the Federal Circuit looked at the pretrial order as constructively amending the complaint to add the claim of joint inventorship. Because inventorship was a question of federal patent law, the Federal Circuit had jurisdiction. Such a dynamic approach appears to be inconsistent from case to case. However, because *Holmes Group* did not clearly rule on this issue, the Federal Circuit has taken advantage of this silence from the U.S. Supreme Court.

In addition, the Federal Circuit has called on the Regional Circuits to adopt its law, so that even if it does not have jurisdiction, patent uniformity may be achieved. In a concurring opinion, Federal Circuit Judge Dyk commented that the Federal Circuit adopts its own law to non-patent issues where “the disposition of nonpatent-law issues is affected by the special circumstances of the patent law setting in which those issues arise” because this promotes uniformity in the field of patent law. He further noted that “[a]lthough the recent decision of the Supreme Court in [*Holmes Group*] may make that uniformity more elusive, it is still important.”

¶41 In *Unitherm Food Systems, Inc. v. Swift-Eckrich, Inc.*, the Federal Circuit encouraged the Regional Circuits to defer to the Federal Circuit’s choice of law principles when determining whether a patentee’s behavior strips it of antitrust immunity, removing any questions of patent law from (and leaving only antitrust law to) the Regional Circuits. The Federal Circuit characterized its choice of law rule as “a sensible approach to preserving the uniformity of patent law without regard to the appellate forum.”

¶42 In summary, the Federal Circuit has transferred a small number of cases to the Regional Circuits under *Holmes Group*. By adopting a flexible approach under *Grable & Sons* through an expansive interpretation of the second-prong of *Christianson* and temporal point for assessing the complaint, the Federal Circuit obtained jurisdiction that may have been lost under a rigid application of *Holmes Group*. Further, by calling on the Regional Circuits to adopt its substantive law, the Federal Circuit seeks to preserve patent law uniformity.

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112 Id.
113 Id. at 980.
114 153 F. App'x 703 (Fed. Cir. 2005).
115 See *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829 n.1 (2002) (“[T]his case does not call upon us to decide whether the Federal Circuit’s jurisdiction is fixed with reference to the complaint as initially filed or whether an actual or constructive amendment to the complaint raising a patent-law claim can provide the foundation for the Federal Circuit's jurisdiction.”).
117 *Vardon Golf*, 294 F.3d at 1336.
118 375 F.3d 1341 (Fed. Cir. 2004).
119 *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d at 1355 n.3.
C. Federal District Courts’ Application of Holmes Group

¶43 After *Holmes Group*, federal district courts can still hear cases with patent counterclaims when the parties are diverse under 28 U.S.C. § 1332, either filed originally or removed under 28 U.S.C. § 1441. These diversity-based cases have to be appealed to the Regional Circuits.120 The potential issue is whether district courts apply the Regional Circuits’ law in diversity cases and apply the Federal Circuit’s law in federal patent law cases.

¶44 Prior to *Holmes Group*, the divergent rulings of district courts caused forum shopping problems.121 At the district court level, the potential effect of *Holmes Group* is to remand certain cases to state courts, thus reducing the caseload of district courts. This empirical research indicates that district courts decided about four cases with patent counterclaims after *Holmes Group*.122 District courts also applied *Holmes Group* in six cases where patent law counterclaims were not asserted but defendants requested for remand to state courts.123 Examples of typical issues raised in these cases are discussed below.

A frequently litigated issue is ownership versus inventorship of patents. Typically, when ownership issues were raised in the original complaint, the cases were remanded to state courts and counterclaims of inventorship were insufficient to retain federal jurisdiction under the Federal Circuit law. When the original complaint alleges inventorship issues, district courts retain jurisdiction under the well-pleaded complaint rule.124 Most district courts are clear about this distinction.

¶45 When fraud at the PTO is alleged in the original complaint, the federal jurisdiction is retained. In reaching this correct conclusion, however, the Western District of Tennessee inadvertently stated that trademark rights are an issue of patent law in *Bailey v. Honeywell International Inc*.125

¶46 As another sign of problems of district courts in dealing with patent law issue, in *Med Five, Inc. v. Keith*, the District Court of Hawaii misstated the infringement standard

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as comparing one patent with another patent, when it presumably meant one should compare the patent with the infringing product.\footnote{126}

