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HOLMES GROUP, THE FEDERAL CIRCUIT, AND THE STATE OF PATENT APPEALS

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

OF THE

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HOLMES GROUP, THE FEDERAL CIRCUIT, AND THE STATE OF PATENT APPEALS

THURSDAY, MARCH 17, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 4:12 p.m., in Room 2141, Rayburn House Office Building, the Honorable Lamar Smith (Chair of the Subcommittee) presiding.

Mr. SMITH. The Subcommittee on Courts, the Internet, and Intellectual Property will come to order.

Let me make some preliminary observations, and the obvious one is to thank you all for waiting. We had a series of votes that we were not expecting now, and that is what held us up.

In addition to that, those were the last votes, as they say in the cloakroom, of the day, of the week, and I think of the month. And so a lot of Members are rushing to the airport to catch flights or are heading back home. So the fact that there may or may not be very many Members present has nothing to do with the record that we establish or the importance that we consider the subject matter to be. So I want to reassure you about that.

We are, in fact, going to move forward and introduce legislation as a result of your testimony today. Hopefully by the time we finish we will have moved a little bit closer together—maybe I should say three of you have moved a little bit closer to the one, or one may have moved a little bit closer to the other three. And as you might anticipate, my line of questioning in just a few minutes will be to ask you all what you think of the others' suggestions and to try to see if we cannot reach if not a consensus, then some kind of a working agreement on the direction that we should go, because it is an important subject.

I will recognize myself for an opening statement, and then we will introduce our witnesses.

The purpose of today's hearing is to review the Supreme Court decision of Holmes Group versus Vornado Air Circulation Systems to determine whether the U.S. Court of Appeals for the Federal Circuit should have greater authority to hear all patent appeals from lower courts. In addition, the Subcommittee will explore the extent to which the Federal Circuit is accomplishing its main intended purpose of unifying patent law.

Congress created the Federal Circuit in 1982 by merging the Court of Claims and the Court of Customs and Patent Appeals. The

history of the enacting legislation reveals that Congress believed the merger would reduce overlapping functions between the two courts and create greater administrative efficiency within the Federal system.

More importantly, patent practitioners, academics, and the Hruska Commission, which Congress created to study the Federal appellate structure, determined that the regional circuits were doing a poor job of developing coherent patent law. Specifically, litigants complained that the application of patent law to the facts of a case often produced different outcomes in different courtrooms in substantially similar cases. In other words, forum shopping was rampant, as some circuits were regarded as pro-patent and other circuits as anti-patent.

Arguably, channeling patent cases into a single appellate forum would create a stable, uniform law and would eliminate forum shopping. Greater certainty and predictability would foster technological growth and industrial innovation and would facilitate business planning.

Given this backdrop, some practitioners believe Holmes Group contravened the will of Congress when it created the Federal Circuit. The Holmes decision, which applies the well-pleaded complaint rule to patent appeals, induces litigants to engage in forum shopping among the regional circuits and State courts. Legal experts predict an erosion in the coherence of patent laws that has been steadily building since the circuit's creation in 1982.

In addition to debating the merits of Holmes Group, the Subcommittee will also explore the matter of how well the Federal Circuit is discharging its obligation to unify patent law. Opinions will always vary, but the Federal Circuit is probably viewed by most practitioners and others as having largely complied with its mandate to bring stability, uniformity, and predictability to patent law.

In contrast, critics of the court voice the same concerns today that were first articulated on the eve of its creation, namely, that the Federal Circuit is a specialty court which might take patents out of the mainstream of legal thought, expose the court to a one-sided view of the issues, and discourage qualified people from serving as judges. There is value, say these critics, in the tension produced by the percolation of ideas within the judiciary.

Moreover, since the Federal Circuit is more statistically apt to affirm patentee rights, critics of the patent system in general believe that the court may represent a roadblock to ongoing efforts by Congress and the Patent and Trademark Office to improve patent integrity or quality.

Now, we obviously have a good panel today, and we will look forward to hearing from you all on these issues.

Before you begin, I am going to ask you if you will stand and raise your right hands so I can swear you in.

[Witnesses sworn.]

Mr. SMITH. Let me introduce the witnesses. Our first witness is Edward Reines, a partner in the technology litigation practice of Weil, Gotshal & Manges in Redwood Shores, California. Mr. Reines is Secretary of the Federal Circuit Bar Association and serves on its Board of Governors. He also teaches a patent litigation course at the University of California-Berkeley's Boalt Hall School of Law.

Mr. Reines received his J.D. from Columbia Law School with honors and a B.S. from the University of Albany with honors as well.

Our next witness is Arthur Hellman, professor at the University of Pittsburgh School of Law. Professor Hellman has testified a number of times before our Subcommittee on courts and constitutional issues. He received his B.A. magna cum laude from Harvard College in 1963 and his J.D. in 1966 from Yale Law School.

Our next witness is Sanjay Prasad, the chief patent counsel for Oracle Corporation. He serves on the Board of Directors of the Intellectual Property Owners Association and is a past Chair of the IP Council's Roundtable of the Information Technology Association of America. Mr. Prasad earned his J.D. from Syracuse University College of Law, where he was an editor of the Law Review. He also earned a master's in computer engineering and a bachelor's in electrical engineering, both from Boston University.

Our final witness is Meredith Martin Addy, a partner in the Chicago law firm of Brinks Hofer Gilson & Lione, where she focuses on intellectual property litigation. Ms. Addy is a member of the U.S. Federal Circuit Advisory Council that meets with the Federal Circuit judges at least twice a year to discuss practice and procedure. Ms. Addy received B.S. and B.A. degrees from Rice University, her J.D. from Georgia, and a master's in law from the John Marshall Law School.

We welcome you all. Ms. Addy, I have to ask you: Do you have a time constraint or are you able to stay with us for the next 40 minutes?

Ms. Addy. I have no time constraints.

Mr. SMITH. Okay. I understood you had to catch a plane, so good, I am glad you are with us. And I have to ask you: Are you from Texas, having gone to Rice University? I was curious.

Ms. Addy. I am originally from Georgia.

Mr. SMITH. Originally from?

Ms. Addy. Georgia.

Mr. SMITH. We welcome you all. Mr. Reines, if you will begin.

TESTIMONY OF EDWARD R. REINES, ESQ.,
WEIL, GOTSHAL & MANGES, LLP

Mr. REINES. Thank you very much, Chairman Smith. It is a pleasure to be able to participate in this hearing. I want to thank the Subcommittee and its staff for investing the time in the Holmes Group issue. This is, in my view, a great example of a problem that is best dealt with when it is manageable rather than waiting for it to be unmanageable before we turn to it.

As the Chairman accurately described, the 97th Congress in 1982 passed the Federal Courts Improvement Act, and I think the consensus is that was a major legislative success. It eliminated forum shopping and it cleaned up the choice of law and issues that we had with different regional circuits going in their own directions.

The reintroduction of regional circuits creates a number of problems with forum shopping that will take place, I think, increasingly over time. This is the kind of issue where I think you are going to have a snowball effect. So what you have is, you know, as you start out, people don't know what the benefits are of forum shopping for

different regional circuit courts because it's an unknown at this point. But once a decision falls one way or the other, one extreme or another, as is bound to happen, the concern level will grow as people try to use that decision and move their cases to those circuits, and then you get a snowball effect, as people find one circuit pro-patent or anti-patent.

The reason is because once the regional circuit says that it's going to apply its own law—and we've seen that; it's unlikely they're going to defer to a sister court—some of the old precedents will come back. People that are members of the Seventh Circuit are going to rely on old Seventh Circuit precedents that may be pro- or anti-patent. And so it's a reversion to pre-1982, and I think we can see that happening at the regional circuit level.

The State court problem, we are also seeing problems, and somewhat surprisingly, the problem there is moving more quickly. In the State of Indiana, in the Green case now, patent and copyright cases have to be within the jurisdiction of the State court if they're pled with a counterclaim. So right now in the State of Indiana, if there's a counterclaim that's copyright or patent, it will be adjudicated by the State court.

For centuries, patent and copyright cases have not been within the jurisdiction of the State courts. Just a few weeks ago, in New York, there was a recent decision from the Supreme Court. In New York, the trial court actually publishes some of their decisions, which you don't see frequently with State trial courts, and a few weeks ago there was a decision that happened to pop out of there that said we're going to take jurisdiction over copyright in the State court and New York Supreme Court, which if you've been there, you know that they don't really have a lot of background or familiarity with that subject matter—the point being that there's thousands of State courts around the country where—that aren't publishing opinions, that are presumably making similar decisions to the decision made by the New York State court. So the scope of the problem's under the radar at the trial court level. As those percolate up through the appeals, we'll see more and more problems. It's just going to take time, but it's going to have a snowball effect.

So I think there's no dispute among the witnesses and, frankly, I haven't heard significant dispute among the scholarship, either, that there is a problem, both State courts being in patent and copyright—exercising patent and copyright jurisdiction, and regional circuits starting to adjudicate patent cases. So I think that's clear.

Now, there's two questions. One is: Why address it now? The answer is to nip it in the bud. It's the type of problem that snowballs. Once you have vested interests that see an area of law that they can exploit—and I have no idea what that vested interest is going to be now, but there will be vested interests that will be developing as decisions continue to come out. And undoing that will be far more difficult than just stopping the problem before it becomes major.

On the solutions, the Federal Circuit Bar Association 2 years ago came up with a solution, and there's really seven benefits to the solution that we propose. One is it's simple. And two is it's effective. We remove no text from any statute. We added a total of five words. Those words come directly from related statutes, so the

words "claim for relief" is from Federal Rule of Civil Procedure 8 and is defined in that rule. There's no ambiguity about it beyond what pre-exists and is inevitable. So that's one.

The other word that we use is "involving," and in the appellate statute for Federal Circuit jurisdiction now, it's used—this exact same word, "involving"—involving a claim. So we use words right from the related statutes. We added only five words. We removed nothing.

There's no question from anyone that I've heard that it solves the problem. You might hear a nitpick about procedural this or that, but no one says that the solution of the Federal Circuit Bar Association won't solve the problem. And if you want to do something when you're attempting a solution, you want to make sure it works.

And the other important thing about the proposal is it keeps the structure the way it is now of having the district court jurisdiction the same as the appellate jurisdiction of the Federal Circuit for patent cases. So that it's derivative. The way it's drafted now, 1295 says the Federal Circuit has jurisdiction over patent cases where there's been original jurisdiction under 1338. So that way you keep that tied together. And also, the exclusivity is solved because that's in the second sentence and flows directly from there. So it keeps everything tied together.

Our proposal has the benefit of having studied over years. There has been at least 10, 12 Law Review articles focused on the subject, suggesting legislative solutions, looking at ours. And no one has come up with anything that is a significant issue. Scholars have been looking at it for some time. Professor Hellman recently came out with some comments about it, which is the first I have heard of anything that really argues that there are some issues with it.

The fourth thing I wanted to say is the main argument made is that this changes the formulation of the well-pleaded complaint rule. That's what you hear, and so one thing I've thought about, well, is that really as significant as it sounds? To me, it's not as sacred as some have wanted to make it.

For one thing, if you look at the Federal question jurisdiction, there are at least ten Federal question statutes right now on the books that don't employ that language. So you have admiralty, civil rights, inter-pleader, and maybe most significantly, Federal claims. The other main jurisdiction, as the Chairman stated earlier, within the Federal Circuit—there's two sort of large chunks. One is patents and one is Federal claims. And the Federal Circuit jurisdiction is derivative of both of those jurisdictions below.

The Federal claims statute doesn't use the well-pleaded complaint rule. It doesn't use the "arising under." So the fact that so many different Federal question statutes don't use that suggests it really isn't sacred to use that particular formulation, as some assume, without any real analysis.

The second point about it is that you would think if it was such an important principle whose—where a change would threaten established bodies of laws and established rules, that someone would be able to point to one and would say—we'd use this study, someone would say, well, if you disconnect this from the standard formulation in a few of the Federal question statutes, you'll just have this problem or that problem. The only thing I have ever heard is

Professor Hellman's criticisms, which are two. One of them is that we would be giving under this statute as amended jurisdiction over the civil action, meaning the whole case, and not on a per-claim basis under the patent jurisdiction statute; and that as a result of that, you would be giving jurisdiction to every claim included in such a case even if it's not on its own a Federal claim.

But that argument really doesn't make any sense and doesn't carry any water at all because the statute as it stands now says the exact same thing. The statute as it stands now says there will be jurisdiction over a civil action arising under a patent suit. So it purports to have the same general civil action——

Mr. SMITH. Mr. Reines, would you conclude your testimony?

Mr. REINES. I will. Thank you very much.

I guess the final point I wanted to make on that is the second issue that's raised is that by adding the words "claim for relief" that you are disturbing existing law as to what's a claim for relief. That's an established phrase in the Federal Rules of Civil Procedure. I just don't see that as being a problem.

So we thank you very much for hosting here, and I hope to answer any questions you have.

[The prepared statement of Mr. Reines follows:]

PREPARED STATEMENT OF EDWARD R. REINES

Mr. Chairman, Ranking Member Berman, and Members of the Subcommittee:

In *Holmes Group v. Vornado Air Circulation Sys., Inc.,* 122 S.Ct. 1889 (2002) *("Holmes Group"),* the Supreme Court voided the established principle that all patent infringement claims are to be appealed to the Federal Circuit. Instead, the Supreme Court limited the appellate jurisdiction of the Federal Circuit to those cases in which the claim for patent infringement was first asserted in the complaint, and not in a responsive pleading. The Court explicitly based the ruling, not on the Congressional intent behind the relevant statutes or on any policy rationale, but on a literalistic parsing of the text of the particular statutes involved.

Regional circuits have now begun hearing patent infringement disputes on a sporadic basis, with a 20-year gap in their precedent. *See, e.g., Telecomm Technical Services Inc. v. Rolm Co.,* 388 F.3d 820 (11th Cir. 2004). Even more unsettling, *Holmes Group* has been construed to grant state courts jurisdiction over copyright and patent claims, even though such claims have been treated as within the exclusive jurisdiction of the federal courts for decades, if not centuries. *See Green v. Hendrickson Publishers, Inc.,* 770 N.E. 2d 784 (Ind. 2002); *Ross & Cohen LLP v. Eliattia* (N.Y. Sup. Ct. 2005) (reprinted at 1/24/2005 N.Y.L.J. 18).

The Federal Circuit was unquestionably created, among other reasons, to resolve all patent appeals so as to create uniformity in the application and development of patent law. The post-*Holmes Group* cases make clear that the statutes governing the jurisdiction of the Federal Circuit, as interpreted, do not fulfill Congress' intent. Congress simply did not intend that the Federal Circuit would share the development of patent law with the state courts and regional federal circuit courts of appeal. Rather, Congress intended for the Federal Circuit to function as the unified court of appeals for patent claims for the many valid reasons documented in its committee reports. Thus, a problem exists because important statutes passed by Congress have been construed in a way that conflicts with the clear Congressional intent behind those very same statutes.

The Federal Circuit Bar Association, in June 2002, created a committee ("FCBA Committee") to consider the wisdom of a legislative response to *Holmes Group.* The FCBA Committee, comprised of Don Dunner, Professor Mark Lemley, Molly Mosley-Goren, Joseph Re, Steve Carlson, and myself, included leading lights in academia and experienced members of the bar.[1] After extensive deliberation and analysis, and

[1] The following is a brief description of the members of the committee. Don Dunner is a partner at Finnegan, Henderson, Farabow, Garrett & Dunner L.L.P. and served as Chairman of the Advisory Committee to the Federal Circuit for the first ten years of the Court's existence and participated in the drafting of the Court's rules (1982–92). Mark Lemley is the William H. Neukom Professor of Law at Stanford Law School where he teaches intellectual property, com-

the consideration of multiple alternatives, the FCBA Committee concluded that the proposal set forth below is the most appropriate legislative response to *Holmes Group. See Report of the Ad Hoc Committee to Study Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.,* 12 Fed. Cir. B.J. 713, 714 (2003).[2] This proposal already enjoys the support of the Federal Circuit Bar Association ("FCBA"), the Intellectual Property Owners Association ("IPO"), and the United States Counsel for International Business ("USCIB"), among others.

The FCBA proposes a straightforward legislative solution. We recommend an amendment to 28 U.S.C. Section 1338(a) that simply adds the phrase "involving any claim for relief," as follows:

> The district courts shall have original jurisdiction of any civil action **involving any claim for relief** arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

28 U.S.C. § 1338(a) (bold text proposed). Because the Federal Circuit's jurisdiction over patent infringement appeals is derivative of the district court's patent jurisdiction defined in the first sentence of Section 1338(a), this solution will ensure exclusive jurisdiction for the Federal Circuit over all patent appeals. In addition, because Section 1338(a) also addresses federal exclusivity over patent and copyright claims, this proposal will at the same time ensure exclusive federal jurisdiction over all patent and copyright claims.

I. THE PROBLEM

A. The Pre-Federal Circuit Patent Law Morass

Before patent appeals were centralized in the Federal Circuit in 1982, the patent law of the regional circuits was chaotic. The complexity of patent cases, both in technical and legal dimensions, exacerbated the tendency of circuits to develop conflicting bodies of law. The lack of uniformity was disadvantageous for several reasons. The disjointed state of the law created costly uncertainty for innovators, whether they sought to enforce ownership rights or faced threats of patent infringement suits. Further, the lack of uniformity created an incentive for forum shopping, which was exploited with zeal by litigants.

Scholars examining the state of patent law before the creation of the Federal Circuit routinely describe it disapprovingly. As one noted, "some circuits imposed higher standards on patentees attempting to assert the validity of their patents. Other circuits were known for being pro-patentee. Varying standards among the circuits and other factors caused uncertainty and great concern to American businesses that did not know if their patent protection would be sustained in court." *See* Christian A. Fox, *On Your Mark, Get Set, Go! A New Race to the Courthouse Sponsored by Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.,* 2003 BYU L. REV. 331, 333 (2003) (citations omitted). Of course, there is the famous story of then-Second Circuit Court of Appeals Judge Thurgood Marshall's visit with senators in advance of his confirmation hearing. When asked by one senator what he thought of patents, he reportedly replied: "I haven't given patents much thought, senator, because I'm from the Second Circuit and as you know we don't uphold patents in the Second Circuit."

These problems were not merely anecdotal. *See, e.g., Manufacturing Research Corp. v. Graybar Electric Co.,* 679 F.2d 1355, 1361 n.11 (11th Cir. 1982) (describing the "morass of conflict" in the Eleventh Circuit, and the former Fifth Circuit, concerning the proper standard of proof needed to invalidate a patent). The uncertainty fostered by the disparate treatment of patent law in the regional circuits sparked legislative interest.

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puter and Internet law, patent law, and antitrust. Molly Mosley-Goren is of counsel at Fish & Richardson P.C., and author of *Jurisdictional Gerrymandering? Responding to Holmes Group v. Vornado Air Circulation Systems,* 36 J. Marshall L. Rev. 1 (2002). Joseph Re, Treasurer of the Federal Circuit Bar Association, is a partner at Knobbe, Martens, Olson & Bear, L.L.P. He clerked for the Honorable Howard T. Markey, Chief Judge of the U.S. Court of Appeals for the Federal Circuit. Steve Carlson is a practicing patent litigation attorney in Weil, Gotshal & Manges L.L.P.'s Silicon Valley Office. He clerked for the Honorable Paul R. Michel, Chief Judge of the U.S. Court of Appeals for the Federal Circuit. I chaired the committee.

[2] A copy of this report is submitted with this testimony.

B. Congress Carefully Studied The Problems In The Patent Area Before Creating The Federal Circuit

In view of reports about problems in the patent area, Congress studied the issue extensively. After hearings and analysis, the House Report concluded that, in the patent area, "current law lacks uniformity or is inconsistently applied." *See* H.R. Rep. No. 312, 97th Cong. 1st Sess. (1981) ("House Report") at 20. Further, the House Report concluded that patent litigation has been "characterized by undue forum-shopping and unsettling inconsistency in adjudications." *Id.* Based on prior government reports, the House Report recognized that "patent law is an area in which the application of the law to the facts of a case often produces different outcomes in different courtrooms in substantially similar cases." *Id.* Indeed, the House Report observed that the evidence showed that "some circuits are regarded as 'pro-patent' and other 'anti-patent,' and much time and money is expended in 'shopping' for a favorable venue." *Id.* at 20–21. The House Report noted 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." *Id.* at 21.

The House Report also concluded that the pre-1982 state of patent litigation was detrimental to the economy. For example, it noted that the lack of uniformity made it "particularly difficult for small business to make useful and knowledgeable investment decisions where patents are involved." *Id.* at 22. The House Report explained that addressing the problems in the patent area "will be a significant improvement from the standpoint of the industries and businesses that rely on the patent system." *Id.* at 23. S. Rep. No. 275, 97th Cong., 1st Sess. (1981) ("Senate Report") at 5 ("[The Industrial Research Institute] polled its membership and found them overwhelmingly in favor of centralizing patent appeals in a single court.").

The House Report summed up its analysis by observing that "Patents have served as a stimulus to the innovative process" and that improvements in the then-problematic state of patent law "can have important positive ramifications for the nation's economy." *Id.* at 23.

C. The Creation Of The Federal Circuit And The Present Statutory Scheme

After the Congressional inquiry into the problems in the patent area I just summarized, Congress passed the Federal Courts Improvement Act in 1982, intending to consolidate all patent appeals in a new court, the Federal Circuit Court of Appeals. Under that Act, the Federal Circuit's jurisdiction over patent cases is governed primarily by two statutory provisions. The Federal Circuit's jurisdiction is fixed with reference to the jurisdiction of federal district courts by 28 U.S.C. Section 1295(a)(1), which provides in pertinent part:

> 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, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, **if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title,** except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title;

28 U.S.C. § 1295(a)(1) (emphasis supplied).

The district court jurisdictional statute to which the Federal Circuit's appellate jurisdiction is fixed is 28 U.S.C. Section 1338(a). This statute provides for the district courts' original jurisdiction over patent infringement cases:

> The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

28 U.S.C. § 1338(a). Thus, in order for the Federal Circuit to have jurisdiction over an appeal, the district court's original jurisdiction must have arisen, at least in part, under an Act of Congress relating to patents.

As I noted earlier, Congress created the Federal Circuit with the goal of, among other things, promoting uniformity in patent law. *Kennedy v. Wright,* 851 F.2d 963, 966 (7th Cir. 1988) ("The Federal Circuit's exclusive jurisdiction under § 1295(a)(1) was created, after all, so that there could be a uniform jurisprudence of patent law."). The following are some of the statements in the legislative history that illustrate Congressional intent in this regard:

- "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." House Report at 22.
- "For these reasons the establishment of a single court to hear patent appeals was a major recommendation of the Domestic Policy Review initiated by President Jimmy Carter. . . ." House Report at 22.
- "[T]he Industrial Research Institute, a private, non-profit corporation with a membership of approximately 250 industrial companies that account for a major portion of the industrial research and development in the United States, polled its membership and found them overwhelmingly in favor of centralizing patent appeals in a single court." House Report at 22.
- "[T]he central purpose is to reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist in the administration of patent law." House Report at 23.
- "Similarly, the uniformity in the law that will result from the centralization of patent appeals in a single court will be a significant improvement from the standpoint of the industries and businesses that rely on the patent system." House Report at 23.
- "[The Industrial Research Institute] polled its membership and found them overwhelmingly in favor of centralizing patent appeals in a single court." Senate Report at 5.

Because Congress was also deeply concerned with forum shopping in the patent area, Congress did not intend to limit Federal Circuit jurisdiction to patent claims raised in the complaint. Congress expressly contemplated that counterclaims for patent infringement could influence appellate jurisdiction. The legislative history reflected an intent to have all patent appeals go to the Federal Circuit, including appeals from cases with patent counterclaims, unless the patent law counterclaim was frivolous, trivial, or manipulatively included:

> Federal District judges are encouraged to use their authority under Federal Rules of Civil Procedure, see Rules 13(i), 16, 20(b), 42(b), 54(b), to ensure the integrity of the federal court of appeals by separating final decisions on claims involving substantial antitrust issues from trivial patent claims, counterclaims, cross-claims, or third party claims raised to manipulate appellate jurisdiction. . . .
>
> If, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over the appeal should not be changed by this Act but should rest with the regional court of appeals.

Senate Report at 19–20. Recognizing that "[i]mmaterial, inferential, and frivolous allegations of patent questions will not create jurisdiction in the lower court," Congress reasoned that "therefore there will be no jurisdiction over these questions in the appellate court." Senate Report at 19. Thus, Congress was fully aware that a patent law counterclaim could direct a case to the Federal Circuit on appeal. Congress nonetheless did not call for a bar on Federal Circuit jurisdiction over patent law counterclaims. Rather, Congress relied on the fact that courts would be capable of sifting out sham or unrelated patent counterclaims designed to create jurisdiction improperly in the Federal Circuit.

Consistent with the legislative history, from the creation of the Federal Circuit in 1982 until *Holmes Group* issued in 2002, courts have uniformly interpreted the above jurisdictional statutes to grant the Federal Circuit exclusive jurisdiction over all patent appeals, regardless of the particular pleading containing the patent claim. This principle was first established in a series of Federal Circuit cases, including *Schwarzkopf Development Corp. v. Ti-Coating, Inc.,* 800 F.2d 240, 244 (Fed. Cir. 1986) (stating that bona fide counterclaims for patent infringement trigger Federal Circuit jurisdiction); *In re Innotron Diagnostics,* 800 F.2d 1077, 1080 (Fed. Cir. 1986) (asserting jurisdiction over patent infringement claim that was consolidated into pre-existing antitrust case); and *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.,* 895 F.2d 736 (Fed. Cir. 1990) (asserting jurisdiction over patent infringement counterclaim). This interpretation of the Federal Circuit's jurisdiction was shared by its sister circuits. *See, e.g., Xeta, Inc. v. Atex, Inc.,* 825 F.2d 604 (1st Cir. 1987) (applying *Schwartzkopf* and *Innotron* to hold that "the patent counts of a counterclaim fall within the district court's jurisdiction under 28 U.S.C. § 1338.").

D. Holmes Group *Decision*

In *Holmes Group,* the Supreme Court removed the jurisdiction over appeals in cases involving patent counterclaims that the Federal Circuit had been exercising for two decades. According to the Supreme Court, whether a civil action "arises under" the patent law as provided by Section 1338(a) involves *only* an analysis of the complaint, not responsive pleadings. The Court reached this conclusion because of its belief that the particular language of Section 1338(a) necessarily implicates the well-pleaded complaint rule. *Holmes Group,* 122 S.Ct. at 1893. The well-pleaded complaint rule allows a court to only consider the complaint allegations in determining what law a civil action "arises under." *Id.*

E. Holmes Group *Disrupted Two Fundamental Principles Of Intellectual Property Litigation*

Holmes Group has unsettled two fundamental principles governing the jurisdiction of federal courts over intellectual property cases. When a patent infringement claim is present in a case, but not in the complaint, the appeal must now go to one of the eleven regional circuits, not the Federal Circuit. On an irregular basis, the regional courts of appeals have now recommenced issuing opinions in patent infringement cases. *See, e.g., Telecomm Technical Services Inc. v. Rolm Co.,* 388 F.3d 820 (11th Cir. 2004). More such appeals are on the way, as the Federal Circuit has transferred other cases out of its jurisdiction pursuant to *Holmes Group. See, e.g., Medigene AG v. Loyola Univ.,* 2002 WL 1478674 (Fed. Cir. June 27, 2002) (transferring appeal to Seventh Circuit).

The second fundamental problem created by *Holmes Group* is the disruption of the long-standing principle that patent and copyright infringement claims are within the *exclusive* jurisdiction of the federal courts. *See Puerto Rico Telephone Co. v. Telecommunications Regulatory Board,* 189 F.3d 1, 13 (1st Cir. 1999) (recognizing that Section 1338 "confer[s] on the federal courts exclusive jurisdiction over any action arising under a federal statute 'relating to' patents and copyrights"); *North Dakota v. Fredericks,* 940 F.2d 333, 336 (8th Cir. 1991) ("Federal district courts have original and exclusive jurisdiction of patent-infringement cases."); *Schwarzkopf Development Corp. v. Ti-Coating, Inc.,* 800 F.2d 240, 244 (Fed. Cir. 1986) ("Adjudication of a patent counterclaim is the exclusive province of the federal courts."); *Bassett v. Mashantucket Pequot Tribe,* 204 F.3d 343, 352 (2d Cir. 2000) ("[T]he Copyright Act gives federal courts exclusive jurisdiction to enforce its provisions."). *Holmes Group* has been interpreted to limit federal exclusivity to cases where the patent or copyright claim is asserted in a well-pleaded complaint. *See Green v. Hendrickson Publishers, Inc.,* 770 N.E. 2d 784 (Ind. 2002); *Ross & Cohen LLP v. Eliattia* (N.Y. Sup. Ct. 2005) (reprinted at 1/24/2005 N.Y.L.J. 18).

In *Green,* the Supreme Court of Indiana explained that "until very recently the logic and language of a consistent body of federal decisions appeared to preclude a state court from entertaining a counterclaim under copyright [or patent] law." After thorough analysis, *Green* found this logic "trumped" by *Holmes Group,* and concluded that state courts may now adjudicate patent and copyright claims asserted in counterclaims and other responsive pleadings. Similarly, in *Ross,* the state court determined that, because a copyright infringement claim was first asserted in a counterclaim, "under the well-pleaded complaint rule, this Court [a state court] has jurisdiction to determine the counterclaim on the merits." Under *Green* and *Ross,* state courts will have jurisdiction over patent and copyright infringement counterclaims even though federal courts have had exclusive jurisdiction over such claims since the 1800s.

The reallocation of jurisdiction stemming from *Holmes Group* means the Federal Circuit no longer has unified jurisdiction over patent appeals because regional circuit courts of appeal and state courts will now also decide such cases. Although some degree of comity may be given to Federal Circuit law, the regional circuits may believe they are bound by their own 20+ year old precedent. Indeed, the *Telecomm* court characterized Federal Circuit's precedent as merely "persuasive authority." *Telecomm,* 388 F.3d at 826. Thus, under *Holmes Group,* each circuit would have to decide whether to bind itself to Federal Circuit law, apply the old patent law it created before patent jurisdiction was removed from it in 1982, or simply create new precedents from scratch. In *Telcomm,* the eleventh circuit attempted to avoid this conundrum by citing no patent law precedent of any kind in deciding the complex patent law issue it faced. *Telecomm,* 388 F.3d at 826.

The inevitable lack of uniformity between Federal Circuit law and the regional circuit and state court precedents will create an incentive for a return to the forum shopping that the Federal Circuit was designed to eliminate. Over time, as the various regional circuits and state court systems renew adjudicating patent disputes, more doctrinal differences will be inevitable. As a consequence, wasteful forum shop-

ping will surely resume. In short, while manageable now, this problem is bound to snowball.

Justice Stevens' concurrence in *Holmes Group* suggests that one justice believes that allowing conflicting patent appeals to percolate through the regional circuits (and through the state courts under *Green* and *Ross*) could be beneficial. *See* 122 S.Ct. at 1898 (Stevens, J., concurring). However, we believe that Congress had valid reasons for rejecting that approach and concluding that any such benefit is far outweighed by the resulting cost of doctrinal unpredictability and forum shopping. Because a substantial, but sporadic number of cases will be appealed to the regional circuits or state courts of appeals, patent law outside of the Federal Circuit will develop in fits and starts. It is doubtful that any coherent body of non-Federal Circuit patent law will develop in the foreseeable future.

Other commentators have drawn similar conclusions about the cost of *Holmes Group.* For example, commentators have emphasized the danger of the resurrection of "dead letter" anti-patent precedents from particular circuits. *See, e.g.,* Elizabeth I. Rogers, *The Phoenix Precedents: The Unexpected Rebirth of Regional Circuit Jurisdiction over Patent Appeals and the Need for a Considered Congressional Response,* 16 Harv. J.L. & Tech. 411, 462 (2003) ("In those cases in which a patentee is unlucky enough to find herself stuck in a situation in which *Vornado* will vest appellate review in a regional circuit whose long-dormant precedents were unfriendly to patents, certain patent rights that were previously fairly stable and predictably valued may now be rendered worthless."). Doctrinal variances between circuits may restart the forum shopping that Congress sought originally to minimize. *See, e.g.,* Christian A. Fox, *On Your Mark, Get Set, Go! A New Race to the Courthouse Sponsored by Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.,* 2003 BYU L. Rev. 331, 352 (2003) ("[T]he Court's decision may reintroduce inconsistencies and forum shopping in patent law cases and spark races to the courthouse between patentees and alleged patent infringers. In summary, *[Holmes Group]* could undercut the foundation of uniform patent law that the Federal Circuit has helped establish over the past twenty-one years, a foundation that provides vital support for the economy and businesses of the United States."). Many agree that Congress will have to act to repair the dangerous condition posed by *Holmes Group. See, e.g.,* Scott W. Hackwelder, *An Argument for Congressional Amendment of Federal Circuit Jurisdiction in Response to Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.,* 54 Syracuse L. Rev. 475, 498 (Warning that "adverse effects stemming from the *Holmes Group* decision may have to be realized before Congress again takes corrective action to address the issue of patent law uniformity."). One commentator explained the need for curative legislation in direct terms:

> The original intent of Congress in forming the Federal Circuit was to establish some continuity and consistency when settling patent law disputes. This decision is contrary to Congress' clear mandate to have the Federal Circuit settle patent law disputes. Now it's just a question of how long it will take for a bill to be introduced which will reestablish the Federal Circuit's jurisdiction over patent law disputes.

Joseph Etra, *Holmes v. Vornado: A Radical Change In Appellate Jurisdiction,* 5 Colum. Sci. & Tech. L. Rev. 4.

Congress should not wait until a critical mass of adverse effects materializes and the problem gets out of hand. Once inconsistent decisions begin to populate the law of the regional circuits, parties may develop vested interests in maintaining the opportunity to shop in particular forums. At that point, the reform which now has broad support will become much more difficult to achieve.

II. THE PROPOSED SOLUTION

The Supreme Court expressly resolved Holmes Group on a technical parsing of the relevant statutes, and did not even purport to conform its holding to Congress' intent in creating the Federal Circuit. *See Holmes Group,* 122 S.Ct. at 1895 ("Our task here is not to determine what would further Congress' goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean."). The Supreme Court, and Justice Scalia in particular, have repeatedly emphasized that where defects in statutory language fail to give effect to Congressional intent, it is the role of Congress, not the courts, to re-draft the relevant statute. *See, e.g., Hartford Underwrites Ins. Co. v. Union Planters Bank,* 530 U.S. 1, 13–14 (2000) (Scalia, J.) ("It suffices that the natural reading of the text produces the result we announce. Achieving a better policy outcome—if what petitioner urges is that—is a task for Congress, not the courts.").

After extensive deliberation, the FCBA has concluded that the most appropriate legislative response to *Holmes Group* is to amend Section 1338(a) to read as follows:

> The district courts shall have original jurisdiction of any civil action **involving any claim for relief** arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

28 U.S.C. § 1338(a) (bold text proposed). The FCBA believes that this surgical insertion of five words into the jurisdictional statute is the most logical and elegant solution to *Holmes Group.* However, the overriding concern of the FCBA is to see the *Holmes Group* problem fixed. The FCBA is not preoccupied with pride of authorship in a particular solution or in mere semantic differences between this proposal and others. In the course of its study, the FCBA considered many potential legislative solutions. *See, e.g., Report of the Ad Hoc Committee to Study Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.,* 12 Fed. Cir. B.J. 713, 719–23 (2003). The FCBA selected the solution I advocate now because it offers the following advantages:

- It minimizes additions and deletions to the current statutory language and borrows existing phraseology from related statutes and rules.
- It exploits the fact that Federal Rules of Civil Procedure 8 defines "claim for relief," broadly to include "an original claim, counterclaim, cross-claim, or third party claim" and thus employs an established term with known meaning. Fed. R. Civ. P. 8.
- It exploits the fact that 28 U.S.C. § 1295(a)(1), which sets forth Federal Circuit appellate jurisdiction, uses the term "involving a claim" and thus employs an established term with known meaning.
- It ensures that federal courts shall have exclusive jurisdiction over all claims for relief arising under the patent laws.
- It ensures that the Federal Circuit will have jurisdiction over all appeals from civil actions in which either party asserted a claim for relief arising under the patent laws.

In short, inserting the phrase "involving any claim for relief" into 28 U.S.C. § 1338(a) elegantly restores both federal court exclusivity over patent and copyright cases and federal circuit jurisdiction over patent claims in one stroke. It preserves the existing language of the various statutes while adding only a single well-understood phrase, which draws meaning from Federal Rule of Civil Procedure 8 and 28 U.S.C. Section 1295(1).

Since the FCBA Committee recommended this solution in 2002, it has received widespread support. The FCBA has evaluated the comments of which it has learned. They have generally been quite minor. The main comments are that: (1) there might be undesired, incidental procedural hitches resulting from the particular language proposed, (2) defendants may include non-*bona fide* patent counterclaims in a case so the Federal Circuit receives an appeal, and (3) a more far-reaching approach might solve more problems. The first critique has been articulated by another witness, Professor Hellman, and I start there first.

A. Professor Hellman's Critique Of The FCBA Proposal

Professor Hellman agrees that *Holmes Group* has created a significant problem and that a solution is warranted. He has put forward an alternative proposal based on two issues he has with the FCBA solution.

First, Professor Hellman expresses concern that amending 28 U.S.C. Section 1338(a) in the manner suggested by the FCBA could reopen the interpretation of precedents on an otherwise unrelated topic. Specifically, Professor Hellman raises an issue as to whether the FCBA proposal will cause a reconsideration of when a claim that is not a traditional patent or copyright infringement claim implicates patent or copyright issues sufficiently that it should be treated as a patent or copyright claim for purposes of jurisdiction. In *Christianson v. Colt Industries,* 486 U.S. 800, 808–09 (1988), the Supreme Court ruled that, for jurisdictional purposes, a non-patent claim that depends "on resolution of a substantial question of federal patent law" is effectively a patent "claim" for jurisdictional purposes *Christianson,* 486 U.S. at 808–09. In copyright law, copyright jurisdiction turns on whether "a complaint alleges a claim or seeks a remedy provided by the Copyright Act." *Bassett v. Mashantucket Pequot Tribe,* 204 F.3d 343, 355 (2d Cir. 2000).

The FCBA solution is not designed to address this issue at all. Further, there is no reason to believe the proposed addition would affect this issue. Both the statute

in its current form and the proposed change require the presence of a claim for relief. The judicial interpretation on what constitutes such a claim thus should not be affected by the proposed change.

Professor Hellman's concern in this regard would apply with equal or greater force to what I understand to be his own proposal. Both his re-write of the Federal Circuit's appellate jurisdiction provision (28 U.S.C. § 1295(a)(1)), and his rewrite of the federal exclusivity provision (28 U.S.C. § 1338(a)), track the FCBA proposal and add the phrase "claim for relief." This observation is not intended as a criticism of Professor Hellman's proposal. Neither proposal raises a significant issue in this regard.

Second, Professor Hellman theorizes that that the FCBA's proposed addition of language to 28 U.S.C. Section 1338(a) may somehow render obsolete supplemental jurisdiction for certain claims by giving the district court original jurisdiction over the entire "civil action" rather than just the specific federal claims within the case. This critique has no force because 28 U.S.C. Section 1338(a) as it presently stands *already* gives district courts original jurisdiction over the entire civil action. The jurisdiction statute currently states: "The district courts shall have original jurisdiction of *any civil action* arising under. . . ." 28 U.S.C. § 1338(a) (emphasis supplied). The FCBA proposal preserves that language: "The district courts shall have original jurisdiction of *any civil action* **involving any claim for relief** arising under. . . ." Thus, once a civil action triggers jurisdiction under 28 U.S.C. § 1338(a) by including a patent or copyright claim, the scope of original jurisdiction remains consistent with pre-*Holmes Group* law.

In sum, while it is, of course, possible that unintended consequences might be generated by any amendment to Section 1338, the FCBA proposal, which is over two years old, has been thoroughly evaluated. As demonstrated by the relatively minor concerns expressed by Professor Hellman, the proposal has withstood that scrutiny remarkably well.

B. The Manipulative Use Of Patent Counterclaims

There has been some concern expressed that, if patent counterclaims create appellate jurisdiction in the Federal Circuit—as they did prior to *Holmes Group,* parties may manipulatively include such counterclaims in a case so that the Federal Circuit would hear an appeal it might not otherwise have jurisdiction over. At the outset, there is no evidence that this has been a problem over the last twenty years, despite the fact that the Federal Circuit could have exercised jurisdiction over such cases before *Holmes Group.* In any event, this concern ignores the wealth of case management tools at the disposal of district court judges to combat any such abuses.

As explained above, when Congress created the Federal Circuit, it expected that patent counterclaims would trigger Federal Circuit appellate jurisdiction. To address potential abuse, Congress specifically encouraged district courts to use all the procedural devices at their disposal to prevent the manipulation of appellate jurisdiction through the improper addition of counterclaims or otherwise.[3] For example, if a counterclaim is frivolous or a sham, the district court can readily dismiss it and strike it from the case. If a patent counterclaim is unrelated to the claims in the complaint, the district court can readily sever or otherwise separate that counterclaim from the case so that improper manipulation does not take place.[4]

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[3] Senate Report at 19–20 ("Federal District judges are **encouraged** to use their authority under Federal Rules of Civil Procedure, see Rules 13(i), 16, 20(b), 42(b), 54(b), to ensure the integrity of the federal court of appeals by separating final decisions on claims involving substantial antitrust issues from trivial patent claims, counterclaims, cross-claims, or third party claims raised to manipulate appellate jurisdiction. . . . If, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over the appeal should not be changed by this Act but should rest with the regional court of appeals.") (emphasis supplied).

[4] Some have implied that it might be desirable to keep the *status quo* so that the antitrust issues that necessarily have patent issues embedded in them will be occasionally resolved by the federal regional circuit courts of appeal or state courts. This makes no sense for a host of reasons. First, the Federal Circuit grants fair treatment to antitrust issues. Second, if the Federal Circuit were not doing so, obviously the Supreme Court would quickly step in and remedy the situation. The Supreme Court has not shown itself to be shy when it comes to the Federal Circuit or any other court. Third, having cases only irregularly appealed to the eleven regional circuits is a poor way to develop a coherent body of precedent to compete with Federal Circuit law. Fourth, if a regional circuit did create materially different rules than the Federal Circuit, because jurisdiction would turn on which pleading contained the patent claim, unseemly races to the Court would necessarily follow. The Federal Circuit was created precisely to avoid "expensive, time-consuming and unseemly forum-shopping." House Report at 20. Fifth, patent law

Continued

C. There Is No Need For Changes To Other Aspects Of The Federal Circuit's Patent Appeal Jurisdiction

The FCBA has considered the effect of *Holmes Group* on a variety of procedural contexts, such as amended complaints, patent claims that are resolved pre-appeal, and consolidated actions. For the reasons below, the FCBA believes that a legislative response to *Holmes Group* should not specifically address these other procedural contexts.