¶48

In sum, the district courts generally followed the mandate of \textit{Holmes Group} decision and looked at only the plaintiffs’ complaints to determine their jurisdiction. There are some deficiencies in applying the Federal Circuit’s law by the district courts when they misstate patent law principles. This might be due to the general difficulty in applying patent law since patent cases are only a small portion of federal district courts’ caseload. Most district courts applied the Federal Circuit’s law, rather than the Regional Circuits’ law. This indicates that patent uniformity is not impeded. But the issue remains how well the district courts apply the Federal Circuit’s law.\footnote{127}

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\textbf{D. State Courts’ Application of Holmes Group}

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In reported state court cases, the state courts are willing to decide incidental patent counterclaim or defenses. For example, in \textit{Linear Technology Corp. v. Applied Materials, Inc.}, a California state appellate court held that it would not be deprived of subject matter jurisdiction simply “by the fact that, incidentally to one of these defen[s]es, the defendant claimed the invalidity of a certain patent.”\footnote{128} In \textit{Green v. Hendrickson Publishers, Inc.}, an Indiana state court concluded that a copyright counterclaim was not subject to the exclusive jurisdiction provision of 28 U.S.C. § 1338, and that the authorities stating that such a claim could not have been filed in state court were no longer prevailing federal law.\footnote{129} This assertion of jurisdiction over patent law counterclaims arguably contravenes the requirement of 28 U.S.C. § 1338(a), which expressly states that “[s]uch jurisdiction shall be exclusive of the courts of the state in patent . . . cases.”

¶50

There is no reported state court case where a patent was invalidated or a significant patent issue was decided since \textit{Holmes Group}. However, the above two cases show state courts’ willingness to adjudicate patent law counterclaims. This can affect patent uniformity since state courts are generally deemed lacking in experience and expertise to adjudicate patent law claims.\footnote{130}

¶51

One possible solution is to subject a state court’s decision on a substantial patent law claim to federal appellate review, preferably by the Federal Circuit. Although state courts are courts of general jurisdiction, it is generally recognized that the state courts’ decisions on federal issues may be reviewed by the Supreme Court of the United States if the decision is in conflict with federal law.\footnote{130}

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\footnote{126 Med Five, Inc. v. Keith, No. 07-00389DAE-LEK, 2008 WL 564674 (D. Haw. Feb. 25, 2008); see also Moore, \textit{supra} note 102, at 323.}

\footnote{127 See Kimberly A. Moore, \textit{Are District Court Judges Equipped To Resolve Patent Cases?} 15 HARV. J.L. & TECH. 1 (2001).}

\footnote{128 Linear Tech. Corp. v. Applied Materials, Inc., 61 Cal. Rptr. 3d 221, 227 (Cal. Ct. App. 2007).}


\footnote{130 Donald Shelby Chisum, \textit{The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation}, 46 WASH. L. REV. 633, 659-60 (1971) (“The state court presumably lacks the expertise of a federal court . . . it is not clear that state courts have ever adjudicated any significant number of patent validity questions. . . . [I]t is a frustrating and fruitless task to search for reported appellate opinions in which a state court actually has passed upon the validity of a patent. There are very, very few.”); Larry D. Thompson, Jr., \textit{Adrift On A Sea Of Uncertainty: Preserving Uniformity In Patent Law Post-Vornado Through Deference To The Federal Circuit}, 92 GEO. L.J. 523, 607 (2004) (concluding that state courts are more inexperienced than Regional Circuits in deciding patent claims).}
Adding a layer of appellate review on patent law claims by the Federal Circuit does not seem to pose constitutional difficulties since Congress has the power to give the federal court exclusive jurisdiction of matters within the jurisdiction of the United States.\textsuperscript{131}

E. Summary of Effects of Holmes Group on Patent Uniformity

Generally, the district courts and Regional Circuits complied with the well-pleaded complaint rule to retain their jurisdiction over patent law counterclaims. State courts have expressed willingness to adjudicate patent law counterclaims, although they have not actually done so. In deciding patent law counterclaims, most of these courts adopted Federal Circuit law, not their own patent law precedent established prior to the Federal Circuit. On the other hand, the Federal Circuit appears to have adopted several measures to mitigate the exclusion effect of Holmes Group by (1) adopting a flexible and expansive interpretation of national interest in patent law uniformity under Grable & Sons; (2) dynamically interpreting plaintiffs’ claims that trigger its appellate jurisdiction; and (3) suggesting to other Regional Circuits to adopt the Federal Circuit’s substantive law. Thus, the concern over Holmes Group’s effect on the uniformity of patent law may be overstated.