1. Amended Complaints

The FCBA has considered whether the legislative proposal needs to contain express language to ensure that patent claims brought first in amended pleadings trigger Federal Circuit jurisdiction. The FCBA concludes that the proposed language is sufficient to give the Federal Circuit jurisdiction over appeals in cases where patent claims were interjected in amended pleadings. As proposed, 28 U.S.C. Section 1338(a) would be amended to refer to "any claim for relief" arising under patent law, which should adequately address amended pleadings. Moreover, existing law appears to hold that the Federal Circuit properly has jurisdiction over appeals where patent claims were first stated in amended pleadings.

Indeed, existing caselaw routinely confirms that, in jurisdictional disputes, the *amended* pleadings govern. *See, e.g., Johnson v. Hussmann Corp.,* 805 F.2d 795 (8th Cir. 1986) (overruled on other grounds) ("Appellant's amended complaint had been artfully pleaded to avoid federal jurisdiction."); *Coastal Corp. v. Texas Eastern Corp.,* 869 F.2d 817 (5th Cir. 1989) ("Coastal's amended complaint filed on January 31 conferred jurisdiction on the district court at least from thence forward. . . ."); *Boelens v. Redman Homes, Inc.,* 759 F.2d 504 (5th Cir. 1985) (finding federal jurisdiction lacking, because "plaintiffs did not allege in the amended complaint or the pretrial order that the defendants' warranty, on its face, violated any of the substantive provisions of [federal law].").

Indeed, Justice Stevens recognized in his concurrence in *Holmes Group* that the Federal Circuit would, indeed, have jurisdiction over appeals containing an amended claim for patent infringement. *See Holmes Group,* 122 S.Ct. at 1896 (Stevens, J., concurring) ("Thus, if a case began as an antitrust case, but an amendment to the complaint added a patent claim that was pending or was decided when the appeal is taken, the jurisdiction of the district court would have been based 'in part' on 28 U.S.C. § 1338(a), and therefore § 1295(a)(1) would grant the Federal Circuit jurisdiction over the appeal.").

Thus, the FCBA has concluded that under existing law, the Federal Circuit may properly exercise appellate jurisdiction over cases in which a patent claim was first asserted in an amended pleading. Accordingly, the proposed amendment does not need to specifically refer to amended pleadings.

2. Patent Claims Resolved Pre-Appeal

The FCBA has also determined that the legislative proposal need not specifically address situations in which the patent claims asserted at the district court level are no longer at issue on appeal. Because no patent claims are left in such cases, the uniformity of patent law is not implicated by where such appeals are adjudicated. Furthermore, the general rule under existing law is to fix appellate jurisdiction at the outset of a case so that the parties and the trial court know the governing law for purposes of resolving motions, writing jury instructions, and generally applying the law in the district court. Whether a patent claim is resolved pre-appeal generally has no impact on appellate jurisdiction, assuming it was *bona fide. See Kennedy v. Wright,* 851 F.2d 963 (7th Cir. 1988) (Easterbrook, J.) (rejecting notion that Federal Circuit jurisdiction should reflect the issues actually litigated in a case, and transferring appeal from contract-based "patent ownership" phase of bifurcated patent suit to the Federal Circuit); *Abbott Labs. v. Brennan,* 952 F.2d 1346 (Fed. Cir. 1991) ("The path of this appeal was established with the filing of the civil action to obtain a patent in accordance with 35 U.S.C. § 146 and although the § 146 issue was not appealed, this appeal of the other issues was correctly taken to the Federal Circuit.").

A limited exception to this rule is for voluntary dismissals of patent claims. Where a plaintiff voluntarily dismisses its patent claims, the courts have found jurisdiction to lie in the regional circuits. In *Gronholz v. Sears, Roebuck and Co.,* 836 F.2d 515 (Fed. Cir. 1987), after plaintiff filed a two-count complaint for patent infringement and for unfair competition, and subsequently voluntarily dismissed its patent count, the Federal Circuit treated plaintiff's voluntary dismissal of its patent count as an

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more broadly would suffer because there would be no solution to the Holmes Group problems identified earlier in my testimony.

amendment of the original complaint, and ruled that "[a]pplying the well-pleaded complaint rule to the complaint then remaining, we determine that the present suit does not 'arise under' the patent laws for jurisdictional purposes." The Ninth Circuit agreed with this approach in *Denbicare U.S.A., Inc. v. Toys R Us, Inc.,* 84 F.3d 1143 (9th Cir. 1996) (exercising jurisdiction over appeal of remaining claims after patent-related claim was voluntarily dismissed).

The FCBA has concluded that the legislative proposal need not specifically address cases where patent claims are resolved pre-appeal. Congress' goal to promote uniformity in patent law does not appear to be frustrated in this situation because in these cases the patent claims are not at issue on appeal. Because the Federal Circuit will generally have jurisdiction over appeals from cases having patent counts in the plaintiff's pleadings, there is nothing to "fix" legislatively concerning these cases.

3. Consolidated Cases

The FCBA has considered whether the proposed legislation should contain express provisions concerning consolidated cases. Consolidated suits present a wide variety of procedural contexts, depending on whether the suits are consolidated for trial or only pre-trial proceedings, the issues raised in the non-patent suits, the number and identity of the parties, the timing of the suits, and the terms of the district court's consolidation order. Because of the wide range of procedural postures presented by consolidated suits, the FCBA believes that appellate jurisdiction over these disputes is best left to case-by-case development. As noted above, district courts have powerful tools to structure cases in the interests of justice.

In cases consolidated for a merits determination, the Federal Circuit and the regional circuits have often ruled that non-patent and patent suits should all be appealed to the Federal Circuit. For example, in *Interpart Corp. v. Italia,* 777 F.2d 678 (Fed. Cir. 1985), Interpart's 1980 non-patent suit against Vitaloni was consolidated with Vitaloni's 1982 patent suit against Interpart. After Vitaloni lost in both cases, Vitaloni appealed the non-patent claims to the Ninth Circuit and the "exceptional case" ruling from its patent claims to the Federal Circuit. Both courts of appeals agreed that the Federal Circuit should have jurisdiction over both suits. *Id.* at 680–81. The Federal Circuit followed this approach in *In re Innotron Diagnostics,* 800 F.2d 1077 (Fed. Cir. 1986).

In *Nilssen v. Motorola, Inc.,* 255 F.3d 410 (7th Cir. 2001), Judge Easterbrook suggested that the proper approach to consolidated proceedings is for the district court to order them consolidated for appeal where appropriate. In *Nilssen,* after the district court severed the patent and non-patent cases, and the Federal Circuit declined jurisdiction over the appeal from the non-patent cases, the Seventh Circuit ordered the two fragments re-consolidated, and ordered that the "cases must be rejoined for all purposes, including any appeal from the final judgment."

In *Tank Insulation Int'l, Inc. v. Insultherm, Inc.,* 104 F.3d 83 (5th Cir. 1997), the Fifth Circuit found jurisdiction over an appeal from the antitrust-related component of a previously consolidated suit involving patent and antitrust components. Had the components remained consolidated at the time of appeal, the Fifth Circuit stated it would not have had jurisdiction: "So long as the actions were consolidated, section 1295 unquestionably vested the Federal Circuit with exclusive jurisdiction of the entire action; however, when the consolidation order was vacated, the antitrust action returned to its original, independent status." *Id.* at 85.

As for cases consolidated only for pre-trial purposes, in *FMC Corp. v. Glouster Eng'g Co.,* 830 F.2d 770 (7th Cir. 1987) (Posner, J.), the Seventh Circuit ruled that discovery-related disputes arising from the antitrust-related component of a consolidated action should be appealed to the regional circuit, not the Federal Circuit, because consolidation for pre-trial purposes should not direct the ultimate appeal in the antitrust suit to the Federal Circuit.

The FCBA concludes that because of the wide variety of procedural contexts presented in consolidated cases, questions of appellate jurisdiction over these disputes are best addressed on a case-by-case basis. For cases consolidated for a merits determination, many courts have found that the best approach is to direct the entire action to the Federal Circuit for appeal. For consolidated cases only involving patent counterclaims, a legislative response directed to the counterclaim issue should be sufficient, without generally addressing consolidated suits.

III. CONCLUSION

Holmes Group has been implemented to give state courts and regional federal circuit courts of appeal jurisdiction over patent claims. This conflicts sharply with the Congressional intent behind the creation of the Federal Circuit, not to mention a host of policy considerations.

We believe the most appropriate response to *Holmes Group* (as well as *Green* and *Ross*) is to amend 28 U.S.C. § 1338 to ensure that the district courts have original jurisdiction over all claims for relief arising under the patent laws. Because the Federal Circuit's jurisdiction is derivative of the district court's jurisdiction under Section 1338(a), this amendment will vest the Federal Circuit with appellate jurisdiction over all cases containing patent infringement claims. Furthermore, this amendment will ensure that there is exclusive federal jurisdiction over all patent infringement claims.

ATTACHMENT

September 11, 2002

To: Federal Circuit Bar Association Board of Governors
From: Ad Hoc Committee to Study *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*

This is the unanimous Report of the Ad Hoc Committee to Study *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*[1]

Introduction

This Committee was created at the June 2002 meeting of the Board of Governors of the Federal Circuit Bar Association to study the wisdom of pursuing a legislative response to *Holmes Group v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826, 62 U.S.P.Q.2d 1801 (2002).

In *Holmes Group*, the Supreme Court ruled that the Federal Circuit's jurisdiction over appeals from district court patent rulings covers only cases where the patent claim is in the complaint and does *not* extend to disputes in which the patent claims are raised in a responsive pleading only. Accordingly, now, all the regional circuit courts of appeal have jurisdiction over patent appeals in addition to the Federal Circuit. Which appeals court hears a particular patent appeal now depends on which particular pleading contains the patent claim. Justice Scalia based the Court's ruling, not on the congressional intent behind the relevant statutes, but on a literalistic parsing of the text of the particular statutes involved.

Holmes Group has already been applied to grant jurisdiction over patent appeals to the regional circuit courts of appeal. *See Telcomm Technical Servs., Inc. v. Siemens Rolm Communications, Inc.*, 295 F.3d 1249, 63 U.S.P.Q.2d 1606 (Fed. Cir. 2002). Even more unsettling, *Holmes Group* has been construed to grant state courts jurisdiction over copyright and patent claims, even though such claims have long been treated as within the exclusive jurisdiction of the federal courts. *See Green v. Hendrickson Publishers, Inc.*, 770 N.E.2d 784, 63 U.S.P.Q.2d 1852 (Ind. 2002).

The Federal Circuit was unquestionably created, among other things, to resolve all patent appeals so as to create uniformity in the application and development of the patent law. The post-*Holmes Group* cases make very clear that the statutes governing the jurisdiction of the federal courts over patent cases—as construed—do not comport with the congressional intent behind

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[1] The Committee is comprised of Don Dunner, Professor Mark Lemley, Molly Mosley-Goren, Joseph Re, Edward Reines, and Steve Carlson.

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those statutes. Congress simply did not intend that, in addition to the Federal Circuit, state courts and regional federal circuit courts of appeal would have jurisdiction over patent claims. Rather, Congress intended for the Federal Circuit to function as the single court of appeals for patent claims for many valid reasons documented in its committee reports. Thus, a problem exists because important statutes passed by Congress have been construed in a way that conflicts with the clear congressional intent behind those very same statutes.

After extensive analysis and deliberations, the Committee proposes a straightforward legislative solution to this problem. The Committee recommends that the Association support an amendment to 28 U.S.C. § 1338(a) that simply adds the phrase "involving any claim for relief":

> The district courts shall have original jurisdiction of any civil action *involving any claim for relief* arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

28 U.S.C. § 1338(a) (italicized text proposed).

Because the Federal Circuit's jurisdiction over patent infringement appeals is simply derivative of the district courts' patent jurisdiction defined in the first sentence of § 1338(a), this solution will ensure exclusive jurisdiction for the Federal Circuit over *all* patent appeals.[2] In addition, because the second sentence of § 1338(a) governs the exclusivity of federal jurisdiction over patent and copyright claims, and is also derivative of the first sentence of § 1338(a), this proposal will at the same time ensure exclusive *federal* jurisdiction over all patent and copyright claims.

I. *Holmes Group* Has Created a Dramatic Change in the Allocation of Jurisdiction Over Patent Claims

Congress vested the Federal Circuit with exclusive jurisdiction over an appeal "if the jurisdiction of [the district court] was based, in whole or in part, on [28 U.S.C. §] 1338." 28 U.S.C. § 1295(a)(1) (2000). Section 1338(a), in turn, provides in relevant part that the "district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents." "Thus, the Federal Circuit's jurisdiction is fixed with reference to that of the district court, and turns on whether the action arises under federal patent law." *Holmes Group*, 535 U.S. at 829, 62 U.S.P.Q.2d at 1803.

[2] Under this proposed amendment, jurisdiction remains limited to claims "arising under any Act of Congress relating to patents." Accordingly, this proposal does not add to the substantive type of patent-related claims included in this jurisdictional statute. This report uses the shorthand "patent claims" to refer only to claims "arising under any Act of Congress relating to patents."

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From when the Federal Circuit was created in 1982 until *Holmes Group* issued this past June, this statute has consistently been understood to grant the Federal Circuit exclusive jurisdiction over *all* patent appeals. *Nilssen v. Motorola, Inc.*, 255 F.3d 410, 411, 59 U.S.P.Q.2d 1310, 1310 (7th Cir. 2001) ("Final decisions in all cases originally based on federal patent law must be appealed to the Federal Circuit."); *Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604, 608, 3 U.S.P.Q.2d 1590, 1593 (1st Cir. 1987) (transferring case to Federal Circuit because "the district court's jurisdiction was based 'in part' on 28 U.S.C. § 1338 where the defendant included a viable patent counterclaim"). Further, in modern times, patent claims have been understood to be within the exclusive jurisdiction of the federal courts. *Puerto Rico Tel. Co. v. Telecomm. Regulatory Bd.*, 189 F.3d 1, 13 (1st Cir. 1999) (recognizing that § 1338 "confer[s] on the federal courts exclusive jurisdiction over any action arising under a federal statute 'relating to' patents and copyrights"); *North Dakota v. Fredericks*, 940 F.2d 333, 336 (8th Cir. 1991) ("Federal district courts have original and exclusive jurisdiction of patent-infringement cases.").

Holmes Group has now changed the fundamental rules as to which courts should resolve patent claims. According to the Supreme Court, whether a civil action "arises under" the patent law as provided by § 1338(a) involves *only* an analysis of the complaint, not responsive pleadings. The Court reached this conclusion because of its belief that the particular language of § 1338(a) necessarily implicates the well-pleaded complaint rule. *Holmes Group*, 535 U.S. at 829–30, 62 U.S.P.Q.2d at 1803. The well-pleaded complaint rule allows a court to only consider the complaint allegations in determining what law a civil action "arises under." *Id.* at 830, 62 U.S.P.Q.2d at 1803.

Thus, under *Holmes Group*, when a patent infringement claim is present in a case, but not in the complaint, the appeal must go to the applicable regional circuit, not the Federal Circuit. The Federal Circuit has already transferred two such appeals to the regional circuits. *See Telcomm*, 295 F.3d at 1251, 63 U.S.P.Q.2d at 1607 (transferring to Eleventh Circuit an appeal involving claims for antitrust violations—that lost on summary judgment—and a counterclaim for patent infringement—that prevailed by jury verdict); *Medigene AG v. Loyola Univ.*, 2002 WL 1478674 (Fed. Cir. June 27, 2002) (transferring appeal to Seventh Circuit).

Further, where the plaintiff's claims are entirely non-federal (i.e., for breach of contract) and the defendant counterclaims for patent infringement, federal courts may no longer have jurisdiction over the civil action, absent diversity. Title 28 provides that the district courts' jurisdiction "shall be *exclusive* of the courts of the states in patent, plant variety protection and copyright cases." 28 U.S.C. § 1338(a) (2000) (emphasis added). However, *Holmes Group* has been interpreted to limit federal exclusivity to cases where the patent or copyright claim is asserted in a well-pleaded complaint. *See, e.g.*, *Green*, 770 N.E.2d at 793, 63 U.S.P.Q.2d at 1858.

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In *Green*, the Supreme Court of Indiana explained that "until very recently the logic and language of a consistent body of federal decisions appeared to preclude a state court from entertaining a counterclaim under copyright [or patent] law." *Green* found this logic "trumped" by *Holmes Group*, and concluded that state courts may now adjudicate patent and copyright claims asserted in counterclaims and other responsive pleadings. Under *Green*, *no* federal court will have jurisdiction to adjudicate patent claims asserted for the first time in responsive pleadings when the plaintiff's claims arise under state law, absent diversity jurisdiction. Such cases will be appealed through the state court systems.

II. *Holmes Group* Conflicts With the Congressional Intent Behind the Creation of the Federal Circuit

Congress unquestionably created the Federal Circuit with the goal of promoting uniformity in patent law. *Kennedy v. Wright*, 851 F.2d 963, 966, 7 U.S.P.Q.2d 1467, 1468 (7th Cir. 1988) ("The Federal Circuit's exclusive jurisdiction under § 1295(a)(1) was created, after all, so that there could be a uniform jurisprudence of patent law."). Congress found that disparate decision-making among the various regional circuit courts of appeals had fostered wasteful forum shopping. Congress concluded that establishing a *single* court of appeals to adjudicate patent disputes would promote doctrinal uniformity in patent law and would largely eliminate forum shopping. *See* H.R. Rep. No. 97-312, at 23 (1981) [hereinafter House Report] ("[T]he central purpose is to reduce the widespread lack of uniformity and uncertainty of legal doctrine that existed in the administration of patent law."); *id.* at 22 ("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."); S. Rep. No. 97-275, at 5 (1981) [hereinafter Senate Report] ("[The Industrial Research Institute] polled its membership and found them overwhelmingly in favor of centralizing patent appeals in a single court.").

Under *Holmes Group*, the Federal Circuit will no longer have jurisdiction over a significant number of patent appeals. Several classes of cases are especially likely to be appealed to the regional circuits or through the state court system under *Green*. These include antitrust claims asserted against patentees, who then counterclaim for patent infringement. *See, e.g.*, *Telcomm*, 295 F.3d 1249, 63 U.S.P.Q.2d 1606. A plaintiff could also assert other federal business law torts claims, such as trade dress infringement, to provoke a patent law counterclaim. *See, e.g.*, *Holmes Group*, 535 U.S. at 828, 62 U.S.P.Q.2d at 1802. Likely state law claims include breach of contract claims arising out of patent licensing disputes, *see e.g.*, *Green*, 770 N.E.2d 784, 63 U.S.P.Q.2d 1852 (copyright license dispute), or other state law business disparagement

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claims, *see American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257 (1916). Because the current state of the law creates fertile ground for forum shopping, absent a legislative response, the number of cases affected by *Holmes Group* can be expected to escalate over time.

Thus, the current state of the law compromises the uniformity of patent law. Although some degree of comity may be given to Federal Circuit law, the regional circuits are of course bound by their own precedent. Already, important differences exist between Federal Circuit law and that of the various regional circuits. The Committee has reviewed the law of the Eleventh Circuit (the court to which the *Telcomm* case has been transferred based on *Holmes Group*) during the five years before the creation of the Federal Circuit (1977–1982). Below is just one example of a case that highlights an important difference between the law of the Federal Circuit and the Eleventh Circuit.

In *Manufacturing Research Corp. v. Graybar Electric Co.*, 679 F.2d 1355, 215 U.S.P.Q. 29 (11th Cir. 1982), the Eleventh Circuit describes the "morass of conflict" in the Eleventh Circuit, and the former Fifth Circuit, concerning the proper standard of proof needed to invalidate a patent. *Id.* at 1361 n.12, 215 U.S.P.Q. at 32 n.12. The court concluded that in cases where "pertinent prior art was not considered by the Patent Office in its review of patent applications. . . . the burden upon the challenging party is lessened, so that he need only introduce a preponderance of the evidence to invalidate a patent." *Id.* at 1361, 215 U.S.P.Q. at 33. By contrast under Federal Circuit law, the challenger must prove invalidity by clear and convincing evidence, even if the art was disclosed to the PTO. *See Applied Materials, Inc. v. Advanced Semiconductor Materials Am., Inc.*, 98 F.3d 1563, 1569, 40 U.S.P.Q.2d 1481, 1485 (Fed. Cir. 1996) ("The presentation at trial of additional evidence that was not before the PTO does not change the presumption of validity or the standard of proof, although the burden may be more or less easily carried because of the additional evidence.").

Manufacturing Research highlights the lack of uniformity between Federal Circuit law and regional circuit law, and creates an incentive for the forum shopping that the Federal Circuit was designed to eliminate. Over time, as the various regional circuits and state court systems renew adjudicating patent disputes, more doctrinal differences will be inevitable. As a consequence, wasteful forum shopping will surely resume.

Justice Stevens' concurrence in *Holmes Group* suggests that one justice believes that allowing conflicting patent appeals to percolate through the regional circuits (and state courts under *Green*) could be beneficial. *See Holmes Group*, 535 U.S. at 839, 62 U.S.P.Q.2d at 1807 (Stevens, J., concurring) ("An occasional conflict in decisions may be useful in identifying questions that merit this Court's attention. Moreover, occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias."). The Committee believes that

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Congress had valid reasons for concluding that any such benefit is far outweighed by the resulting cost of doctrinal unpredictability and forum shopping. Because a substantial, but sporadic number of cases will be appealed to the regional circuits or state courts of appeals, patent law outside of the Federal Circuit will develop in fits and starts. It is doubtful that any coherent body of non-Federal Circuit law will develop in the foreseeable future.

Most importantly, such a result clearly conflicts with the congressional intent behind the creation of the Federal Circuit. Congress expressly contemplated that counterclaims for patent infringement might influence appellate jurisdiction. Congress's understanding was *not* that all such counterclaims would be directed to the regional circuits on appeal. Rather, Congress stated that the appeal should go to the regional circuits in those cases where the patent law counterclaim was frivolous, trivial, or manipulative:

> 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-claims, or third party claims raised to manipulate appellate jurisdiction. . . . If, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over the appeal of the antitrust claim should not be changed by this Act but should rest with the regional court of appeals.

Senate Report at 19–20. Recognizing that "[i]mmaterial, inferential, and frivolous allegations of patent questions will not create jurisdiction in the lower court," Congress reasoned that "there will be no jurisdiction over these questions in the appellate court." Senate Report at 19. Thus, Congress was fully aware that a patent law counterclaim could direct a case to the Federal Circuit on appeal. Congress nonetheless did not call for a bar on Federal Circuit jurisdiction over patent law counterclaims. Rather, Congress simply declared that courts would be capable of sifting out sham patent claims designed simply to create jurisdiction in the Federal Circuit.

Bringing all issues in a case to the Federal Circuit reinforces the purpose of the Federal Circuit. The Federal Circuit was designed by Congress to be a court of broad jurisdiction, not limited to handling patent issues alone. In contrast to other specialized courts that had jurisdiction over just particular issues, such as the Temporary Emergency Court of Appeals (TECA), the Federal Circuit was designed to have jurisdiction over *all* issues in a case, once a patent claim triggered its jurisdiction. Providing jurisdiction over all issues in a case reinforces Congress's goal of creating a broad-based jurisdiction for the Federal Circuit: "The court's jurisdiction will not be limited to one type of case, or even to two or three types of cases. Rather, it will have a varied docket spanning a broad range of legal issues and types of cases." Senate Report at 6.

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III. The Proposed Legislative Solution

The Supreme Court expressly resolved *Holmes Group* on a technical parsing of the relevant statutes, and did *not* attempt to conform its holding to Congress's intent in creating the Federal Circuit. *See Holmes Group*, 535 U.S. at 833, 62 U.S.P.Q.2d at 1804 ("Our task here is 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."). The Supreme Court, and Justice Scalia in particular, have repeatedly emphasized that where defects in statutory language fail to give effect to congressional intent, it is the role of Congress, not the courts, to re-draft the relevant statute. *See, e.g.*, *Hartford Underwriters Ins. Co. v. Union Planters Bank*, 530 U.S. 1, 13–14 (2000) (Scalia, J.) ("It suffices that the natural reading of the text produces the result we announce. Achieving a better policy outcome—if what petitioner urges is that—is a task for Congress, not the courts.").

After extensive deliberation, the Committee has concluded that the most appropriate legislative response to *Holmes Group* is to amend § 1338(a) to read as follows:

> The district courts shall have original jurisdiction of any civil action *involving any claim for relief* arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

28 U.S.C. § 1338(a) (italicized text proposed). This legislative proposal offers a number of advantages over other approaches that the Committee has considered. These include:

1. Minimizing additions and deletions to existing statutory language;
2. Exploiting the fact that Federal Rules of Civil Procedure 8 defines "claim for relief" broadly to include "an original claim, counterclaim, cross-claim, or third party claim." Fed. R. Civ. P. 8;
3. Clarifying that federal courts shall have exclusive jurisdiction over all claims for relief arising under the patent laws by breaking the wooden application of the well-pleaded complaint to this statute; and
4. Ensuring Federal Circuit jurisdiction over all appeals from civil actions in which either party asserted a claim for relief arising under the patent laws.

With this statutory approach in mind, we describe alternative solutions that we rejected.

IV. Proposals Considered and Rejected By the Committee

A. Amending § 1295(a)(1) To Cover Patent Law Counterclaims

As a threshold matter, there is the question of whether to propose to amend the Federal Circuit's jurisdictional statute (28 U.S.C. § 1295) directly, or derivatively through an amendment to the district courts' patent jurisdiction

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set forth in 28 U.S.C. § 1338(a). As noted above, the Committee has concluded that it makes more sense to amend § 1338(a).

The Committee has considered amending § 1295(a)(1) to provide for appellate jurisdiction over patent law counterclaims. For example, this statute could be amended to provide the Federal Circuit with exclusive jurisdiction "of an appeal from a final decision of a district court . . . in any civil action asserting a claim under any Act of Congress relating to patents or plant variety protection." The Committee identifies at least two major drawbacks to this approach.

First, this approach would not address *Green* to ensure federal jurisdiction over patent law counterclaims. The Committee believes that confronting *Green* heightens the importance of this initiative, and provides Congress with a good example of how *Holmes Group* has already produced bad results that conflict with Congress's intent, as well as decades of law. It makes unmistakable sense that patent litigation should not be carried out in state courts.

Second, amending § 1295 to supercede *Holmes Group* would require a restructuring of the Federal Circuit's jurisdiction, which is currently fixed by reference to the district court's jurisdiction. We do not believe that it would be possible to restructure the foundation of the court's jurisdiction in this way without extensive debate.

B. Issue Jurisdiction

Another potential approach was to propose the amendment of the Federal Circuit's jurisdictional basis to give it "issue" jurisdiction over any appeal presenting any patent-related issues. The Committee does not recommend this approach.

"Issue" jurisdiction covers a variety of jurisdictional structures where the jurisdiction of the appellate court is based—to varying extents—on the particular issues asserted on appeal. In some instances, a specialized appellate court may have jurisdiction to review only those issues falling within the court's allocated issue jurisdiction, while relegating other issues to the regional circuits. For example, the TECA, which arose out of the petroleum crisis in the 1970s, shared jurisdiction with regional circuits and only adjudicated particular issues within a case arising from certain petroleum pricing legislation. *See Coastal States Mktg., Inc. v. New England Petroleum Corp.*, 604 F.2d 179, 187 (2d Cir. 1979). In 1992, the TECA's "issue" jurisdiction was transferred to the Federal Circuit, which has construed its jurisdictional grant over these petroleum pricing cases to be the same as the TECA's. *Tex. Am. Oil Corp. v. DOE*, 44 F.3d 1557, 1563 (Fed. Cir. 1995) (en banc). The Federal Circuit has a similar type of "issue" jurisdiction over appeals involving veterans' claims. *Forshey v. Principi*, 284 F.3d 1335, 1353 (Fed. Cir. 2002) (en banc).

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Judicial experience has demonstrated that there are a host of practical problems that arise from "issue" jurisdiction. These problems include:

- *Where to file the notice of appeal.* The appellant may not know what issues the appellee or cross-appellant may assert. Under the TECA's jurisprudence, parties routinely filed protective notices of appeal to the appropriate regional circuit, wasting resources of the parties and the courts. *RJG Cab, Inc. v. Hodel*, 797 F.2d 111, 117 (3d Cir. 1986) ("This system of 'issue jurisdiction' leads inevitably to the filing of 'protective appeals in both TECA and the court of appeals for the appropriate circuit.'").
- *Uncertainty in governing law in trial court proceedings.* If the appellate jurisdiction is not known until the issues on appeal are defined, then the litigants and trial court will not know the governing law until after trial, causing uncertainty in choice of forum, disposition of motions, and selection of jury instructions. *Atari, Inc. v. JS&A Group, Inc.*, 747 F.2d 1422, 1432, 223 U.S.P.Q. 1074, 1081 (Fed. Cir. 1984) ("To impart certainty throughout the entire process of filing, pretrial, trial, and post-trial motions, appellate jurisdiction should normally be known and remain unaffected.").
- *Satellite litigation over jurisdiction.* Under the TECA's experience, complications with its "issue" jurisdiction routinely resulted in jurisdictional disputes, with approximately 30% of its cases being decided on jurisdictional grounds. *RJG Cab*, 797 F.2d at 117. Similarly, the Federal Circuit has found that unnecessary resources are wasted on jurisdictional disputes in veterans' benefits cases. *See Forshey*, 284 F.3d at 1353 ("Determination of questions of jurisdiction has diverted the attention of the court and burdened the parties with unnecessary litigation.").
- *Difficulty of determining whether the "issue" triggers jurisdiction.* It may be difficult to tell whether asserting a particular issue on appeal will be sufficient to trigger Federal Circuit jurisdiction. *See Consolidated Edison Co. v. Abraham*, 303 F.3d 1310 (Fed. Cir. 2002) (in petroleum pricing case, dismissing appeal for attorneys' fees after plaintiffs prevailed in underlying Economic Stabilization Act action, because entitlement to fees arose from agreement outside scope of the ESA); *Kennedy v. Wright*, 851 F.2d 963, 969, 7 U.S.P.Q.2d 1467, 1471 (7th Cir. 1988) (querying whether appealing a patent ownership issue in a patent infringement suit would trigger Federal Circuit jurisdiction in an "issue" jurisdiction structure).
- *Intertwining of issues.* Where issues falling outside the appeal court's allocated issue jurisdiction are intertwined with issues within such jurisdiction, parties may not know where to appeal. In petroleum pricing cases, the Federal Circuit's nebulous standard for deciding whether to take jurisdiction over a non-ESA issue is whether "the issues are so commingled as to render separate treatment impractical." *Phoenix*

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Petroleum Co. v. FERC, 95 F.3d 1555, 1563 (Fed. Cir. 1996). Under such a standard, parties cannot reliably determine where to appeal their cases, raising uncertainty and the specter of appellate transfer.

- *"Jurisdictional ping-pong."* Judge Easterbrook predicted that a "game of jurisdictional ping-pong" would result if the Federal Circuit's jurisdiction were limited to certain "patent" issues, with judicial resources being wasted with different courts having to learn and re-learn the case for every subsequent issue being appealed. *See Kennedy*, 851 F.2d at 968, 7 U.S.P.Q.2d at 1470–71 (envisioning appeal to Seventh Circuit to determine "non-patent" ownership issue, and if ownership is found, subsequent appeal to Federal Circuit on validity and infringement, and possible later appeal to the Seventh Circuit on bankruptcy-related matters).
- *Dual-track appellate review.* Depending on the structure of the "issue" jurisdiction, issues falling outside the issue jurisdiction of the appeals court may have to be separately appealed to the appropriate regional circuit, requiring dual-track appellate review and leading to the possibility of inconsistent judgments.

As noted above, when it enacted the Federal Courts Improvement Act of 1982, Congress explicitly *rejected* the notion that the Federal Circuit should have "issue" jurisdiction over patent appeals in infringement litigation. For example, the House Report explicitly contrasted the Federal Circuit's "arising under" jurisdiction with the TECA's "issue" jurisdiction. The House Report further noted that Congress was providing the Federal Circuit with full "arising under" jurisdiction for cases even if the district court jurisdiction was only "in part" based on a patent claim:

> Paragraph (1) of new section 1295(a) gives the Court of Appeals for the Federal Circuit jurisdiction of any appeal in which the trial court jurisdiction was based, in whole or in part, on section 1338 of title 28. . . . Cases will be within the jurisdiction of the Court of Appeals for the Federal Circuit in the same sense that cases are said to "arise under" federal law for purposes of federal question jurisdiction. *Contrast, Coastal States Marketing, Inc. v. New England Petroleum Corp.*, 604 F.2d 179 (2d Cir. 1979).

House Report at 41.

Indeed, the success of the Federal Circuit is due, at least in part, to the generalist character of the court. While the Federal Circuit has a special expertise in patent law, the court also has a substantial non-patent jurisdiction. The idea of granting the Federal Circuit a broad non-patent jurisdiction made possible the court's creation. *See* Senate Report at 6 ("Consequently, the Act adheres to the original philosophy of S. 677 and S. 678 of the 96th Congress which, in the words of Judge Jon O. Newman, represents 'a sensible accommodation of the usual preference for generalist judges and the selective benefit of expertise in highly specialized and technical areas.'"). Moreover, the breadth of the court's docket has attracted a high caliber of jurists. Any attempt to limit the court's jurisdiction to certain patent-specific issues would

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run counter to the character of the court. Giving the Federal Circuit appellate jurisdiction over *all* issues in a case containing patent claims not only serves the purpose of facilitating orderly disposition of disputes, but also gives the Federal Circuit a generalist character that is fundamental to its origins and its long-term success. Accordingly, the Committee rejects the notion that the Federal Circuit's appellate jurisdiction over patent cases should be limited to patent-specific issues.

C. Other Procedural Contexts

At the annual meeting, it was proposed that the Committee should consider the effect of *Holmes Group* on a variety of procedural contexts, such as amended complaints, patent claims that are resolved pre-appeal, and consolidated actions. For the reasons below, the Committee believes that a legislative response to *Holmes Group* should not specifically address these other procedural contexts.

1. Amended Complaints

The Committee has considered whether the legislative proposal needs to contain express language to ensure that patent claims brought first in amended pleadings trigger Federal Circuit jurisdiction. The Committee concludes that the proposed language is sufficient to give the Federal Circuit jurisdiction over appeals in cases where patent claims were interjected in amended pleadings. As proposed, 28 U.S.C. § 1338(a) would be amended to refer to "any claim for relief" arising under patent law, which should adequately address amended pleadings. Moreover, existing law appears to hold that the Federal Circuit properly has jurisdiction over appeals where patent claims were first stated in amended pleadings.

The Supreme Court held in *Holmes Group* that the well-pleaded complaint rule, as it governs the Federal Circuit's jurisdiction, has the same principles that apply to lower-court jurisdictional disputes. In the context of federal/state jurisdictional disputes at the trial court level, it is established that amended pleadings may be the source of removal from state court. *See* 28 U.S.C. § 1446(b) (2000) ("If the case stated by the initial pleading is not removable, a notice of removal may be filed within thirty days after receipt by the defendant, through service or otherwise, of a copy of an *amended pleading*, motion, order or other paper from which it may first be ascertained that the case is one which is or has become removable, except that a case may not be removed on the basis of jurisdiction conferred by section 1332 of this title [diversity jurisdiction] more than [one] year after commencement of the action.") (emphasis added).

Case law routinely confirms that, in lower court jurisdictional disputes, the *amended* pleadings govern. *See, e.g.*, *Coastal Corp. v. Tex. Eastern Corp.*, 869 F.2d 817, 822 (5th Cir. 1989) ("Coastal's amended complaint filed on

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January 31 conferred jurisdiction on the district court at least from thence forward . . . ."); *Johnson v. Hussmann Corp.*, 805 F.2d 795, 797 (8th Cir. 1986) ("Appellant's amended complaint had been artfully pleaded to avoid federal jurisdiction."); *Boelens v. Redman Homes, Inc.*, 759 F.2d 504, 511 (5th Cir. 1985) (finding federal jurisdiction lacking, because "plaintiffs did not allege in the amended complaint or the pretrial order that the defendants' warranty, on its face, violated any of the substantive provisions of [federal law]").

It would seem incongruous to hold that an amended complaint may be controlling for lower court jurisdictional disputes, but cannot serve as the basis for Federal Circuit jurisdiction. Indeed, Justice Stevens stated in his concurrence in *Holmes Group* that the Federal Circuit would, indeed, have jurisdiction over appeals containing an amended claim for patent infringement. *See Holmes Group*, 535 U.S. at 835, 62 U.S.P.Q.2d at 1805 (Stevens, J., concurring) ("Thus, if a case began as an antitrust case, but an amendment to the complaint added a patent claim that was pending or was decided when the appeal is taken, the jurisdiction of the district court would have been based 'in part' on 28 U.S.C. § 1338(a), and therefore § 1295(a)(1) would grant the Federal Circuit jurisdiction over the appeal.").

Thus, the Committee has concluded that under existing law, the Federal Circuit may properly exercise appellate jurisdiction over cases in which a patent claim was first asserted in an amended pleading. Moreover, the proposed statutory amendment refers to "any claim for relief." Accordingly, the proposed amendment does not need to specifically refer to amended pleadings.

2. Patent Claims Resolved Pre-Appeal

The Committee has also determined that the legislative proposal need not specifically address situations in which the patent claims asserted at the district court level are no longer at issue on appeal. Because no patent claims are left in such cases, the uniformity of patent law is not implicated by where such appeals are adjudicated. Furthermore, the general rule under existing law is to fix appellate jurisdiction at the outset of a case so that the parties and the trial court know the governing law for purposes of resolving motions, writing jury instructions, etc. Whether a patent claim is resolved pre-appeal generally has no impact on appellate jurisdiction. *See Breed v. Hughes Aircraft Co.*, 253 F.3d 1173, 1178, 59 U.S.P.Q.2d 1146, 1148 (9th Cir. 2001) ("In other words, the presence in the complaint of even a single claim arising under the patent laws—no matter how worthy or unworthy and no matter how significant to the litigation—operates as an 'on switch' or automatic trigger for Federal Circuit jurisdiction."); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1350, 21 U.S.P.Q.2d 1192, 1195 (Fed. Cir. 1991) ("The path of this appeal was established with the filing of the civil action to obtain a patent in accordance with 35 U.S.C. § 146 and, although the § 146 issue was not appealed, this appeal of the other issues was correctly taken to the Federal Circuit.");

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Kennedy v. Wright, 851 F.2d 963, 7 U.S.P.Q.2d 1467 (7th Cir. 1988) (Easterbrook, J.) (rejecting notion that Federal Circuit jurisdiction should reflect the issues actually litigated in a case, and transferring appeal from contract-based "patent ownership" phase of bifurcated patent suit to the Federal Circuit).

A limited exception to this rule is for voluntary dismissals of patent claims. Where a plaintiff voluntarily dismisses its patent claims, the courts have found jurisdiction to lie in the regional circuits. In *Gronholz v. Sears, Roebuck & Co.*, 836 F.2d 515, 518, 5 U.S.P.Q.2d 1269, 1271 (Fed. Cir. 1987), after plaintiff filed a two-count complaint for patent infringement and for unfair competition, and subsequently voluntarily dismissed its patent count, the Federal Circuit treated plaintiff's voluntary dismissal of its patent count as an amendment of the original complaint, and ruled that "[a]pplying the well-pleaded complaint rule to the complaint then remaining, we determine that the present suit does not 'arise under' the patent laws for jurisdictional purposes." The Ninth Circuit agreed with this approach to voluntarily dismissed patent claims in *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 38 U.S.P.Q.2d 1865 (9th Cir. 1996) (exercising jurisdiction over appeal of remaining claims after patent-related claim was voluntarily dismissed).

The Committee has concluded that the legislative proposal need not specifically address cases where patent claims are resolved pre-appeal. Congress's goal to promote uniformity in patent law does not appear to be frustrated in this situation because in these cases the patent claims are not at issue on appeal. Because the Federal Circuit will generally have jurisdiction over appeals from cases having patent counts in the plaintiff's pleadings, there is nothing to "fix" legislatively concerning these cases.

3. Consolidated Cases

The Committee has considered whether the proposed legislation should contain express provisions concerning consolidated cases. Consolidated suits present a wide variety of procedural contexts, depending on whether the suits are consolidated for trial or only pre-trial proceedings, the issues raised in the non-patent suits, the number and identity of the parties, the timing of the suits, and the terms of the district court's consolidation order. Because of the wide range of procedural postures presented by consolidated suits, the Committee believes that appellate jurisdiction over these disputes is best left to case-by-case development.

In cases consolidated for a merits determination, the Federal Circuit and the regional circuits have often ruled that non-patent and patent suits should all be appealed to the Federal Circuit. For example, in *Interpart Corp. v. Imos Italia, Vitaloni, S.p.A.*, 777 F.2d 678, 228 U.S.P.Q. 124 (Fed. Cir. 1985), Interpart's 1980 non-patent suit against Vitaloni was consolidated with Vitaloni's 1982 patent suit against Interpart. After Vitaloni lost in both cases,

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Vitaloni appealed the non-patent claims to the Ninth Circuit and the "exceptional case" ruling from its patent claims to the Federal Circuit. Both courts of appeals agreed that the Federal Circuit should have jurisdiction over both suits. *Id.* at 680–81, 228 U.S.P.Q. at 125–26. The Federal Circuit followed this approach in *In re Innotron Diagnostics*, 800 F.2d 1077, 231 U.S.P.Q. 178 (Fed. Cir. 1986).

In *Nilssen v. Motorola, Inc.*, 255 F.3d 410, 59 U.S.P.Q.2d 1310 (7th Cir. 2001), Judge Easterbrook indicated that the proper approach to consolidated proceedings is for the district court to order them consolidated for appeal. In *Nilssen*, after the district court severed the patent and non-patent cases, and the Federal Circuit declined jurisdiction over the appeal from the non-patent cases, the Seventh Circuit ordered the two fragments re-consolidated, and ordered that the "cases must be rejoined for all purposes, including any appeal from the final judgment."

In *Tank Insulation International, Inc. v. Insultherm, Inc.*, 104 F.3d 83, 41 U.S.P.Q.2d 1545 (5th Cir. 1997), the Fifth Circuit found jurisdiction over an appeal from the antitrust-related component of a previously consolidated suit involving patent and antitrust components. Had the components remained consolidated at the time of appeal, the Fifth Circuit stated it would not have had jurisdiction: "So long as the actions were consolidated, section 1295 unquestionably vested the Federal Circuit with exclusive jurisdiction of the entire action; however, when the consolidation order was vacated, the antitrust action returned to its original, independent status." *Id.* at 85, 41 U.S.P.Q.2d at 1546.