However, there are some cases where the Regional Circuits and district courts provided brief or insufficient analysis on patent law issues, which may be due to their lack of expertise in patent law. Holmes Group allows the possibility that an ill-conceived patent law precedent may emerge from these courts. Thus, there is still the concern for the uniformity of patent law. On the other hand, because of the small number of cases heard by the Regional Circuits and state courts, they are unlikely to develop a coherent body of case law to “compete with” the Federal Circuit, as envisioned by Justice Stevens.\textsuperscript{133} In fact, since Holmes Group, the Supreme Court has increased its review of patent law cases.\textsuperscript{134} However, none of these cases was prompted by a circuit split over substantive patent law issues that involve patent law counterclaims at the Regional Circuits, because there is no effective competition with the Federal Circuit.

Some scholars advocate establishing additional appellate courts to provide an alternative forum in competition with the Federal Circuit.\textsuperscript{135} Even if an additional

\begin{itemize}
\item \textsuperscript{131} Martin v. Hunter’s Lessee, 1 Wheat. 304 (1816).
\item \textsuperscript{132} See THE FEDERALIST No. 82 (“But this doctrine of concurrent jurisdiction is only clearly applicable to those descriptions of causes, of which the state courts have previous cognizance.”); 13 Wright, Miller & Cooper, Jurisdiction 2d § 3527; 28 U.S.C. § 1338(a) (2006).
\item \textsuperscript{133} Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 839 (2002) (Stevens, J., concurring).
\end{itemize}
appellate court is desirable, it is still better to eliminate the effects of Holmes Group by legislation before establishing such an additional appellate court to allow for more effective competition.

VI. LEGISLATIVE SOLUTION TO ENSURE FEDERAL CIRCUIT JURISDICTION OVER PATENT COUNTERCLAIMS ACTUALLY ADJUDICATED BELOW

¶55 In order to eliminate the potential forum shopping problems and negative impact on patent law uniformity caused by Holmes Group, various legislative proposals have been suggested. One proposal by the Federal Circuit Bar Association is to amend 28 U.S.C. §1338 to read “[t]he district courts shall have original jurisdiction of any civil action involving any claim for relief arising under any Act of Congress relating to patents . . . .” (proposed addition by amendment underlined). Such an amendment presumably allows a district court to hear patent law counterclaims, which can be appealed to the Federal Circuit. However, Professor Arthur D. Hellman criticized that such an amendment might have unintended consequences on other areas of federal question jurisdiction of the district courts. For example, such added language may lead to new interpretations of the original, removal and supplemental jurisdiction of the district courts. Professor Hellman proposed to amend 28 U.S.C. § 1338 (a) to more clearly exclude state courts’ jurisdiction on patent claims, and amend 28 U.S.C. § 1295 (a) to decouple its tie with 28 U.S.C. § 1338 (a).

¶56 The concern with unintended consequence of such an amendment on other areas of federal question jurisdiction of district courts is well founded. By relying on “linguistic consistency” between 28 U.S.C. § 1331 (general federal jurisdiction) and § 1338(a) (patent law jurisdiction), Holmes Group further strengthened the well-pleaded complaint rule, so that a federal court’s jurisdiction may not be predicated on counterclaims. Such a formalistic and strict well-pleaded complaint rule has been applied in all areas of federal question jurisdiction under 28 U.S.C. § 1331 far beyond the patent law jurisdiction under § 1338(a), ranging from the Federal Arbitration Act, to the Civil Right Act, to the Racketeer Influenced and Corrupt Organizations Act. Therefore, any legislative amendment overturning or modifying Holmes Group must be carefully considered in order not to disturb the entrenched well-pleaded complaint rule in other fields of federal jurisdiction.

138 Id. at 41.
139 Id. at 46, 49. Professor Hellman proposed that § 1338(a) be amended to read: “No state court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights.” He also proposed to amend § 1295(a)(1) to read: “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 of the United States [or other district court] in any civil action in which a party has asserted a claim for relief under any Act of Congress relating to patents or plant variety protection.”
In fact, the entrenchment of the well-pleaded complaint rule in *Holmes Group* just became deeper with the recent Supreme Court decision in *Vaden v. Discover Bank*. Writing for the majority in *Vaden*, Justice Ginsburg, joined by Justice Scalia and others, held that a federal court may “look through” a petition under the Federal Arbitration Act to determine whether it is predicated on a controversy that “arises under” federal law. In keeping with the well-pleaded complaint rule as amplified in *Holmes Group*, however, a federal court may not entertain such a petition based on the contents of a counterclaim when the whole controversy between the parties does not qualify for federal court jurisdiction. The majority pointed out that “[u]nder the well-pleaded complaint rule, a completely preempted counterclaim remains a counterclaim and thus does not provide a key capable of opening a federal court’s door.” The majority deemed the dissenting opinion authored by Chief Justice Roberts, joined by Justice Stevens and others, “a veiled criticism of *Holmes Group* and the well-pleaded complaint rule.” On the other hand, because this is a five-to-four decision, it may signify that the support for *Holmes Group* and the well-pleaded complaint rule may be waning in some areas of federal jurisdiction.

More importantly, because of the connection of patent appellate jurisdiction of the Federal Circuit with “arising under” jurisdiction of the district courts, future development of the well-pleaded complaint rule as amplified in *Holmes Group* will continue to affect the appellate jurisdiction of the Federal Circuit. This provides further support for the argument for decoupling patent appellate jurisdiction of the Federal Circuit under 28 U.S.C. § 1295(a) from “arising under” jurisdiction of the district courts under 28 U.S.C. § 1338.

One proposal is to amend § 1295(a)(1) so that the Federal Circuit can hear cases where patent law claims, including patent law counterclaims, have been *actually adjudicated* by the district courts, including those cases where district courts’ original jurisdiction was based on 28 U.S.C. § 1332 (diversity jurisdiction). It effectively moves cases with patent law counterclaim/defense from the Regional Circuits to the Federal Circuit. Under such a proposal, the Federal Circuit will have jurisdiction over cases where a patent law counterclaim, even though not necessary to resolve the whole case, was adjudicated. On the other hand, this proposal will not allow the Federal Circuit to hear appeals of cases where patent law claims appeared in the original complaint, but were later dropped or not actually adjudicated at the time of appeal.

This approach was implied by Justices Ginsburg and O’Connor in their concurring opinion of *Holmes Group*. It was also considered by the Supreme Court in *Christianson*, where Justice Brennan indicated that congressional goals might “be better served if the Federal Circuit’s jurisdiction were to be fixed ‘by reference to the case actually litigated.’” The concurring opinion of Justices Stevens and Blackmun in *Christianson* similarly favors determining appellate jurisdiction at the time the final judgment of a district court is entered. However, the Court met with the problem of a

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142 Id. at 1276.
143 Id.
144 Id. at 1277 n.17.
147 Id. at 824 (Stevens, Blackmun, JJ., concurring).
lack of textual support in § 1295 for such an approach. An additional problem may be that the parties would not know beforehand whether the case could be appealed to the Federal Circuit until after the case was adjudicated at the district court level. This view presumes that plaintiff has a right to choose an appellate forum, which was not a problem before creation of the Federal Circuit because the jurisdiction of the Regional Circuits was based on geography. However, the creation of the Federal Circuit indicates that it is more important to have nationally exclusive appellate jurisdiction on patent law claims. By looking at what actually occurred in the district court level and allowing appellate review of actually adjudicated patent claims by the Federal Circuit, we can achieve a more precise demarcation of appellate jurisdiction between the Federal Circuit and Regional Circuits.

Thus, using a legislative approach to expand appellate jurisdiction of the Federal Circuit over patent claims and counterclaims might be a better way to achieve patent law uniformity without extra impact on district courts’ and the Regional Circuits’ federal jurisdiction. For example, 28 U.S.C. § 1295 (a) can be amended to decouple its tie to 28 U.S.C. § 1338 (a), which is similar to the approach suggested by Professor Hellman. However, an actual adjudication test can be adopted; 28 U.S.C. §1295(a)(1) can be amended to read “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 of the United States . . . if a claim for relief under any Act of Congress relating to patents was adjudicated on the merits by the district court if the jurisdiction of that court was based, in whole or in part, on [28 U.S.C.] section 1338 . . . .” (proposed addition underlined and proposed deletion crossed out). This amendment would provide textual support for an “actual adjudication” test. More importantly, this approach fully aligns with the original legislative purpose of creating the Federal Circuit: to achieve national uniformity in patent law.

The proposed actual adjudication test will give rise to some new issues, such as the meaning of “a claim for relief under any Act of Congress relating to patents,” “adjudication on the merits” and the direction of an interlocutory appeal. These issues can be dealt with under existing patent law and federal jurisdiction theories and practices.