As for cases consolidated for pre-trial purposes, in *FMC Corp. v. Glouster Engineering Co.*, 830 F.2d 770, 4 U.S.P.Q.2d 1568 (7th Cir. 1987) (Posner, J.), the Seventh Circuit ruled that discovery-related disputes arising from the antitrust-related component of a consolidated action should be appealed to the regional circuit, not the Federal Circuit, because consolidation for pre-trial purposes should not direct the ultimate appeal in the antitrust suit to the Federal Circuit.

The Committee concludes that because of the wide variety of procedural contexts presented in consolidated cases, questions of appellate jurisdiction over these disputes are best addressed on a case-by-case basis. Furthermore, it is not clear that the procedural complications posed by consolidated cases pose a substantial risk to the uniformity of patent law. As long as one of the components of a consolidated case has a well-pleaded complaint for patent infringement, it does not appear that *Holmes Group* will affect the appellate jurisdiction. For cases consolidated for a merits determination, many courts have found that the best approach is to direct the entire action to the Federal Circuit for appeal. For consolidated cases only involving patent counterclaims, a legislative response directed to the counterclaim issue should be sufficient, without generally addressing consolidated suits.

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V. The Proposed Legislation's Effect on District Court Removal Proceedings

The Committee believes that a consequence of the proposed amendment may be to arguably expand the federal district courts' removal jurisdiction to the detriment of state court jurisdiction. Although it is not clear that courts would interpret this proposed amendment to actually expand removal jurisdiction, this possibility might concern some. If that concern takes hold, the Committee proposes consideration of an additional, prophylactic amendment, as described further below.

The district courts' removal jurisdiction is governed by 28 U.S.C. § 1441, which provides in pertinent part that any civil action brought in state court "of which the district courts . . . have original jurisdiction" may be removed by the defendant. 28 U.S.C. § 1441(a) (2000). Under the proposed amendment, the original jurisdiction of the district courts will be defined to include patent law counterclaims. Thus, once a defendant in state court pleads a patent law counterclaim, the federal district court arguably would have removal jurisdiction over the whole state action.

The proposed amendment to § 1338(a) may not expand district court removal jurisdiction because there is a large body of law stating that counterclaims cannot form the basis for removal. *See Takeda v. Northwestern Nat'l Life Ins. Co.*, 765 F.2d 815, 822 (9th Cir. 1985) ("[R]emovability cannot be created by defendant pleading a counterclaim presenting a federal question."). Indeed, until 1986, it was established that if the state court lacked jurisdiction, removing the case to federal district court would not somehow create jurisdiction, because the federal court's jurisdiction was deemed "derivative" of the state court's jurisdiction. *See Arizona v. Manypenny*, 451 U.S. 232, 243 n.17 (1981) ("In the area of general civil removals, it is well settled that if the state court lacks jurisdiction over the subject matter or the parties, the federal court acquires none upon removal, even though the federal court would have had jurisdiction if the suit had originated there."). In 1986, however, the removal statute[3] was amended to allow removal of causes of action over which state courts do not have jurisdiction. *See* 28 U.S.C. § 1441(e) ("The court to which such civil action is removed is not precluded from hearing and determining any claim in such civil action because the State court from which such civil action is removed did not have jurisdiction over that claim."); *see also In re Brand Name Prescription Drugs Antitrust Lit.*, 123

[3] The removal statute, 28 U.S.C. § 1441, was amended on November 2, 2002 (after this Report was written) to change subsection (e) to subsection (f) and to add a new subsection (e). The discussion on amending § 1441 in the remainder of this Report is based on the prior version of § 1441, before the amendment of November 2, 2002.

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F.3d 599, 611 (7th Cir. 1997) ("And as such it can be removed to federal court . . . by virtue of 28 U.S.C. § 1441(e) (added in 1986), even if the state court could not have exercised jurisdiction over the case because it is a type of case that is within the exclusive jurisdiction of the federal courts . . . ."). Thus under § 1441(e), arguably the entire case could be removable to federal court under the proposed amendment if there is a patent infringement counterclaim.

If the concern about the potential for such a result becomes serious, a simple amendment to § 1441 can make clear that the proposed legislative response to *Holmes Group* does not expand removal jurisdiction. Currently, § 1441 contains five subsections, including particularized subsections dealing with discrete areas of the law. *See, e.g.*, 28 U.S.C. § 1441(d) (concerning suits against foreign states). An additional provision could be added to bar removal to federal court of state law proceedings based on a counterclaim for patent infringement (and the other kinds of claims that are being added to the district courts' original jurisdiction through the proposed amendment). The Committee proposes adding a new subsection, § 1441(f), providing:

> (f) A counterclaim, cross-claim, or third party claim asserting a claim for relief arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks shall not serve as a basis for removal of a civil action to a district court of the United States.

28 U.S.C. § 1441(f) (proposed). This proposal is designed to prevent any claim for relief mentioned in § 1338(a) other than a claim in the plaintiff's complaint to serve as a basis for removal. If a patent claim were brought in a state court as a counterclaim, it would have to be dismissed because of the exclusive federal jurisdiction over such claims.

Conclusion

Holmes Group has been implemented to give state courts and regional federal circuit courts of appeal jurisdiction over patent claims. This conflicts sharply with the congressional intent behind the creation of the Federal Circuit, not to mention a host of policy considerations.

We believe the most appropriate response to *Holmes Group* and *Green* is to amend 28 U.S.C. § 1338 to ensure that the district courts have original jurisdiction over all claims for relief arising under the patent laws. Because the Federal Circuit's jurisdiction is derivative of the district court's jurisdiction under § 1338(a), this amendment will vest the Federal Circuit with appellate jurisdiction over all cases containing patent infringement claims. Furthermore, this amendment will ensure that there is exclusive federal jurisdiction over all patent infringement claims. To address concern over an expansion in the district courts' removal jurisdiction, the Committee notes that 28 U.S.C. § 1441 could be amended to confirm that such an outcome is not intended.

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Mr. SMITH. Thank you, Mr. Reines.
Professor Hellman?

TESTIMONY OF ARTHUR D. HELLMAN, PROFESSOR OF LAW, UNIVERSITY OF PITTSBURGH SCHOOL OF LAW

Mr. HELLMAN. Thank you, Mr. Chairman. I appreciate this opportunity to discuss this seemingly narrow but, in fact, quite important subject.

As you already heard, in the Holmes Group decision the Supreme Court repudiated the understanding of the law that prevailed in the lower courts on two important points: The Court held that the appellate jurisdiction of the Federal Circuit does not encompass claims—cases in which claims under the patent laws are raised in a responsive pleading rather than in the plaintiff's complaint. The consequence of that decision, as again you've heard, appears to be and to some courts already is that the State courts are not precluded by 1338 from hearing counterclaims under the patent and also under the copyright laws.

I agree with the other witnesses that these outcomes are undesirable from a policy standpoint and that Congress should take action to reverse that. The question is: How might that be done?

Well, because the Court's holding was predicated on the interpretation of the first sentence of section 1338(a), it might seem that the logical corrective is to amend that sentence. And that, as you've just heard, is the approach suggested by the Federal Circuit Bar Association committee, and my initial reaction was that was fine. But it does seem to me now, having looked at it further, that the seemingly logical approach is not the optimal one. The first sentence of 1338 is the basic grant of original jurisdiction to the district courts. That's language that has remained unchanged for more than half a century, and it does seem to me, contrary to Mr. Reines, that any alteration in that language runs the risk of unsettling the law in ways that no one can fully anticipate.

I think it's significant in this respect—I've discussed some of the possibilities in my statement. I think it's significant in this respect that the American Law Institute was considering a similar change on a kind of wholesale level—in its proposal for revising the Federal Judicial Code from an action-based grant of jurisdiction to a claim-based grant of jurisdiction. And they decided it was just too treacherous—that's their word—that there was too great a risk of unintended consequences.

So if I were alone on this and seeing that change as having these potential problems, I probably would not be making the point so strongly. But it does seem to me that the experience of the ALI is quite significant in that respect, and related.

So, to my mind, it seems to me that Congress should not pursue that path if its purposes can be accomplished through legislation that is less likely to have ramifications outside the immediate context, and I think that you can do that.

With respect to State court jurisdiction, I think the best approach is the most direct. What we want to do is to assure that State courts are precluded from hearing claims under the patent and copyright laws. It seems to me the simplest way to do that is to say that, and the place to say that is in the second sentence of

1338(a) that is the exclusive jurisdiction provision. And I have suggested a draft. There may be better ways of doing it, but it seems to me if you're concerned about preserving exclusivity, the place to do it is in the sentence that defines exclusivity.

Now, there is one difficulty with that. If you do that alone, a patent or copyright counterclaim brought in State court would have to be dismissed, and the defendant would have to file a new suit in Federal court. So you end up with the parties litigating two suits, even though the claims are closely related or perhaps even interdependent. That's just not very efficient. To avoid that, Congress could enact a statute that would authorize removal on the basis of a patent or copyright counterclaim. I have proposed such a statute in my testimony. I'd be happy to discuss it.

That brings me to the holding of Holmes Group itself and the appellate jurisdiction of the Federal Circuit when patent claims are raised in a responsive pleading. Again, it seems to me that the best approach is to say directly what you're trying to accomplish. And following that precept, I offer a suggestion for revising one sentence of section 1295(a), which is the grant of appellate jurisdiction to the Federal Circuit. I might add that that has the additional benefit of eliminating what is now the circumlocution of 1295(a), which vests a very broad jurisdiction in its first clause, only to take some of it away in the second part of that same sentence.

Now, in my statement I've also discussed some of the broader issues raised by the Federal Circuit's jurisdiction over patent appeals. I'll say right away none of those are urgent. None would justify delaying a Holmes fix—I do agree with Mr. Reines on that—if the Subcommittee agrees that a fix is in order. But this is an oversight hearing, and as your initial remarks indicated, Mr. Chairman, we're looking beyond the immediate problems.

And it seems to me the most substantial concern that's been raised is that we may be losing the benefits of what's been called "percolation" on the non-patent issues that typically arise in patent cases. And one way of dealing with that would be some kind of transfer provision. But that is an idea, I will admit, that has not itself had sufficient percolation. So I'm not suggesting any immediate action on that.

In contrast, the unfortunate policy consequences of Holmes Group I think are quite clear, and the only question is how to go about setting them right.

Thank you for the opportunity to express my views on that subject, and I'll welcome your questions.

[The prepared statement of Mr. Hellman follows:]

Statement of
Arthur D. Hellman

Mr. Chairman, Ranking Member Berman, and Members of the Subcommittee:

Thank you for inviting me to express my views at this important oversight hearing on "*Holmes Group*, the Federal Circuit, and the State of Patent Appeals." The issues before the Subcommittee today may appear narrow and technical. In fact, they implicate some of the deepest conflicts in the American legal system: federal supremacy versus state autonomy; specialist versus generalist courts; protection of invention versus encouragement of competition.

The immediate question is whether Congress should enact legislation to overturn the Supreme Court's decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826 (2002). The Court held in *Holmes Group* that the appellate jurisdiction of the Court of Appeals for the Federal Circuit does not encompass cases in which claims under the patent laws are raised in a responsive pleading rather than in the plaintiff's complaint. An Ad Hoc Committee of the Federal Circuit Bar Association has proposed an amendment to 28 USC § 1338 that would "ensure exclusive jurisdiction for the Federal Circuit over *all* patent appeals."[1] The proposed amendment is also aimed at assuring that the federal district courts would exercise exclusive jurisdiction over all patent and copyright claims.

I agree with the policy goals of the Ad Hoc Committee, and initially I expected to support the Committee's legislative proposal as well. However, upon further analysis and reflection, I believe that this particular approach raises some

[1] Report of the Ad Hoc Committee to Study Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc., 12 Fed. Cir. B.J. 713, 714 (2002) [hereinafter Ad Hoc Committee Report].

serious concerns. There are better ways of accomplishing the Committee's purposes.[2]

The simplest way of excluding state-court jurisdiction over patent and copyright counterclaims is to do so directly by recasting the second sentence of 28 USC § 1338. I also suggest amending Title 28 to allow removal of state-court cases in which a claim under the patent or copyright laws is asserted in a responsive pleading. Finally, I suggest amending 28 USC § 1295 to give the Federal Circuit exclusive jurisdiction over appeals from final decisions of the district courts "in any civil action in which a party has asserted a claim for relief arising under any Act of Congress relating to patents or plant variety protection."[3]

At an oversight hearing, it is appropriate to look to the long term. From that perspective, I believe that Congress should consider an amendment to Title 28 that would authorize the Federal Circuit to transfer appeals to the appropriate regional court of appeals if the gravamen of the appeal plainly is not patent law.

Before turning to the issues raised by *Holmes Group* and the Ad Hoc Committee proposal, I will say a few words by way of personal background. I am a professor of law at the University of Pittsburgh School of Law, where I was recently appointed as the inaugural holder of the Sally Ann Semenko Endowed Chair. I have been studying the operation of the federal appellate courts for more than 30 years, starting in the mid-1970s, when I served as Deputy Executive Director of the Commission on Revision of the Federal Court Appellate System

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[2] Although I disagree with the Ad Hoc Committee's ultimate recommendation, I have benefited greatly from the Committee's thoughtful and lucid analysis, and in this statement I have drawn heavily on the Committee report.

[3] This suggestion is very similar to a proposal that the Ad Hoc Committee considered and rejected. For reasons explained in Part III, I do not think the Committee's concerns should carry the day.

(Hruska Commission). Although the Hruska Commission did not ultimately endorse the idea of centralizing patent appeals in a single court, its studies laid the groundwork for creation of the Federal Circuit.[4]

Since my days at the Hruska Commission, I have organized and participated in many other studies of the federal appellate courts. I am also the author (with Dean Lauren Robel of the Indiana University School of Law) of FEDERAL COURTS: CASES AND MATERIALS ON JUDICIAL FEDERALISM AND THE LAWYERING PROCESS, which is scheduled for publication in the spring of 2005. Of course, in my testimony today I speak only for myself; I do not speak for any other person or institution.

I. Background: *Holmes Group* in Context

In 1982, Congress created the Court of Appeals for the Federal Circuit. The Federal Circuit hears appeals from three national courts: the Court of Federal Claims, the Court of Appeals for Veterans Claims, and the Court of International Trade. The Federal Circuit also exercises appellate jurisdiction over certain cases in the federal district courts, specifically including cases arising under the patent laws. This latter jurisdiction is the focus of today's hearing.[5]

The patent jurisdiction of the Federal Circuit is delineated by two sections of Title 28 of the United States Code. Section 1295 provides that the Federal Circuit shall have exclusive jurisdiction over appeals from the district courts "if the

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[4] For a discussion of the origins of the Federal Circuit, including references to the Hruska Commission's hearings, see Arthur D. Hellman, Deciding Who Decides: Understanding the Realities of Judicial Reform, 15 Law & Social Inquiry 343, 355-59 (1990). The House and Senate Reports on the legislation creating the Federal Circuit relied heavily on the Hruska Commission Report.

[5] The appellate jurisdiction also extends to cases arising under the plant variety protection laws. Such cases are treated in the same way as patent cases. For convenience, I will generally omit further reference to plant variety protection.

jurisdiction of [the district court] was based, in whole or in part, on section 1338 of this title." Section 1338, in turn, vests original jurisdiction in the district courts "of any civil action arising under any Act of Congress relating to patents."[6]

In *Holmes Group*, the Supreme Court held that § 1338 must be interpreted in accordance with the "well-pleaded complaint" rule that has long governed the interpretation of 28 USC § 1331, the general "federal question" statute. Under this interpretation, a case does not "arise under" the patent laws when "the complaint does not allege a claim arising under federal patent law, but the answer contains a patent-law counterclaim."[7] This in turn means that when a claim for infringement or other claim under the patent laws is raised by the defendant rather than the plaintiff, the district court's judgment will be reviewed by the appropriate regional court of appeals, not by the Federal Circuit. In this respect *Holmes Group* repudiates the view of the law that prevailed in both the Federal Circuit and the regional circuits until 2002.[8]

The *Holmes Group* decision also affects the legal rules that determine whether a case falls within the exclusive jurisdiction of the federal courts. The second sentence of 28 USC § 1338(a) provides that the jurisdiction vested by the first sentence – the sentence quoted above – "shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases." If the first sentence

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[6] In fact, the statutory provisions are more complicated than the summary in the text indicates. Section 1338 also vests original jurisdiction in the district courts of civil actions arising under other intellectual property laws. But section 1295(a) goes on to provide 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 court of appeals. This clause effectively limits the appellate jurisdiction of the Federal Circuit to cases arising under the patent (and plant variety protection) laws.

[7] *Holmes Group,* 535 U.S. at 827.

[8] See Ad Hoc Committee Report, supra note 1, at 715.

does not encompass cases in which a patent, plant variety, or copyright claim is raised in a responsive pleading, it would seem to follow that state courts are permitted to hear such cases. This, too, upsets the understanding of the law that prevailed before *Holmes Group*. As the Indiana Supreme Court said in *Green v. Hendrickson Publishers, Inc.*, 770 N.E.2d 784 (Ind. 2002):

> [Until] very recently the logic and language of a consistent body of federal decisions appeared to preclude a state court from entertaining a counterclaim under copyright law. [Detailed summary omitted.] All of the foregoing is, we think, trumped by the Supreme Court's ruling in *Holmes Group* … [We] think *Holmes* requires us to reject the federal authorities stating or implying that a state court may not entertain a counterclaim under patent or copyright law.

The *Holmes Group* decision thus raises two issues for Congress and, in the first instance, this Subcommittee. First, should Congress overrule *Holmes Group* to the extent that the decision allows the regional circuits to hear appeals in cases where patent rights are asserted as counterclaims? Second, should Congress overrule *Holmes Group* to the extent that it allows state courts to adjudicate counterclaims under the patent and copyright laws? I will discuss these questions in reverse order.

In the course of my statement, I will address the alternate solution proposed by an Ad Hoc Committee of the Federal Circuit Bar Association. Under the Ad Hoc Committee's proposed approach, the first sentence of 28 USC § 1338(a) would be amended by the addition of a single phrase: "involving any claim for relief." The statute would thus read:

> The district courts shall have original jurisdiction of any civil action *involving any claim for relief* arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(The proposed new language is italicized.) The Ad Hoc Committee offers this amendment as a solution to both of the problems raised by the *Holmes Group* decision.

Because the Supreme Court's holding in *Holmes Group* was predicated on its interpretation of the first sentence of § 1338(a), it might seem that the logical corrective is to amend that sentence, as the Ad Hoc Committee proposes to do. In my view, however, any alteration in the statutory language that defines the "original jurisdiction" of the district court runs the risk of unsettling the law in ways that no one can fully anticipate. It is preferable to address the problems directly, first by amending the provision that excludes state-court jurisdiction and, second, by amending the provision that defines the appellate jurisdiction of the Federal Circuit in patent cases.

II. Allocation of Jurisdiction Between State and Federal Courts

At least since 1836, Congress has vested exclusive jurisdiction in the federal courts over all cases "arising under" the federal patent laws.[9] Exclusive jurisdiction over cases "arising under" the federal copyright laws has been a feature of the system since the Revised Statutes of 1873.[10]

The justifications for exclusive federal jurisdiction over patent and copyright cases are familiar. Concentrating these cases in the federal district courts promotes uniformity in the application of the law. It enables federal district judges "to develop the expertise necessary to decide the technical problems so frequently

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[9] Donald S. Chisum, The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation, 46 Wash. L. Rev. 633, 638 (1971).

[10] See Amy B. Cohen, "Arising Under" Jurisdiction and the Copyright Laws, 44 Hastings L.J. 337, 350-51 n. 62 (1992).

raised in patent cases."[11] Further, federal courts could be expected to have greater sympathy for the policies underlying the federal laws, especially when rights under federal law come into possible conflict with rights under state law.

All of these justifications are equally applicable whether a patent or copyright claim is asserted in the complaint or in a responsive pleading. For that reason, I doubt that there will be serious disagreement, as a matter of policy, with the proposition that patent and copyright counterclaims should not be litigated in state courts.

The simplest way of implementing that policy is to revise the second sentence of § 1338(a), which defines the exclusive jurisdiction of the federal courts. Before turning to that suggestion, I will address the proposal of the Ad Hoc Committee, which would amend the first sentence of § 1338(a). Two aspects of the proposal deserve attention.

A. The Effect on Original District Court Jurisdiction

One possible cause for concern is that altering the language of the "arising under" jurisdictional grant would invite litigants to reopen issues of interpretation that are now governed by the array of precedents construing the existing language. This would affect not only the scope of exclusivity, but also the availability of original and removal jurisdiction in the district courts over cases in which issues relating to patent, copyright, or trademark law are raised in the complaint. A good example is the oft-cited opinion of Judge Henry J. Friendly on copyright jurisdiction in *T.B. Harms Co. v. Eliscu*, 339 F.2d 823 (2d Cir. 1964).[12]

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[11] Chisum, supra note 9, at 636.

[12] The opinion begins:

> A layman would doubtless be surprised to learn that an action wherein the purported sole owner of a copyright alleged that persons claiming partial ownership had recorded their

It can be argued that reopening would not be warranted. The argument would rely heavily on the Supreme Court's decision in *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988). In that case – a precursor to *Holmes Group* – the Court construed 28 USC § 1338(a) and held that jurisdiction under that statute extends "only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law."[13] Of particular importance here, the Court emphasized that the well-pleaded complaint rule "focuses on *claims*." The Court repeatedly addressed the question whether the *claims* in the complaint "ar[o]se under" federal patent law. Moreover, *Christianson* must be read in conjunction with the decision in the *Merrell Dow* case, where the Court indicated that the unit of analysis is the claim rather than the complaint as a whole.[14]

In this light, perhaps courts will be able to readily reject arguments that a grant of jurisdiction based on "any *claim* for relief arising under" specified laws calls for a different analysis of the complaint than a grant of jurisdiction over "any

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> claim in the Copyright Office and had warned his licensees against disregarding their interests was not one "arising under any Act of Congress relating to * * * copyrights" over which 28 U.S.C. § 1338 gives the federal courts exclusive jurisdiction. Yet precedents going back for more than a century teach that lesson and lead us to affirm Judge Weinfeld's dismissal of the complaint.

Harms was recently reaffirmed in *Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 347-56 (2d Cir. 2000). The *Bassett* opinion contains a thorough discussion of lower-court decisions on copyright jurisdiction.

[13] Christianson, 486 U.S. at 808-09.

[14] The point was made most explicitly by the dissent. See *Merrell Dow Pharmaceuticals, Inc., v. Thompson*, 478 U.S. 804, 824 n.2 (1986) (Brennan, J., dissenting). The Court opinion addresses the point in id. at 817 n. 15. See Arthur D. Hellman & Lauren K. Robel, Federal Courts: Cases and Materials on Judicial Federalism and the Lawyering Process 721-22 (forthcoming 2005).

civil *action* arising under" those same laws. But this is by no means certain, especially in the realm of copyright. A comprehensive analysis of lower-court decisions on copyright jurisdiction under § 1338 found extensive confusion and inconsistency.[15] In that setting, it will not necessarily be easy for courts to reject assertions that the new statutory language calls for reconsideration of existing precedents.[16]

B. The Effect on Supplemental Jurisdiction

Another cause for concern is the effect of the proposed amendment on non-diverse state-law claims asserted in a pleading that brings a case within the scope of § 1338. (I use the term "non-diverse state-law claims" as a shorthand for claims grounded in state law between parties who are not of diverse citizenship.)

Today, the treatment of such claims is governed by 28 USC § 1367, the supplemental jurisdiction statute. Under § 1367(a), the district courts have supplemental jurisdiction over non-diverse state-law claims if they are "so related to claims in the action within [the] original jurisdiction that they form part of the same case or controversy under Article III." This language incorporates the "common nucleus of operative fact" test specified by the Supreme Court's decision in *United Mine Workers v. Gibbs*, 383 U.S. 715 (1966). Under § 1367(c), district courts may decline to exercise jurisdiction over supplemental claims if "principles of [judicial] economy, convenience, fairness, and comity" so suggest.[17]

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[15] Cohen, supra note 10, at 360-72.

[16] Moreover, it may be imprudent to place so much weight on *Christianson*. A leading scholar has said that "the incoherency of [the Supreme Court's] opinion in *Christianson* left a loose cannon careening unpredictably across the decks of the law of federal jurisdiction." John B. Oakley, Federal Jurisdiction and the Problem of the Litigative Unit: When Does What "Arise Under" Federal Law?, 76 Tex. L. Rev. 1829, 1830 (1998).

[17] See City of Chicago v. International College of Surgeons, 522 U.S. 156, 172-73 (1997). The quoted language is not in the statute; it is the Supreme Court's interpretation of § 1367(c).

Now consider the situation if the proposed amendment to § 1338 were adopted. The district court would have original jurisdiction over "*any civil action involving* any claim for relief arising under" the specified federal laws. (Emphasis added.) A plausible – perhaps a strong – argument can be made that the district court would now have *original* jurisdiction over *the entire action, including all state-law claims* contained in the pleading. This would have two consequences.

First, the statute would purport to vest original jurisdiction over non-diverse state-law claims even if they did not "form part of the same case or controversy under Article III." But the Supreme Court has said that "*Gibbs* delineated the constitutional limits of federal judicial power."[18] The statute would thus authorize an exercise of jurisdiction that the Constitution does not permit.

Second, with respect to non-diverse state-law claims that do "form part of the same case or controversy," the district court would lose its discretion to dismiss or remand. These claims would no longer come in as supplemental claims; rather, they would be part of the original jurisdiction. Section 1367(c) would have no application, and the district court would be required to adjudicate the state claims even if "principles of economy, convenience, fairness, and comity" suggested that the claims should be heard in the state court.

These are serious consequences, and they raise serious doubts about the soundness of the Ad Hoc Committee's proposed amendment to § 1338.

To be sure, courts may not adopt the interpretation just outlined.[19] After all, the present statute already vests "original jurisdiction" over the entire "civil

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[18] Owen Equipment & Erection Co. v. Kroger, 437 U.S. 365, 371 (1978).

[19] Ironically, *Holmes Group* might encourage adoption of this interpretation. The Court's decision manifests a preference for resolving statutory issues through close parsing of the statutory text rather than attempting to implement the Congressional purpose.

action." The difference, however, is that the amended statute, unlike the existing one, would distinguish between the "claim" and the "action," and would require only that a "claim" arise under patent law.

Beyond this, the analysis illustrates a broader point. Any alteration in the statutory language that defines the "original jurisdiction" of the district court – language that has remained unchanged for more than half a century – runs the risk of unsettling the law in ways that no one can fully anticipate.[20] Congress should not take that step if its purposes can be accomplished through legislation that is less likely to have ramifications outside the immediate context.

It is no answer to say that the Ad Hoc Committee's proposal has been available for two years and has withstood scrutiny. There is a vast difference between a committee proposal and a statute that courts must construe and apply to actual cases. Moreover, lawyers seeking to get cases into federal court (or keep them out) would certainly seek to exploit the abandonment of the "[l]inguistic consistency"[21] that now enables courts to apply § 1331 precedents to § 1338.

C. Restoring Exclusivity

If the preceding analysis is correct, the Ad Hoc Committee's proposed amendment to § 1338 may create more problems than it would solve. How, then, to assure that patent and copyright counterclaims will not be litigated in state courts? I suggest two possible approaches. One involves rewriting the second

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[20] For similar reasons, when the American Law Institute undertook its Federal Judicial Code Revision Project, it rejected the idea of a "direct revision of the various statutes that … grant original jurisdiction to the district courts *at the level of the action rather than the claim*." John B. Oakley, *Kroger* Redux, 51 Duke L. J. 663, 672 (2001) (emphasis added). The Reporter for the Project explained: "A subtle and complex set of secondary meanings now govern these statutes' application, and any attempt at comprehensive recodification of the district courts' original jurisdiction would proceed at great risk of creating unintended consequences." Id.

[21] See *Christianson*, 486 U.S. at 808.

sentence of § 1338(a); the other would make use of the device of removal. They are not mutually exclusive; on the contrary, they complement one another.

The simplest solution is to replace the second sentence of § 1338(a) with new language along these lines:

> 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.

I think this is preferable to the Ad Hoc Committee's proposal because it directly addresses the underlying concern: "patent litigation should not be carried out in state courts."[22] Moreover, I note that the analysis of supplemental jurisdiction set forth above also applies to the current language of § 1338 that provides for exclusive federal jurisdiction. Thus, if the Ad Hoc Committee's amendment to § 1338(a) is adopted and the second sentence is left unchanged, the statute would appear to deny jurisdiction to state courts not only over the federal claims but also over the entire "action" in which they are asserted.

A second way of addressing the effect of *Holmes Group* on state-court litigation is to allow for removal to federal court based on a patent or copyright counterclaim. Surprisingly, the Ad Hoc Committee appears to reject this approach. It offers an amendment to 28 USC § 1441, the removal statute, that would explicitly *preclude* removal based on a patent or copyright counterclaim.[23]

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[22] Ad Hoc Committee Report, supra note 1, at 720.

[23] The Ad Hoc Committee expresses uncertainty as to whether its main proposal would expand removal. I think it probably would, but there is no need to pursue the point here. The Committee is also ambivalent about its support for an anti-removal amendment. But in the concluding paragraph of its discussion the Committee unequivocally "proposes adding a new subsection" to § 1441 that would prohibit removal based on a patent counterclaim. See id. at 728.

I believe that this course is unnecessarily timid. As the Ad Hoc committee acknowledges, if federal jurisdiction is exclusive and removal is prohibited, a patent (or copyright) claim brought in a state court as a counterclaim "would have to be dismissed."[24] The state-court defendant would then have to file a separate suit in federal court to assert his rights under the patent or copyright laws.[25] The parties would thus have to litigate two parallel suits even if the claims were closely related or even interdependent. This would also be the result if Congress adopted only the revision of the second sentence of § 1338(a) that I have proposed as an alternative.

I think it would be preferable to allow removal of the suit to federal district court based on the patent or copyright counterclaim and to provide for remand of the state claims if the state claims are totally outside the bounds of federal jurisdiction or if they are readily litigated in a separate suit. The dividing line is likely to correspond roughly to the distinction between compulsory and permissive counterclaims: if the non-patent or non-copyright claims would not constitute compulsory counterclaims to the claims within exclusive federal jurisdiction, they would ordinarily be remanded to state court. To this end, Chapter 89 of the Judicial Code might be amended by the addition of a new section 1454 along the following lines:

> (a) A civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights may be removed to the district court of the United States for the district and division embracing the place where such action is pending.

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[24] Ad Hoc Committee Report, supra note 1, at 728.

[25] To require dismissal followed by re-filing would be to reestablish for counterclaims the dysfunctional regime that existed for exclusive-jurisdiction claims in the complaint until 1986, when Congress enacted the provision that is now 28 USC § 1441(f).

> (b) The removal of an action under this section shall be made in accordance with section 1446 of this title, except that the action may be removed by any party.
>
> (c) When a civil action is removed solely under this section, the district court–
>
> (1) shall remand all claims that are not within the original or the supplemental jurisdiction of the district court under any Act of Congress; and
>
> (2) may remand any claims within the jurisdiction conferred by section 1367 under the circumstances specified in section 1367(c).

The Ad Hoc Committee predicates its view on a concern that allowing removal of actions based on patent or copyright counterclaims would be to "the detriment of state court jurisdiction." No doubt this is true as a descriptive matter, but it is not a good reason for rejecting the proposal. As demonstrated most recently by the Class Action Fairness Act, Congress is quite willing – as it should be – to expand the availability of removal jurisdiction when doing so promotes important national interests. Here the national interest is strong. Moreover, the effect on state courts is likely to be minuscule in comparison to the effect of the Class Action Fairness Act.

D. Conclusion

Revising the second sentence of § 1338(a) in the manner suggested above would accomplish the Ad Hoc Committee's goal: it would assure that patent and copyright litigation will "not be carried out in state courts." It would do this directly, without the risk of upsetting other aspects of the jurisdictional arrangements that depend on the existing definition of "original jurisdiction." If a patent or copyright counterclaim is asserted in state court in spite of § 1338, the removal statute proposed here would give the district court maximum flexibility to

sort out the federal and state claims, so that each is litigated in the most appropriate forum.

III. Patent Counterclaims and Appellate Review

The principal goal of the Ad Hoc Committee's proposed legislation is to overrule *Holmes Group* and ensure that the Federal Circuit will have appellate jurisdiction over all cases in which "a claim for relief arising under the patent laws" is raised in a responsive pleading (such as a counterclaim) but not in the complaint. I agree with that policy goal; as with exclusivity, the desirability of centralized review does not depend on the pleading in which a patent claim is asserted.[26] But for the reasons given in Part II, the Ad Hoc Committee's proposed amendment to § 1338 is a problematic means of accomplishing that goal. I suggest, instead, that the goal be pursued more directly, by amending 28 USC § 1295(a). The statute would read in relevant part:

> (a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—
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> (1) of an appeal from a final decision of a district court of the United States [or other district courts] in any civil action in which a party has asserted a claim for relief arising under any Act of Congress relating to patents or plant variety protection.

This amendment has several advantages over the Ad Hoc Committee proposal. It addresses the policy goal directly rather than indirectly. It creates no risk of unsettling existing law on district court jurisdiction or of curtailing district

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[26] As the Ad Hoc Committee points out, the Holmes Group decision did not rest on policy considerations; on the contrary, the Court explicitly disclaimed the task of determining "what would further Congress's goal of ensuring patent-law uniformity." Holmes Group, 435 U.S. at 833. I note, however, that the commentators are not unanimous on the policy question. For a contrary view, see Note, Vornado Hits the Midwest: Federal Circuit Jurisdiction in Patent and Antitrust Cases after Holmes v. Vornado, 82 Tex. L. Rev. 1091, 1124-28 (2004).

court discretion over supplemental claims. It avoids the circumlocution of current § 1295(a), which vests broad jurisdiction in its first clause, only to take some of it away in the second part of the sentence.[27]

The Ad Hoc Committee considered a very similar proposal, but rejected it.[28] The Committee gave two reasons. First, it said that amending § 1295(a)(1) "would not address *Green* [the Indiana case] to ensure federal jurisdiction over patent law counterclaims." True, but that can be done through the amendments suggested above – revising the second sentence of § 1338(a) and allowing removal based on patent and copyright counterclaims.

Second, the Committee said that "amending § 1295 to [supersede] *Holmes Group* would require a restructuring of the Federal Circuit's jurisdiction," and that it would not be possible "to restructure the foundation of the court's jurisdiction in this way without extensive debate." I do not find this persuasive. To begin with, the two approaches end up in the same place as far as the Federal Circuit's jurisdiction is concerned. I doubt that the scope of the debate will depend on which approach is taken.[29]

More important, in order to avoid a restructuring of "the foundation of the [Federal Circuit's] jurisdiction," the Ad Hoc Committee proposes amending a foundational statute that governs district court jurisdiction. It seems to me that the

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[27] See note 6 supra.

[28] Under the Ad Hoc Committee's version, the Federal Circuit would be given exclusive jurisdiction "of an appeal from a final decision of a district court ... in any civil action asserting a claim under any Act of Congress relating to patents or plant variety protection."

[29] As is true under current law, the Federal Circuit would have exclusive appellate jurisdiction under my proposal even if all patent issues have been dropped by the time judgment is entered. See discussion infra Part IV(A). Similarly, the Federal Circuit would continue to have exclusive jurisdiction over cases in which patent claims were first asserted in an amended pleading. See Ad Hoc Committee Report, supra note 1, at 723-24.

latter cuts far more deeply into the fabric of existing jurisdictional arrangements. Section 1338 is much the older of the two provisions. Moreover, as shown above, the risk of inadvertently affecting other aspects of federal jurisdiction and practice is much greater.

IV. The State of Patent Appeals

The amendments proposed in the preceding sections would fix the problems created by the *Holmes Group* decision. But at an oversight hearing it is appropriate to look beyond the immediate problems and to consider the broader context of appellate review in cases involving patent issues. I emphasize at the outset that none of the matters discussed here suggest delay in pursuing a *Holmes Group* "fix" if the Subcommittee agrees that the legislation is desirable.

A. The Broad Reach of Federal Circuit Jurisdiction

Even apart from cases with patent counterclaims, the jurisdiction of the Federal Circuit extends well beyond the paradigm case in which the losing party appeals from a district court judgment that adjudicated issues of validity or infringement raised in the complaint. Two aspects of the jurisdictional framework deserve mention.

First, the Federal Circuit frequently hears appeals in which no claim under the patent laws is at issue. This comes about because the jurisdiction of the Federal Circuit is fixed by reference to the jurisdiction of the district court. That jurisdiction in turn is determined by the case as filed. Thus, as long as a patent claim was part of the original case, the Federal Circuit will hear the appeal even if all patent claims have been dropped by the time judgment is entered.[30]

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[30] See, e.g., Independent Ink, Inc. v. Illinois Tool Works, Inc., 396 F.3d 1342, 1345-46 (Fed. Cir. 2005); Zenith Electronics Corp. v. Exzec, Inc., 182 F.3d 1340, 1346 (Fed. Cir. 1999); see also Ad Hoc Committee Report, supra note 1, at 724-25. There is an exception for cases in which

This would continue to be the rule if Congress were to adopt the revision of § 1295(a) proposed above. The Federal Circuit would have exclusive appellate jurisdiction over "any civil action in which a party *has asserted"* a claim under the patent laws. The assertion of the patent claim would assure Federal Circuit jurisdiction whether or not the claim was still alive at the time of the appeal.

Second, the Federal Circuit has interpreted § 1338(a) with a gloss drawn from the line of cases associated with the Supreme Court decision in *Smith v. Kansas City Title Co.*, 255 U.S. 180 (1921). "Smith jurisdiction" is a shorthand for the proposition that a case arises under federal law for purposes of § 1331 when a well-pleaded complaint asserts a state-created cause of action that requires resolution of a substantial question of federal law.[31]

In the appellate context, the Smith doctrine has been construed to vest jurisdiction in the Federal Circuit in two distinct kinds of cases. First, the Federal Circuit has exercised appellate jurisdiction in cases where the complaint asserted *state-law* claims that require interpretation of the patent laws.[32] Second, the Federal Circuit has reviewed cases in which claims under other federal statutes require interpretation of the patent laws.[33]

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the patent claims are dismissed without prejudice under Rule 41(b). See, e.g., Nilssen v. Motorola, Inc., 203 F.3d 782 (Fed. Cir. 2000).

[31] See Note, Mr. Smith Goes to Federal Court: Federal Question Jurisdiction Over State Law Claims Post-Merrell Dow, 115 Harv. L. Rev. 2272 (2002). On April 18 the Supreme Court will hear oral argument in a case that may determine the validity and scope of Smith jurisdiction. See Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg, 377 F.3d 592, 595-96 (6th Cir. 2004), cert. granted in part, 125 S. Ct. 824 (2005).

[32] See, e.g., U.S. Valves, Inc. v. Dray, 212 F.3d 1368, 1372 (Fed. Cir. 2000) (breach of contract).

[33] Star Fruits S.N.C. v. United States, 393 F.3d 1277, 1281 (Fed. Cir. 2005) (Administrative Procedure Act).

Under the Supreme Court's analysis in *Christianson*, these doctrines too would continue to be applicable if Congress enacts the revision of § 1295(a) that I have proposed.

B. Broader Application of the Federal Circuit's Own Law

Even under the narrowest interpretation of its jurisdictional statute, the Federal Circuit would be called upon to decide issues that do not involve "the substantive law of patents."[34] The question inevitably arises: what law should the Federal Circuit apply to those issues? Two years after its creation, the court gave a comprehensive answer in its en banc decision in *Atari, Inc., v. JS& A Group, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984) (en banc). Notably, the opinion of the court was written by Chief Judge Howard T. Markey, who as chief judge of the Court of Customs and Patent Appeals had played a major role in developing the record that led to creation of the Federal Circuit. And the opinion was joined in full by Judge Giles Rich, who as a patent lawyer had drafted much of the Patent Act of 1952. The opinion thus has a special claim to authority.

In answering the choice-of-law question, Chief Judge Markey began by examining the legislative history of the Federal Circuit as manifested in the House and Senate Committee Reports. Congress, he found, expected "that this court would not appropriate or usurp for itself a broad guiding role for the district courts beyond its mandate to contribute to uniformity of the substantive law of patents, plant variety protection, and the Little Tucker Act."[35] After reviewing prior panel decisions addressing the problem, Judge Markey concluded that to avoid "self-appropriation," the Federal Circuit would be guided by the law of the appropriate

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[34] See text at note 35 infra.

[35] *Atari*, 747 F.2d at 1438.

regional circuit "in *all but the substantive law fields assigned exclusively to this court.*" (Emphasis added.)

That is not the position that the court takes today. Others have described the evolution of the court's jurisprudence on choice of law, and I will not retrace that history here.[36] It is sufficient to mention two landmark cases. In *Nobelpharma*, the Federal Circuit explicitly overruled *Atari* on this point and held that henceforth it would apply Federal Circuit law, not regional circuit law, to "all antitrust claims premised on the bringing of a patent infringement suit."[37] A year later, in *Midwest Industries*, the court overruled another cluster of precedents and held that "we will apply Federal Circuit law in determining whether patent law conflicts with other federal statutes or preempts state law causes of action."[38]

I do not want to overstate the extent to which the Federal Circuit now applies its own law. For example, in a case that will be heard on certiorari by the Supreme Court, the Federal Circuit noted that it applies the law of the regional circuit "to the elements of antitrust claims that are not unique to patent law."[39] Nevertheless, it is fair to say that the Federal Circuit has moved a long way in the direction of the "self-appropriation" that Chief Judge Markey warned against.

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[36] See, e.g., James B. Gambrell, The Evolving Interplay of Patent Rights and Antitrust Restraints in the Federal Circuit, 9 Tex. Intellectual Property L.J. 137, 140-48 (2001); Ronald S. Katz & Adam J. Safer, Should One Patent Court Be Making Antitrust Law for the Whole Country?, 69 Antitrust L.J. 687, 695-700 (2001); Scott A. Stempel & John F. Terzaken III, Casting a Long IP Shadow over Antitrust Jurisprudence: The Federal Circuit's Expanding Jurisdictional Reach, 69 Antitrust L.J. 711, 725-31 (2001).

[37] Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1068 (Fed. Cir. 1998) (en banc in relevant part).

[38] Midwest Industries, Inc. v. Karavan Trailers, Inc., 175 F.3d 1356, 1357 (Fed. Cir. 1999) (en banc in relevant part).

[39] Unitherm Food Systems, Inc. v. Swift Eckrich, Inc., 375 F.3d 1341, 1349 (Fed. Cir. 2004), cert. granted in part, -- S. Ct. – (U.S. Feb. 28, 2005).