If necessary, the theories and precedents of collateral estoppel can be used as reference to solve any disputes on the meaning of “adjudicated on the merits.” For example, actually adjudicated claims (including counterclaims) on patent invalidity, noninfringement, and unenforceability, are within the jurisdiction of the district court and should be appealed to the Federal Circuit under the proposed 28 U.S.C. §1295(a)(1). In addition, under current law, because the Federal Circuit has jurisdiction over cases in which the district court’s jurisdiction was based “in whole or in part” on 28 U.S.C. §1338, the Federal Circuit’s jurisdiction extends to appeals related to regulation of patent practitioners, correction of inventorship, administrative procedures at the U.S. Patent

149 Holmes Group, 535 U.S. at 837.
150 35 U.S.C. § 32 (2006); see e.g., Wyden v. Comm’r, 807 F.2d 934 (Fed. Cir. 1986).
151 35 U.S.C. § 256 (2006); see e.g., MCV, Inc. v. King-Seely Thermos Co., 870 F.2d 1568 (Fed. Cir. 1989).
and Trademark Office, and so forth. Under the proposed actual adjudication test, the Federal Circuit will continue hearing these appeals because these cases involve “a claim for relief under any Act of Congress relating to patents.”

Interlocutory appeals to the Federal Circuit may pose some problems under the proposed actual adjudication test. However, such potential problems can be addressed by using the choice of law jurisprudence developed by the Federal Circuit since its establishment in 1982. Under current law, interlocutory appeals to the Federal Circuit are generally controlled by 28 U.S.C. § 1292 and Fed. R. Civ. P. 54(b). Under 28 U.S.C. § 1292(c)(1), the Federal Circuit shall have exclusive jurisdiction of an appeal from a district court order in any case over which the Federal Circuit “would have jurisdiction of an appeal under [28 U.S.C.] section 1295 . . . .”153 Under the proposed actual adjudication test, the Federal Circuit’s appellate jurisdiction is not vested until a claim under patent law is adjudicated. At the time of interlocutory appeal, it is not known whether a patent law claim will ultimately be adjudicated or appealed for that matter. Thus, based on the information available at the time of interlocutory appeal, the courts involved would need to consider whether the interlocutory order or decree has “an essential relationship” with matters committed to the exclusive jurisdiction of the Federal Circuit.154 If the order or decree has an essential relationship with patent law, then the interlocutory appeal will be directed to the Federal Circuit. Even if the Federal Circuit does not obtain appellate jurisdiction over the final judgment based on the actual adjudication test, the Regional Circuits having the appellate jurisdiction shall defer to the Federal Circuit’s ruling in the interlocutory appeal. Conversely, if the interlocutory appeal is on a matter not unique to patent law, the interlocutory appeal will go to the Regional Circuit. If the Federal Circuit obtained appellate jurisdiction over the final judgment, it shall not disturb the ruling of the Regional Circuit on the interlocutory appeal. Such an arrangement is consistent with the Federal Circuit’s current choice of law jurisprudence on both procedural and substantive issues, where the Federal Circuit applies Regional Circuit’s law to all issues except those that bear “an essential relationship” with matters committed to the exclusive jurisdiction of the Federal Circuit, namely “the appellate review of patent trials.”155

Finally, under the actual adjudication test, a defendant may engage in appellate forum shopping by raising patent law counterclaims or defenses during trial. However, it is the plaintiff who has the first choice of a trial forum. It does not seem to be unfair to avail the defendant of the choice of an appellate forum. As indicated above, the well-pleaded complaint rule was first promulgated in 1908 and concerned with demarcation of state and federal courts’ jurisdiction.156 However, the disputes over the appellate jurisdiction of patent law counterclaims only appeared after the establishment of the Federal Circuit in 1982. More importantly, any patent law counterclaims or defenses must also be finally adjudicated on the merits in order for a defendant to avail itself of appellate jurisdiction of the Federal Circuit.

154 See, e.g., Biodex Corp. v. Loredan Biomedical, Inc., 946 F.2d 850, 858-59 (Fed. Cir. 1991).
155 Id.
156 Supra note 72.
VII. CONCLUSION

According to empirical evidence, Holmes Group generally had a limited impact on patent law uniformity. The major reason is that the Federal Circuit’s law has been adopted in cases containing patent counterclaims decided by the Regional Circuits, state courts and district courts (based on diversity jurisdiction) since Holmes Group. However, the quality of application varies and there are potential conflicts between federal and state courts as well as between the Regional Circuits and Federal Circuit. Based on such empirical evidence and new developments of the well-pleaded complaint rule, this article proposes a new interpretation of the well-pleaded complaint rule that will allow for the Federal Circuit’s appellate review of patent counterclaims in some types of cases. To completely solve the Holmes Group problem, this article also proposes a legislation amendment to 28 U.S.C. § 1295 so that the Federal Circuit may assume appellate jurisdiction whenever a substantial patent claim was adjudicated by the district courts. These proposals are fully aligned with the original congressional intent to create the Federal Circuit.