Some commentators have expressed concern about this development. Of particular interest is a recent analysis by Professor James B. Gambrell. Mr. Gambrell was one of the two consultants who prepared the report on patent appeals for the Hruska Commission – a report that Congress in turn relied on for its conclusions.[40] He strongly advocated creation of the Federal Circuit. But in his recent article he sharply criticized the Federal Circuit for "overreaching its statutory mandate on choice of law questions" and "squeez[ing] out the regional circuits' involvement in constructing antitrust principles that should properly circumscribe the bundle of rights the intellectual property laws protect."[41]

C. The Value of Percolation

Justice John Paul Stevens, in his concurring opinion in *Holmes Group*, suggested that there might actually be a benefit from allowing some patent cases to be heard by the regional courts of appeals.[42] Although he did not use the word, he essentially argued for the value of what has been called "percolation." As the Hruska Commission put it, percolation is the process by which "successive considerations by several courts, each reevaluating and building upon the preceding decisions, [improve] the quality of adjudication."[43]

With respect to patent appeals, however, Congress concluded in 1982 that the values of uniformity and predictability outweigh any benefit from percolation.

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[40] See H. Rep. 97-312 at 21 (1981). The consultants' report was co-authored by Donald R. Dunner, Esq.

[41] Gambrell, supra note 36, at 147, 156-57.

[42] He said: "An occasional conflict in decisions may be useful in identifying questions that merit this Court's attention. Moreover, occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias." 535 U.S. at 839 (Stevens, J., concurring).

[43] Commission on Revision of the Federal Court Appellate System, Structure and Internal Procedures: Recommendations for Change, 67 F.R.D. 195, 219 (1975).

I agree with the Ad Hoc Committee that there is no reason to reopen that determination today. But as Chief Judge Markey implicitly recognized in his opinion in *Atari*, the Congressional judgment does not extend "beyond [the Federal Circuit's] mandate to contribute to the substantive law of patents."[44] And I believe that there are particularly strong reasons for valuing percolation on the non-patent issues that typically arise in cases with patent claims.

First, many of the issues involve new technologies and new ways of carrying out business. These innovations often put pressure on rules laid down in earlier times, so that the utility of having "successive considerations by several courts, each reevaluating and building upon the preceding decisions," is particularly great.

Second, Congress – often under the leadership of this Subcommittee – has enacted (and will continue to enact) new laws that require working-out in a variety of contexts. The often-difficult issues of statutory construction and application raised by the new laws will benefit from consideration by multiple courts.

Finally, because of the high cost, public exposure, and other burdens of litigation, many suits will be resolved by settlement before the case reaches the stage of appellate review.[45] While settlements are widely applauded as a general matter, the effect is to reduce the number of opportunities for any appellate court to consider a particular issue.

D. Perceptions of Conflict in Panel Decisions

In 1998, the Federal Judicial Center conducted a survey of appellate counsel for the Commission on Structural Alternatives for the Federal Courts of Appeals (White Commission). One of the questions was: "For you or your clients, how big

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[44] *Atari*, 747 F.2d at 1438.

[45] See generally Marc Galanter, The Vanishing Trial: An Examination of Trials and Related Matters in Federal and State Courts, 1 J. Empirical Leg. Studies 459 (2004).

a problem is the difficulty of discerning circuit law due to conflicting precedents?" The highest proportion of lawyers who viewed the problem as "large" or "grave" came from the Federal Circuit.[46]

This perception finds support in an extensive body of commentary, much of it authored by practicing lawyers. For example, in 2001 the Federal Circuit Bar Journal published a compilation under the title "Conflicts in Federal Circuit Patent Law Decisions."[47] The introduction explains:

> While the very purpose of creating the Federal Circuit was to bring uniformity to the judicial interpretation of patent law, these conflicts among panel decisions tend to defeat that purpose and, in at least some substantive areas, return the law to the unpredictability that existed when appeals were directed to the regional circuits.

The introduction is followed by analyses of a dozen separate issues. The compilation extends over more than 50 pages.

I have not independently reviewed the cases discussed in these commentaries, and I am certainly not endorsing any of the authors' conclusions. Moreover, it is quite possible – indeed, likely – that some of the conflicts identified by the writers have been resolved in the years since the articles were published. Nevertheless, the extent of the evidence and the depth of the critiques are quite striking, especially to anyone who has followed the debate over dividing the Ninth Circuit. For more than 30 years, critics have been asserting that the Ninth Circuit Court of Appeals has failed to maintain consistency in its panel decisions. In all that time, no one has come forward with even a small fraction of

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[46] Commission on Structural Alternatives for the Federal Courts of Appeals, Working Papers 86, Item 20g.

[47] 11 Fed. Cir. B. J. 723 (2001).

the detailed evidence of intracircuit conflict that can readily be found in writings about the Federal Circuit.

E. Implications for Congressional Action

What are the implications of the considerations outlined here for the possibility of legislation to improve "the state of patent appeals"? To begin with basics: I see nothing in these developments that calls for rethinking of the 1982 legislation that centralized patent appeals in the Federal Circuit. No system is perfect, and there is no reason to believe that we would be better off with a return to the arrangement that existed before 1982.

Second, I see nothing that calls into question the suggestions made in Part II and III of this statement for a "Holmes Group fix."

At the same time, I do think that some fine-tuning of the system of appellate review may be warranted. In particular, I believe that Congress and this Subcommittee should consider whether the adjudicative authority of the Federal Circuit should conform more closely to the arrangements that Congress contemplated when it established the court: if the "gravamen" of the case is patent law, the appeal should be heard by the Federal Circuit; if the "gravamen" is something else, the appeal should be heard by the regional court of appeals.[48]

One way to pursue this goal would be by limiting the grant of appellate jurisdiction in 28 USC § 1295(a). However, I see no need to take such a drastic step. Rather, I suggest that the Federal Circuit be given limited authority under 28

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[48] This language is taken from the Senate Report on the legislation creating the Federal Circuit: "[M]ere 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." S. Rep. 97-275 at 20 (1981).

USC § 1631 to transfer appeals that do not implicate the court's function of maintaining uniformity in the patent laws.

There are basically two approaches that might be taken. The first would be to give the Federal Circuit discretion to transfer an appeal to the appropriate regional court of appeals if, for example, non-patent claims "substantially predominate" over the patent claims.[49] This might be an effective means of tailoring the Federal Circuit's actual adjudicative authority to the purpose underlying Congress's creation of the court. The drawback is that it would require a judgment call at a threshold stage of the appeal. That is probably a sufficient reason to reject it, although there may be ways of drafting such a provision that would narrow the range of discretion.

The other approach would be to authorize (or perhaps require) transfer to the appropriate regional court of appeals if the appeal presents *no* issue of patent law. The rule would not be jurisdictional, and no litigant would have a right to be heard in one court rather than another. But a transfer provision would provide a something of a counterweight to current practices that have the effect of reducing "the number of [appellate] viewpoints that balance intellectual property law and antitrust law."[50]

V. Conclusion

Shortly after the Federal Circuit was created, Judge Richard A. Posner observed that the realm of patent law "is riven by a deep cleavage, paralleling the cleavages in antitrust law, between those who believe that patent protection should be construed generously to create additional incentives to technological progress

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[49] This language is taken from 28 USC § 1367(c), discussed in Part II.

[50] Katz & Safer, supra note 36, at 688.

and those who believe that patent protection should be narrowly construed to accommodate the procompetitive policies of the antitrust laws."[51] Today's hearing does not directly concern the policy disagreement that Judge Posner was describing. Rather, the focus is on allocation of adjudicative authority: what arrangements will best promote sound decision-making and instill confidence that both of the competing perspectives identified by Judge Posner will be given their due?

There seems to be broad agreement that the *Holmes Group* decision is a step in the wrong direction. Because the Court's holding was predicated on its interpretation of the first sentence of 28 USC § 1338(a), it might seem that the logical corrective is to amend that sentence. But for the reasons given in Part II, I believe that the seemingly logical response is not the optimal one. The preferable approach is to rewrite the second sentence of §1338(a) and the language of § 1295(a) to directly address the problems created by the decision. Beyond this, the Subcommittee may wish to consider some kind of appellate transfer provision that would increase the number of viewpoints are brought to bear on the non-patent issues that typically arise in cases with patent claims.

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[51] Richard A. Posner, The Federal Courts: Crisis and Reform 152-53 (1985).

Mr. SMITH. Thank you, Professor Hellman.
Mr. Prasad?

TESTIMONY OF SANJAY PRASAD, CHIEF PATENT COUNSEL, ORACLE CORPORATION

Mr. PRASAD. Thank you, Mr. Chairman. Thank you for investigating this issue and for the opportunity to testify today. Let me include my full testimony as part of the record and provide to you a summary of the testimony today.

Mr. Chairman, Oracle is the world's largest enterprise software company, with a portfolio of over 500 patents, and it is a world leader in innovative software solutions for business and Government. It is my responsibility to advise Oracle on patent and other related intellectual property matters.

As an information age company, Oracle has no factories and production lines. All of our revenues derive from the licensing of our software and related services. Simply put, our IP is the core of our business.

Mr. Chairman, as you know, patent disputes do not occur in a vacuum. Very often such suits are accompanied by trademark, trade secret, or contract claims. In these cases, we can be either a plaintiff or a defendant, so we cannot be said to be either pro-patent or anti-patent. Our goal is to ensure that the courts provide a predictable and efficient way to resolve patent disputes.

Patent cases are some of the most complex and expensive cases that Oracle litigates, with attorney's fees typically running into the millions of dollars for a single case. Frequently, the outcome of these cases turn on highly technical disputes involving intricate matters of computer science, database structures, and other technologies that are difficult for a lay audience, including a judge or a jury, to understand.

A high-technology business such as Oracle's can face substantial risks when the court presiding over one of our patent cases lacks the time and resources to understand the technology at issue.

The court system that Congress set up in 1982 under the Federal Circuit goes a long way to improving patent litigation. The Federal Circuit is widely created—credited with establishing a unified body of law, which until now has governed all patent disputes nationwide. The creation of the Federal Circuit has largely eliminated wasteful forum shopping, and it has given a higher degree of predictability of patent cases. The judges on the Federal Circuit are accustomed to resolving technology disputes and have scientifically trained clerks and staff.

As a result, all parties can feel confident that the Federal Circuit has the knowledge, willingness, and sense of mission to properly understand the technology and law presented in its cases.

Sending all patent appeals to a single court having a basic comfort level with technology is essential for a rational patent system. This is precisely what Congress intended when it created the Federal Circuit in 1982, stating, "The establishment of a single court to hear patent appeals was repeatedly singled out as one of the most far-reaching reforms that could be made to strengthen the United States patent system in such a way as to foster technological growth and industrial innovation."

Yet the recent jurisdictional changes posed by Holmes represent a serious and formidable challenge to the 1982 Act and threaten to profoundly undermine the purpose of that Act in three ways. Let me address each of those separately.

First, Holmes undercuts Congress' goal of a single body of patent law. With the reversion of patent jurisdiction to the regional appellate courts, we are moving backward to a system with 13 silos of governing law. In fact, we already have the first patent ruling out of a regional appellate court—the Eleventh Circuit'S ruling in Telecomm Technical Services versus Rolm—which suggests that the Eleventh Circuit will be following its own law and not that of the Federal Circuit.

Mr. Chairman, although in many fields of law it may be helpful to have issues percolate through the various regional court circuits, it is implausible that such benefits would occur in patent cases under Holmes because patent cases will reach the regional circuits only on a sporadic basis. Simply put, the 20-year gap in the patent law of these circuits would inevitably delay the creation of a rational body of patent law.

Second, Holmes is likely to prompt a renewed emphasis on forum shopping. In a single patent case, litigants can consume a year, and easily hundreds of thousands of dollars, by jockeying to have their case heard in a circuit perceived to have more favorable law. We are troubled by the prospect of a return to the costly days of forum shopping, with exorbitant amounts of time and money spent not on superior innovation, but satellite litigation.

Third, Holmes has been interpreted to extent jurisdiction over some patent and copyright cases to State courts. It has long been understood that patent infringement cases are within the exclusive jurisdiction of the Federal courts. The Federal trial courts are accustomed to patent cases; State courts are not.

Moreover, it is an open question whether these State courts will be bound to follow Federal Circuit law, as Mr. Reines mentioned earlier, or the law of their regional circuit, as it was left off over 20 years ago. This, too, has the potential to undermine what Congress worked so hard to foster.

Mr. Chairman, to conclude, the decision by Congress in 1982 to centralize patent disputes was driven by important public policy goals. Holmes undermines those goals by, one, fracturing the uniform body of patent law; two, encouraging forum shopping; and, three, extending jurisdiction of certain patent and copyright cases to State courts. In our view, it only makes sense to re-establish what Congress created in 1982, by correcting the jurisdiction of the Federal Circuit to cover all patent infringement cases nationwide.

Thank you again, Mr. Chairman, for the opportunity to participate in today's hearing, and I would be happy to respond to any of the Committee's questions.

[The prepared statement of Mr. Prasad follows:]

PREPARED STATEMENT OF SANJAY PRASAD

INTRODUCTION

Mr. Chairman, Ranking Member Berman, members of the Subcommittee, my name is Sanjay Prasad. I am the Chief Patent Counsel at Oracle Corporation. Thank you for the opportunity to testify today. Both the Chair and the Ranking

Member of this subcommittee have a strong record of leadership on vital issues related to intellectual property, and today's hearing on the patent appeals process is both necessary and timely.

Oracle is the world's largest enterprise software company, and a world leader in innovative information management solutions for business and government. It is my responsibility to advise Oracle on patent and other intellectual property matters pertaining to technology. This includes managing Oracle's patent portfolio, entering into patent licensing agreements with other parties, evaluating patent claims asserted against Oracle, and managing outside litigation counsel. Oracle has over 500 U.S. patents. Oracle regularly engages in technology licensing involving Oracle and third-party copyrighted and patented software, and Oracle is regularly involved in patent litigation, either as a plaintiff or a defendant.

TESTIMONY

Oracle epitomizes the kind of company that America's patent and copyright laws are designed to promote. For example, in 1979 shortly after its founding, Oracle introduced the first commercially available relational database. In 1996, Oracle was the first software company to move all of its business application software to the Internet and Oracle's database software continues to be widely recognized as the most capable and secure database software available. Oracle software is used daily by governments, businesses and educational and other institutions around the world to securely and efficiently manage their critical data and business processes.

As an information age company Oracle has no factories and production lines. All of Oracle's revenue is derived from the licensing of its software and related services. Intellectual property, the product of human innovation, is the lifeblood of Oracle's business. Copyright law protects expressive content and thereby protects against piracy and unlicensed use of Oracle's software. Patent law protects the novel and nonobvious techniques embodied in the software. Uniformity and balance in both copyright and patent law is necessary to promote investment in innovative software products and services. This provides a dual benefit. First, it provides greater certainty that the substantial investments required to develop innovative software can be protected. Second, it provides greater certainty in determining whether a product planned for development or distribution infringes any third-party intellectual property.

Disputes over intellectual property and particularly patents are increasingly common. In 2004 there were over 2800 patent cases filed in the U.S. See <http://www.ipriori.com/statistics.htm>. Disputes over patents do not occur in a vacuum. Very often, patent suits are accompanied by trademark, trade dress, trade secret, or contract claims. In patent cases, Oracle is both a plaintiff and a defendant, so Oracle cannot be said to be either "pro-patent" or "anti-patent." Oracle's motivation is to ensure that the courts provide a rational and efficient way to fairly resolve patent disputes. As either a plaintiff or a defendant, Oracle needs certainty and predictability in intellectual property law.

Patent cases are some of the most complex and expensive cases that Oracle and other high technology companies litigate. Rivals commonly seek to obtain injunctions to shut down integral parts of a company's products, or may try to misappropriate key technologies. Attorney fees typically run into the millions of dollars for a single patent litigation. Frequently, the outcome of these cases turns on highly technical disputes, involving intricate matters of computer science, database structures, networking systems, and other technologies that are difficult for a lay audience, including a judge or jury, to understand. A high technology business such as Oracle's can face substantial risks when the court presiding over one of our patent cases lacks the time and resources to understand the technology at issue.

The court system that Congress set up in 1982 under the Federal Circuit goes a long way to rationalizing patent litigation. The Federal Circuit, while imperfect, is widely credited with establishing a unified body of patent law. This same body of law, until now, has governed all patent disputes nation-wide. The creation of the Federal Circuit has largely eliminated wasteful forum shopping, and it has given a higher degree of predictability to patent cases. Because the judges on the Federal Circuit are accustomed to resolving technology disputes, and because they have scientifically trained clerks and staff, businesses can feel reasonably confident that the Federal Circuit has the faculty and the willingness, and the sense of mission, to properly understand the technology presented in its cases. Sending all patent appeals to a single court having a basic comfort level with technology is essential for a rational patent system. This is precisely what Congress intended when it created the Federal Circuit in 1982. Indeed, the House Report accompanying the 1982 Act notes that "[t]he establishment of a single court to hear patent appeals was repeat-

edly singled out by the witnesses who appeared before the Committee as one of the most far-reaching reforms that could be made to strengthen the United States patent system in such a way as to foster technological growth and industrial innovation." See H.R. Rep. No. 312, 97th Cong. 1st Sess. (1981) ("House Report") at 20. Over twenty years later, Oracle agrees with those witnesses, and the considered judgment of Congress.

Yet, the recent jurisdictional changes posed by *Holmes Group* represent a serious and formidable challenge to the 1982 Act, and this challenge is being launched on three fronts. First, we are in the midst of an attack on a single body of patent law. With the reversion of patent jurisdiction to the regional circuit courts of appeals, we are moving backward to a system with thirteen silos of governing law, instead of a single body of patent law, as Congress had envisioned in 1982. We already have the first patent ruling out of a regional circuit court of appeals—the Eleventh Circuit's ruling in *Telecomm Technical Services Inc. v. Rolm Co.,* 388 F.3d 820 (11th Cir. 2004), which suggests that the Eleventh Circuit will be following its own law, not the law of the Federal Circuit. Each case that gets directed to the regional circuit courts has the potential to add to this backward spiral away from a uniform body of law. It will become harder for Oracle to predict the outcome of patent cases when the law is split among thirteen circuits.

The attack on a single body of law is likely to prompt a second front: a renewed emphasis on forum shopping. In a single patent case, litigants can consume a year, and easily hundreds of thousands of dollars, by jockeying to have their case heard in a circuit that they perceive has favorable law. Again, Congress in 1982 succeeded in eliminating much of this wasteful forum shopping by establishing a single court of appeals for patent cases and thereby fostering the creation of a unified body of governing law. Oracle is troubled by the prospect of yet another backward spiral—a return to the costly days of forum shopping, with exorbitant amounts of time and money spent not on superior innovation, but satellite litigation.

The third front created by the challenge of *Holmes Group* was launched when *Holmes Group* was interpreted to grant state courts jurisdiction over some patent and copyright cases. It has long been understood that patent infringement cases are within the exclusive jurisdiction of the federal courts. The federal trial courts are accustomed to patent cases, and generally have adequate time and resources to dedicate to patent disputes. But federal courts, even with all their experience, are still challenged by patent cases. State courts, on the other hand, have not handled patent infringement cases in modern times, if at all. The procedures that are specific to patent cases (especially claim construction, or "Markman," hearings) are simply not done in state courts. This is an entire body of law, intertwined with demanding technological facts, that state courts are not accustomed to handling. Litigating patent cases in state courts would be an unknown. Indeed, it is an open question of whether these state courts would be bound to follow Federal Circuit law, or the law of their regional circuit, as it was left off over 20 years ago. This too, is a backward spiral, but it has the greatest potential to undermine what Congress worked so hard to foster 23 years ago.

Three fronts—three real-world concerns for Oracle. Through no fault of its own, Oracle could bring a non-patent claim in federal court, perhaps under a contract through diversity jurisdiction, or perhaps in a trade dress or trademark matter, and be faced with a counterclaim for patent infringement. Under *Holmes Group,* that claim would no longer be appealed to the Federal Circuit, but would instead be directed to a regional circuit court of appeals. Similarly, it is entirely possible that Oracle could bring a case in state court on a matter appropriate for resolution there, such as to seek payment on a contract, and become entangled with a counterclaim for patent infringement. Under *Holmes Group,* such a case may never be tried or appealed through the federal court system.

The decision by Congress in 1982 to centralize patent disputes was driven by laudable and credible public policy goals. However, I ask this subcommittee, and all of my fellow witnesses here: What is the public policy benefit to be gained from the re-allocation of patent jurisdiction among the regional circuits and state courts? I for one believe there is nothing to gain, but much to lose. Although in many fields of law, it may be helpful to have issues "percolate" through the various regional circuits, it is implausible that such benefits would occur in patent cases under *Holmes Group.* The distinction is that the majority of patent cases will continue to be appealed to the Federal Circuit. It will only be the occasional patent case that is appealed to the regional circuits, or that will be tried through the state court system. Patent law in the regional circuits will develop, at best, in fits and starts. It is hard to conceive how a cohesive body of patent law could develop in the regional circuits, given that patent cases will reach the regional circuits only on a sporadic basis, in the occasional cases when patent claims are first asserted in a responsive pleading.

Because there is more than a 20-year gap in the patent law of the regional circuits, it could take decades for the various regional circuits to "catch up" to intervening Supreme Court rulings (most notably *Markman v. Westview Instruments,* 517 U.S. 370 (1996)), and create a rational body of law around these new developments. Although the regional circuits could defer to Federal Circuit precedent, it is unlikely that they will do so—indeed, the Eleventh Circuit has already suggested that it will not follow this approach.

Oracle strongly endorses the approach of the Federal Circuit Bar Association to restore the Federal Circuit's jurisdiction to its state prior to *Holmes Group.* There is too much at stake to have cases sporadically appealed through courts with little or no experience in patent law. Rather, it makes complete sense to re-establish what Congress created in 1982, by correcting the jurisdiction of the Federal Circuit to cover all patent infringement cases nationwide, regardless if the patent claim was asserted in a complaint or in a responsive pleading. The amendments proposed by the FCBA will properly restore the Federal Circuit's jurisdiction, and will help promote Congress' goal of creating a unified body of patent law to promote technological progress in America.

Thank you again, Mr. Chairman, for the opportunity to participate in today's hearing, and I look forward to working with you and this subcommittee to ensure that our nation's patent laws and procedures protect and promote innovation.

Mr. SMITH. Thank you, Mr. Prasad.

Ms. Addy?

TESTIMONY OF MEREDITH MARTIN ADDY, ESQ., BRINKS, HOFER, GILSON & LIONE

Ms. ADDY. Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to present my views today on the Federal Circuit and the state of patent appeals. I will present my views from the perspective of a practitioner and of a former law clerk.

I will highlight my written testimony and focus on three types of comments and criticisms that the Federal Circuit has faced regarding patent appeals. The first type is that the Federal Circuit is too pro-patent. The second type is that patentable subject matter has been expanded. And the third type is that the Federal Circuit is in some cases panel-dependent.

Before talking about the three types, I'd like to talk for a minute for context on the state of the law when the Federal Circuit started in 1982.

During the early days of the Federal Circuit, with its mandate to increase uniformity and stability and remove forum shopping, the Federal Circuit did not start with a clean slate for precedent. The Federal Circuit inherited the precedent of its predecessor courts, and for patent appeals, that was the Court of Customs and Patent Appeals, the CCPA. That court heard cases on appeal from the Patent and Trademark Office, so cases where an inventor did not get his patent or interferences, that court, however, did not hear cases having to do with patent infringement. As you know, those cases went to the regional circuit.

So because the Federal Circuit inherited the case law of its predecessor court, it had to sit en banc to overrule that law. In addition, it had to look at the myriad of different regional circuit laws on litigation issues and figure out which one, if any, to apply.

The first part of its existence was spent stabilizing major patent doctrines. Today, the Federal Circuit is poise to address issues within those doctrines.

Turning to some of the recent commentary and criticisms, it is my position that the Federal Circuit has satisfied its mandate to unify and stabilize patent law. But it has done so not without criti-

cism. And, in fact, the patent bar has lively debates on the state of various intricate patent doctrines and how they're fairing at the Federal Circuit. I will not address those specific doctrines here, but I will reserve my analysis to more general commentary.

The first issue is the patent—is the Federal Circuit too pro-patent? If the Federal Circuit is perceived to be too pro-patent, it may be in response to the perception that many of the regional circuits were anti-patent. However, I believe that in recent years, the Federal Circuit has become less pro-patent, and I think that it is more in the middle of the road.

However, critics say that its pro-patent stance hurts the quality of patents. Bear in mind, however, that only about 1.5 percent of patents are ever litigated, and only—less than that are appealed to the Federal Circuit. So if the quality of patents is deteriorating, it cannot be solely the Federal Circuit that is responsible for a deteriorating quality of patents.

The FTC has issued a report that is concerned about the quality of patents, and it suggests that in order to raise the level of the quality of patents, we should lower the standard at the Federal Circuit for proving invalidity. However, the issues that the Federal Trade Commission raises are problems having to do with the PTO, and if those problems exist, I believe they should be fixed at the PTO and not at the Federal Circuit.

In fact, if you were to lower the standard for proving invalidity at the Federal Circuit, you would inject an uncertainty into patent law. The PTO examiners look at the prior art, and when a patent issues, it has a presumption of validity because of that examination. Without that presumption of validity, neither the public nor the patentee would know the scope of his patent. It is my opinion that the standards for proving invalidity at the Federal circuit are good.

The second issue is the expansion of the scope of patentable subject matter. The court has recognized that business methods and computer software are patentable subject matter, and critics say that that expansion is not warranted. But the patent statute has been construed broadly to include anything under the sun made by man. Patenting of business methods and software patents has been a positive innovation for that industry, positive for that industry because it has brought into the public domain documents on that technology that were formerly kept as trade secrets.

And, number three, the third issue I'd like to discuss are the perceived panel dependencies at the Federal Circuit. Federal Circuit judges respect their unique position as basically the sole arbiters of patent law. And they recognize the need for uniform application of the law.

Precedent at the Federal Circuit progresses at light speed compared to other circuits, compared to other issues left to percolate in the regional circuits. And each Federal Circuit judge addresses the same patent doctrines much more frequently than regional circuit judges address issues. Because of that, we may be more able to spot these perceived inconsistencies. But some commentators have said that's a positive thing and it's analogous to the percolation in the regional circuits.

My experience has been that these differing views are necessary to identify the true nature of the doctrines and the necessity for en banc hearings.

In conclusion, I believe that the constructive criticism of the Federal Circuit is a good thing. It helps us gauge whether the Federal Circuit is doing its job, and I believe that the Federal Circuit has succeeded in fulfilling its mandate to unify and stabilize patent law. The Federal Circuit has developed a vibrant body of patent jurisprudence. There is none in State court. In the regional circuits, it's 23 years old. And because of its unique experience, the Federal Circuit is poised to accept plenary authority to hear patent appeals.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Addy follows:]

PREPARED STATEMENT OF MEREDITH MARTIN ADDY

Mr. Chairman, Ranking Member Berman, and Members of the Subcommittee:

Thank you for the opportunity to express my views today at the hearing on "*Holmes Group*, the Federal Circuit, and the State of Patent Appeals." I will focus my testimony on the Federal Circuit and patent appeals from the perspective of a practitioner and former law clerk at the Federal Circuit.

I. BACKGROUND

The U.S. Court of Appeals for the Federal Circuit was formed in 1982 to promote uniformity and stability in the interpretation of patent law, to resolve the problems produced by the differing views of the regional circuit courts on the value of patents, and eliminate the resultant forum shopping.[1] The creation of the Federal Circuit "made one immediate improvement: It stopped the appellate forum shopping that had occurred when patent appeals were heard by each of the regional circuits."[2] Today, twenty-three years later, the Federal Circuit has generally succeeded in its mandate to promote uniformity;[3] however, some argue, not without a few bumps in the road.[4] Those bumps have not been so high or so unexpected, and the Federal Circuit has done, and is doing, a reasonable job of overcoming them. Bear in mind that the Federal Circuit did not start with a clean slate for precedent. The Court is required to follow the precedent of its predecessor courts, on patents that is the U.S. Court of Customs and Patent Appeals ("CCPA").[5] Prior to 1982, the CCPA heard appeals from the U.S. Patent and Trademark Office ("PTO") when the PTO denied issuance of a patent. To overrule a prior

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[1] *See* H.R. REP. No. 97-312 (1981). *See, e.g., Chemical Eng'g Corp. v. Marlo, Inc.*, 754 F.2d 331, 332 (Fed. Cir. 1984).

[2] Richard H. Seamon, *The Provenance of the Federal Courts Improvement Act of 1982*, 71 GEO. WASH. L. REV. 543, 587 (2003), (citing Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889 (2001) (discussing forum shopping among district courts in patent cases)).

[3] *See, e.g.*, Wagner and Petherbridge, IS THE FEDERAL CIRCUIT SUCCEEDING? AN EMPIRICAL ASSESSMENT OF JUDICIAL PERFORMANCE, 152 U. Pa. L. Rev. 1105, 1112 (2004); *see also* Seamon at 588, 594 n.329 ("Many commentators have praised the court for bringing clarity and predictability to significant areas of patent law." (citations omitted)).

[4] *See, e.g.*, Seamon at 588-89 ns.299, 300 (citations omitted).

[5] *South Corp. v. United States*, 690 F.2d 1368, 1370 (Fed. Cir. 1982).

CCPA decision, the Federal Circuit has to sit *en banc*.[6] Many early Federal Circuit decisions wrestled with this requirement, and it took years for the Federal Circuit to change CCPA precedent on some major doctrines.[7] In addition, while bound by CCPA precedent for existing issues, the Federal Circuit was in uncharted territory for issues that were not within the jurisdiction of the CCPA, such as most patent litigation issues, *e.g.*, infringement, willful infringement, inequitable conduct before the PTO. For these issues, the Federal Circuit had to analyze the myriad of regional circuit law and determine the best course to take. Because of the divergence in regional circuit law on patent doctrines, for the first several years of the Federal Circuit's existence, it made broad-brush corrections to the law.[8] Most commentators will not deny that, while sweeping in nature, these seminal cases made patent jurisprudence more consistent and predictable.[9]

Today, after clearing away the cobwebs of prior jurisprudence and broadly establishing important patent doctrines, the Federal Circuit is poised to better accomplish its mandate by focusing on important details of patent jurisprudence. For example, we know that claim construction is a matter of law for the courts.[10] So, rather than focus on whether elements of claim construction should go to the jury, as many regional circuits believed,[11] the Court can focus on the appropriate rubric for determining the proper claim construction.[12] As

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[6] *Id.* at 1370.

[7] *See, e.g., In re Donaldson*, 16 F.3d 1189, 1194 (Fed. Cir. 1994) (*en banc*) (overturning CCPA precedent that permitted the PTO to apply a different standard than the courts when analyzing claims drafted pursuant to 35 U.S.C. § 112, ¶ 6).

[8] *See, e.g., Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867 (Fed. Cir. 1988) (*en banc*) (inequitable conduct); *In re Dillon*, 919 F.2d 688 (Fed. Cir. 1990) (*en banc*) (obviousness); *Refac Intern., Ltd. v. Hitachi, Ltd.*, 921 F.2d 1247 (Fed. Cir. 1990) (frivolous appeal).

[9] *See, e.g.*, Robert L. Harmon, *Preface to First Edition*, PATENTS AND THE FEDERAL CIRCUIT, at ix (6th ed. 2003) (hereinafter, "Harmon").

[10] *See Markman v. Westview, Inc.*, 52 F.3d 967 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996).

[11] *See, e.g., Control Components, Inc. v. Valtek, Inc.*, 609 F.2d 763, 770 (5th Cir. 1980) (the meaning of a term in dispute is a factual issue to be determined by the jury); *Roberts v. Sears, Roebuck & Co.*, 723 F.2d 1324, 1338-39 (7th Cir. 1984) (stating "[o]nly a factual dispute as to the meaning of a term of art used in the patent claim, the resolution of which required resort to expert testimony, properly would have been submitted to the jury.").

the issue today is whether the jurisdiction of the Federal Circuit should be broadened to include all patent appeals, I will address some of the recent criticism of the Court in the context of whether the Court continues to accomplish its mandate to unify patent law.

II. DO CRITICISMS OF THE FEDERAL CIRCUIT JUSTIFY LEAVING THE *HOLMES* DECISION IN PLACE?

As the Federal Circuit has matured, it appears to have found more critics. However, for every complaint that the Federal Circuit is too pro-patentee, you will find one that asserts that burdens now being placed on the patentee are too harsh.[13] Constructive criticism as a whole benefits the Court, and it reflects the important role of the Federal Circuit.[14]

A. The Federal Circuit's Effect on the Quality of Patents

Most commentary reflects a belief that the Federal Circuit is pro-patent.[15] Commentators have stated that the Federal Circuit's pro-patent stance hurts the quality of patents. In particular, one commentator has stated that the Federal Circuit's high affirmance rate on the validity of patents may hamper or decrease patent quality.[16] This concern is a red herring. Realistic attempts to increase patent quality should lie in the very first instance with the PTO.

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[12] *Phillips v. AWH Corp.*, 376 F.3d 1382 (Fed. Cir. 2004) (*en banc* order).

[13] *See, e.g.*, Patricia A. Martrone, *Supreme Court Limits Federal Circuit Jurisdiction over Patent Appeals*, available at http://www.ropesgray.com/newspubs/pubs.aspx?type=news&NewsID=115311605&SectionID=7 (last visited Mar. 16, 2005) ("The Federal Circuit has met a barrage of criticism in recent years, including claims that it is pro-patent, anti-patent and prone to inconsistent results depending upon the panel of judges who hear the case.").

[14] *See* Seamon at 590-91.

[15] *See, e.g.*, Seamon at 589 (citing Robert L. Harmon, PATENTS AND THE FEDERAL CIRCUIT, 1136 (5th ed. 2001); *see also*, Harmon at 1254 ("At the present time, I feel comfortable in concluding that the patent enforcement pendulum is swinging toward a more neutral position, where it really ought to be.").

[16] *See* A. Jaffe and J. Lerner, INNOVATION AND ITS DISCONTENT: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS AND WHAT TO DO ABOUT IT, Princeton University Press, at 126 (2004). ("[T]he interaction between the stronger protection and a poorer patent office has had a profound effect.").

Consider how few issued patents ever are litigated, much less make it through trial and appeal. For example, 2894 patent litigations were filed in 2003,[17] and that year 187,017 patents issued from the PTO.[18] Hence, the number of patent litigations filed compared to the number of patents issued in 2003 is about 1.5%.[19] About the same ratio holds for 2002.[20] Because most patent lawsuits settle long before trial, only a very small percentage ever reach trial. An even smaller number make it to the appellate level. Therefore, the criticism that the Federal Circuit harms the quality of patents through a pro-patent stance ignores the vast majority of patents that are never reviewed by a court. If questionable patents exist, a more appropriate venue to address quality is at the PTO itself, where any change should affect all the patents that subsequently issue.

Notwithstanding the criticism, in recent years, Federal Circuit precedent, in fact, has become less pro-patent. For example, recent Federal Circuit case law on prosecution history estoppel set rigid limits on a patentee's ability to prevail on infringement under the doctrine of equivalents. In *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki*, 234 F.3d 558 (Fed. Cir. 2000) (*en banc*), the Federal Circuit held that, when a claim limitation is amended during prosecution for a reason related to patentability, the patentee surrenders any equivalents for that limitation.[21] This "absolute bar" was a sharp departure from previous jurisprudence in which Federal Circuit precedent applied a flexible bar when considering what claims of equivalence were estopped by the prosecution history. The U.S. Supreme Court reversed the Federal Circuit's decision holding that, rather than an absolute bar, the "patentee should bear the burden of showing that the amendment does not

[17] LexisNexis® CourtLink®, Nature of Suit Strategic Profile, Property Rights – Patent (830), Exhibit A.

[18] U.S. Patent Statistics, Calendar Years 1963-2003, available at http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm.

[19] This number does not account for multiple litigations in 2003 over the same patent. Taking multiple litigations on the same patent into consideration would further lower the percentage of litigated versus issued patents in 2003.

[20] There were 184,378 patents issued and 2675 patent litigations filed yielding the ratio of 1.45%.

[21] *Festo*, 234 F.3d at 566, *rev'd*, 535 U.S. 722 (2002).

surrender the particular equivalent in question."[22] Hence, the Supreme Court felt that the Federal Circuit's decision in *Festo* was unduly harsh on *the patentee*.

In fact, commentators have noted this trend:

> fears that the court would develop tunnel vision and become unduly pro-patent have not materialized. While some judges on the court are viewed as more hospitable to patents than others, one need only look at the court's [doctrine of equivalents] decisions to conclude that the court is not pro-patent but is preoccupied with predictability and the notice function of patents. And the court has had nothing resembling tunnel vision.[23]

Research conducted by Professors John R. Allison and Mark A. Lemley supports this proposition: "the votes of Federal Circuit judges during this period defied easy description. Judges do not fit easily into 'pro-patent' or 'anti-patent' categories, or into 'affirmers' and 'reversers.' We think this is a good thing for the court system."[24]

1. The Standard for Analyzing Patent Validity

The Federal Trade Commission ("FTC") also has criticized the arguably pro-patent stance of the Federal Circuit.[25] In the second recommendation of its October 2003 Report entitled "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy," the FTC suggested legislation to "Specify That Challenges to the Validity of a Patent Are to be Determined Based on a 'Preponderance of the Evidence Standard,'" rather than the well established and higher "clear and convincing standard."[26]

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[22] *Festo*, 535 U.S. 722 (2002).

[23] Donald R. Dunner, Jefferson Medalist – 2004 Address (June 4, 2004), available at http://ipmall.info/hosted_resources/jefferson_medalists_2004_address.asp.

[24] John R. Allison & Mark A. Lemley, *How Federal Circuit Judges Vote in Patent Validity Cases*, 27 FLA. ST. L. REV. 745, 746 (2000).

[25] FTC Report "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy," (2003) (Recommendations 2 and 3) (hereinafter, "FTC Report").

[26] *Id.* (Recommendation 2).

The FTC bases its recommendation entirely on the presumed shortcomings of the United States Patent and Trademark Office ("PTO"), rather than on any fault of the Federal Circuit.[27] According to the FTC, the PTO: 1) favors issuing patents, 2) has insufficient resources, and 3) grants patents based on a "preponderance of the evidence" standard.[28] Based on its perception of PTO shortcomings, the FTC would lower the Federal Circuit's legal standard for assessing the validity of an issued patent.

Indeed, the FTC's analysis puts the proverbial "cart before the horse." If the problem lies with the PTO, then it should be fixed at the PTO rather than downstream at the Federal Circuit. If the problem affects 100% of the patents, then so should the solution. Remember, only a very small percentage of issued patents ever are litigated. Hence, changing the litigation standard for analyzing validity would affect those litigated patents. The vast majority of patents still would issue from a PTO that has the above-perceived shortcomings.

Additionally, lowering the Court's standard for assessing validity would inject further uncertainty into patent jurisprudence. A preponderance of the evidence standard, requiring a 50+% proof that a patent is not valid, provides less stability and certainty in patent law. Neither the patentee, nor the public would be able to rely on the grant of a patent as public notice of what it covered.

As explained in the American Intellectual Property Law Association's ("AIPLA") response to the FTC's analysis, "It appears that the FTC has misunderstood the scope and motive of the 'clear and convincing evidence standard.'"[29] According to the AIPLA, "this misunderstanding is fostered by a lack of precision in

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[27] *Id.*

[28] FTC Report at 8-11 (Executive Summary) (Recommendation 2).

[29] AIPLA Response to the October 2003 Federal Trade Commission Report: "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy," at 6 (2004) (hereinafter, "AIPLA Response").

many decisions."[30] Hence, any remedy to Federal Circuit precedent should be done through "clarifications by judicial interpretation, not legislation."[31]

For example, under current precedent, a patent may be held invalid if clear and convincing evidence shows that the invention would have been obvious to one skilled in the art at the time the invention was made. As obviousness is a question of law with underlying factual determinations, proper obviousness analysis requires:

> that it is the underlying *facts* that must be proven by clear and convincing evidence, i.e., what is the content of the prior art and the level of skill in the art. That does not apply, and should not apply to the *legal conclusion* of invalidity, e.g., obviousness. It is only those predicate facts, not their persuasive force, that must be clearly and convincingly established.
>
> Clarification of those basic principles, and the correct ambit of the "clear and convincing evidence" standard should, we believe, be addressed by the courts, not Congress. When correctly applied as described above, the standard is appropriate and will not make patent challenges unduly difficult or unfairly tilt the playing field.[32]

Hence, consistent application by the Federal Circuit of the clear and convincing standard, only on the proof of facts, and not on their persuasive force, should address the FTC's concerns.[33]

2. The Test for Determining if a Patent is Obvious

As briefly stated above, a patent should not be issued, and if issued may be held invalid, if the "subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill

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[30] *Id.*

[31] *Id.*

[32] *Id.* at 7 (emphasis in original).

[33] *Id.* at 16.

in the art to which said subject matter pertains."[34] The nonobvious test asks "whether an invention is a big enough technical advance to merit the award of a patent."[35]

> Obviousness is a question of law and like all legal conclusions it is reached after answers to a series of potential fact questions have been found—and it is reached in the light of those answers. In the ordinary patent case, the trier of fact must answer the Graham inquiries relating to (1) the scope and content of the prior art, (2) the differences between the art and the claims at issue, (3) the level of ordinary skill in the art, and (4) whatever objective evidence may be present.[36]

The FTC criticizes the Federal Circuit on its application of the obviousness test because the subsidiary "'commercial success test' and 'the suggestion test' – require more thoughtful application to weed out obvious patents."[37] The commercial success test is part of the fourth *Graham* inquiry, the objective evidence. Federal Circuit precedent requires: "that there is commercial success, and that the thing that is commercially successful is the invention disclosed and claimed in the patent." The "suggestion test" (also called "motivation to combine") is part of the second *Graham* factor, the differences between the prior art and the claims. Federal Circuit precedent requires that: "some objective teaching in the prior art or that knowledge generally available to one of ordinary skill in the art would lead the individual to combine the teachings of the prior art,"[38] and arrive at the claimed invention. [39]

a. Commercial Success

The FTC posits that the Federal Circuit places an undue reliance on the "commercial success test" of an invention and fails to appreciate that "factors other than the invention may have caused the success." The FTC

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[34] 35 U.S.C. § 103 (2005).

[35] Robert Patrick Merges, PATENT LAW AND POLICY: CASES AND MATERIALS, ch.1 at 479 (2d ed. 1997).

[36] Harmon at 155-56 (internal citations omitted).

[37] FTC Report at 11. (Executive Summary)

[38] *In re Fine*, 837 F.2d 1071, 1074 (Fed. Cir. 1988).

[39] *Demaco Corp. v. F. Von Langsdorff Licensing Ltd.*, 851 F.2d 1387, 1392 (Fed. Cir. 1988).

also asserts that commercial success should be applied on a case-by-case basis and a higher burden should be placed on the patentee to show commercial success.[40]

The FTC's analysis is flawed in three respects. First, not every obviousness analysis involves a determination of commercial success. While commercial success must be considered *before* finding an invention obvious, if the defendant does not prove a *prima facie* case of obviousness, the court is not required to rule on the commercial success of an invention.[41]

Second, commercial success requires a showing of nexus between the claimed invention and the success.[42] However, a patentee does not have to prove that the commercial success of the patented invention is *not* due to factors other than the patented invention. A requirement to prove this negative would be unfairly burdensome and contrary to the ordinary rules of evidence.[43] Third, the Federal Circuit already analyzes commercial success on a case-by-case basis as set forth in *Demaco*.[44]

b. The Suggestion Test – or Motivation to Combine

The "suggestion test" asks if the prior art would have suggested the claimed invention to one of ordinary skill in the art.[45] The FTC criticizes Federal Circuit precedent but comments that recent articulations of the suggestion test seem to signal greater appreciation of the requirement for "concrete suggestions" in the prior art to combine or modify references beyond those needed by a person with ordinary skill in the art.[46] The AIPLA

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[40] FTC Report at 11 (Recommendation 3) (Executive Summary).

[41] *See. e.g., Rockwell Int'l Corp. v. United States*, 147 F.3d 1358, 1366-67 (Fed. Cir. 1998); *Alza Corp. v. Mylan Labs.*, 391 F.3d 1365, 1373 n.9 (Fed. Cir. 2004).

[42] *See, e.g., Demaco*, 851 F.2d at 1392.

[43] *Id.*

[44] AIPLA Response at 20. *See also, Demaco*, 851 F.2d at 1392 (Patentee must demonstrate a "legally and factually sufficient connection between the proven success and the patented invention.").

[45] *See Fine*, 837 F.2d at 1075.

[46] *See* FTC Report at 12 (citations omitted) (Executive Summary); AIPLA Response at 22.

notes that "[s]uggestion or motivation for combination or modification must be clearly present and based on concrete evidence in the prior art," as the Federal Circuit's articulation of the test consistently recognizes.[47] The AIPLA also notes that "[t]o the extent this may be a problem, it appears to be self-correcting through the traditional evolution of case law as applied in specific fact situations."[48]

B. The Federal Circuit's Alleged Expansion of the Scope of Patentable Subject Matter

Section 101 of the Patent Act states, "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent."[49] The U.S. Supreme Court has interpreted this statute broadly to hold that both man-made, living organisms and computer software constitute patentable subject matter pursuant to Section 101.[50] Patentable subject matter includes "anything under the sun made by man."[51] The FTC, however, takes issue with Federal Circuit precedent holding business methods and software patentable asserting that such patents may not be necessary to spur invention.[52] Yet, in the same paper, the "FTC notes that it has been particularly difficult to locate relevant prior art from the time before patents were allowed for business methods."[53] The existence of patented prior art supports the existence of these types of patents. The language of 35 U.S.C. § 101, the

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[47] AIPLA Response at 22.

[48] *Id.*

[49] 35 U.S.C. § 101 (2005).

[50] *See* FTC Report at 14 (Recommendation 6) (Executive Summary). *See also Diamond v. Chakrabarty*, 477 U.S. 303 (1980); *Diamond v. Diehr*, 450 U.S. 175 (1981).

[51] *Diamond*, 450 U.S. at 182.

[52] *See* FTC Report at 14-15 (Recommendation 6) (Executive Summary).

[53] AIPLA Response at 29; *see also* FTC Report at 46 (Chapter 3, C. The Role of Competition in Spurring Software and Internet Innovation).

Supreme Court's decision in *Diamond v. Diehr*, and even the FTC's own recognition relating to published prior art all support the continued acceptance of business methods and software as patentable subject matter.

C. Economic Theory

The FTC complains that the "Federal Circuit . . . may also benefit from much greater consideration and incorporation of economic insights in their decisionmaking."[54] The FTC bases its criticism on its experience that "antitrust law develops largely through case law[, which] gives flexibility to incorporate the goals of patent law."[55] The AIPLA responds that antitrust relies heavily on "rules of reason," and *per se* rules generally are disfavored.[56] Patent law, on the other hand, largely is based on *per se* rules.[57]

> The criteria for utility, novelty, and disclosure are each *per se* standards and no factors are evaluated for their reasonableness. . . . [A]pplying a comparable level of flexibility in the patent context would simply introduce uncertainty and unpredictability into a system that is striving for greater certainty and predictability. . . . [I]njecting economic theory into the interpretation and application of clearly defined statutory criteria, will simply result in greater uncertainty.
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> * * *
>
> AIPLA believes that Congress, not the PTO or the courts, is the proper authority to consider economic theory and competition policy-oriented principles [relating to patent law].[58]

However, the Federal Circuit likely would benefit from digesting relevant economic theory, and litigants should bring such relevant economic theory to the attention of the Court.

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[54] FTC Report at 17 (Recommendation 10).

[55] FTC Report at 1 (Chapter 6, I, A, Antitrust Law and Policy can and Should Take Patent Into Account to Promote Consumer Welfare).

[56] FTC Report at 23; AIPLA Response at 40-41.

[57] AIPLA Response at 41.

[58] *Id.* at 41.

D. Panel Dependencies and Supreme Court Review

Federal Circuit Judges, without exception, are highly interested in patent jurisprudence, whether or not they arrived on the bench from a patent background. For any particular case, they know the materials on appeal, are very well prepared for oral argument, and have an in-depth knowledge and respect for the precedent that they both create and apply. Federal Circuit judges recognize and respect their unique position as the sole arbiters of patent jurisprudence along with their other specialized jurisdictions. They recognize the need for uniform application of patent law and work hard towards that end. The Federal Circuit has in place several internal procedures to monitor each precedential decision before it issues to ensure that it is in line with *stare decisis*.[59]

As a result of the Federal Circuit's work, patent jurisprudence progresses at "light-speed" when compared to areas of law left to percolate through the regional circuits. In addition, because most patent appellate decisions are handed down by the Federal Circuit, court watchers are able to detect "panel inconsistencies" quickly. These panel inconsistencies subject the Federal Circuit to considerable criticism.[60] However, the subjects upon which panel inconsistencies exist are relatively minor in comparison to the situation before creation of the Federal Circuit. In addition, contrary to most critics, "some would see disagreement among panels of the Federal Circuit as reflecting an internal 'percolation' of views that may be a good substitute for percolation among the circuits."[61]

The Federal Circuit is not unaware of these apparent panel inconsistencies, and the Judges' differing perspectives form the basis for lively debate on the Court through internal memoranda, additional opinions, and

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[59] *See, e.g.*, U.S. Court of Appeals for the Federal Circuit Internal Operating Procedures, 2004 (hereinafter, "IOP").

[60] *See Seamon* at 589 n.299 (citing Paul R. Michel, *The Court of Appeals for the Federal Circuit Must Evolve to Meet the Challenges Ahead*, 48 AM. U. L. REV. 1177, 1191 (1999); Paul R. Michel, *The Challenge Ahead: Increasing Predictability in Federal Circuit Jurisprudence for the New Century*, 43 AM U. L. REV. 1231, 1232-33 (1994)).

[61] *Seamon* at 589.

through oral argument. Many inconsistencies in decisions do result in *en banc* hearings and decisions by the Court.[62] But a split in authority on an issue cannot be resolved overnight. The Court uses precedent to: 1) find a suitable case that presents the issue appropriately, 2) successfully accomplish the internal procedure to elevate the case to *en banc* status,[63] 3) accept briefing from interested *amici*, 4) conduct oral argument, and 5) render an *en banc* decision. Recently, the Federal Circuit has increased the number of patent cases that it takes *en banc*.

One measure of the Court's success may be the extent "to which its decisions have been reviewed and reversed or vacated by the Supreme Court."[64] In 2003, the Federal Circuit had a *certiorari* "grant rate" of about 2.8% over the breadth of its jurisdiction.[65] This "grant rate" is well below the average for the same time period of 6 to 8%.[66] Also in 2003, the Supreme Court affirmed the Federal Circuit's decision in 12 of 42 cases in which an opinion was issued; yielding an affirmance rate of 28.6% that also appears to be better than average.[67] Of course, these statistics may also represent a Supreme Court that is relatively disinterested in patent jurisprudence, or the numbers may be low for the Federal Circuit because of the large number of criminal appeals from regional circuits.[68]

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[62] *See, e.g., Markman*, 52 F.3d 967; *Hilton Davis Chem. Co. v. Jenkinson Co.*, 62 F.3d 1512 (Fed. Cir. 1995) (*en banc*), *rev'd*, 520 U.S. 17 (1997); *Festo*, 234 F.3d 558; *Festo Corp. v. Shoketsu Kinsoko Kogyo Kabushiki*, 344 F.3d 1359 (Fed. Cir. 2003) (*en banc*); *Johnson & Johnston Assocs., Inc. v. R.E. Servs. Co.*, 285 F.3d 1046 (Fed. Cir. 2002) (*en banc*); *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (*en banc*).

[63] A majority of participating, active judges must vote in favor of taking the case *en banc*. *See* IOP No. 14.

[64] *Seamon* at 592.

[65] *Id.*

[66] *See id.* at 592 n.327 (citing Robert L. Stern et al., *Supreme Court Practice* 59 (8th ed. 2002)).

[67] *See Seamon* at 593-94.

[68] The Federal Circuit does not have jurisdiction over criminal cases.

E. Providing Plenary Authority to the Federal Circuit to Hear All Patent Appeals

The Supreme Court's *Holmes* decision[69] changed the jurisdictional basis for pendant patent claims in non-patent cases by holding that Federal Circuit cannot assert jurisdiction over a case in which the complaint does not state a patent law claim, but patent claims are raised in a responsive pleading.[70] After *Holmes*, responsive patent pleadings do not, on their own, trigger Federal Circuit jurisdiction. Many commentators believed that this change would greatly affect the fabric of patent practice and that it would undermine Congressional intent to promote uniformity in the interpretation of patent law.[71] District courts might follow their regional circuit patent precedent, now at least twenty-three years old, rather than the Federal Circuit precedent, and state courts could now hear patent cases filed as counterclaims to non-patent suits, arguably for the first time.[72] This could lead to a lack of uniformity in patent law and return patent lawyers to the days prior to the Federal Circuit of rampant forum shopping.[73] While it appears that these strange occurrences are possible, in the three years since the *Holmes* decision, they have not been as frequent as many expected.[74] Nevertheless, a legislative solution, such as that proposed by the Federal Circuit Bar Association,[75] would remove the specter of non-Federal Circuit patent jurisprudence, diminish forum shopping, and simplify matters for litigants.

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[69] *Holmes Group v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002).

[70] *Id.*, 535 U.S. at 834 n.4.

[71] *See, e.g.*, STATUS REPORT ON DEVELOPMENTS RELATING TO THE JURISDICTION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, Holmes Group Task Force Intellectual Property Committee Section of Antitrust Law American Bar Association, at 13 n.56 (2004) (citations omitted) (hereinafter, "ABA Report").

[72] ABA Report at 8.

[73] *Id.* at 13.

[74] *See, e.g.*, ABA Report at 21-22; *c.f.*, UNANIMOUS REPORT OF THE AD HOC COMMITTEE TO STUDY *HOLMES GROUP, INC. V. VORNADO AIR CIRCULATION SYSTEMS, INC.*, 12 FED. CIR. B.J. 687, 715 (2004) (hereinafter, "FCBA Report");

[75] *See* FCBA Report at 719.

Critics, however, argue that expanding the Federal Circuit's jurisdiction to include all patent jurisdiction would improperly confer too much power on the Court. For example, granting such broad jurisdiction to the Federal Circuit allegedly will increase its already important role in patent-antitrust law. While some have said that antitrust jurisprudence is best left percolating through the regional circuits,[76] when it is interwoven with patent law, to ensure uniformity and consistency, it should be decided by the Federal Circuit.[77] The FTC noted that the Federal Circuit was expected to have a role in fashioning antitrust law.[78] The antitrust-patent overlap is distinct from other areas of antitrust law, and a legislative amendment to ensure all patent claims go to the Federal Circuit would have little or no affect on these other types of antitrust law. When deciding antitrust claims not unique to patent law, the Federal Circuit already applies the appropriate regional circuit law.[79]

III. CONCLUSION

In the past twenty-three years, the Federal Circuit generally has met its mandate of providing more uniformity and stability to patent law than previously existed. While the first part of its existence has been spent stabilizing various doctrines, today, the Federal Circuit has begun to address sub-issues within larger doctrines. In addition, the Federal Circuit has developed a robust body of patent-antitrust law and stands in the best position to further address that precedent and confirm that it is applied uniformly. Hence, the Federal Circuit is prepared to accept this added jurisdiction provided by a legislative answer to *Holmes* and apply it pursuant to the appropriate precedential requirements.

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[76] *See* ABA Report at 78.

[77] *See, e.g., Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 n.5 (Fed. Cir. 1998) (*en banc* on choice of law).

[78] FTC Report, at 17 (Chapter 6).

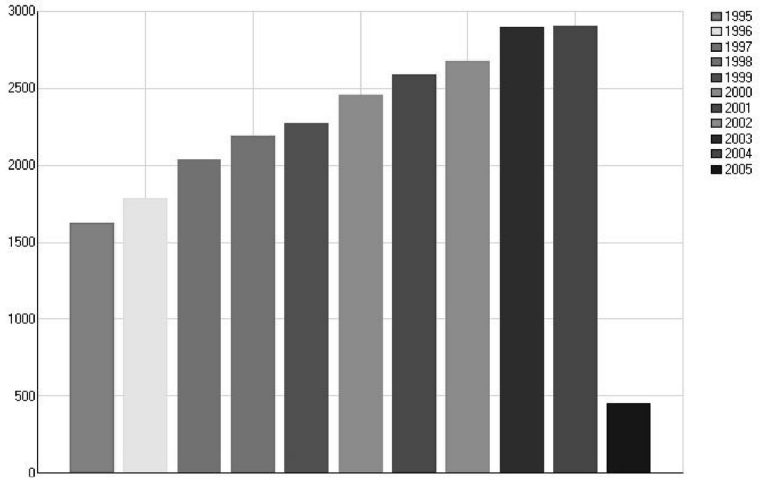
[79] *See, e.g., Nobelpharma*, 141 F.3d at 1068.

EXHIBIT A

LexisNexis® CourtLink®
Nature of Suit Strategic Profile
Property Rights - Patent (830)
1/1/1995 - 3/14/2005
23849 Case(s)
All Courts

Total Cases Filed - Between **1/1/1995** and **3/14/2005**, **Property Rights - Patent (830)** cases were filed with the following distribution based on date filed. These cases are restricted to those filed in **All Courts**.

Period	Count	Percent
1995	1622	6.80%
1996	1783	7.48%
1997	2032	8.52%
1998	2188	9.17%
1999	2269	9.51%
2000	2451	10.28%
2001	2584	10.83%
2002	2675	11.22%
2003	2894	12.13%
2004	2900	12.16%
2005	451	1.89%



Mr. SMITH. Thank you, Ms. Addy.

The problem with listening to four lawyers is that you all sound persuasive, and I do want to address some of the larger issues. But, Ms. Addy, since you brought up the Federal Circuit, let me ask you this question. You may or may not know that the last year for which we have figures, 2003, the Federal Circuit was affirmed by the Supreme Court less than 30 percent of the time. You implied that the Federal Circuit Court was doing just fine. Do you see any significance or does the low affirmation percentage raise any questions in your mind about the Federal Circuit? Or does it raise questions about the Supreme Court?

Ms. Addy. I believe the average for regional circuits as a whole is also lower than 30 percent. So I'm not sure that the numbers at the Federal Circuit are much different.

Mr. SMITH. Maybe in context. That's interesting.

Ms. Addy. But at the same time, I think it's a very good thing that the Federal Circuit is reviewed by the Supreme Court. The Supreme Court is watching what the Federal Circuit does. It's taking cases that it thinks maybe the Federal Circuit hasn't expressed the doctrine exactly as it should. And that is a good thing.

Mr. SMITH. Okay. One other question, and this gets more to the general subject. Everyone else was pretty clear. Mr. Prasad was clear about supporting the Federal Bar-suggested solution, as was Mr. Reines, and Professor Hellman had his own solution, which I'm going to ask you about momentarily. You were less clear in what you supported. Do you incline toward the Federal Bar solution in the way they would amend 1338?

Ms. Addy. Yes, Mr. Chairman, I do lean toward the Federal Circuit Bar Association's proposed amendment.

Mr. SMITH. Okay. Good. Now, that gets into obviously the threshold issue today, which is how to amend 1338. Everybody agrees that it ought to be amended. Professor Hellman would amend a different sentence than the Federal Bar.

Mr. Reines and Mr. Prasad and Ms. Addy, what do you think about Professor Hellman's solution? It sounds like, as I say, all the solutions are reasonable. We're trying—we're going to have to—I think we need to make some change. What do you think about his idea and his point that if you change the sentence of 1338 that the Federal Bar suggests, that will create confusion, we have 50 years of history there and so forth and so on? Let me actually start with Mr. Reines and work my way down the panel.

Mr. REINES. Thank you very much——

Mr. SMITH. And then, Professor Hellman, we'll let you respond.

Mr. REINES. Thank you very much, Chairman Smith. My analysis is that when you change—if what you're really worried about is unintended consequences that you can't foresee—and I think we have got a consensus that's really what you're talking about—then what you should try to do is change as little as you can. And the total rewrite to the second sentence of 1338 that's been proposed by Professor Hellman and the total rewrite of 1295(a), which is a total rewrite, I think leads to the potential for more.

Now, again, our Federal Circuit Bar Association's chief interest is in solution, so we would work to help anything that we think can

address this that doesn't create negative consequences elsewhere. But the total rewrite solution creates more potential disturbances.

Mr. SMITH. So you actually think Professor Hellman's solution would unsettle the law more than the Federal Bar solution?

Mr. REINES. If what you're worried about—and then there's one other thing, that—and I mentioned this a little bit in my opening comments, which is if you decouple the district court jurisdiction versus the appellate court jurisdiction, and you now make the exclusive jurisdiction—decouple that from the district court, right? So the way it is now, this is the district court's original jurisdiction, and that's exclusive. All right? That's the way that 1338—and 1295, the appellate jurisdiction says—the appellate jurisdiction is from the—is for cases that are under the district court jurisdiction. They're all tied together. You don't get gaps. You don't have disconnects, okay?

With Professor Hellman's articulated concerns in his testimony about, well, if the well-pleaded complaint rule is construed differently and now disrupted, you still have that because when he says, for example, on the exclusivity, Federal exclusivity, he says no State court shall have jurisdiction over any claim for relief arising under any Act of Congress. There's no telling that someone might say, well, that's not a claim for relief or this isn't a claim for relief or whatever argument you're making relative to our change would apply to the exclusivity provision. But it wouldn't apply to the district court original jurisdiction. So you could have a gap there.

And the same with respect to the appellate jurisdiction. The way the appellate jurisdiction is is in any civil action in which a party has asserted a claim for relief. That's Professor Hellman's solution, which maps to what we're proposing basically. But if that's different—if he's right that that's different from the original jurisdiction of the district court, you're going to have a gap. So you might have a case that does fall within the original jurisdiction of the district court under patents, but doesn't go to the appeal court because of his concern that maybe by changing that formulation of language you change the scope. So if you keep to all three based on the same thing, you don't have those gaps.

Mr. SMITH. Okay. Mr. Prasad?

Mr. PRASAD. Thank you, Mr. Chairman. The principal concern really is as Mr. Reines expressed, and Mr. Hellman also, that a solution be reached. And so the—I think we have a preference for the approach taken by the Federal Circuit Bar Association, and I agree that and understand that the only dispute really is in some of the unforeseen consequences that may flow from that.

As a matter of logic, it would seem to me that the fewer changes, the better, and that the fewer unforeseen consequences that may flow from that.

Mr. SMITH. Okay. Thank you. And, Professor Hellman, what do you think of the critiques?

Mr. HELLMAN. Well, thank——

Mr. SMITH. And, by the way, in your answer tell me if you could live with the Federal Bar solution as well.

Mr. HELLMAN. Well——

Mr. SMITH. Which you initially supported.

Mr. HELLMAN. Yes, which I initially thought was fine.

Let me start with Mr. Reines' point about decoupling. It seems to me decoupling is in a way what we want to do because we don't—there's not a problem with the original jurisdiction. The first sentence of section 1338(a) defines the original jurisdiction. Nobody is concerned about that. Nobody is concerned that the Holmes Group decision narrows or expands the original jurisdiction from what we want it to be. Indeed, in the ad hoc committee report, they recognized the possibility and, indeed, in my view the probability that counterclaims would be now within the original jurisdiction and, therefore, the removal jurisdiction, but until now that has not been a problem for anyone.

A couple of other comments on this question of unanticipated consequences, and I certainly agree that when you look at it, the difference between changing a few words and changing a lot of words seems to militate in favor of the solution that changes fewest words. The question, though, is where those words are, and the words that the ad hoc committee would change are in a single sentence that has all sorts of ramifications.

I alluded earlier to the American Law Institute proceedings, and I'd like to say just one or two more words about that because I think it's very instructive. What they were considering was revising the statutes that grant original jurisdiction to the district courts at the level of the action rather than the claim. And that certainly sounds very much like the ad hoc committee proposal.

But they rejected the idea of doing that, after a lot of study, and they concluded—and I want to quote their language here—that "A subtle and complex set of secondary meanings now govern these statutes," and if you try to rewrite them, you "proceed at great risk of creating unintended consequences."

Now, the American Law—the Federal Judicial Code Project, I should say, was not just academicians. I mean, you might think, well, academics see these problems where they don't exist, and that is part of our stock in trade, I have to admit. But this wasn't just academics. This was judges and lawyers, includes people who are very knowledgeable about title 28, people who live and breathe it. And I think it's very telling that after looking carefully at the idea, they decided that altering the language or approach of the statutes defining original jurisdiction was treacherous.

So a final point on that. There may be a lesson from what happened with the 1982 statute. If you go back—and I think there's some of the material in Mr. Reines' statement, which indicates that the people who shepherded that legislation through Congress in the early 1980's did think that they were including patent counterclaims in the Federal Circuit's jurisdiction. They refer to them in some of their discussion. And yet they chose to use language, which, based on a century of precedents, would allow courts to look only at the complaint. And it seems to me there may be something of a lesson there that if you want to change the jurisdiction, you should do so directly and address the problems. The problems are exclusivity. The problems are appellate jurisdiction. They are not original jurisdiction, and it seems to me that although it is seemingly the simplest solution, it is the one that is the riskier.

Thank you.

Mr. SMITH. Okay. And could you live with the Federal Bar? You think it is too dangerous and too risky and too treacherous?

Mr. HELLMAN. Well, I have to say, frankly, if you propose that as a statute, if you write it as a bill, and the Federal jurisdiction experts as well as the patent folks look at it and nobody else sees this problem, I'm certainly not going to say, well, you know, I have a special insight into the particular problems. But it seems to me that's the way to do it. Let's have some wider circulation, not just among people who are experts in patent law, but people who have devoted their lives to looking at the Federal jurisdiction statutes and how courts construe them. If they don't see the problem, then fine, it is a simpler solution. But it seems to me that you cannot assume, especially after Holmes Group—I mean, after all, Holmes Group is a statute that—excuse me, a case, a case that is based on careful parsing of language and is really very self-consciously and almost proudly indifferent to whether or not it is interpreting the law in a way that fosters the congressional policy. It seems to me that calls for some very, very careful drafting.

Mr. SMITH. I agree with you, and I also agree with your suggestion of wider circulation may not be a bad idea as well.

That is all very helpful. Mr. Reines, any final comments on direction we should go? You are comfortable? Having listened and heard from Professor Hellman, are you still as comfortable as you were when you arrived with the Federal Bar solution?

Mr. REINES. Yes, I am, Chairman. I am very appreciative of the Committee taking a look and addressing this at this point in time. I think it's critical.

Mr. SMITH. Okay. And, Mr. Prasad, are you—has your mind been changed at all by hearing Professor Hellman? That puts somebody in an awkward position. Maybe it puts you in an awkward position, too. I think he made some very good suggestions that we'll consider, but what is your view?

Mr. PRASAD. He does make some good suggestions, and I must say I'm much more familiar with the Federal Circuit Bar Association suggestion than I am with Mr. Hellman's. And so without having considered it must further, let me still stay with my preference for the Federal Circuit Bar Association's proposal, but I am not opposed to considering Mr. Hellman's proposal either.

Mr. SMITH. Also, you would probably agree that if we go forward with the Federal Bar suggesting for how to amend 1338, we ought to go forward slowly and methodically and precisely.

Mr. PRASAD. Well, yes, I agree with the underlying precept of that, which is to do no harm and to do it correctly. But I would suggest that it be done expeditiously.

Mr. SMITH. Fair enough.

Ms. Addy?

Ms. Addy. Thank you, Mr. Chairman. I echo the concerns of my colleagues with Professor Hellman's suggestion, except I was impressed with it when I read it. My main concern right now is that the Federal Circuit Bar Association proposal has been around and it's been discussed. It's been thought about quite a bit, and I think Professor Hellman's is a new—is a new suggestion. So I still support the Federal Circuit Bar Association's proposal, but I am happy

to hear that if you go forward, you're going to take a look at the potential ramifications of it.

Thank you.

Mr. SMITH. You are all very agreeable today. This is an unusual panel.

Well, that concludes my questions. As I say, everything you have said has been very helpful. We will move ahead expeditiously, but hopefully judiciously as well.

And so thank you all again. We stand adjourned.

[Whereupon, at 5 p.m., the Subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE HOWARD L. BERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND RANKING MEMBER, SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

Mr. Chairman, thank you for scheduling our first patent hearing of the year. I hope this is the beginning of a series of hearings designed to address problems in Patent Law and the Patent system as a whole.

Our country's economy thrives because it can rely on strong protection for intellectual property. Robust patent protection for valid patents promotes innovation. However, I also believe that the patent system is strongest, and incentives for innovation greatest, when patents protect only truly deserving inventions. When functioning properly, the patent system should encourage and enable inventors to push the boundaries of knowledge and possibility. If the patent system allows questionable patents to be granted and does not provide adequate safeguards against patent abuses, the system may actually stifle innovation and interfere with competitive market forces. Companies must have confidence in the quality of patents and a system that enables them to enforce their patents if they are going to continue to invest in research and development—to find the next drug to cure cancer, to create the newest technology to search the internet, or to develop the latest robot to build a car.

Without stability, uniformity and dependability in the patent system, the market will not be assured of the high quality patents essential to spurring innovation. It was with this idea in mind that we created the Federal Circuit. Before we consolidated the authority for patent decisions into one court, the regional circuit decisions were all over the map. In one Circuit, the validity of patents was rarely affirmed, while in another, patents were rarely declared invalid. Patent litigators became the ultimate forum shoppers because the Circuit you filed in almost always assured your outcome.

The creation of the Federal Circuit in 1982 has been a boon to innovation. Patentees have been able to rely on the Federal Circuit to provide a coherent body of patent law precedent. The judges on the court, who are experts in the very complex field of patent law, have developed a consistent body of rulings that serve as clear guidance to those addressing patent validity and infringement issues. However, after almost two decades, some argue that the consolidation of patent law in one court has had some downside. Critics contend that with a single court handling all appeals in patent cases, patent issues have been taken out of the mainstream of legal thought. Another criticism is that the Federal Circuit's rulings have been more "pro patent" then previous courts in that they are statistically more likely to affirm a patentee's rights. So the court, in some ways, may be a hinderance to efforts by Congress and the Patent and Trademark Office to improve patent quality and integrity.

It is with an eye toward addressing these issues that we are delving into the concerns raised by the Holmes decision. The result of the Holmes case is that alternative forums, such as the regional circuit courts or even state courts, can decide patent appeal issues. The re-entry of the Circuits and the entry of state courts into the process of deciding patent law issues appears to interfere with the policies Congress sought to advance when it created the Federal Circuit. In our discussions about this issue, we should keep in mind the goal of maintaining the integrity of the patent system.

I look forward to hearing from the witnesses to further explain alternatives to resolving the issues raised by the Holmes case. And I hope to work with the Chairman

on a possible legislative fix to this problem and other matters within the patent system.

PREPARED STATEMENT OF THE HONORABLE JOHN CONYERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

I understand the need and desire for uniformity in patent cases, but I am concerned about proposals that would render the regional circuit courts of appeals virtually meaningless.

We all know that one of the Federal Circuit's primary responsibilities is hearing patent appeals. When we created the court, we did it to ensure uniformity in that area of law. In 2002, however, the Supreme Court held the Federal Circuit did not have jurisdiction where patents were merely a counter-claim, as opposed to one of the plaintiff's original claims.

So now there are proposals to say that any case with patent issues arising at any stage would be appealed directly to the Federal Circuit. I have two major concerns with this idea. First, any party wishing to go to the Federal Circuit instead of a regional appellate court could merely include a frivolous patent argument. The regional circuits would be stripped of any responsibility.

Second, the proposal could fundamentally alter other areas of law. Cases mainly about antitrust law or contracts could end up in the Federal Circuit by virtue of one patent-related counter-claim. The Federal Circuit would thus become the de facto court of jurisdiction for any business-related lawsuit, and that is not the system we envisioned.

Having said that, I am open to hearing what problems exist within the Federal Circuit and what we can do to allow it to function better.

PREPARED STATEMENT OF JOSHUA D. SARNOFF, ON BEHALF OF THE ELECTRONIC FRONTIER FOUNDATION

On behalf of the Electronic Frontier Foundation (EFF), I thank you for the opportunity to submit this testimony on the recent Supreme Court decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.,* 535 U.S. 826 (2002), and whether to consolidate appellate jurisdiction over all patent law issues in a single federal Court of Appeals. I teach patent law at the Washington College of Law (WCL), American University, and through the Glushko-Samuelson Intellectual Property Law Clinic at WCL have represented EFF and other organizations as amici curaie in Supreme Court and Federal Circuit patent cases. My testimony is submitted in a personal capacity and on behalf of EFF, and thus does not necessarily reflect the views of American University. In *Holmes Group,* the Supreme Court held that Congress intended for appellate jurisdiction in patent cases to conform to the "well pleaded complaint rule," and thus did not vest exclusive appellate jurisdiction in the U.S. Court of Appeals for the Federal Circuit (but rather retained jurisdiction in other Courts of Appeals to decide patent law issues raised as counterclaims). There is no constitutional hurdle to legislating a different result. Thus, my comments address only the purported wisdom of vesting exclusive jurisdiction over patent law issues in a single appellate court.

EFF is a nonprofit, membership-supported civil liberties organization working to protect consumer interests, innovation and free expression in the digital world. EFF and its 15,000 dues-paying members are concerned to preserve the public benefits that result from innovative efforts and social activities that are unencumbered by patent litigation and licensing threats. EFF and its members have an interest in the development of patent laws and of their interpretation by the federal courts in a manner that reflects these concerns. In this regard, EFF believes that judicial competition in developing the patent law is a better long-term strategy than an improperly constrained uniformity.

I have three basic points to make today. First, although uniformity in patent law is desirable, it is desirable only as the product of a process in which the relevant policies are properly analyzed and competing concerns are adequately considered. Vesting exclusive jurisdiction over all patent law issues in a single appellate court may impose uniformity before better interpretations of the law can be developed and may result in inadequate consideration of competing interests. By limiting legal interpretation to a single Court of Appeals, the relevant policy decisions (and alternatives) also are deprived of the chance for empirical validation before a unitary interpretation is imposed. Congress should therefore reject this particular means of achieving uniformity in patent law, and should preserve appellate court competition in developing interpretations of the patent law.

Second, vesting exclusive jurisdiction in a single appellate court may result in a systematic bias that favors patent holders, but more importantly will preclude the most effective remedy for any such bias that does result. There are reasons to be concerned that the Federal Circuit reflects such a "pro-patentee" bias, and one of its members has recently admitted as much (at least in regard to willful infringement law). But whether or not the perception of bias is accurate, the potential for bias reinforces the wisdom of the *Holmes Group* decision. Patent law issues that are improperly decided by the Federal Circuit may be revisited by the regional Circuit Courts of Appeals if and when the issues arise through counterclaims. Congress thus should discourage rather than codify the Federal Circuit's recent efforts to informally aggrandize its jurisdiction so as to become the sole appellate patent court.

Third, legal interpretation within appellate jurisdictions is path dependent. Such path dependence makes it more difficult to develop alternative interpretations, as well as to reverse erroneous decisions, within that jurisdiction. Litigants are unlikely to raise issues that have already been adversely decided within a jurisdiction. The path dependence of interpretation reinforces the importance of assuring appellate competition to permit development of legal interpretations. Interpretation across appellate jurisdictions follows the persuasive weight of the legal reasoning of the earlier decisions, and litigants remain free to raise issues and judges to develop better interpretations of the law. Vesting exclusive jurisdiction in a single appellate court will not provide a process that promotes the reasoned development of patent law, and will impede or delay efforts to fix the law.

UNIFORMITY AND THE NEED FOR COMPETITIVE DEVELOPMENT OF THE LAW.

As Ralph Waldo Emerson famously stated many years ago, "A foolish consistency is the hobgoblin of little minds, adored by little statesmen and philosophers and divines." Although Emerson did not describe how to distinguish between a foolish and a wise consistency, the basic idea can be readily applied to the issue of federal appellate court jurisdiction. We should seek to impose uniform interpretations of the law only if they are the product of well reasoned elaboration. Following this principle, the Supreme Court typically rejects petitions for certiorari unless and until the Circuit Courts of Appeals in a number of cases have elaborated the basic legal principles at issue and have generated a conflict of sufficient importance that an imposed uniformity is deemed to be warranted. Significantly, the Supreme Court frequently lets inter-Circuit conflicts linger, either to determine before intervening the effects over time of the various rules adopted by the Circuit Courts or to allow the so-called problem of lack of uniformity to resolve itself through private action that adjusts to the differing conditions in the various jurisdictions.

Because patent rights are exclusively federal and have effect throughout the territory of the United States, such inter-Circuit conflicts in patent law are presumptively undesirable. But the question for this Committee is not whether to promote greater uniformity of patent law, but at what cost. Although I support the goal of achieving greater patent law uniformity, I believe that the benefits of achieving greater uniformity by eliminating inter-Circuit conflicts would be outweighed by the costs of eliminating the development of reasoned alternative interpretations of the law. This is not merely because I disagree with many of the interpretive choices of the Federal Circuit (even though the existing jurisprudence of the Federal Circuit provides ample grounds for such a position). Rather, I believe that patent law is sufficiently important that reasoned elaboration of patent law should draw on the collective wisdom of appellate jurists throughout the nation, and that there needs to be an institutional mechanism to counter-balance initial appellate decisions that are wrongly decided or that reflect bad policy choices. I hold this view even though I recognize the highly technical nature of patent litigation and the concomitant need for federal appellate courts to develop specialized expertise.

Congress has enacted the basic requirements of patent law in Title 35 of the United States Code, but has left the vast majority of patent law jurisprudence to judicial elaboration through statutory construction on a common-law development model. Such development benefits from the collective wisdom of more minds and perspectives, rather than fewer, and from the evaluation of prior experiences when applying varying interpretations of the law. Thus, I support the development of greater uniformity in patent law only *following* the reasoned articulation of competing patent law policies by the various Courts of Appeals. The Supreme Court has been showing a greater interest in patent law issues over the last three years, which is an encouraging development and will help to further develop its expertise. There is no question that the Supreme Court would benefit from the reasoned consideration of patent law issues by additional Circuit Courts of Appeals before seeking to impose uniformity in patent cases. As Justice Stevens noted in concurrence in

Holmes Group, "[a]n occasional conflict in decisions may be useful in identifying questions that merit this Court's attention." 535 U.S. at 839.

Further, consolidating review of all patent law issues within a single Court of Appeals simply may not result in the desired uniformity. Instead of so-called "circuit-splits," the pressure on the Federal Circuit to resolve conflicting policy issues has led to "panel-splits." And unlike in copyright or trademark, the business community cannot adopt different approaches depending on the geographical jurisdiction in which the relevant activities are conducted. For example, in Phillips v. AWH Corp., Nos. 03–1269, 03–1286, the Federal Circuit has recently sought to clarify the applicable rules for claim construction, which are widely perceived to be inconsistently applied and in need of greater specification. I submitted an amicus brief on behalf of EFF and other organizations in the *Phillips* case, encouraging the Federal Circuit to adopt claim construction rules that impose greater interpretive uniformity on its own panels, the district courts, and society at large. But it is widely feared that the Federal Circuit will not provide the patent bar with sufficient guidance, and that panels of the Federal Circuit will continue to apply the interpretive rules in an unpredictable fashion.

If, however, the Federal Circuit does provide sufficiently clear guidance and panels of its judges scrupulously follow that guidance, there remains the concern that the Federal Circuit in the *Phillips* case will impose a foolish consistency that outweighs the benefits of achieving uniformity. Although I believe this outcome is much less likely than the failure to provide adequate guidance, given the substantial social costs of the existing lack of predictability, it may be very difficult to reverse such Federal Circuit rules if they prove unworkable or undesirable over time. The rules would need to be changed en banc, stare decisis will exert pressure to stick with the rules, and as discussed below litigants may be reluctant to challenge the clearly established precedent. This result is particularly likely given the Federal Circuit's perceived institutional competence.

Given these concerns, the Committee should evaluate whether too great an emphasis already has been placed on achieving a constrained uniformity of patent law through the current jurisdictional arrangements, which provide the Federal Circuit with exclusive appellate jurisdiction over all cases that "arise under" patent law pursuant to 28 U.S.C. Sections 1295(a)(1) and 1338(a). Even following *Holmes Group,* other jurisdictions may follow the lead of the Federal Circuit's more developed jurisprudence. As a practical matter, competitors and the public routinely conform their conduct to Federal Circuit law, as they cannot reasonably rely on the low likelihood that patent law issues will arise only as counterclaims in litigation. This deprives patent law of the ability to obtain empirical validation that the interpretive choices of the Federal Circuit impose good policies, as there is no set of alternative interpretations with which to compare the results. Similarly, it deprives patent law of the development of those alternatives in the first instance.

Further, even without legislative authority to do so, the Federal Circuit has been seeking to arrogate to itself the role of establishing uniform patent law interpretations in all instances. For example, in *Unitherm Food Systems, Inc. v. Swift-Eckrich, Inc.,* 375 F.3d 1341, 1355 n.3 (Fed. Cir. 2004), the Federal Circuit recently encouraged other federal Appellate Courts to defer to the Federal Circuit's choice of law principles when determining when a patentee's behavior strips it of antitrust immunity, removing any questions of patent law from (and leaving only antitrust law to) the regional Circuit Courts of Appeals. 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." But this rule is sensible only if the desired outcome is to assure that Federal Circuit law (or any single Circuit's law) prevails on patent law issues. This concrete example provides a good illustration of why such constrained uniformity may not be desirable. The Federal Circuit simply may not have the best insight into the proper balance between the antitrust law and patent law, and there are reasons to think that obtaining the insights of distinguished jurists of antitrust law and economic theory in other Circuits (e.g., the "Chicago-School" jurists of the 7th Circuit) would be beneficial.

BIAS AND THE NEED FOR COMPETITIVE DEVELOPMENT AS A REMEDY.

For many years, the Federal Circuit has been criticized for being biased in favor of patentees, particularly in its early years.[1] When it was created, the Federal Cir-

[1] *See, e.g.,* Mark D. Janis, *Reforming Patent Validity Litigation: The Dubious Preponderance,* 19 Berkeley Tech. L.J. 923, 928 (2004); Allan N. Litmann, *Restoring the Balance of Our Patent System,* 37 IDEA 545, 552–70 (1997); Lawrence M. Sung, *Intellectual Property Protection or Protectionism? Declaratory Judgement Use by Patent Owners Against Prospective Infringers,* 42 Am. U. L. Rev. 239, 248 n.47 (1992); Rochelle C. Dreyfuss, *The Federal Circuit: A Case Study in Spe-*

cuit was vested with jurisdiction over appeals from other administrative and specialty courts so as to reduce the likelihood of becoming too narrowly specialized and of developing an institutional bias.[2] Although I share these concerns about bias without here putting my concerns to the proof, it is more important to relate what one of the Federal Circuit's own judges has said and to focus on providing a remedy against the *potential* for such bias. Again, as Justice Stevens noted when concurring in *Holmes Group,* "occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias." 535 U.S. at 839.

In the recent case of *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.,* 383 F.3d 1337 (Fed. Cir. 2004) (en banc), the Federal Circuit reconsidered en banc its prior rules for willful patent infringement law. The Court of Appeals apparently took the case because of the clamor from the bar that the law was out of touch with existing practices and because the Federal Circuit's earlier rules unduly penalized alleged infringers and encouraged disingenuous legal opinions. What is significant about this case is the self-perception of the Federal Circuit's role that was articulated during oral argument by Judge Pauline Newman, who is likely the most respected living patent jurist. Judge Newman stated from the bench words to the effect that the Federal Circuit had self-consciously adopted its rules on willful infringement because the public was not paying enough attention to patent rights in the early 1980s, that times have since changed and patent rights are now better respected, and thus that the earlier rules are no longer needed. It would be difficult to find a clearer statement that the Federal Circuit views its role as protecting the interests of patentees. Further, it took the Court over twenty years to reach an en banc decision to reverse the excesses of its earlier rules, and then did so only because it thought that circumstances had changed and thus that its earlier rules were now unnecessary to protect patentees.

Although Judge Newman's statement was limited to the particular context of willful infringement law, it raises serious concerns regarding institutional bias on the Federal Circuit. Further consolidating appellate jurisdiction over patent law in the Federal Circuit would reinforce any institutional bias that exists and would preclude any meaningful remedy for such bias. The most significant remedy for bias is to assure judicial competition in the development of patent law, so that the Federal Circuit does not develop exclusive competence and an unwarranted monopoly of legal interpretation. For example, the Federal Circuit decided *Mallinckrodt, Inc. v. Medipart, Inc.,* 976 F.2d 700 (Fed. Cir. 1992), in which "a century of law under the [patent] exhaustion doctrine was abruptly swept away."[3] So long as other appellate jurisdictions are competent under the *Holmes Group* to decide patent law issues by developing their own circuit patent law, the potential remains to achieve a more reasoned and balanced approach. EFF thus has submitted an amicus brief in the Ninth Circuit Court of Appeals in *Arizona Cartridge Remanufacturers Assoc., Inc. v. Lexmark,* No. 03–16987, seeking to restore the patent exhaustion law that the Federal Circuit unilaterally removed. But given the current jurisdictional arrangements, it has taken over a decade to get to another circuit to review this issue.

PATH DEPENDENCE REINFORCES THE NEED FOR COMPETITIVE DEVELOPMENT.

Legal interpretation is path dependent. At the most basic level, the principle of stare decisis requires some reason to adopt a different interpretation or principal of law in subsequent cases. At the level of institutional design, decisions of an initial panel of an appellate court are supposed to be binding on subsequent panels of the same court, unless and until the entire court revisits and revises the issue en banc. In contrast, initial panel decisions of one appellate court are not binding on the panels of other appellate jurisdictions, which are then free to develop their own interpretations or principles guided by the strength (or lack thereof) of the reasoning of the earlier decisions from the initial jurisdictions. This means that initial decisions *within* any particular appellate jurisdiction attain much greater significance in determining what rules gets adopted and how difficult it is to revise those rules. In contrast, decisions *among* multiple appellate jurisdictions develop based on the competitive strength of judicial reasoning. The latter form of developing the law is much to be preferred.

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cialized Courts, 64 N.Y.U. L. Rev. 1, 26–30 (1989); Eric Schmitt, *Judicial Shift in Patent Cases,* New York Times, Jan. 21, 1986, at D2.

[2] *See, e.g.,* William H. Burgess, *Simplicity at the Cost of Clarity: Appellate Review of Claim Construction and the Failed Promise of Cybor,* 153 U. Pa. L. Rev. 763, 764 (2004).

[3] Richard H. Stern, *Post-Sale Patent Restrictions After Mallinckrodt: An Idea in Search of a Definition,* 5 Alb. L.J. & Sci & Tech. 1, 6 (1994).

The recent case of *Merck KGaA v. Integra LifeSciences I, Ltd.,* 331 F.3d 860 (Fed. Cir. 2003), further demonstrates the difficulty of correcting bad initial decisions of a single appellate court, even when potentially subject to review in the Supreme Court. Although Judge Newman issued a blistering dissent that excoriated her colleagues for severely constraining the scope of the historic experimental use exception to patent infringement and would have held that the exception applied to the conduct at issue, *see id.* at 873–75, the Petitioner in that case studiously refused to assert that the exception applied to the conduct at issue on appeal. As noted by various law professors as amici in the Supreme Court, litigants are extremely reluctant to challenge current Federal Circuit precedents (or those of any specific appellate court) for fear of being sanctioned or of undermining the perceived strength of other challenges they might make. *See, e.g.,* Brief of Intellectual Property Professors as *Amici Curiae* in Support of Neither Party. *Merck v. Integra,* No. 03–1237 (citing *Allen Eng'g Corp. v. Bartell Indus.,* 299 F.3d 1336, 1356 (Fed. Cir. 2002)).

I have submitted on behalf of EFF and other organizations an amicus curiae brief urging the Supreme Court to reach the experimental use issue in the *Merck* case, notwithstanding Petitioner's refusal to rely on it. In this way, the Court might revise the Federal Circuit's constricted interpretations of this critically important patent law doctrine, which is causing adverse effects. But the Supreme Court may not do so in this case, and may never be presented with a case that clearly presents the issue. Correction of the law then would be denied or delayed unless and until Congress codifies a revision. For this reason, the National Academy of Sciences, the American Intellectual Property Law Association, and the American Bar Association have all proposed that Congress act to reverse the Federal Circuit's erroneous interpretations of this patent law doctrine.

The path dependence of legal interpretation reinforces the need to assure that exclusive jurisdiction over patent law issues is not vested in a single appellate court. As demonstrated above in regard to willful infringement, exhaustion, and experimental use issues, the effective monopoly of Federal Circuit jurisdiction over patent law interpretation has delayed and may prevent correction of erroneous interpretations of patent law. Congress should seek to encourage such correction by making it easier to revise judge-made patent law interpretive rules over time. Further consolidating patent law interpretive jurisdiction by vesting it exclusively in a single Court of Appeals will not accomplish this beneficial objective. To the extent that this corrective function can more readily be accomplished by delegating substantive lawmaking authority to the U.S. Patent and Trademark Office, which is subject to political processes, Congress should consider that alternative (although it would simultaneously need to impose substantial measures to prevent agency capture and to correct any institutional bias within the PTO[4]).

CONCLUSION

Congress should seek a wise, not a foolish, consistency in the development of patent law by the federal Courts of Appeals. There is no need to revise the rule of *Holmes Group* by vesting exclusive jurisdiction over patent law issues in the Federal Circuit, and doing so is likely to cause affirmative damage by precluding the development of reasoned alternative interpretations of patent law. Given the potential for institutional bias on the Federal Circuit, moreover, Congress needs to preserve some remedy that permits alternative interpretations of the law to be developed. Congress also may wish to consider whether to terminate its twenty-year experiment with vesting "arising under" jurisdiction for patent law exclusively in a single Court of Appeals. Finally, Congress should seek to minimize the path dependence of patent law, so that interpretive errors are more easily corrected and so that the law can more readily respond to changed circumstances.

I thank you again for the opportunity to submit this testimony, and I would be happy to provide additional testimony on this issue and on other patent law reform issues that the Committee may address, such as the need for legislation to codify a broader experimental use exception if the Supreme Court does not revise the Federal Circuit's improper interpretations.

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[4] *See, e.g.,* Orin S. Kerr, *Rethinking Patent Law in the Administrative State,* 42 Wm. & Mary L. Rev. 127, 188 (2000); Craig A. Nard, *Deference, Defiance, and the Useful Arts,* 56 Ohio St. L.J. 1415, 1502–03 (1995).

LETTER FROM JAMES B. KOBAK, JR., TO THE SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

March 22, 2005

Subcommittee on the Courts, the Internet and
Intellectual Property
Committee on the Judiciary
U.S. House of Representatives
B-351-C Rayburn House Office Building
Washington, D.C. 20515

Gentlemen:

I understand that the Subcommittee has held hearings with respect to the jurisdiction of the United States Court of Appeals for the Federal Circuit. As I understand it, consideration may be given to proposals to reverse the decision of the Supreme Court in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.,* 535 U.S. 826 (2002). That decision held that only a claim "arising under" the patent law in an original complaint and not in a counterclaim establishes appellate jurisdiction in the Federal Circuit. I ask that this letter be added to the record of the hearing.

I believe that Congress should be cautious about such legislation, both because the need for it does not appear to be acute and because its negative effects may outweigh its positive benefits. If any change is necessary - - a case which I submit has not been made- - a much less drastic change could solve the perceived problem.

By the way of background, I have long been interested and involved in antitrust and other issues arising from acquisition, enforcement or licensing of intellectual property rights, and in the interrelation between antitrust law and intellectual property law. I primarily represent and counsel corporations that make significant investments and rely on patent and other forms of intellectual property rather than being a "plaintiff's lawyer." I thus tend to favor appropriate regard for intellectual property rights and the goals they serve.

Approximately ten years ago, I served on a task force that prepared the handbook, "*The Antitrust Counterattack in Patent Infringement Litigation*" for the ABA Section of Antitrust Law. I subsequently chaired the Intellectual Property Committee of that section for a number of years. I served on the Antitrust Section task force that prepared a report titled, "*Report on the United States Court of Appeals for the Federal Circuit*" in July, 2002, and a report on subsequent developments approximately one year ago. Those reports are available at

http: www.abanet.org/antitrust/word.docs/federalcircuit.doc and http: www.abanet.org/antitrust/comments/statusreport.pdf respectively. I also chaired a task force on the misuse doctrine and edited the handbook, "*Intellectual Property Misuse: Licensing and Litigation*." I testified on subjects related to this subject at the Federal Trade Commission hearing on intellectual property and antitrust. I have spoken about the "Federal Circuit as a Competition Law Court" before the American Bar Association, the American Intellectual Property Owners Association, the Inventors Hall of Fame and the Practicing Law Institute, among other places, and have had articles or related subjects appear in the *Antitrust Law Journal*, *Antitrust Magazine*, the *Journal of the Patent and Trademark Society*, and the *Licensing Law Journal* and the *Virginia Journal of Law and Technology*. I also teach a seminar on intellectual property and antitrust at the Fordham Law School and formerly at the University of Virginia Law School. The views I express here are purely my own and not those of my firm or any client or other entity.

The perceived problem with the result in *Holmes* is that appeals of some patent issues that may be asserted as counterclaims to non-patent complaints may be heard or decided by federal courts of appeals other than the Federal Circuit, thus potentially affecting in those few cases the goal of increased predictability and application of the expertise of a specialized court to patent issues.

This problem exists more in theory than in practice. While I do not have at hand or know of any statistics on the matter since those cited in the report last year by the American Bar Association Antitrust Section Task Force, I do not believe the incidence of cases where other courts of appeal have been called on to decide patent issues under *Holmes v. Vornado* is great.[1]

In *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988), the Supreme Court determined that any claim in a complaint that necessarily turns on questions of patent law "arises under" the patent laws and therefore falls within the exclusive appellate jurisdiction of the Federal Circuit. Under this rule, most claims that involve interpretation of patent law already fall within the exclusive appellate jurisdiction of the Federal Circuit, even when they are not pleaded as patent claims *per se*. In all these cases, all patent-related issues will continue to fall within the Federal Circuit's exclusive jurisdiction.

The only patent claims that may fall outside this jurisdiction are those pleaded for the first time as counterclaims to claims involving issues such as terms on which a patent is licensed, rather than on any question of patent law, or (as in the *Christianson* case itself) claims involving a pattern of conduct that involves actions unrelated to the patent. I do not believe that a great number of these cases have arisen or are likely to arise, and even in some of the cases that may arise the counterclaims would be permissive and could be asserted in a separate complaint subject to the exclusive jurisdiction of the Federal Circuit. Given these circumstances, cases

[1] These observations also apply to the stated problem of state courts exercising jurisdiction over patent claims in state court litigation. There appears to be only one example of this "problem" ever having occurred and it involved copyright issues. To the extent this situation might recur it could be eliminated by vesting exclusive jurisdiction of any patent or copyright claims in the federal courts. This issue has nothing to do with a sensible allocation of cases between the coordinate federal courts of appeal.

where another federal court of appeals will have jurisdiction of the appeal of the patent counterclaim should be exceedingly rare. In those rare cases there is every reason to believe that other federal courts of appeal will follow the precedent and analysis of the Federal Circuit so that the extent of any real problem seems likely to be vanishingly small.

To the extent a cure for this limited problem is needed, it could easily be accomplished through a provision requiring or permitting the purely patent law issues that may go to other courts of appeal as part of non-patent cases to be certified for decision to the Federal Circuit, just as a federal court of appeals may certify a question of state law to the highest court of a state. The Federal Circuit could then apply its experience and precedent to core patent issues.

The consequences of attempting to solve this limited problem by reversing *Holmes* and allocating jurisdiction over all issues exclusively in the Federal Circuit simply because a case contains a patent counterclaim are much greater and more uncertain. If the pre-*Holmes* approach of the Federal Circuit is reinstated, the Federal Circuit will have exclusive appellate jurisdiction over a variety of cases with respect to which patent counterclaims may be (and historically have been) asserted. These non-patent issues include issues under antitrust law, contract law, the Lanham Act, and copyright law, among many others. The prevalence of these cases would in all likelihood be much greater than the prevalence of the few cases where patent counterclaims may go to other circuits under *Holmes*.

The Federal Circuit has shown a propensity to apply its own law to issues involving patents- - not only those directly involving questions of interpretation of patent law or procedure such as *Walker Process* fraud on the patent office claims but also those with a much less specific connection to issues of patent law interpretation and procedure. Examples of the latter include the question of under what circumstances if any, antitrust law may impose a duty to license or sell items produced under a concededly valid patent; (*In re Independent Services Organization Antitrust Litigation*, 203 F. 3d 1322 (Fed. Cir. 2000)), and questions of the interrelation of patent law with other important federal statutes, such as the Lanham Act. If *Holmes* is reversed, the Federal Circuit will hear and decide many such issues where it does not have any special competence and will not have the ability to develop a consistent body of precedent to guide the district courts. The Federal Circuit will also have to struggle with applying other circuits' precedent to the non-patent related issues raised by the non-patent complaint in these cases.

It makes sense for the Federal Circuit to hear exclusively and develop the precedent applicable to claims such as *Walker Process* or sham litigation claims involving patents because these claims involve questions of patent validity, patent interpretation and acceptable behavior in prosecution of patents. The Federal Circuit retains jurisdiction of virtually all such claims under *Christianson*, no matter how they are pleaded.

The same logic does not apply to claims where a patent happens to be the subject of a contract or other dispute but no question of patent validity, interpretation or procedure is involved. The type of anomaly that may be presented is illustrated by the *Independent Services* case, *supra*, in which the Federal Circuit applied its own law to a refusal to license concededly

valid and infringed patent claims but had to interpret and apply the law of the regional circuit to the identical duty to deal question involving copyrights.

The Federal Circuit's pronouncements on issues such as antitrust law may or not fit comfortably with the other antitrust precedent of a given regional circuit or with developments in the law generally outside the patent area. This anomaly can cause difficulties of interpretation for lower courts as well as practitioners and clients striving to follow the law. (Unlike some antitrust lawyers, I do not believe that many of the Federal Circuit's decisions have been incorrect or outside the mainstream of antitrust on the facts before the court in particular cases, but I have observed in classes that I teach and elsewhere that some of its statements about antitrust principles, such as the pronouncement in the *Independent Services* case that there can never be liability for use of a patent except in cases of fraud, sham litigation or tying, are capable of misinterpretation and misapplication). The same potential for confusion arises in areas where the Federal Circuit may have to harmonize another federal statute or principle of law with the patent laws, decisions of the kind the other circuit courts of appeal are routinely called on to make.

If the rule of *Holmes* is reversed, the situations in which the Federal Circuit will assume this non-patent jurisdiction will arise much more frequently than the rare occasions when the appeal of a patent counterclaim may potentially go to a regional circuit under *Holmes*. Such a change also burdens the Federal Circuit with a great many additional appeals involving issues unrelated to its areas of greatest experience.

The problem theoretically caused by the decision in *Holmes* seems relatively minor, while passing legislations to overrule *Holmes* will cause problems of its own that will occur with far more frequency in practice. If any legislative solution is called for, it would be to provide for a procedure through which the purely patent issues in the rare patent counterclaims that come before the regional circuit courts of appeal could be certified to the Federal Circuit as necessary and appropriate in the circumstances of particular case. To reverse *Holmes* is to take a step that at this point at least seems counter-productive and unnecessary.

Respectfully submitted,

James B. Kobak, Jr.

LETTER TO THE HONORABLE LAMAR SMITH, AND THE HONORABLE HOWARD L. BERMAN FROM MICHAEL K. KIRK, EXECUTIVE DIRECTOR, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCATION (AIPLA)

AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
2001 JEFFERSON DAVIS HIGHWAY • SUITE 203 • ARLINGTON, Virginia 22202

March 14, 2005

The Honorable Lamar S. Smith
Chairman
Subcommittee on Courts, the Internet
and Intellectual Property
Committee on the Judiciary
House of Representatives
Washington, DC 20515

The Honorable Howard Berman
Ranking Member
Subcommittee on Courts, the Internet
and Intellectual Property
Committee on the Judiciary
House of Representatives
Washington, DC 20515

Dear Chairman Smith and Ranking Member Berman,

I am pleased to present the views of the American Intellectual Property Law Association (AIPLA) on the important issue of exclusive Federal Circuit patent jurisdiction in light of the Supreme Court's ruling in *Holmes Group v. Vornado Air Circulation Sys.*, 535 U.S. 826 (2002). AIPLA believes that the *Holmes* case has the potential to undermine the mandate of the Federal Circuit to bring uniformity to the patent law and that a legislative adjustment is needed to prevent this from occurring.

AIPLA is a national bar association whose more than 16,000 members are primarily lawyers in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property.

Federal Circuit exclusive jurisdiction under 28 U.S.C. 1295(a)(1) extends to the final decisions of district courts where jurisdiction was based, in whole or in part, on a patent claim under 28 U.S.C. 1338, the statute defining district court jurisdiction over intellectual property cases. Section 1338(a) gives district courts original jurisdictional over "any civil action arising under" Acts of Congress relating to patents, copyrights and trademarks.

The *Holmes* Court held that Federal Circuit appellate jurisdiction may not be based on allegations in a counterclaim alone. Specifically, it ruled that Federal Circuit jurisdiction may not be based on a counterclaim for patent infringement where the complaint alleged only Lanham Act and state law violations and sought a declaratory judgment of no trade dress violation. The Court construed the phrase "arising under" in Section 1338 to preserve the plaintiff's control over its choice of forum, limit the class of cases that can be removed to federal court, and ease the administration of jurisdictional conflicts. The Court refused to adapt its "arising under" jurisprudence to the Federal Circuit's special mandate to preserve the uniformity of patent law.

AIPLA believes that this ruling and the cases applying it will seriously undermine the goal of patent law uniformity that was fundamental to creation of the Federal Circuit and will interfere with exclusive federal jurisdiction over other areas of the law. A concrete example of the *Holmes* fallout

arose in *Telecomm Technical Services Inc. v. Siemens Rolm Communications Inc.*, 295 F.3d 1249 (Fed. Cir. 2002), where the Federal Circuit transferred to the Eleventh Circuit the appeal of the plaintiff's antitrust suit which included counterclaims by the defendant for patent and copyright infringement. While the result in that case was not so dramatic (affirmance of a jury verdict on the patent and copyright counterclaims, 388 F.3d 820 (11th Cir. 2004)), a conflict is clearly around the corner on issues where the regional circuit may not agree with how the Federal Circuit has decided a particular legal question.

Regional circuits should give some degree of comity to Federal Circuit law, but obviously cannot with regard to questions on which the Federal Circuit has not yet ruled. The Federal Circuit commented on this risk of conflict in *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341 (Fed. Cir. 2004), *cert. granted* 2/28/05 on an unrelated issue. In footnote 3 of the opinion, the court recognized that regional circuits considering patent counterclaims "will have to decide whether to apply Federal Circuit law or risk disturbing Congress's goal of ensuring patent-law uniformity by applying its own law."

Far more troubling, however, is the prospect that state courts will now begin to decide patent and copyright counterclaims, as suggested by the Indiana Supreme Court ruling in *Green v. Hendrickson Publishers, Inc.*, 770 NE2d 784 (Ind. 2002). The specific holding in *Green* was that, under *Holmes*, state courts are entitled to decide copyright counterclaims that arise out of preempted contract claims.

The dispute in the case was between a publisher and its authors, where the publisher sued the authors in state court for payments on books, and the authors counterclaimed for copyright infringement. Although the case was initially removed to federal court based on the copyright counterclaims, the district court remanded on the grounds that federal jurisdiction cannot be created by counterclaims. The authors amended their counterclaims to allege breach of contract, but the Indiana Supreme Court concluded that the contract claims were preempted. Because the preemption ruling requires the contract claim to be treated as a copyright claim, the issue was whether such a claim could be decided by a state court.

The Indiana Supreme Court concluded that the ruling in *Holmes* regarding patent counterclaims dictated that state courts would properly have jurisdiction of the copyright counterclaim. It observed that "*Holmes* teaches that what Congress said—not what it intended—is controlling here: 'Our task here is 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.' … Accordingly, we think *Holmes* requires us to reject the federal authorities stating or implying that a state court may not entertain a counterclaim under patent or copyright law."

As this quoted passage suggests, the *Holmes* ruling threatens not only the prerogative of the Federal Circuit to manage patent law among federal appellate courts, but also the exclusive *federal* control of patent law. This interpretation of *Holmes* undermines the clear intent of the Federal Courts Improvement Act of 1982. AIPLA believes that this result, which permits parties to subvert the intent of Congress through artful pleading and forum shopping, must be corrected to restore the primacy of Congressional intent.

At the same time, AIPLA recognizes that it was undoubtedly forum shopping that led to the result in *Holmes*. At the heart of that case was a conflict between the Tenth Circuit and the Federal Circuit as to where trade dress rights leave off and patent rights begin. The Tenth Circuit had refused to enforce trade dress rights in a fan configuration that corresponded to the claims of an

expired patent. The Federal Circuit later rejected the Tenth Circuit rationale. Holmes Group brought suit in Kansas to get the benefit of the Tenth Circuit trade dress precedent. Vornado asserted a patent counterclaim to get the case before the Federal Circuit in order to benefit from its trade dress precedent. The Federal Circuit accepted the appeal under its decision in *Aerojet-General Corp. v. Machine Tool Works*, 895 F.2d 736 (Fed. Cir. 1990), that jurisdiction may be based on a compulsory counterclaim, which was extended to permissive counterclaims in *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999).

While AIPLA believes that control over the interpretation of patent law needs to be clearly restored to the Federal Circuit, we do not desire a system that can be manipulated by patent owners to direct to the Federal Circuit non-patent claims that are properly under the control of regional circuit law. It would not be an improvement to adopt a system that a defendant can abuse by filing a purely permissive counterclaim for patent infringement in a case where the complaint has absolutely nothing to do with the patent or the right to make a product possibly covered by the patent. There is no justification in such a situation for permitting the defendant to trump the plaintiff's choice of forum, especially where the defendant could have filed a separate action for patent infringement. Thus, we believe the proper balance between these interests is struck by returning the law to the *Aerojet* doctrine mandating Federal Circuit jurisdiction over compulsory patent counterclaims without the extension to permissive patent counterclaims.

Accordingly, AIPLA endorses the proposal of the Federal Circuit Bar Association to amend 28 U.S.C. 1338(a). In addition, however, we would propose that 28 U.S.C. 1295 be amended to limit the Federal Circuit's jurisdiction in patent matters to patent infringement claims and compulsory counterclaims. With such amendments, permissive counterclaims relating to patents made in cases outside the exclusive jurisdiction of the Federal Circuit would remain within the jurisdiction of the regional appellate court where the case was brought. This would leave untouched the precise holding of the Supreme Court in *Holmes*, but would ensure that all patent cases would be heard in federal courts, not state courts. It would also continue the thrust of the Supreme Court's ruling that would preclude the possibility of forum shopping in non-patent cases on the basis of a permissive counterclaim relating to patents filed by a defendant.

We appreciate the opportunity to offer the views of the AIPLA, and are prepared to assist the Subcommittee in any way we can as it considers this matter.

Sincerely,

Michael K. Kirk
Executive Director

STATUS REPORT ON DEVELOPMENTS RELATING TO THE JURISDICTION OF THE UNITED SATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT SUBMITTED BY THE HOLMES GROUP TASK FORCE, INTELLECTUAL PROPERTY COMMITTEE, SECTION OF ANTITRUST LAW, AMERICAN BAR ASSOCIATION, AND A REPORT ON THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL COURT, SECTION OF ANTITRUST LAW, AMERICAN BAR ASSOCIATION

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

HOLMES GROUP TASK FORCE
INTELLECTUAL PROPERTY COMMITTEE
SECTION OF ANTITRUST LAW
AMERICAN BAR ASSOCIATION

JANUARY, 2004

I. Executive Summary and Introduction

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

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

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

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

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

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

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

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[3] 535 U.S. 826 (2002).

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

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

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

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

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

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

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

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

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

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

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

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

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8 Holmes Group, 535 U.S. at 828.
9 *Id.*
10 *Id.*
11 *Id.*
12 *Id.* at 829.
13 *Id.*
14 *Id.*
15 *Id.* at 829-34.

Circuit has exclusive jurisdiction over "an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on Section 1338."[16] Thus, the Federal Circuit's appellate jurisdiction, the Court held, is wholly derivative of the district court's jurisdiction under 28 U.S.C. § 1338.[17]

The operative language of Section 1338 grants the federal district courts original and exclusive jurisdiction over "any civil action arising under any Act of Congress relating to patents . . . . Such jurisdiction shall be exclusive of the states in patent . . . cases." Affirming its previous decision in *Christianson v. Colt Indus. Operating Corp.*,[18] the Court held that the term "arising under" in Section 1338, like the term "arising under" in the statute granting federal question jurisdiction, 28 U.S.C. § 1331, required patent claims to appear on the face of a well-pleaded complaint in order to grant the district courts or, by extension, the Federal Circuit jurisdiction.[19] According to the Court, "[i]t follows that a counterclaim—which appears as part of the defendant's answer, not as part of the plaintiff's complaint—cannot serve as the basis for 'arising under' jurisdiction."[20] Because Federal Circuit jurisdiction was predicated solely on a patent counterclaim, the Court reversed the decision of the Federal Circuit and remanded with an instruction to transfer the appeal to the Tenth Circuit.[21]

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

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16 28 U.S.C. § 1295(a)(1).

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

18 486 U.S. 800 (1988).

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

20 *Id.* at 831.

21 *Id.* at 832.

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

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

III. Pending Legislative Efforts and Policy Positions

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

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

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

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

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

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

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

A. ABA Intellectual Property Section Position

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

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

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

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

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

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

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

B. Federal Circuit Bar, Ad Hoc Committee Position

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

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

30 *Id.*

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

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

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

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

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

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33 *Id.* at 715.

34 *Id.*

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

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

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

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

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

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38 *Id.* at 716.

39 *Id.* at 717-18.

40 *Id.* at 714.

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

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

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

C. Proposals in the Literature By the Commentators

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

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

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

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

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

47 *Id.*

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

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

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

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

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48 *Id.* at 308.
49 *Id.* at 308.
50 Rogers, *supra* note 44, at 462-63.
51 *Id.* at 463.
52 *Id.*
53 *Id.* at 465.
54 *Id.*

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

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

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

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[55] *Id.* at 465-66.

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

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

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

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

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

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

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

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

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

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

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

62 *Id.* at 787.

63 *Id.*

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

65 *Id.* at 788.

66 *Id.* at 790.

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

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

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

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67 *Id.* at 793.

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

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

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

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

V. Analysis

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

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

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

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

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

74 *Id.* at 17-18.

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

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

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

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

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

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

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

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

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

80 Christianson, 486 U.S. at 809.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

95 *Id.* at 433-34.

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

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

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

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

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

99 *Id.*

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

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

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

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

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

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

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

102 *See* Cotropia, *supra* note 44, at 298; *see also* Mueller, *supra* note 56, at 69 ("that the number of cases in which the regional circuit courts of appeal will now, post *Holmes Group*, be obliged to decide patent law causes of action is most likely few in number.").

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

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

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

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

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

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

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

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

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

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

There is one more question lurking in the background: is absolute uniformity a desirable goal? Many members of the antitrust bar, for instance, believe that permitting antitrust issues to "percolate" through the regional circuits helps to make the antitrust law stronger. The law often benefits from being exposed to a diversity of viewpoints. For example, the conflict between the Federal Circuit and Ninth Circuit standards in refusal to license cases illuminates differing perspectives on the scope of the patent holder's rights.[107] That conflict does not appear to have induced a race to the courthouse. As Justice Stevens explained in his concurrence in *Holmes Group*, "[a]n occasional conflict in decisions may be useful in identifying questions that merit this Court's attention. Moreover, occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias."[108]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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113 28 U.S.C. § 1338.

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

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

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

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

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

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

F. The Effect of Holmes on FTC Administrative Enforcement

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

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

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

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

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[119] *See id.* at 59-60.

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

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

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

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

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

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122 *Id.* at 63-64.

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

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

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

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

G. Legislative Proposals

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

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

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

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

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

Respectfully Submitted,

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

REPORT ON THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL COURT

Section of Antitrust Law
American Bar Association
July, 2002

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PREFACE

As chair of the Section of Antitrust Law, I am pleased to offer this *Report on the United States Court of Appeals for the Federal Circuit*. The Task Force has produced an even-handed discussion of the role of the Federal Circuit, a topic that often engenders controversy. The *Report* is not offered in support of any position. It is offered in the belief, which was endorsed by the Council of the Section of Antitrust Law, that a publication of this type will increase the knowledge of all those interested in the Federal Circuit and its antitrust rulings.

The *Report* details the formation of the Federal Circuit and Congress' vision for that court, traces the reach of the court's appellate jurisdiction through the Supreme Court's June 2002 decision in *Holmes v. Vornado*, and identifies the key areas where the Federal Circuit has developed its own law rather than follow the law of the regional circuits.

The Federal Circuit stands at an important place near the crossroads of antitrust law and intellectual property law. This comprehensive history will provide a reference source for all participants in the discussion over the past and future role of the Federal Circuit.

The Section is indebted to the members of the Task Force for their many hours of hard work. To George Gordon, who chaired the Task Force, James Kobak, Suzanne Michel, Harvey Saferstein, and Scott Stempel, who served on the Task Force, Will Tom, who reviewed the Task Force's report, and Howard Morse, the Chair of the Intellectual Property Committee, who formed the Task Force and shepherded the Task Force's report from beginning to end, the Section expresses its appreciation.

Roxane C. Busey
Chair, 2001-2002

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Introduction and Summary Overview[1]

Few areas of antitrust law have sparked as much intense debate as the interface between antitrust and intellectual property. Among the areas of current controversy are the conditions under which intellectual property holders may refuse to license rivals, the terms under which parties may settle patent infringement litigation and how intellectual property assets should be treated in the context of merger analysis. These and other intellectual property-antitrust issues are merely the most recent manifestations of a long-standing debate on the appropriate relationship between these two areas of law. At one end of the spectrum is a view that antitrust rules should never interfere with the ability of intellectual property owners to do what they want with their property. At the other end is a view that antitrust law should be employed to circumscribe the scope of an inherently anticompetitive bundle of rights. Most courts, commentators and practitioners fall somewhere along a spectrum between these two extremes. Indeed, the more recent trend in the courts, and at the agencies, is to treat intellectual property as similar to other forms of property and not view it as conferring a monopoly or any special privileges under the antitrust laws.

The Court of Appeals for the Federal Circuit ("CAFC" or "Federal Circuit") has become an important participant in this long-running intellectual property-antitrust debate. The Federal Circuit's importance in this area of the law has increased significantly as a result of the court's recent jurisprudence on its own jurisdiction and choice of law rules. The Intellectual Property Committee of the ABA's Antitrust Section established a Task Force to study the consequences of these developments in Federal Circuit law for antitrust law. When Federal Trade Commission

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[1] The Task Force wishes to acknowledge the invaluable contributions of Alison Donahue Kehner, Hima Mallampati and Noel Paladin-Tripp in preparing this Report.

Chairman Timothy J. Muris identified the "Federal Circuit's substantive impact on competition law" as one of the topics that the Federal Trade Commission and the Department of Justice would consider during the agencies' hearings on intellectual property - antitrust issues,[2] the Task Force began to prepare this Report for submission in connection the hearings. Our hope is that the Report will contribute to the agencies' efforts to assess the significance and consequences of the Federal Circuit's increasing role in shaping antitrust law.

The idea behind the Task Force's study of the role of the Federal Circuit in developing antitrust law was sparked in large part by a statement in the amicus curiae brief of the United States opposing certiorari in *CSU, LLC v. Xerox Corp.*, 203 F.3d 1322 (Fed.Cir. 2000), suggesting that "the Court allow the[] difficult issues [in that case] to percolate further in the Courts of Appeals." There was a perception among some observers that -- given the Federal Circuit's expanding view with respect to its own jurisdiction -- regional courts of appeals might never consider the patent-antitrust issues raised in *CSU* and other cases. That is, rather than percolate in the various courts of appeals, future cases would likely all be heard by the Federal Circuit. Given the limited number of cases that the Supreme Court reviews, particularly with the absence of a circuit court split, instead, the Federal Circuit may be as a practical matter the court of last resort and may set antitrust policy at the antitrust-intellectual property interface. Indeed, to date, the Supreme Court has reviewed no Federal Circuit decisions involving antitrust issues, highlighting the Federal Circuit's importance in developing antitrust law.

During the course of the Task Force's work, the Supreme Court granted certiorari and addressed the scope of the Federal Circuit's jurisdiction in *Holmes Group, Inc. v. Vornado Air Circulation Sys. Inc.*, 122 S. Ct. 1889 (2002) . In *Holmes*, the Court held that the Federal Circuit

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[2] Prepared Remarks of Chairman Timothy J. Muris before the American Bar Association, Antitrust Section Fall Forum, Washington DC, November 15, 2001.

does not have jurisdiction over appeals in cases in which the patent claim is raised in a counterclaim as opposed to the complaint. While that case did not involve an antitrust claim, its effect on the Federal Circuit's role in the development of antitrust law is potentially significant. Because it is so recent, however, the effect of this holding on the Federal Circuit's role in the development of antitrust law remains to be seen.

This Report is primarily intended to educate and inform the agencies and the bar regarding the development of the Federal Circuit law on jurisdiction and choice of law. To that end, the Task Force Report is organized in three sections. The first section provides an overview of the history of the creation of the Federal Circuit, including the legislative history regarding Congress' intent in creating the court. The legislative history reveals that Congress intended the Federal Circuit's jurisdiction to be narrowly circumscribed, but also anticipated that, in certain circumstances, the court would consider appeals related to antitrust issues. From the legislative history, it can be argued that Congress contemplated that the Federal Circuit might have some role in shaping antitrust law -- in particular where antitrust claims are based on patent prosecution practices or certain types of licensing practices -- but that Congress also expected the court to zealously guard against the expansion of that role beyond areas implicating the development of patent law.

The second section summarizes the current state of the law on Federal Circuit jurisdiction. It begins by examining the Supreme Court's decision in *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988), and then looks at the Federal Circuit cases related to its appellate jurisdiction over certain cases in the following circumstances: (1) where there is a patent claim combined with a non-patent claim or counterclaim; (2) where a patent claim was raised as a counterclaim in a non-patent case; (3) where patent claims were dismissed or withdrawn; (4) where patent claims and non-patent claims were separated for trial under Fed.

R. Civ. P. 41(b); and (5) where a partial final judgment under Fed. R. Civ. P. 54(b) was entered. Section II also discusses jurisdictional issues in cases involving non-patent claims that necessarily depend upon the resolution of a substantial question of patent law, such as cases involving contract disputes relating to patents and false statements regarding patent rights. The section concludes with a discussion of the Federal Circuit's jurisdiction to review orders of the Federal Trade Commission.

The third and final section explores the development of the Federal Circuit's choice of law rules in antitrust cases (and the Federal Circuit's antitrust jurisprudence) both before and after *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998), in which the court held that it would apply its own law to "an antitrust claim premised on stripping a patentee of its immunity from the antitrust laws." In examining the pre-*Nobelpharma* cases, the Report discusses the fact that the Federal Circuit had the opportunity to "make" antitrust law long before its decision in *Nobelpharma*. In particular, it focuses on Federal Circuit cases in which there was no regional circuit law on the particular issue, and cases in which the court simply followed its own precedent rather than applied the law of the regional circuit. In addition, the section also discusses antitrust claimants' relatively poor record before the Federal Circuit and whether that record reveals an antipathy toward antitrust principles or simply the weakness of the antitrust theories involved. The third section concludes with an analysis of the Federal Circuit's treatment of antitrust issues after *Nobelpharma* and reviews a number of decisions that flesh out the court's view of antitrust law and its ability to apply its own law to key issues, including *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), *Midwest Industries, Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999), *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346 (Fed. Cir. 1999), and *CSU v. Xerox*, 203 F.3d 1322 (Fed. Cir. 2000).

Whether or not one agrees with the outcome of these cases, one thing is clear: the Federal Circuit is having an impact on the development of antitrust law. That impact is the result of the combined effect of the court's expanding view of its own jurisdiction and its decision to develop a body of Federal Circuit antitrust law on patent-antitrust issues. While the Supreme Court in *Holmes* may have limited the Federal Circuit's jurisdiction, the Federal Circuit's influence on the development of antitrust law will undoubtedly continue to be significant.

Discussion

I. The Creation of the Court of Appeals for the Federal Circuit

A. The Predecessors Of The Federal Circuit

In 1982, Congress passed the Federal Courts Improvement Act ("FCIA"). Among other important changes to the federal court system, the FCIA created a new court--the United States Court of Appeals for the Federal Circuit.[3] As described by the Honorable Howard T. Markey, former Chief Judge of the CAFC, the court "rose from the ashes of two former courts"--"the 127 year old United States Court of Claims and the 73 year old United States Court of Customs and Patent Appeals [CCPA]."[4]

Prior to the merger of these two courts into the CAFC, the primary responsibility of the CCPA was to decide appeals from decisions of the Patent and Trademark Office concerning applications for patents and trademark registrations.[5] The CCPA also had jurisdiction over appeals from decisions of the Court of International Trade (formerly the Customs Court), which related primarily to actions against the federal government under the Tariff Act, and appeals from the United States International Trade Commission. The Court of Claims, in turn, primarily exercised jurisdiction over a variety of types of claims brought against the United States for

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[3] Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982). Additionally, the FCIA created the Claims Court from the trial division of the former Court of Claims, created modernized procedures for that court, authorized the transfer of cases and appeals between federal courts to cure jurisdictional defects, provided a uniform interest rate on judgments, and made several reforms in the administration of federal courts. *See id.; see also* Charles W. Adams, *The Court of Appeals for the Federal Circuit: More than a National Patent Court*, 49 Mo. L. Rev. 43, 44 (1984) (describing other aspects of FCIA).

[4] United States Judicial Conference Committee on the Bicentennial of the Constitution of the United States, *United States Court of Appeals for the Federal Circuit: A History 1982-1990*, at 1 (1991) [hereinafter "*History of the CAFC*"].

[5] John B. Pegram, *Should There Be a U.S. Trial Court with a Specialization in Patent Litigation?*, 82 J. Pat. & Trademark Off. Soc'y 765, 770-71 (2000).

compensation, including actions seeking compensation for use or manufacture of a patented invention by or for the United States.[6]

Although the CAFC inherited the jurisdiction of the United States Court of Claims and the CCPA, its jurisdictional grant was broader than that of its predecessor courts. As one of its new responsibilities, Congress granted the CAFC jurisdiction over appeals from final decisions of the federal district courts in patent cases where the trial court's jurisdiction "was based, in whole or in part," on 28 U.S.C. § 1338.[7] Thus, Congress granted the newly created CAFC exclusive appellate jurisdiction over patent cases that were previously heard by the regional circuit courts of appeals.

This grant of exclusive appellate jurisdiction limited by subject matter rather than geography was, by far, the most significant and controversial aspect of the FCIA. Indeed, long before Congress created the CAFC in 1982, the idea of creating a specialized court of appeals with nationwide jurisdiction was the subject of much debate among legislators, jurists and members of the bar. As one commentator noted at the passage of the FCIA in 1982, "the idea of a single court for patent cases is far from a new idea."[8]

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6 *Id.; see also* Lionel M. Lavenue, *Survey of Government Contract Cases in the United States Court of Appeals for the Federal Circuit: 1997 in Review*, 47 Am. U. L. Rev. 1393, 1489 n.24 (1998) (noting that Congress first created Court of Claims in 1855 to provide a forum in which a party could sue the United States on a contract claim).

7 28 U.S.C. § 1295(a)(1).

8 Jack Q. Lever, Jr., *The New Court of Appeals for the Federal Circuit (Part I)*, J. of Patent Off. Soc'y 178, 186 (Apr. 1982).

B. **The Early Thinking On A National Court Of Appeals**

The CAFC's modern roots can be traced to the early 1970's,[9] when it became apparent to many that the Supreme Court's overcrowded docket made it impossible for the Court to hear and resolve many important cases involving inter-circuit conflicts. In 1971, Chief Justice Burger appointed a study group -- the "Freund Committee" -- to consider the problems caused by the Supreme Court's growing caseload and to propose possible reform measures.[10] The Committee ultimately proposed that Congress create a National Court of Appeals that would be responsible for screening all petitions for certiorari, approving certain cases for Supreme Court review, deciding certain cases involving inter-circuit conflicts, and denying review in the remainder of cases.[11] Among alternatives to forming a National Court of Appeals, the Committee considered but rejected creating specialized courts of appeal to eliminate congestion of the Supreme Court's docket.[12]

Although Congress ultimately did not act on the Committee's controversial recommendations, its findings sparked further interest in the problems inherent in the structure of the federal court system. In 1972, Congress created the Commission on Revision of the Appellate System (hereinafter "the Hruska Commission") and empowered it to "study the structure and internal procedures of the Federal courts of appeal system" and to issue a report to

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9 For a recent historical overview of the Federal Circuit tracing its history back to 1887, *see* Paul M. Janicke, *To Be Or Not To Be: The Long Gestation Of The U.S. Court Of Appeals For The Federal Circuit (1887-1982)*, 69 Antitrust L.J. 645 (2002).

10 The Committee was named after its chairman, Professor Paul A. Freund of Harvard Law School. *History of the CAFC*, *supra* note 4, at 3.

11 *Id.*; Federal Judicial Center, *Report of the Study Group on the Caseload of the Supreme Court*, 57 F.R.D. 573, 590-95, 611 (1972).

12 Notably, the Freund Committee did not address specifically the idea of a specialized patent court. Lever, *supra* note 8, at 187, n.33.

Congress.[13] The Hruska Commission found that the then-current structure of the federal court system and the overcrowded Supreme Court docket caused inter-circuit conflicts and virtually no opportunity to provide national uniformity in many complex areas of the law.[14] It specifically noted that in the area of patent law, "the lack of definitive declaration of national law," and the resultant forum shopping, was "particularly acute."[15] Based on the results of a survey of patent attorneys, the Commission's patent consultants concluded:

> Our collective experience over the 20 years or so each of us has been active in the field led us to believe that the lack of uniformity in decisions on patent-related issues has been a widespread and continuing fact of life. This study merely confirms our judgment that it has been and continues to be a problem. The inevitable consequence of this fact is that patent owners and alleged infringers spend inordinate amounts of time, effort and money jockeying for a post position in the right court for the right issues. . . . Patentees now scramble to get into the 5th, 6th and 7th Circuits since the courts there are not too inhospitable to patents whereas infringers scramble to get anywhere but these circuits. Such forum shopping not only increases litigation costs inordinately and decreases one's ability to advise clients, it demeans the entire judicial process and the patent system as well.
>
> It is our view that the principal cause of circuit-to-circuit deviations in the patent field stems from a lack of guidance and monitoring by a single court whose judgments are nationally binding. . . . The Supreme Court is simply just too busy to perform anything even resembling a monitoring function on patent-related issues.[16]

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13 Pub. L. No. 92-489, 86 Stat 807, *amended by* Pub. L. No. 93-420, 88 Stat. 1153.

14 Comm'n on Revision of the Federal Court Appellate System, *Structure and Internal Procedures: Recommendation for Change*, 67 F.R.D. 195 (1975).

15 *Id.* at 220. The Commission studied other areas of the law, including antitrust, but the problems identified in the area of patent law were most acute.

16 *Id.* at 370. The Commission's patent law consultants were Professor James B. Gambrell of New York University Law School and Donald R. Dunner, Esq., of Washington, D.C.

Ultimately, the Commission proposed that a generalized National Court of Appeals could correct the legal uncertainty created by inter-circuit conflicts and fill the void left by the Supreme Court's inaction in the "complex field" of patent law.[17]

The Hruska Commission also considered an alternative proposal to form a specialized court of patent appeals to eliminate the lack of uniformity in the patent law and the opportunity for forum shopping. It determined, however, that specialized courts "would not be a desirable solution either to the problems of the national law or . . . to the problems of regional court caseloads."[18] The Commission noted the perceived disadvantages to forming a specialized patent court, including the lack of regional influence in complex matters, the potential for judges to become subject to "tunnel vision" because of the narrow range of cases heard, and the possibility that jurists would "impose their own views of policy even where the scope of review under the applicable law is supposed to be more limited."[19] Although most disagreed with the Hruska Commission's proposal to establish another tier of federal appellate review, the report's findings raised awareness of the problems created by the lack of uniformity in the application of the patent laws.[20]

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17 *Id.* The Hruska Commission also appointed consultants to study, *inter alia*, the field of antitrust law and to report whether problems with uncertainty in that area of the law existed. The antitrust consultant reported "a consensus that uncertainty and inter-circuit conflict do not significantly affect antitrust cases as distinguished from other categories of legal controversies." *Id.* at 371.

18 *Id.* at 234.

19 *Id.* at 235. The Hruska Commission cited other downsides to forming a specialized court, including the possibility that there would be a reduced incentive to produce a thorough and persuasive opinion, the possibility that the court would lack the prestige associated with regional circuits, and the fact that the advantages of decision-making by generalist judges would diminish. *Id.*

20 *See* History of the CAFC, *supra* note 4, at 4.

The next significant step toward the creation of the CAFC came in 1978, when the Justice Department issued a memorandum from the Office for the Improvements in the Administration of Justice ("OIAJ").[21] Drawing on the previous studies on the subject, the memorandum proposed for the first time the creation of a specialized court of appeals that would be on the same level as the regional courts of appeals by merging the Court of Claims and the CCPA.[22] The memorandum proposed that the new court of appeals would retain the appellate jurisdiction of its predecessor courts, and would also exercise exclusive appellate jurisdiction in civil tax, environmental and patent cases.

It also proposed that, unlike the regional circuits, the jurisdiction of the newly created court of appeals would be limited by subject matter rather than geography. The Justice Department eventually modified its proposal to eliminate the CAFC's exclusive jurisdiction in tax and environmental cases. In February 1979, President Carter appeared before Congress and announced his support for legislation to create the CAFC.[23]

C. The Legislation And Congressional Debates

During 1979, the Senate and House of Representatives responded to the Carter Administration's proposal and considered legislation regarding the formation of the CAFC. Senate bills S. 677 and S. 678 proposed the creation of an additional court of appeals that would

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[21] The OIAJ was created during the Carter administration by Attorney General Griffin B. Bell.

[22] Adams, *supra* note 3, at 60. The OIAJ developed its proposal by considering the criticisms of the reports by the Hruska Commission and the Freund Committee. Specifically, the OIAJ's proposal sought to, inter alia, avoid the creation of a fourth tier to the federal judicial system, avoid undue specialization of judges, maintain the prestige of other courts, preserve the availability of Supreme Court review, and minimize jurisdictional disputes. *Id.*

[23] *History of the CAFC*, *supra* note 4, at 5; *see also* Lever, *supra* note 8, at 192 n.42 (citing 125 Cong. Rec. H. 911, daily ed.).

exercise exclusive jurisdiction over patent and trademark appeals.[24] After hearing extensive testimony on the subject, the Senate Subcommittee on Courts revised the bills and reintroduced S. 1477, which was similar in most respects to S. 677 and S. 678 except that it eliminated the previous grant of exclusive jurisdiction over trademark appeals.[25] Similarly, members of the House of Representatives introduced H.R. 3806, which also proposed the formation of the CAFC.[26] While the Senate and House conference committee reached a compromise between S. 1477 and H.R. 3806, the compromise version ultimately was withdrawn because of a proposal to add an unrelated amendment to the bill.[27]

The following year, legislators again introduced bills into the Senate and House of Representatives to establish the CAFC. The Senate Subcommittee on the Courts held extensive hearings on S. 21, which contained substantially the same provisions as S. 1477 from the previous year.[28] Similarly, the House Subcommittee on the Courts held hearings on the House's counterpart to S. 21, H.R. 4482.[29] Interested parties presented virtually the same testimony and arguments at the hearings before both houses of Congress. Additionally, many of the witnesses had offered their views in connection with previous proposed legislation and the studies performed by the Hruska Commission and the Freund Committee.

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24 The Judicial Improvement Act of 1979, S. 677, 96th Cong. (1979); S. 678, 96th Cong. (1979); *see also* Lever, *supra* note 8, at 192.

25 S. 1477, 96th Cong. (1979); *see also* Lever, *supra* note 8, at 194.

26 Court of Appeals for the Federal Circuit, H.R. 3806, 96th Cong. (1979); *see also* Lever, *supra* note 8, at 195.

27 Lever, *supra* note 8, at 195-96 & n.51; *History of CAFC*, *supra* note 4, at 6.

28 S. 21, 97th Cong. (1981).

29 H.R. 4482, 97th Cong. (1981).

Testimony during the Senate and House hearings focused on the problems created by the differences between the various regional circuits' application of patent law, the risks of establishing a specialized court of appeals and, in particular, the extent to which a specialized patent court would have jurisdiction over non-patent issues, including antitrust issues. Relying extensively on the Hruska Commission report, supporters of the legislation observed that the inter-circuit conflicts greatly increased the expense of litigation because of the forum shopping that occurred.[30] They also noted the more fundamental concern that the lack of uniformity in the application of the patent laws impacted business planning, as patent holders could not determine with any reasonable degree of certainty the extent of their legal rights in an invention because the scope of those rights depended, in large part, on geography.[31] By centralizing patent appeals, supporters believed that business planning would become easier "as more stable and predicable patent law is introduced."[32]

Based on the evidence presented, the House Report declared that the central purpose of the legislation was "to reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist in the administration of patent law."[33] Similarly, the Senate Report noted the "special need for uniformity" in the area of patent law and stated that the FCIA "provides a new forum for

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30 *E.g.*, H.R. Rep. No. 97-312, at 21-22 (1981) [hereinafter "House Report"].

31 *Id.* In this regard, Former Secretary of Commerce Philip M. Klutznick testified that "[d]ecisions to file patent applications and to invest in commercializing inventions would be improved meaningfully as a result of the greater uniformity and reliability made possible." *Id.*; *see also History of the CAFC*, *supra* note 4 at 11 (noting that "if an inventor could not be sure that his patent rights would be respected in the marketplace, or enforced in the courts, he was deprived of important incentives to research and development").

32 House Report, *supra* note 30, at 23.

33 *Id.* The House Report also noted the additional advantage that the CAFC would reduce the workload of the regional circuits, although "case management was not the primary goal of the legislation." *Id.*

the definitive adjudication of selected categories of cases."[34] Notably, however, the Senate Report clearly indicated that the Judiciary Committee did not intend for the CAFC's jurisdiction to extend beyond the subject matter for which it was created. The Report stated that "[t]he committee has determined that an adequate showing has been made for nationwide subject matter jurisdiction in the areas of patent and claims court appeals. It must be understood, however, that it is not the committee's judgment that broader subject matter jurisdiction is intended for this court."[35]

Opponents of the legislation argued primarily that the creation of a specialized court was not an appropriate solution to the problems associated with patent litigation.[36] Citing the criticisms voiced in the Hruska report, many argued that: (1) judges in a specialized court would take "too limited a view toward the development of the law," *i.e.*, develop "tunnel vision" that would decrease development of new ideas; (2) judges would impose their own views of policy; (3) there would be a reduced incentive to produce persuasive and thorough opinions; (4) regional influence would be diluted; (5) judges could be influenced more readily by special interest groups and become "pro-patent" or "anti-patent," with limited opportunities to correct any such bias because the decision-making power would be centralized; and (6) the creation of a specialized

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[34] S. Rep. No. 97-275 at 4 (1981), 1982 U.S.C.A.A.N. 30, 44-45 [hereinafter "Senate Report"].

[35] *Id.*

[36] *E.g.*, *id.* at 40-41 (additional views of Senator Max Baucus on the FCIA). Opponents also questioned whether the problems of forum shopping and inter-circuit conflict were as serious as the proponents of the legislation had claimed. *E.g.*, House Report, *supra* note 30, at 147 (Dissenting Views of F. James Sensenberger) (stating that "[p]roponents of H.R. 4482 have not demonstrated persuasively that there is a serious problem with conflicts between the circuits in those areas of substantive law that would be assigned to this new court"); Lever, *supra* note 8, at 200-01.

court would "remov[e] [the] patent system from legal mainstream."[37] Interestingly, echoes of this criticism can be heard in Justice Stevens' concurrence in Holmes:

> An occasional conflict in decisions may be useful in identifying questions that merit this Court's attention. Moreover, occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias.

Holmes, 122 S. Ct. at 1898.

The House Report responded to these concerns as follows:

> By combining the jurisdiction of the two existing courts along with certain limited grants of new jurisdiction, the bill creates a new intermediate appellate court markedly less specialized than either of its predecessors and provides the judges of the new court with a breadth of jurisdiction that rivals in variety that of the regional courts of appeals. The proposed new court is not a "specialized court." Its jurisdiction is not limited to one type of case, or even to two or three types of cases. Rather, it has a varied docket spanning a broad range of legal issues and types of cases. It will handle all patent appeals and some agency appeals, as well as all other matters that are now considered by the CCPA or the Court of Claims. . . . ***The CCPA decides patent and customs cases from several sources, and those cases often include allegations of defenses of "misuse, fraud, inequitable conduct, violations of the antitrust laws, breach of trade secret agreements, unfair competition, and such common law claims as unjust enrichment."***[38]

The Senate Report offered a similar reply to those criticisms, adding that "[t]he judges will have no lack of exposure to a broad variety of legal problems, . . . [and] the subject matter of the new court will be sufficiently mixed to prevent any special interest from dominating it."[39]

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[37] Lever, *supra* note 8, at 203-04 & nn.72, 73 (citing various portions of legislative history of H.R. 3806, H.R. 2405, S. 677 and S. 678).

[38] House Report, *supra* note 30, at 19 (quoting statement submitted to Hruska Commission, May 20, 1974) (internal footnotes omitted).

[39] Senate Report, *supra* note 34, at 6.

Opponents of the legislation also voiced objection to the scope of the court's appellate jurisdiction over patent cases in the district courts. Section 1295(a)(1), as enacted, provides that "the United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction--. . . of an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title . . . ."[40] Thus, the CAFC's appellate jurisdiction under § 1295(a)(1) is defined in relation to the district court's subject matter jurisdiction over the entire action.[41]

Many believed the CAFC's jurisdictional grant was overly broad, and that the language could be construed to mean that the CAFC would exercise jurisdiction over any case in which a patent issue was raised by any party. Rather than attempting to formulate specific rules for determining the boundaries of the CAFC's jurisdiction in various situations, Congress left it to the court to develop its own standards on a case-by-case basis. Nevertheless, the Senate and House Reports provided general guidance on the issue. The Senate Report stated:

> Concern has been expressed that the [CAFC] will appropriate for itself elements of Federal law under its section 1295(a)(1) grant of jurisdiction. It has been argued that a jurisdictional grant to the new court to consider appeals from a district court when jurisdiction was based "in whole or in part," on section 1338 of title 28 (which confers on the district courts original jurisdiction of any civil action arising under an act of Congress relating to patents . . .) is too broad and ***that specious patent claims will be tied, for example, to substantial antitrust claims in order to create 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

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40 28 U.S.C. § 1295(a)(1).

41 As the House Report explains: "if the district court has jurisdiction . . . on the ground that the case arises under the patent law, the appeal in that case[] will go" to the CAFC. House Report, *supra* note 30, at 23-24.

> that courts strictly construe their jurisdiction. Therefore, the committee is confident that the present language will not pose undue difficulties.
>
> This measure . . . 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 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-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 the appeal should not be changed by this Act but should rest with the regional court of appeals.***[42]

The House Report responded similarly, adding:

> Should questions legitimately arise respecting ancillary and pendent claims and for the direction of appeals in particular cases, the Committee expects the courts to establish, as they have in similar situations, jurisdictional guidelines respecting such cases. Whatever form such guidelines for particular cases may take, the proposal would continue to provide a consistent jurisprudence and a uniform body of patent law created over time by the Court of Appeals for the Federal Circuit, . . . or the Supreme Court.
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> Paragraph (1) of new section 1295(a) gives the Court of Appeals for the Federal Circuit jurisdiction of any appeal in which the trial court jurisdiction was based, in whole or in part, on section 1338 of title 28. . . . Cases will be within the jurisdiction of the Court of Appeals for the Federal Circuit in the same sense that cases are said to "arise under" federal law for purposes of federal

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[42] Senate Report, *supra* note 34, at 19-20 (emphasis added).

> question jurisdiction. *Contrast Coastal States Marketing Inc. v. New England Petroleum Corp*, 604 F.2d 179 (2d Cir. 1979).[43]

Opponents of the legislation specifically raised concerns relating to the CAFC's appellate jurisdiction over antitrust cases. In addressing the potential jurisdictional issues that might arise from the interplay of antitrust and patent claims in a single case, commentary in the Senate Report stated:

> [C]ertain specific problems may be anticipated, but so too can their remedies. At the pleading stage, a defendant charged with

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[43] House Report, *supra* note 30, at 41. Courts and commentators have interpreted the House Report as indicating that Congress intended to adopt an "arising under" approach to jurisdiction in which an entire case would be appealable to the CAFC if a claim pleaded in the complaint arose under the patent laws. *E.g.*, *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1286 n.3 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985); Hon. Jon O. Newman, *Tails and Dogs: Patent and Antitrust Appeals in the Court of Appeals for the Federal Circuit*, 10 Am. Pat. L.A.Q.J. 237 (1982). The jurisdictional approach taken in *Coastal States*, which is cited in the legislative history, was termed "issue" jurisdiction. If Congress had chosen to adopt the "issue jurisdiction" approach, only issues related to patent claims could have been appealed to the CAFC. Judge Newman's article, however, suggests that, consistent with the legislative history, district courts could and should exercise their ability to sever patent and non-patent claims for appellate purposes, thus achieving similar results as if Congress had adopted issue jurisdiction for the CAFC. Judge Newman argues that district courts should "generous[ly]" use their ability to sever patent and non-patent claims under Rule 42(b) to ensure against forum shopping and to allow antitrust issues in patent cases to be appealed to the regional circuits. Judge Newman explains:

> First, as the legislative history makes clear, manipulation of the jurisdiction of the CAFC is to be avoided, and severance of non-patent issues provides a useful technique not only for guarding against such abuse, but also for eliminating even disputes about manipulation, such as whether the antitrust claim is really the gravamen of the case. Second, though the CAFC will doubtless have the competence to adjudicate all issues presented to it, including antitrust issues joined with other patent issues, the orderly development of the law will be better served by leaving antitrust issues with the regional courts of appeals, so that lawyers and district judges within the various circuits can conduct antitrust litigation in light of the procedural and substantive nuances of antitrust law that exist in each of the circuits. The purpose of the Act is to promote uniformity as to patent law; it is not to create duality as to antitrust law.

Newman, *supra*, at 241.

> patent infringement often includes a defense and counterclaim described as based on violation by the plaintiff patent-owner of the antitrust laws. That alleged violation is a court-created gloss on the antitrust laws. It is of a particular nature, namely, a "misuse" of the patent (enforcing a patent known to be invalid, obtained by fraud, etc; requiring a patent licensee to accept unwanted licenses under other patents; extending a patent licensee's royalty obligation beyond expiration of the patent). ***Though couched in antitrust terms, the issues are patent issues. They are not those involved in a suit based on the Sherman or Clayton Acts (relevant market; conspiracy to fix prices; refusal to deal; commercial favoritism).***
>
> ***Allegations of patent-misuse type of antitrust violations do not change the nature of the case from one in which jurisdiction was based on section 1338 of title 28. . . . As indicated, the issues raised are patent issues merely couched in antitrust terms. No difficulty would occur in the appeal of those cases to the Court of Appeals for the Federal Circuit.*** Indeed, maximum achievement of a major goal of the bill, the provision of reliability and uniformity in the rules to be applied in patent case, would require direction of the appeal in those cases to the Court of Appeals for the Federal Circuit.[44]

Despite the significant amount of debate that took place over the years preceding the formation of the CAFC, the proponents of the concept of a specialized appellate court for patent cases prevailed. On November 18, 1981, the House passed H.R. 4482, and on December 8, 1981, the Senate passed S. 1700.[45] Shortly thereafter, in March 1982, Congress worked out minor differences in their versions of the legislation and submitted a revised bill for the president's signature. President Reagan signed the FCIA into law on April 2, 1982.[46]

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[44] House Report, App. B., *supra* note 30, at 37 (Letter of Oct. 19, 1981, from Williams James Weller, Leg. Affairs Officer to Sen. Robert Dole, Chairman, Subcommittee. on Courts, Committee on the Judiciary, United States Senate) (emphasis added).

[45] Lever, *supra* note 8, at 196-97.

[46] *Id.; see also History of the CAFC*, *supra* note 4, at 7-8.

D. Has The Federal Circuit Gone Beyond Its Legislative Mandate?

Some commentators have questioned whether or not the Federal Circuit has now assumed a role in developing antitrust law that goes beyond that intended by Congress. For example, Professor James B. Gambrell, a proponent of the creation of the Federal Circuit, has expressed his view that the court's "job is to develop uniformity and consistency in the patent law, not in every law relating to patents."[47] In another article analyzing Federal Circuit rulings on competition issues, James B. Kobak, Jr., questioned "whether Congress ever expected the Federal Circuit to have the institutional competence to not only to make broad pronouncements about antitrust policy but also to assert that those pronouncements supplant the views of other circuits."[48] Other commentators have asserted broadly that "Congress never intended the Federal Circuit to influence the development of antitrust law."[49]

The legislative history discussed above makes it clear that the stated goal of Congress in creating the court was to achieve uniformity in the interpretation and development of patent law. Congress intended the role of the Federal Circuit to be tightly circumscribed and did not intend that role to expand beyond patent law without "serious future evaluation" and "new legislation."[50] Thus, it could be (and has been) argued that Congress intended that antitrust law should develop in line with the "governing legal interpretations of a regional court of appeals."

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[47] James B. Gambrell, *The Evolving Interplay of Patent Rights and Antitrust Restraints in the Federal Circuit*, 9 Tex. Intell. Prop. L.J. 137, 146 (Winter 2001).

[48] James B. Kobak, Jr., *The Federal Circuit as a Competition Law Court*, 83 J. of the Patent and Trademark Off. Soc'y 527, 542 (Aug. 2001).

[49] Ronald S. Katz and Adam J. Safer, *In Ruling on Antitrust, Does Fed. Circuit Overstep?*, Nat'l L.J. Oct. 16, 200, at C20; *see also*, Ronald S. Katz and Adam J. Safer, *Should One Patent Court Be Making Antitrust Law For The Whole Country?*, 69 Antitrust L.J. 687 (2002).

[50] Senate Report, *supra* note 34, at 4.

On the other hand, there are arguments to the contrary that are worth considering. The antitrust laws can play a powerful role in shaping the scope of patent rights. Indeed, this notion is implicit in the manner in which certain critics of the Federal Circuit's recent antitrust jurisprudence have referred (with favor) to "patent rights being circumscribed by core antitrust principles."[51] A holding that particular actions in the prosecution of a patent, or the manner in which it was used after issuance, violates the antitrust laws may be tantamount to holding that the patent does not give its owner the right to engage in such conduct. An antitrust rule that requires a patent holder to license its technology to a rival in particular circumstances could be viewed as saying that the patent does not confer the right to exclude in those circumstances. Viewed in this way, the development of the law on the circumstances in which the rights of a patent holder must give way to antitrust principles is arguably relevant to Congress' concern regarding "the widespread lack of uniformity and uncertainty of legal doctrine that exists in the administration of patent law."[52]

Moreover, although some have criticized the Federal Circuit for going beyond its legislative mandate, the legislative history does not appear to support the view expressed by some commentators that Congress never intended the Federal Circuit to influence the development of antitrust law. The portions of the legislative history typically cited to support this position refer specifically to the joinder of "frivolous" or "specious" patent claims to "substantial" antitrust claims as a manner to manipulate the jurisdictional rules.[53] However, the cases in which the Federal Circuit has decided antitrust issues do not appear to have involved a frivolous or trivial patent claim joined with an antitrust issue merely to influence the path of the appeal. In addition,

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[51] Gambrell, *supra*. note 47, at 139.

[52] House Report, supra note 30, at 23.

[53] Senate Report, supra note 34, at 19-20.

as explained above, certain comments in the legislative history explicitly recognize that certain types of antitrust issues "though couched in antitrust terms . . . are patent issues."[54]

The legislative history offers some support for both critics and supporters of the CAFC's antitrust jurisprudence. Although Congress intended to circumscribe tightly the role of the CAFC, it explicitly recognized that the Court would have occasion to consider and rule upon particular types of antitrust issues at least where they arose in a patent infringement lawsuit. At the same time, however, it encouraged district courts to use their procedural powers to sever and separate claims so as "to ensure the integrity of the jurisdiction of the federal court of appeals." Thus, although Congress appears to have intended the CAFC to have a limited role in developing law on specific types of antitrust issues (particularly when based on the prosecution of a patent or certain licensing provisions), it also expected the court -- and the district courts -- to guard carefully against expanding the scope of that role into antitrust issues that were not closely linked to serious and substantial questions of patent law.

The following sections will explore how the Federal Circuit has struggled with this legislative mandate in ruling on issues related to its appellate jurisdiction, its choice of law rules and substantive antitrust law.

II. The Development of the Law on the Jurisdiction of the Court of Appeals for the Federal Circuit over Non-Patent Issues

A. The Statutory Framework

The Federal Circuit's jurisdiction over cases raising antitrust and other non-patent issues is based on 28 U.S.C. § 1295(a)(1). As previously mentioned, that statute gives the court "exclusive jurisdiction of an appeal from a final decision of a district court . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title [except for copyright and

[54] House Report, supra note 30, at 37.

trademark cases]." Section 1338 of 28 U.S.C. gives the federal district courts original jurisdiction over "civil actions arising under any Acts of Congress relating to patents . . . ." Thus, these two statutes give the Federal Circuit exclusive appellate jurisdiction over cases in which the district court's jurisdiction was based "in whole or in part" upon a claim "arising under" any federal statute relating to patents.

When an appeal in a case meeting this description presents an antitrust issue, or, indeed, any non-patent issue, the Federal Circuit will necessarily decide the issue, either by applying its own law or that of the regional circuit from which the case arose. Indeed, in addition to antitrust issues, the Federal Circuit has decided issues arising in other areas of the law as well, including unfair competition and FDA law.

B. **The Well-Pleaded Complaint Rule and Federal Circuit Jurisdiction: *Christianson v. Colt Industries Operating Corporation***

he starting point of any analysis of the law on Federal Circuit jurisdiction is the Supreme Court's decision in *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988), although the Court has added to its body of law on Federal Circuit jurisdiction in its recent decision in *Holmes*. In *Christianson*, the Supreme Court held that, in determining whether or not a case arises under patent law for jurisdictional purposes, a court must apply the same well-pleaded complaint rule that is applied for purposes of determining federal jurisdiction generally.

Christianson was a former employee of Colt Industries, the manufacturer of the M16 rifle. Christianson sold M16 parts based on Colt's waiver of certain proprietary rights. Colt named Christianson as a defendant in a patent infringement suit, notified Christianson's customers that he was misappropriating Colt's trade secrets, and urged those customers to refuse to purchase parts from him. After Colt dismissed its infringement claims against him, Christianson filed a complaint alleging only antitrust and tort violations. Colt asserted in defense

that its conduct was justified by a need to protect its trade secrets and filed counterclaims alleging misappropriation of M16 specifications. 486 U.S. at 804-06.

Christianson moved for summary judgment, arguing that Colt's patents covering the M16 had expired and had, in any event, been invalid because they failed to include information required under 35 U.S.C. § 112.[55] Christianson argued that because Colt benefited from the protections of invalid patents, Colt could not now claim trade secret protection for information that it should have included in the patents. The district court relied on Christianson's patent-based theory in awarding him summary judgment on his antitrust and tort claims. *Id.* at 806.

Colt appealed to the Federal Circuit and a jurisdictional ping-pong match followed. The Federal Circuit transferred the case to the Seventh Circuit on the theory that its appellate jurisdiction is defined solely by the complaint, which had no basis in the patent statutes. *Christianson v. Colt Indus. Operating Corp.*, 822 F.2d 1544, 1549 (Fed. Cir. 1987), *vacated*, 480 U.S. 800 (1988). The Seventh Circuit, raising the jurisdiction issue *sua sponte*, disagreed with the Federal Circuit, calling its decision "clearly wrong," and transferred the case back to the Federal Circuit. *Christianson v. Colt Indus. Operating Corp.*, 798 F.2d 1051, 1057-60 (7th Cir. 1986), *rev'd in part and vacated in part*, 822 F.2d 1544 (Fed. Cir. 1987), *vacated* 486 U.S. 800 (1988). The Federal Circuit continued to maintain that it lacked jurisdiction and stated that the Seventh Circuit exhibited "a monumental misunderstanding of the patent jurisdiction granted this court." 822 F.2d at 1547. It decided the case anyway, "in the interest of justice." 822 F.2d at 1559.

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[55] That section requires that a patent provide sufficient information to enable a person skilled in the art to make and use the claimed invention and that the patent disclose the "best mode" of doing so.

The Supreme Court defined the jurisdictional issue as whether the case was one "arising under" a federal patent statute as required by 28 U.S.C § 1338. According to the Court, "linguistic consistency" demanded that it interpret the term "arising under" in section 1338 as it interpreted the identical term in the general federal-question provision, 28 U.S.C. § 1331. Section 1331 gives the federal district courts jurisdiction over all actions "arising under the Constitution, laws, or treaties of the United States." 486 U.S. at 807-08; *see also* H.R. Rep. No. 97-312 at 41 (cases fall within the Federal Circuit's patent jurisdiction "in the same sense that cases are said to 'arise under' federal law for purposes of federal question jurisdiction").

The Court stated that because federal-question jurisdiction depended on the well-pleaded complaint rule, so would the Federal Circuit's jurisdiction. Under the well-pleaded complaint rule, the existence of federal subject matter jurisdiction is based exclusively on a review of the plaintiffs' complaint. If a cause of action pleaded in the complaint was created by federal law or if the plaintiffs' claim for relief requires resolution of a substantial question of federal law, the plaintiffs' claim is said to "arise under" federal law for purposes of subject matter jurisdiction. Thus, the Court held that section 1338 jurisdiction, and, therefore, the Federal Circuit's jurisdiction, extended "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 of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims." *Id.* at 809 (numbering added).

In analyzing the case before it, the Court determined that Christianson's complaint clearly failed the first alternative prong: federal patent law did not create his cause of action. The Court cautioned that a case raising a federal patent-law defense does not "arise under" patent law, even if the complaint anticipates that defense and even if both parties admit that the defense is the only question at issue in the case. *Id.* at 809.

The Court also determined that Christianson's complaint failed the second alternative prong: his right to relief did not "necessarily depend on resolution of a substantial question of patent law." The Court cautioned that a claim supported by alternative theories in the complaint does not "arise under" patent law unless patent law is essential to *each* of those theories. *Id.* at 810. The monopolization theory on which Christianson prevailed in district court and for which the patent issues were arguably essential, was only one of several monopolization theories presented in the complaint. Because alternative, non-patent theories might support the monopolization claim, the claim did not "arise under" federal patent law. *Id.* at 812. The Court also rejected Colt's argument that Federal Circuit jurisdiction should depend on the case as litigated. The Court reasoned that even if such an analysis, rather than the well-pleaded complaint rule, would further Congress' goal of creating uniformity in patent doctrine, the jurisdictional statutes and their reliance on the "arising under" language clearly prohibited this result. *Id.* at 813-14.

Finally, the Court guarded against another jurisdictional "ping-pong" match by providing that law of the case principles apply to a court's transfer decision based on jurisdiction. The first appellate court to rule on whether a case should be reviewed by a regional circuit or by the Federal Circuit establishes the law of the case on that issue. If the first appellate court transfers the case on jurisdictional grounds, the receiving court may not transfer it back. *Id.* at 816-18.[56]

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[56] This latter point raises an interesting potential for a split among the circuit courts on the scope of the Federal Circuit's jurisdiction. Either a regional circuit or the Federal Circuit may make the initial determination of whether a complaint "arises under" the patent laws and the case's proper appellate path. *U.S. Valves, Inc. v. Dray*, 190 F.3d 811, 813 n.5 (7th Cir. 1999); *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288, 290-91 (5th Cir. 1997); *Smith v. Orr*, 855 F.2d 1544, 1547 (Fed. Cir. 1988). Thus, the party that notices the appeal and chooses the appellate court necessarily chooses the court that will address the issue of appellate jurisdiction. Because the receiving court may not second-guess the original court's jurisdictional analysis, the receiving court need not agree with that analysis before addressing the merits of the case. The different circuits may espouse

C. Jurisdiction Based "In Whole or In Part" on the Patent Laws

Under *Christianson*, when a patent claim is present in a case under the well-pleaded complaint rule, the district court's jurisdiction arises under the patent laws and the Federal Circuit will have exclusive jurisdiction over appeals related to antitrust or other non-patent issues based on the "in whole or in part" language of 28 U.S.C. § 1295(a)(1). This remains true even when patent issues are no longer in the case. The Federal Circuit has stated that "the path of appeal is determined by the basis of jurisdiction in the district court, and is not controlled by the district court's decision or the substance of the issues that are appealed." *Abbott Lab. v. Brennan*, 952 F.2d 1346, 1349 (Fed. Cir. 1991), *cert. denied*, 505 U.S. 1205 (1992); *In re BBC Int'l Ltd.*, 99 F.3d 811 (7th Cir. 1996) ("[T]he nature of the issue does not matter. If the district court's jurisdiction rests on a patent claim, then an appeal from an entirely non-patent disposition goes to the Federal Circuit.").

The circuit courts have developed the scope of the Federal Circuit's jurisdiction in a variety of cases in which patent claims are present in the same case as antitrust and other non-patent claims. The jurisdictional issues have arisen in a number of contexts -- including where patent claims are combined with non-patent claims, patent issues are raised in a counterclaim, the patent claims are dismissed prior to the appeal, the patent and non-patent claims are separated, and where the district court issues a partial judgment covering only the non-patent claims. These various scenarios are discussed below.

1. Patent Claim Combined with Non-Patent Claim or Counterclaim

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different interpretations of the jurisdictional statutes. A split is not inevitable, however. Regional circuit decisions often look to the Federal Circuit for guidance on the scope of the Federal Circuit's jurisdiction. *See, e.g. U.S. Valves, Inc.*, 190 F.3d at 814 (discussing *Hunter Douglas, Inc. v. Harmonic Design*, 153 F.3d 1318 (Fed. Cir. 1998)).

The "in whole or in part" language of section 1295 operates to give the Federal Circuit jurisdiction over non-patent issues in a variety of situations, such as when a plaintiff asserts both patent and non-patent claims, a defendant asserts a non-patent counterclaim in a patent case, or when a patent case is consolidated with a non-patent case. Several cases illustrate these points.

In *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984) (en banc), for example, Atari sued JS&A for patent infringement, copyright infringement and state law claims of deceptive trade practices based on JS&A's sale of a product called the "Prom Blaster." The district court issued a preliminary injunction on the copyright infringement claim without ruling on any patent issue and JS&A appealed to the Federal Circuit. The Federal Circuit asserted jurisdiction over the copyright appeal because Atari's patent infringement claim based the district court's jurisdiction, at least in part, on 28 U.S.C. § 1338. *Id.* at 1431-32.[57]

Similarly, in *U.S. Philips Corp. v. Windmere Corp.*, 861 F.2d 695 (Fed. Cir. 1988), *cert. denied,* 490 U.S. 1068 (1989), the plaintiff charged patent infringement and the defendant counterclaimed for antitrust violations. The Federal Circuit held that it had jurisdiction over a certified appeal of a directed verdict on the antitrust counterclaim, even though the appeal presented no questions under the patent laws. *Id.*; *see also Technicon Instr. Corp. v. Alpkem Corp.*, 866 F.2d 417, 419-20 (Fed. Cir. 1989) (accepting jurisdiction over antitrust claim that had been stayed pending resolution of patent claim where appeal of patent claim was completed); *Korody-Colyer Corp. v. Gen. Motors Corp.*, 828 F.2d 1572, 1574 (Fed. Cir. 1987) (same).

Subsequent procedural events -- such as the consolidation of cases -- may also bring non-patent claims within the jurisdiction of the Federal Circuit even where those claims as originally filed did not arise under the patent laws. In *Interpart Corp. v. Imos Italia*, 777 F.2d 678 (Fed.Cir.

[57] An in-depth discussion of this case is provided below at section II.C.4.

1985), the Federal Circuit asserted jurisdiction over Lanham Act and state unfair competition claims that were originally filed alone, but later consolidated with a patent case. The court reasoned that when the nonpatent and patent claims were consolidated, they became one "case" and the district court's jurisdiction was then based "in part" on section 1338. *Id.* at 680-81. The Federal Circuit will similarly have jurisdiction over an appeal from an antitrust case consolidated with a patent case. *E.g., In re Innotron Diagnostics*, 800 F.2d 1077, 1079-80 (Fed. Cir. 1986); *see also Eaton Corp. v. Appliance Valves Corp.*, 790 F.2d 874, 876 n.3 (Fed. Cir. 1986) (when plaintiff amends complaint to add patent claims to non-patent claims, he triggers the district court's section 1338 jurisdiction and, therefore, Federal Circuit jurisdiction); *Cygnus Therapeutic Systems v. ALZA Corp.*, 92 F.3d 1153, 1158 (Fed. Cir. 1996) (asserting jurisdiction over antitrust issue in case where plaintiff sought declaratory judgment of patent invalidity and alleged antitrust claims).

2. Patent Claim Raised as a Counterclaim in a Non-Patent Case

In some cases, the plaintiff raises only non-patent claims in its complaint, but the defendant raises a counterclaim for patent infringement. This was the situation, for example, in *CSU, LLC v. Xerox*, 203 F.2d 1322 (Fed. Cir. 2000), in which Xerox asserted a patent infringement counterclaim in response to CSU's antitrust claim and the Federal Circuit considered the appeal of the district court's grant of summary judgment against CSU on its antitrust claims.[58] In *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 122 S. Ct.

[58] Although important, *CSU* is a rare antitrust case from a jurisdictional perspective. More typically, antitrust claims are asserted as counterclaims in patent infringement actions, rather than the other way around. In fact, *CSU* appears to be the only published case appealed directly to the Federal Circuit in which the court's jurisdiction over antitrust issues was based solely on a patent infringement *counterclaim*. *But see Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604, 608 (1st Cir. 1987) (transferring appeal from denial of preliminary injunction to Federal Circuit on the grounds that the presence of a patent counterclaim meant that the district court's jurisdiction was based in part on §1338). The only other case that presents a similar, but distinguishable, situation is *Atari Games Corp. v.*

1889 (2002), however, the Supreme Court earlier this month held that the Federal Circuit does not have jurisdiction over appeals in cases such as *CSU*.

Prior to *Holmes*, the Federal Circuit held that a compulsory counterclaim was as effective as a complaint in triggering the Federal Circuit's jurisdiction, and the regional circuits had agreed. *Aerojet-General Corp. v. Machine Tool Works*, 895 F.2d 736, 742 (Fed. Cir. 1990) (en banc); *see also U.S. Valves, Inc. v. Dray*, 190 F.3d 811, 813 n. 6 (7th Cir. 1999) ("Our analysis does not change when the possible basis for Federal Circuit jurisdiction resides in a counterclaim."); *Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604, 608 (1st Cir. 1987) (transferring appeal from denial of preliminary injunction against antitrust violations to Federal Circuit on grounds a patent counterclaim based the district court's jurisdiction in part on section 1338).

In 1999, the Federal Circuit extended its reach beyond cases involving compulsory counterclaims to those including permissive counterclaims in *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir.), *cert. denied*, 528 U.S. 923 (1999). The court held that any counterclaim, even if permissive, raising a substantial question of patent law, supported its appellate jurisdiction. The court acknowledged that *Aerojet* did not decide the issue of whether permissive counterclaims triggered its jurisdiction, but tersely explained, "we see no sufficient basis in the language or purpose of section 1295(a)(1) to distinguish between compulsory and permissive counterclaims." *Id.* at 1359.

Nintendo of America, 897 F.2d 1572, 1574 (Fed. Cir. 1990), in which the district court consolidated the antitrust and unfair competition claims filed by Atari with the later-filed infringement action by Nintendo. *CSU* also was unusual in that, on appeal, no issue was presented with respect to interpretation of the patent claims or their application to the activities of the excluded market participants. Often such an issue might arise on appeal, particularly in a refusal to deal context, and it could be seen as justifying jurisdiction based on *Christianson's* second prong.

Even before the Supreme Court's decision in *Holmes*, which settled the issue, the case for Federal Circuit jurisdiction was more difficult in actions in which the patent issues are raised only in a counterclaim than in cases in which the plaintiffs' complaint raises claims under the patent laws that are also joined with non-patent claims. The Federal Circuit's analysis in *Aerojet* illuminates some of these difficulties. In January 1987, Aerojet sued Machine Tool Works in federal district court for unfair competition, interference with prospective advantage and false representation under the Lanham Act, and a declaratory judgment that it had misappropriated trade secrets. The sole claim set forth in Aerojet's complaint was the allegation that Machine Tool Works made knowingly false representations that Aerojet's ammunition was based on trade secrets misappropriated from Machine Tool Works. Machine Tool Works answered and counterclaimed for breach of contract, unfair competition, trade secret misappropriation, false representation under the Lanham Act and patent infringement. The parties agreed that the counterclaims were compulsory. *Id.* at 737-38.

In an *en banc* opinion, the Federal Circuit held that a nonfrivolous, compulsory counterclaim for patent infringement gave it jurisdiction over any appeal of the case. The court explained:

> It would seem at best incongruous to hold that we have appellate jurisdiction when a well-pleaded patent infringement claim is the basis of a pleading labeled 'complaint' but not when the identical well-pleaded claim is the basis of a pleading labeled 'counterclaim.' The distinctions between complaints and counterclaims can be important in other contexts, but can have no meaningful role in governing the direction of the appeal under the unique statute that created this court when the counterclaim arises under the patent laws.

Id. at 742. The Federal Circuit acknowledged *Christianson*'s holding that its jurisdiction must be determined by application of the well-pleaded complaint rule but cautioned that "it should be remembered that the phrase 'well-pleaded complaint' is merely the name of the rule, not a

statement of a principle of law." *Id.* at 741, 743. The court also acknowledged, albeit only in a footnote, that a counterclaim for patent infringement does not satisfy the "well-pleaded complaint rule" as traditionally understood and, therefore, a counterclaim will not support removal from state to federal court. *Id.* at 739 n. 4 (citing *Rath Packing Co. v. Becker*, 530 F.2d 1295, 1303 (9th Cir. 1975), *aff'd on other grounds sub nom, Jones v. Rath Packing Co.*, 430 U.S. 519 (1977)). Nevertheless, in apparent conflict with *Christianson*, the court held that it could exercise appellate jurisdiction over a case based entirely on the assertion of a counterclaim based on patent law.

The court in *Aerojet* relied on two principal arguments to avoid the application of the well-pleaded complaint rule. First, the court explained that federal courts have repeatedly retained jurisdiction and adjudicated a federal counterclaim having its own jurisdictional basis even when the court had no jurisdiction over the complaint or the plaintiff had voluntarily dismissed the complaint. *Id.* at 742-743 (collecting cases); *see, e.g., Rengo Co. v. Molins Mach. Co.*, 657 F.2d 535, 539 (3d Cir.), *cert. denied*, 454 U.S. 1055 (1981) ("A jurisdictional defect in the complaint will not preclude adjudication of a counterclaim over which the court has an independent basis of [federal] jurisdiction").[59] Second, the court concluded that disregarding compulsory counterclaims for patent infringement in determining its jurisdiction would disserve Congress' intent in creating the court to achieve greater uniformity in patent claims. *Aerojet*, 895 F.2d at 744 ("Congress did not mention the 'well-pleaded complaint rule' as such and no warrant

[59] The court justified its decision to rely on this line of cases rather those cases requiring that only the complaint, and not a counterclaim, be examined in analyzing the well-pleaded complaint rule on the grounds that the latter cases arose in the removal contest. According to the Court, removal raised the potential for serious federal-state conflicts that do not exist in the context of simply deciding to which federal appellate court an appeal must be directed. *Id.* at 743-44.

exists for reading that judicially created device into the statute when doing so would defeat the congressional purpose."). *Id.*

The Supreme Court recently definitively answered the question of whether patent counterclaims trigger Federal Circuit jurisdiction in *Holmes Group Inc. v. Vornado Air Circulation Systems, Inc.*, 122 S. Ct. 1889 (2002). Holmes and Vornado sell household fans. Vornado accused Holmes of infringing its trade dress based on the design of its fan. In response, Holmes sued in federal district court alleging a Lanham Act claim (15 U.S.C. § 1125(a)), declaratory judgment of non-liability for trade dress infringement under the Lanham Act and various state law claims. Vornado filed a compulsory counterclaim for patent infringement. The district court entered summary judgment for Holmes on the Lanham Act claim on the grounds that Vornado was collaterally estopped from asserting trade dress protection in the fans by an earlier decision in the case, *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995).[60] On the parties' joint motion, the district court entered a partial final judgment under Fed. R.Civ. P. 54(b), making the trade dress issue immediately appealable, and stayed the patent issues.

Vornado appealed to the Federal Circuit on the basis that its infringement counterclaim gave that court jurisdiction. Holmes, in turn, argued the court lacked jurisdiction. The Federal Circuit entered an unpublished two paragraph *per curiam* order vacating the district court's judgment and remanding the case for reconsideration of whether the "change in the law" exception to collateral estoppel applied in view of the Supreme Court's decision concerning trade dress issues in *Traffix Devices v. Marketing Displays, Inc.*, 121 S. Ct. 1255 (2001). The Federal Circuit's order did not address its jurisdiction. *Holmes Group Inc. v. Vornado Air Circulation*

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[60] The district court's opinion may be found at 93 F. Supp. 2d 1140 (Kan. 2000), *vacated*, No. 00-1286, 2001 WL 712760 (Fed. Cir. June 5, 2001), vacated, 122 S. Ct. 1896 (2002).

Sys., Inc., No. 00-1286, 2001 WL 712760 (Fed. Cir. June 5, 2001), , vacated, 122 S. Ct. 1896 (2002). In response to Holmes's Petition for Certiorari, the Supreme Court accepted two of the issues it raised:

> Does 28 U.S.C. § 1295(a)(1) divest regional Circuits of jurisdiction to decide appeals of final decisions of district courts in cases wherein the well-pleaded complaint of the prevailing plaintiff does not allege any claim arising under federal patent law?
>
> Did the Court of Appeals for the Federal Circuit err in concluding that this action "arises under" federal patent law for purposes of 28 U.S.C. §§ 1295(a)(1) and 1338(a)?

Pet. for Writ of Cert. at ii, *Holmes Group Inc. v. Vornado Air Circulation Sys., Inc.*, (U.S. 2001) (No. 01-408).[61]

The Supreme Court's decision answers these questions quite clearly -- Section 1295(a)(1) requires that the plaintiff's complaint allege a claim arising under federal patent law in order to

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[61] On these points, Holmes argued that the Federal Circuit's exercise of jurisdiction based on a counterclaim violates the well-pleaded complaint rule, which, according to Holmes, requires the court to look only to the claims in the plaintiff's complaint for jurisdictional purposes. In support of this argument, Holmes cited to cases from the Fifth, Seventh and Ninth Circuits holding that a counterclaim does not affect whether or not a claim arises under federal law for removal purposes. *See Metro Ford Truck Sales, Inc. v. Ford Motor Co.*, 145 F.3d 320, 326-27 (5th Cir. 1998); *FDIC v. Elefant*, 790 F.2d 661, 667 (7th Cir. 1986); *Takeda v. Northwestern Nat'l Life Ins. Co.*, 765 F.2d 815, 822 (9th Cir. 1985). Vornado, on the other hand, defended the Federal Circuit's decision in *Aerojet* and relied on cases (cited in *Aerojet*) holding that a federal counterclaim can support federal jurisdiction when the plaintiff's claims have been dismissed. *See Aerojet*, 895 F.2d at 742-43. In its decision, the Supreme Court stated that the latter line of cases have nothing to do with the well-pleaded complaint rule or "arising under" jurisdiction. *Holmes*, 122 S.Ct. at 1895 n.4.

Interestingly, the Supreme Court declined to hear one of the questions presented by Holmes:

> Does 28 U.S.C. § 1295(a)(1) divest regional Circuits of jurisdiction to decide appeals of final decisions of non-patent claims, where judgment is entered pursuant to Fed. R. Civ. P. 54(b) and is not based, in whole or in part, on 28 U.S.C. § 1338(a)?

trigger Federal Circuit jurisdiction. *Holmes*, 122 S. Ct. at 1893. The Supreme Court held that the Federal Circuit erred in asserting jurisdiction in *Holmes* because the patent claim was alleged in a counterclaim, not the complaint. The Court "decline[d] to transfer the longstanding well-pleaded complaint rule into the 'well-pleaded complaint -- or -- counterclaim rule' urged by respondent." *Id.* The Court also rejected the notion that the phrase "arising under" should be interpreted differently in ascertaining Federal Circuit jurisdiction than in ascertaining original jurisdiction of a district court. Relying in large part on its prior opinion in *Christianson*, the Court stated that "'linguistic consistency' requires us to apply the same test to determine whether a case arises under § 1338 as under § 1331" *Id.* at 1898. It explained that, "'as appropriately adapted to § 1338(a),' the well-pleaded complaint rule provides that whether a case 'arises under' patent law 'must be determined from what necessarily appears in the plaintiff's statement of his own claim in the bill or declaration."_*Id.*

In that context, Justice Scalia, writing for the majority, rejected respondent's view that effectuating Congress' goal of "ensuring patent-law uniformity" in interpreting the statutory language required conferring exclusive jurisdiction in the Federal Circuit where a patent claim is raised. Rather, he characterized the Court's task as a fairly straightforward matter of statutory interpretation: "Our task here is not to determine what would further Congress' goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean." *Id.* at 1895. The decision goes on to state that "[i]t would be an unprecedented feat of interpretative necromancy to say that § 1338(a)'s 'arising under' language means one thing (the well-pleaded complaint rule) in its own right, but something quite different (respondent's complaint-or-counterclaim rule) when referred to by § 1295(a)(1)." *Id.* at 1895.

Under the holding in *Holmes*, cases such as *CSU* -- in which jurisdiction over the antitrust issues is based on a patent counterclaim -- will not be heard by the Federal Circuit.

Consequently, there is now more of a chance that patent-antitrust issues will be considered and decided upon by regional courts of appeals as well as by the Federal Circuit. Moreover, *Holmes* eliminates one possible motivation for an antitrust defendant to file a patent counterclaim -- to affect the jurisdictional path of the appeal (although it leaves open the possibility that a separately filed patent claim which is consolidated with an antitrust claim will trigger Federal Circuit jurisdiction).

At the same time, the decision may lead some to rush to court with patent or antitrust claims in order to secure or avoid Federal Circuit jurisdiction. Some may also express concern that the decision may lead to substantive splits in patent law interpretation. While it remains to be seen whether that will occur, it is also possible that the regional circuits will defer to Federal Circuit precedent in ruling on patent issues.

3. Patent Claims Dismissed Or Withdrawn

Occasionally, a case will present claims arising under the patent laws when initially filed, but prior to an appeal, the patent claims are withdrawn or dismissed. Under CAFC precedent, the jurisdictional consequences of a dismissal depends on whether it was voluntary and whether or not it is with or without prejudice.

An amendment to the complaint or counterclaim voluntarily removing all patent claims from the case may divest the Federal Circuit of jurisdiction over the remaining non-patent claims. In *Gronholz v. Sears, Roebuck & Co.*, 836 F.2d 515 (Fed. Cir. 1987), the plaintiff's voluntary dismissal of his patent claim without prejudice under Fed. R. Civ. P. 41(a) left only unfair competition claims in the case. The Federal Circuit held that the action was no longer one "arising under" the patent laws. *Id.* at 518. The voluntary dismissal acted as an amendment of the complaint under Rule 15. *Id.* The Federal Circuit extended this rationale to involuntary dismissals without prejudice under Rule 41(b) in *Nilssen v. Motorola, Inc.*, 203 F.3d 782 (Fed.

Cir. 2000), in which the court transferred an appeal of non-patent claims to the Seventh Circuit because the district court had dismissed the patent claims without prejudice to expedite the non-patent claims (although the plaintiff refiled the patent claims in a separate action).[62] *Id.* at 785.

Despite the Federal Circuit's ruling in *Nilssen*, the jurisdictional effect of an involuntary dismissal of patent claims without prejudice remains unclear, particularly where -- as in *Nilssen* -- the dismissed patent claim is based on the same operative facts as the non-patent claims and has been refiled as a separate action. After the transfer, the Seventh Circuit was "restive" about its jurisdiction but the law of the case doctrine prohibited it from reviewing the Federal Circuit's decision. *Nilssen v. Motorola*, 255 F.3d 410, 411 (7th Cir. 2001). The Seventh Circuit, however, found (in its words) a way "to pull victory from the jaws of defeat," and to ensure that any future appeal would lie solely with the Federal Circuit. It vacated the judgment of the district court on the state law claims and remanded with instructions to consolidate the state law proceeding with the now-separate patent infringement action. *Id.* at 414-15. The Seventh Circuit determined that Nilssen's state law and patent claims presented only one claim for relief based on "one nucleus of operative facts." *Id.* at 414. The court explained:

> It makes no sense to send patent law theories to the Federal Circuit and state law theories to the regional circuit when only one "claim" is involved, and one circuit's decision may have preclusive effect on issues within the scope of the other's jurisdiction. Avoiding claim-splitting (with the waste of judicial resources and the potential for inconsistent appellate decisions) is why § 1295(a)(1) provides that, if jurisdiction is based on § 1338 even in part, then the Federal Circuit resolves all issues on appeal.

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[62] Similarly, an order vacating the consolidation of patent and non-patent actions requires that any appeal of the non-patent action will be heard by the regional circuit court of appeals. *Tank Insulation Int'l, Inc. v. Insultherm, Inc.*, 104 F.3d 83, 85 (5th Cir. 1997) (recognizing that regional circuit court of appeals would hear appeal of antitrust claim where district court vacated order consolidating patent and antitrust actions).

Id.

The Federal Circuit has explicitly distinguished such dismissals *with* prejudice from those without prejudice for purposes of determining its jurisdiction. *See Nilssen,* 203 F.3d at 785. In *Zenith Electrics Corp. v. Exzec, Inc.*, 182 F.3d 1340 (Fed. Cir. 1999), for example, the plaintiff asserted Lanham Act and patent claims, but the parties stipulated to dismissal with prejudice of the patent claims prior to appeal. The Federal Circuit asserted jurisdiction over the district court's decision regarding the non-patent claims. The court held that a dismissal with prejudice of the patent claims operates as an adjudication on the merits of those claims, which does not divest the court of jurisdiction. *Id.* at 1346.[63]

The Seventh Circuit appeared to follow a similar line of reasoning in *Unique Concepts, Inc. v. Manual*, 930 F.2d 573 (7th Cir. 1991), where it transferred an appeal of a non-patent, permissive counterclaim to the Federal Circuit despite the fact that the patent infringement claim had been dismissed by the district court. Although the dismissal was voluntary and without prejudice, the district court granted it only on the condition that the plaintiff execute a covenant not to refile the patent claim. Based on the plaintiff's execution of the covenant not to sue, the district court entered a final judgment covering "all claims and counterclaims." *Id.* at 574. The Seventh Circuit held that the case remained one based "in part" on the patent statutes on the grounds that the district court's judgment both awarded defamation damages and dismissed the patent claim. *Id.* at 575.[64]

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[63] This may not be the case where the patent claims were dismissed without objection and made only a fleeting "transient appearance" in the claim. *See Schwarzkopf Dev. Corp. v. TI-Coating, Inc.*, 800 F.2d 240, 245 (Fed. Cir. 1986) (holding that the "transient appearance" of patent infringement counterclaims, followed by their dismissal without objection, could not provide the basis for Federal Circuit jurisdiction).

[64] The court did not discuss *Gronholz*, 836 F.2d 515, in which the Federal Circuit held that a plaintiff's voluntary dismissal of his patent claim without prejudice transformed the

4. **Separated Claims under Rule 42(b)**

The CAFC has held that separating patent and non-patent claims for trial under Fed. R. Civ. P. 42(b)[65] is a procedural matter that will not divest the Federal Circuit of jurisdiction over the non-patent claims. *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984) (en banc). In *Atari*, the district court issued a preliminary injunction on Atari's copyright infringement claim and granted Atari's motion under Fed. R. Civ. P. 13(i) and 42(b) to separate the patent count for trial. *Id.* at 1424. Atari's stated intention was to direct JS & A's appeal of the preliminary injunction to the Seventh Circuit, rather than the Federal Circuit. *Id.* at 1425. JS & A nevertheless appealed the preliminary injunction on the copyright claim to the Federal Circuit.

The Federal Circuit held that it had jurisdiction over the non-patent claim, despite the fact that it had been separated from the patent claims, because jurisdiction is determined at the time a

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action into one that was no longer "arising under" the patent laws. Unlike *Gronholz*, however, the district court in *Unique Concepts* entered one final judgment on both patent and non-patent claims as opposed to dismissing the patent claims before the final judgment on the non-patent claims. As the Seventh Circuit explained, because § 1295(a)(1) gives the Federal Circuit "exclusive jurisdiction of an appeal from a final decision of a district court," if jurisdiction to enter the final judgment came, in part, from a well-pleaded complaint under § 1338, § 1295(a)(1) directs the appeal to the Federal Circuit. *Unique Concepts*, 930 F.2d at 575. The Seventh Circuit also seemed motivated by practical concerns, stating that "All appeals from a single judgment ought to go to one court, facilitating efficient briefing and decision." *Id.* Moreover, in *Unique Concepts*, the plaintiff signed a covenant not to refile the patent claims although the court did not discuss whether it considered dismissal of the patent claims conditioned on a such a convenant to be, in effect, a dismissal with prejudice.

[65] A district court may order separate trials of patent and non-patent claims under Fed. R. Civ. P. 42(b), which states:

> "The court, in furtherance of convenience or to avoid prejudice, or when separate trials will be conducive to expedition and economy, may order a separate trial of any claim, cross-claim, counterclaim, or third-party claim, or of any separate issue. . . ."

complaint is filed. "The criteria for jurisdiction of the district court over a case are determined at the time the complaint is filed and a subsequent event, such as the present separation order, *that does not alter those criteria*, cannot oust the appellate court of its potential jurisdiction over appeals from final decisions in that case." *Id.* at 1431-32 (emphasis in original). According to the court, the effect of ordering separate trials under Rule 42(b) was procedural, not substantive, and had no effect on jurisdiction. *Id.* at 1430-31. The court explained that, in rejecting "issue jurisdiction" and opting for "arising under" jurisdiction for the Federal Circuit, Congress intended to "(a) to avoid bifurcation of appeals; (b) to avoid specialization of th[e] court; (c) to avoid forum shopping in non-patent issues of law; and (d) to discourage appropriation by the court of areas of law not assigned to it." *Id.* at 1435.

The Federal Circuit in *Atari* recognized the possible perception of tension between its holding and the legislative history encouraging district courts to use their authority under the Federal Rules "to ensure the integrity of the jurisdiction of the Federal Court of Appeals" by separating antitrust and patent claims in certain situations.[66] The court distinguished those portions of the legislative history by stating that they applied *only* to trivial patent claims raised to manipulate appellate jurisdiction. *Id.* at 1434. The court stated that "such claims do not create jurisdiction" in any event. *Id.* at 1434 n.9 (citing *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479 (1915)).

5. Partial Judgments under Rule 54(b)

In *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1431 (Fed. Cir. 1984) (en banc), the court cited the fact that Atari's claims would normally lead to one final judgment,

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[66] *See supra* at I.A.- D.

(discussing the legislative history).

notwithstanding the separation order, to support its holding that they therefore remained part of one case arising under the patent laws. This point raises the issue of whether a partial final judgment on non-patent claims under Rule 54(b)[67] would oust the Federal Circuit of jurisdiction over the non-patent issues when a case originally involves both patent and non-patent claims. The point remains unsettled.

In *Unique Concepts, Inc. v. Manual*, 930 F.2d 573 (7th Cir. 1991), in which the district court entered a single judgment covering patent and non-patent claims, the Seventh Circuit left open the possibility that a partial final judgment of the non-patent claims under Rule 54(b) might have required an appeal to the regional circuit. Although the court did not decide the issue, it stated, "[i]f the district judge had used Fed.R.Civ.P. 54(b) to separate the [state-law] claims from the patent claims, then [plaintiff] would have a better argument. That final decision really would depend wholly on § 1332 [for jurisdiction]." 930 F.2d at 575.

The Ninth Circuit addressed the fact pattern posited in *Unique Concepts*, dismissed patent claims and an appealed partial final judgment on the merits of non-patent claims, in *Denbicare U.S.A. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir.), *cert. denied*, 519 U.S. 873 (1996). The Ninth Circuit asserted jurisdiction over the appeal of the non-patent issues. The plaintiff, Denbicare, originally alleged patent, copyright and trademark infringement, unfair competition, breach of contract and tortious bad-faith denial of contract, but subsequently

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[67] Fed. R. Civ. P. 54(b), entitled "Judgment Upon Multiple Claims or Involving Multiple Parties" states:

> When more than one claim for relief is presented in an action, whether as a claim, counterclaim, cross-claim, or third-party claim, or when multiple parties are involved, the court may direct the entry of final judgment as to one or more but fewer than all of the claims or parties only upon an express determination that there is no just reason for delay upon an express direction for the entry of judgment.

voluntarily moved to dismiss its patent claims with prejudice. Toys, the defendant, opposed the amendment and amended its answer to add a counterclaim seeking a declaratory judgment that Denbicare's patents were invalid. The district court dismissed the counterclaim on the grounds that Toys lacked a reasonable apprehension of suit. *Id.* at 1146. The trial court eventually entered a partial final judgment under Rule 54(b) against Denbicare on the copyright, trademark, unfair competition and tortious denial of contract claims in order to allow the plaintiff to appeal those rulings. The trial of the remaining contract issues was stayed. *Id.* at 1146-47.

The Ninth Circuit held that it had jurisdiction over the appeal of the non-patent issues. In so holding, the court relied heavily on the legislative history of § 1295, particularly the Senate Judiciary Committee Report, which encouraged judges to use their authority under Rule 54(b) to separate final decisions involving substantial antitrust claims from trivial patent claims. *Id.* at 1148 (quoting S.Rep. No. 97-275 20 (1981), *reprinted in* 1982 U.S.C.C.A.N. 11, 30 (hereinafter *"Senate Report"*).[68] The *Denbicare* court did not find that the patent claim was trivial or manipulatively joined, a point emphasized by the Federal Circuit when it discussed this passage of the legislative history in *Atari*. 747 F.2d at 1434. Nevertheless, it held that the district court's use of Rule 54(b) to separate the nonpatent claims for partial final judgment, and its own assertion of jurisdiction, fit within the scope of the Congress' intent in creating the Federal Circuit.[69]

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[68] *See supra* at I.A. -D. (discussing legislative history).

[69] Another interpretation of § 1295, proposed by the Seventh Circuit, also arguably supports the Ninth Circuit's holding in *Denbicare*. In *Unique Concepts*, the Seventh Circuit read the language of § 1295 to require an analysis of the source of the district court's jurisdiction to enter the final judgment appealed in determining the appeal route. 930 F.2d at 575. Under this analysis, a district court's jurisdiction to enter a partial final judgment on only non-patent claims does not arise under the patent laws and any appeal would go to the regional circuit. Even if a court were to accept this analysis, however, it is likely to view skeptically any attempt to separate factually related claims and direct

The Federal Circuit has not directly discussed the jurisdictional effect of partial judgments under Rule 54(b), but several statements suggest that it would look to the complaint, not the final judgment, to establish jurisdiction. For instance, as noted above, in *Atari* the court stated that jurisdiction is determined at the time the complaint is filed. 747 F.2d at 1431-32 (emphasis in original); *see also Zenith Elecs. Corp.*, 182 F.3d at 1346 (looking to the complaint, not the final judgment, in analyzing its jurisdiction: "Because the complaint contained patent infringement claims, the district court's jurisdiction arose under 28 U.S.C. § 1338(a). This established the path of appeal, giving exclusive jurisdiction in this court pursuant to 28 U.S.C. §§ 1292(c) and 1295(a)(1)").[70] *But see Holmes*, 122 U.S. at 1896 (Stevens, J., concurring) ("It is important to note the general rule, however, that the jurisdiction of the court of appeals is not 'fixed' until the notice of appeal is filed.").

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their appeals to two different appellate courts. See *Nilssen*, 255 F.3d at 414 ("Avoiding claim-splitting (with the waste of judicial resources and the potential for inconsistent appellate decisions) is why § 1295(a)(1) provides that, if jurisdiction is based on § 1338 even in part, then the Federal Circuit resolves all issues on appeal."); *Unique Concepts*, 30 F.2d at 575 ("Facts intermingle even when jurisdictional bases do not. . . . One court ought to review the entire imbroglio."). The analysis might be more justifiable and successful when the patent claims are no longer relevant to the case. *See, e.g. Unique Concepts*, 930 F.2d at 575 (patent claims were dismissed with covenant not to refile).

[70] Similarly, in *Holmes Group Inc. v. Vornado Air Circulation Systems, Inc.*, the district court entered a partial final judgment under Fed. R.Civ. P. 54(b), making the trade dress issue immediately appealable, and stayed the patent issues. No. 99-1499 slip op. (D. Kan. June 12, 2000) (unreported). Holmes argued that the Federal Circuit did not have jurisdiction over the appeal, in part, because the judgment appealed pertained only to the trade dress issues. The Federal Circuit did not address the point and the Supreme Court did not grant certiorari on that issue. *See* 122 S.Ct. 510 (U.S. Nov. 8, 2001) (No. 01-408) (order granting certiorari). The *Holmes* situation, however, is not directly analogous to the *Denbicare* case. In *Holmes*, the patent claims were stayed and remained pending in the district court. In that sense, the district court's jurisdiction continued to be based in part on section 1338. In contrast, in *Denbicare*, the patent claims had been dismissed from the case, although that dismissal could still be appealed. *Denbicare*, 84 F.3d 1143.

D. Non-Patent Claims that Necessarily Depend upon Resolution of a Substantial Question of Patent Law

The discussion in the previous sections focused on cases in which Federal Circuit jurisdiction over the non-patent issues depended on whether the case included a patent claim under the well-pleaded complaint rule. Even in cases in which there is admittedly no patent claim, however, the Federal Circuit may have jurisdiction under the second prong of the *Christianson* test: whether a "plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law." *Christianson*, 486 U.S. at 809. The Federal Circuit has stated that it views *Christianson's* second prong as "lenient." *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000) ("*Christianson* sets a lenient standard for jurisdiction under 28 U.S.C. §1338(a)."). The consequence of this view is that the Federal Circuit, and perhaps the regional circuits that concur, will give the Federal Circuit *exclusive* jurisdiction over a range of issues related to causes of actions that are not created by federal patent law.

1. Contract Disputes Related To Patents

A long line of cases holds that a patent owner's claim for breach of a patent license is created by state contract law. Courts have held that such claims do not typically arise under the patent laws even when the existence of contract liability requires resolution of patent issues such as validity and infringement. *See* Donald S. Chisum, Chisum on Patents: A Treatise on the Law of Patentability, Validity and Infringement § 21.02[1] (2001) (collecting cases). For instance, in *Ballard Medical Products v. Wright*, 823 F.2d 527, 531 (Fed. Cir. 1987), the Federal Circuit held that a breach of license suit by an exclusive licensee against the licensor did not arise under the patent laws within the meaning of 28 U.S.C. § 1338, and the Federal Circuit had no jurisdiction over the appeal. *See also Schwarzkopf Dev. Corp. v. TI-Coating, Inc.*, 800 F.2d 240, 244 (Fed. Cir. 1986) ("The complaint in the case at bar is for failure to pay royalties due under an existing

patent license agreement. Such a suit has consistently been viewed as one arising out of state contract law, not 'arising under' the patent law.").

The Supreme Court has recognized that a patentee often has the option of pleading a licensing case as either one for breach of contract or one for patent infringement. *Luckett v. Delpark, Inc.*, 270 U.S. 496, 511 (1926). "But when the patentee exercises his choice and bases his action on the contract and seeks remedies there under, he may not give the case a double aspect, so to speak, and make it a patent case conditioned on his securing equitable relief as to the contract." *Id.* The Federal Circuit has looked to the fact that a complaint alleging breach of a patent license sought infringement damages in concluding that the plaintiff pleaded the case as one for patent infringement. *Kunkel v. Topmaster Int'l, Inc.*, 906 F.2d 693 (Fed. Cir. 1990); *Air Prods. and Chems., Inc. v. Reichhld Chems., Inc.*, 755 F.2d 1559 (Fed. Cir. 1985). *But see Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567 (Fed. Cir.) (patentee seeking revision of assignment did not invoke Federal Circuit jurisdiction where grounds for recession did not implicate any aspect of patent law, even though complaint alleged that defendants infringed patents because assignments were void), *cert. denied sub nom, Baker Hughes, Inc. v. Jim Arnold Corp.*, 522 U.S. 933 (1997).

In two more recent cases, however, courts have held that licensing disputes arise under the patent law, based on *Christianson's* second prong. In *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288 (5th Cir. 1997), the plaintiffs alleged that Halliburton breached a patent license agreement by failing to pay additional royalties after acquiring a new company, which, plaintiffs alleged, infringed the patents. The Fifth Circuit transferred the case to the Federal Circuit on the grounds that plaintiffs' case necessarily required resolution of a substantial question of patent law, namely whether the new company infringed the licensed patents. *Id.* at 291. The court cited

Kunkel without discussion of that case or any case holding that a licensing dispute does not arise under the patent laws. *Id.*

Similarly, in *U.S. Valves, Inc. v. Dray*, 190 F.3d 811 (7th Cir. 1999), the Seventh Circuit transferred an appeal concerning breach of a patent license to the Federal Circuit. Dray patented an internal piston valve and exclusively licensed the patent to U.S. Valves. When Dray and U.S. Valves had a falling out, Dray began selling internal piston valves, admittedly covered by the patent, and a second type called "sliding ring valves." Dray contended that U.S. Valves' actions breached the license and resulted in termination of the agreement. The district court disagreed and found that Dray's sale of valves violated the exclusive license. *Id.* at 812. Both parties appealed to the Seventh Circuit, but Dray asked that the case be transferred to the Federal Circuit. Dray argued that a determination of whether his sale of the sliding ring valves violated the agreement required a determination of whether those valves infringed the licensed patents. *Id.* at 812-13. The Seventh Circuit agreed, explaining that "[w]hether Dray breached the exclusivity provision of the license agreement depends on whether he sold valves which infringed on the licensed patents." *Id.* at 814. Although the Federal Circuit was bound by the law of the case doctrine to accept jurisdiction, it also opined on its ability to decide the case and the court adopted the analysis of the Seventh Circuit. *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000).

2. **False Statements Regarding Patent Rights**

In two recent cases, the Federal Circuit asserted jurisdiction over cases in which the cause of action was created by state tort law but which the court determined "necessarily required resolution of a substantial question of patent law" and, therefore, arose under § 1338. These cases present an interesting wrinkle in that § 1338 gives *exclusive* jurisdiction to the federal

district courts. Therefore, the Federal Circuit's holding may oust the state courts' jurisdiction to hear these state law claims.

In *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476 (Fed. Cir. 1993), the Federal Circuit found federal jurisdiction over a state law business disparagement claim. Flowdata stated to Additive's customers, falsely in Additive's view, that it was infringing Flowdata's patent. To establish a business disparagement claim under Texas law, Additive was required to prove the falsity of Flowdata's statement, which in turn required it to prove that it did not infringe the patent. *Id.* at 478. The Federal Circuit held that Additive's claim thus necessarily required resolution of a substantial question of patent law and, therefore, the claim arose under 28 U.S.C. § 1338(a). *Id.*[71]

Similarly, in *Hunter Douglas v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed.Cir.1998), the Federal Circuit asserted jurisdiction over another case alleging violation of state tort law. The plaintiff, Hunter Douglas, accused the patentee and its licensees of committing an injurious falsehood by asserting that they held exclusive rights to make and sell products covered by patents. Hunter Douglas contended that the statements were false because the patents were invalid and unenforceable. *Id.* at 1329. Federal patent law clearly did not create this cause of action and so the Federal Circuit examined whether the claim required resolution of a substantial question of patent law.

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[71] The court distinguished *American Well Works Co. v. Layne & Bowler Co.* 241 U.S. 257 (1916), in which the Supreme Court held that a state law business disparagement claim based on false accusations of patent infringement arose under state, not federal law. Under the Massachusetts law at issue in that case, a plaintiff could recover for business disparagement without proving the falsity of defendant's accusations of patent infringement. The law required the defendant to prove the truth of its statements, making that truth a defense, rather than part of the plaintiff's case. *Additive Controls*, 986 F.2d at 478-79.

The court held that it did and, therefore, determined that the case arose under the patent laws. The court reasoned that a required element of the state law claim, a falsity, necessarily depended on a question of federal patent law, namely whether the patents at issue were invalid or unenforceable. *Id.* All of the theories on which Hunter Douglas could prevail on this count required resolving these questions of federal patent law. *Id.* The court further concluded that the questions of federal patent law presented, validity and enforceability, were "substantial" enough to raise a "substantial question of patent law" and convey section 1338(a) jurisdiction in the district court and appellate jurisdiction under section 1295. *Id.* at 1329-30.

3. Jurisdiction Over Federal Trade Commission Matters

It is not clear how any "expansion" of Federal Circuit jurisdiction under *Christianson's* second prong will affect the Commission's intellectual property-antitrust matters. On the one hand, an argument can be made that, because § 1295(a) only allows the Federal Circuit to hear appeals "from a final decision of a district court," and because 15 U.S.C. § 45(c) provides that appeals from Commission orders may be taken to the regional circuit courts of appeals, § 1295(a) cannot confer jurisdiction to the CAFC over orders from the Commission.[72] On the other hand, an argument could be made that the language of § 45(c) does not *compel* the conclusion that the regional circuits have exclusive jurisdiction over appeals from orders of the Commission. Although § 45(c) is written in terms of geography, it does not indicate that such jurisdiction is exclusive of the CAFC; in fact, that provision was enacted prior to the creation of the Federal Circuit. Thus, it is not surprising that § 45(c) confers appellate jurisdiction by reference to the

[72] *See* Stempel & Terzaken, *supra* note 54, at 733-34 (concluding that Federal Circuit probably does not have jurisdiction to consider appeals from FTC orders although each of the FTC cases has a counterpart private action pending in federal district court that could be subject to a Federal Circuit appeal).

"circuit where the method of competition or the act or practice in question was used or where such person, partnership, or corporation resides or carries on business." *Id.*

Even if the Federal Circuit could not consider appeals from Commission orders, the law developed by the court would still have an effect on the Commission's matters. First, any case which the Commission decides to pursue in a district court may be appealable to the Federal Circuit so long as it meets the test under *Christianson*. Second, the greater the number of antitrust issues that are heard on appeal by the Federal Circuit, the greater the court's influence as a source of antitrust precedent for regional circuits to rely upon. For example, the Federal Circuit's influence would been seen in appeals of Commission orders in administrative actions involving patent-antitrust issues.[73] Thus, even if the Commission's matters must be appealed to a regional circuit, it may feel the impact of the Federal Circuit's developing antitrust jurisprudence.

III. The Development of The Federal Circuit's Choice Of Law Rules

A. The Federal Circuit's Decision In *Nobelpharma*

Prior to 1998, the Federal Circuit had steadfastly held that antitrust matters that came to the Court were to be decided according to the law of the relevant regional circuit court.[74] In a trio

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[73] For example, see *In the matter of Biovail Corp.*, 011-0094 (Compl. and Consent Decree filed Apr. 23, 2002).

[74] This is consistent with the choice of law applied to other non-patent issues at the time. *E.g.*, *Payless Shoesource, Inc. v. Reebok Int'l Ltd.*, 998 F.2d 985, 998 (Fed. Cir. 1993) (applying regional circuit law to trademark issue); *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 909 (Fed. Cir. 1984) (same); *e.g.*, *Cable Elec. Prods., Inc. v. Genmark, Inc.*, 770 F.2d 1015, 1033 (Fed. Cir. 1985) (applying regional circuit law to preemption issue); *Interpart Corp. v. Italia*, 777 F.2d 678 (Fed. Cir. 1985) (same); *see also, e.g.*, *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1575 (Fed. Cir. 1990) (Federal Circuit applied Ninth Circuit law to determine elements of a request for a preliminary injunction); *Atari Corp v. Seagate Tech.*, 847 F.2d 826 (Fed. Cir. 1988) (applying regional circuit law to issue regarding disqualification of an attorney); *Molins PLC v. Quigg*, 837 F.2d 1064, 1066 (Fed. Cir. 1988) (applying the law of the D.C. Circuit on issues related to the ripeness doctrine); *Sun Studs, Inc. v. Applied Theory Assoc., Inc.*, 772 F.2d 1557, 1561,1563 (Fed. Cir. 1985) (applying Ninth Circuit law in determining the invalidity of a settlement agreement and in determining the standards governing

of cases -- *Atari, Inc. v. J.S. & A. Group, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984), *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861 (Fed. Cir. 1985), and *Cygnus Therapeutic Systems v. ALZA Corp.*, 92 F.3d 1153 (Fed. Cir. 1996) -- the Federal Circuit stated that "[w]e must approach a federal antitrust claim as would a court of appeals in the circuit of the district court whose judgment we review." 781 F.2d at 875.

However, years after the court was created, in March 1998, the Federal Circuit overruled its prior decisions and held that it would apply its own law, not circuit law, when antitrust claims were based on allegations that conduct in the procurement or enforcement of a patent is sufficient to strip a patentee of "its immunity from the antitrust laws."[75] In *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F. 3d 1059 (Fed. Cir. 1998), the Federal Circuit, in an opinion by Judge Lourie, ruled *en banc* that Federal Circuit law controlled an antitrust counterclaim based upon the Supreme Court's decision in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*:[76]

> [A]n antitrust claim premised on stripping a patentee of its immunity from the antitrust laws is typically raised as a counterclaim by a defendant in a patent infringement suit. . . . Because most cases involving these issues will therefore be

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disqualification of counsel); *Panduit Corp. v. All States Plastic Mfg.*, 744 F.2d 1564, 1575 (Fed. Cir. 1984), (Federal Circuit should apply regional circuit law to all procedural issues not unique to patent cases), *overruled in part on other grounds by Richardson-Merrell, Inc. v. Koller*, 472 U.S. 424, 432 (1985). *But see Viam Corp. v. Iowa Export-Import Trading Co.*, 84 F.3d 424, 428 (Fed. Cir. 1996) (applying Federal Circuit law to questions of personal jurisdiction); *Akro Corp. v. Luker*, 45 F.3d 1541, 1543 (Fed. Cir.), *cert. denied*, 526 U.S. 1112 (1995) (same).

[75] The Federal Circuit's choice of words in this regard is interesting. The reference to a patentee's "immunity from the antitrust laws" could be interpreted as reflecting a particular perspective on the relationship between patent law and antitrust principles.

[76] 382 U.S. 172 (1965). In *Walker Process*, the Supreme Court held that enforcement of a patent procured by fraud on the Patent Office may violate Section 2 of the Sherman Act, provided all other elements to establish a Section 2 monopolization charge are proved. *Id.* at 177.

> appealed to this court, we conclude that we should decide these issues as a matter of Federal Circuit law, rather than rely on various regional precedents.

Id. at 1068.

The Federal Circuit's rationale was fairly simple and was based on its charter to provide uniformity in the law applied to patent issues:

> We arrive at this conclusion because we are in the best position to create a uniform body of federal law on this subject and thereby avoid the 'danger' of confusion [that] might be enhanced if this court were to embark on an effort to interpret the laws of the regional circuits. . . . Accordingly, we hereby change our precedent and hold that whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law.

Id. The court, however, did not go as far as it might have in *Nobelpharma*. First, its new rule was limited to cases that were based on alleged misconduct in the procurement or enforcement of a patent (and did not cover other types of conduct, such as the refusal to license -- as will be discussed below, that came later). The court also limited the scope of its new rule, explaining that it would "continue to apply the law of the appropriate regional circuit to issues involving other elements of antitrust law such as relevant market, market power, damages, etc., as those issues are not unique to patent law . . . ." *Id.*

In *Nobelpharma*, the court opened the door to the creation of a new body of Federal Circuit antitrust law. To analyze the impact of this departure from the court's prior precedent on antitrust law, it is necessary to review how the court reached this point and where it has gone since *Nobelpharma*. The following sections review the development of the Federal Circuit's choice of law principles prior to the *Nobelpharma* decision and how that law has developed since the decision. A review of these cases is interesting not only from the perspective of

understanding the Federal Circuit's views on choice of law issues, but from the perspective of understanding the court's substantive antitrust jurisprudence as well.

B. The Federal Circuit's Approach to Antitrust Issues Prior to *Nobelpharma*

A few points can be noted from a review of the Federal Circuit's pre-*Nobelpharma* case law that bear on the significance of the court's decision to develop its own body of antitrust law.

- First, even before *Nobelpharma*, while the Federal Circuit was purporting to apply regional circuit law on antitrust issues, the court was developing, articulating and applying its own views on the proper relationship between the antitrust laws and the patent laws. The court, for instance, emphasized the importance of patent rights and expressed a desire to minimize the use of antitrust law to "thwart" efforts to enforce those rights. *E.g.*, *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 876-77 (Fed. Cir. 1985) ("[T]he treble damage threat of antitrust liability should not be used to thwart good faith efforts at patent enforcement") *overruled in part by Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998) (en banc).

- Second, the Federal Circuit had opportunities even before *Nobelpharma* to "make law" on antitrust issues in cases in which there was no controlling authority in the regional circuit. In such cases, the court looked to the law in other circuits, and its own precedents, to support its holdings.

- Third, with rare exception, the Federal Circuit typically held against the party asserting an antitrust claim. It is not clear, however, whether this fact says much about the court's view of antitrust principles or is only an indication of the weakness of the antitrust claims involved.

1. The Federal Circuit's Developing Views On The Proper Relationship Between The Antitrust Laws And Patent Rights

One of the earliest cases in which the Federal Circuit considered an antitrust issue was *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350 (Fed. Cir. 1984), where the court -- applying Ninth Circuit law -- considered, among other things, the antitrust claimant's argument that defining a "relevant market is not a necessary element of a Section 2 Sherman Act violation under established Ninth Circuit law." *Id.* at 1365. The Federal Circuit flatly disagreed and applied Ninth Circuit precedent holding that proof of a relevant market is required to establish a violation of Section 2 of the Sherman Act based on the enforcement of a patent. *Id.* at

1366 (noting that "the Ninth Circuit itself has acknowledged that proof of relevant market is essential" in proving a Sherman Act violation).[77] In addition, the Federal Circuit relied on the Supreme Court's holding in *Walker Process* that in a case involving alleged monopolization or attempted monopolization under Section 2 of the Sherman Act, it is "necessary to appraise the exclusionary power of the illegal patent in terms of the relevant market for the product involved." *Id.* (citing *Walker Process,* 382 U.S. at 177).

From an antitrust perspective, there is nothing particularly novel about the *American Hoist* decision. It is in accord with the law of the Ninth Circuit, and many others, at the time. In its opinion, however, the Federal Circuit took the opportunity to express its views on the relationship between the antitrust laws and patent rights in a manner that could be interpreted as favoring the protection of patent rights:

> The patent system, which antedated the Sherman Act by a century, is not an "exception" to the antitrust laws, and patent rights are not ***legal monopolies*** in the antitrust sense of that word. Accordingly, if a patent is held to have been obtained illegally, it is not properly said, ***ipso facto***, that it was all along an ***illegal monopoly*** and, thus, that its procurement and attempted enforcement was a ***per se*** violation of the antitrust laws. A holding that monopoly analysis should end in favor of liability on a determination of fraud, without more, would signal a fundamental misunderstanding of the substance and purposes of both patent and the antitrust laws.

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[77] The Federal Circuit, citing *Lessig v. Tidewater Oil Co.*, 327 F.2d 459 (9th Cir.), *cert. denied*, 377 U.S. 993 (1964) acknowledged that there was Ninth Circuit authority that had been cited for the proposition that "proof of relevant market is dispensable in 'attempt' cases." *Am. Hoist*, 725 F.2d at 1366. The court observed, however, that *Lessig* "was decided prior to *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*," and relied on post-*Walker Process* decisions in which, according to the Federal Circuit, "the Ninth Circuit itself [] acknowledged that proof of relevant market is essential." *Id.* at 1366-67. The post-*Walker Process* case law relied upon by the Federal Circuit involved claims based on the alleged fraudulent procurement or bad faith enforcement of a patent. Thus, the Federal Circuit was plainly of the view that, as of *American Hoist*, the Ninth Circuit's decision in *Lessig* was not good law at least with respect to cases based on the alleged fraudulent procurement or bad faith enforcement of a patent.

Am. Hoist, 725 F.2d at 1367; *see also The Antitrust Counterattack in Patent Infringement Litigation*, Antitrust Practice Handbook Series, at 206 (1994). The Federal Circuit also held that specific intent, which is a higher standard than gross negligence or recklessness, is an "indispensable element" in an attempt to monopolize claim based on fraud. *Am. Hoist*, 725 F.2d at 1368. At the very least, it was clear from the *American Hoist* case that, consistent with a view emphasizing respect for the patent system, the Federal Circuit would not pass lightly over an antitrust-claimant's burden of proving each element of its claim simply because the patent-holder obtained its patent by fraud.

Soon after *American Hoist*, the Federal Circuit took another opportunity to express its views on the relationship between antitrust and patents in *Loctite*. That case involved, among other things, the Federal Circuit's review of the dismissal of a counterclaim alleging bad faith enforcement of a patent based on the patentee's alleged knowledge that the defendant did not infringe the relevant patent. In the context of holding that a "clear and convincing evidence standard" ought to apply to an antirust claim based on allegations of bad faith enforcement, the court emphasized in dicta the merits of the patent system, noting that it is rooted in the Constitution and serves the same underlying goal as the antitrust law -- to promote competition:

> The patent system, which is rooted in the United States Constitution (Art. I, § 8, cl. 8), serves a very positive function in our system of competition, i.e., "the encouragement of investment based risk." By so doing, it "encourages innovation and its fruits: new jobs and new industries, new consumer goods and trade benefits." In that sense, therefore, and because the underlying goal of the antitrust laws is to promote competition … the patent and antitrust laws are complementary. Consequently, the treble damage threat of antitrust liability should not be used to thwart good faith efforts at patent enforcement.

Id. at 876-77 (citations omitted).

In *Atari Games Corp. v. Nintendo of America,* 897 F.2d 1572 (Fed. Cir. 1990), on appeal from the Northern District of California, the Federal Circuit reviewed the district court's entry of a preliminary injunction prohibiting Nintendo from filing contributory infringement suits against Atari's customers, retailers, distributors and dealers. *Id.* at 1574. The Federal Circuit expressed its view that a preliminary injunction takes on "special significance" when it involves patent rights and antitrust violations because an injunction granted without an adequate factual basis can offend the public policies underlying both the patent and antitrust laws. *Id.* at 1576-77. In discussing the interplay between patent rights and antitrust law, the Federal Circuit referred to a hodgepodge of Ninth Circuit law, other regional circuit law, its own case law, and Supreme Court precedent. *Id.* at 1576-78. Relying on its earlier decision in *Loctite,* the Federal Circuit stated that the patent laws and antitrust laws are complementary since both are aimed at encouraging innovation, industry, and competition. *Id.* at 1576.

The Federal Circuit held, however, that a patent holder is not insulated from antitrust laws merely because it possesses a patent. *Id.* (citing *United States v. Line Material Co.,* 333 U.S. 287, 308 (1948); *Miller Insituform v. Insituform of N.A., Inc.,* 830 F.2d 606, 608 (6th Cir. 1987), *cert. denied,* 484 U.S. 1064 (1988); *United States v. Westinghouse Elec. Corp,* 648 F.2d 642, 647 (9th Cir. 1981)). In language that seems to foreshadow the later controversial dicta in *CSU v. Xerox*, 203 F.3d 1322 (Fed. Cir. 2000), the court identified four situations in which patent owners may incur antitrust liability: (i) for enforcement of a patent known to be obtained through fraud (citing *Walker Process, 382 U.S. 172),* (ii) for enforcement of a patent known to be invalid (citing *Handguards, Inc. v. Ethicon, Inc.,* 601 F.2d 986 (9th Cir. 1979), *cert. denied,* 444 U.S. 1025 (1980)), (iii) where a patent license compels the purchase of unpatented goods (citing *Morton Salt Co. v. G.S. Suppiger Co.,* 314 U.S. 488 (1942)), or (iv) where there is an overall scheme to use

the patent to violate antitrust laws (citing *Kobe v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), *cert. denied*, 244 U.S. 837 (1952)). *Id.* at 1567-77.

In *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997), the Federal Circuit again appeared to express a preference for the enforcement of patent rights over antitrust law. In that case, the plaintiff alleged that the defendant infringed its patent and the defendant counterclaimed by arguing patent misuse and antitrust violations. *Id.* at 862. In two separate decisions, the district court (the Western District of Virginia) held that the defendant infringed the patent owned by the plaintiff, and that the plaintiff engaged in patent misuse and violated the antitrust laws. *Id.* (citing *Virginia Panel Corp. v. MAC Panel Co.*, 887 F. Supp. 880 (W.D. Va. 1995) and *Virginia Panel Corp. v. MAC Panel Co.*, Civ. A. No. 93-0006-H, 1996 WL 335381 (W.D. Va. May 29, 1996)).

In deciding to apply Fourth Circuit law to the antitrust claim in *Virginia Panel*, the Federal Circuit reiterated that "[w]hen reviewing a district court's judgment involving federal antitrust law, we apply the law of the regional circuit in which that district court sits." *Id.* at 872. To show an antitrust violation, Fourth Circuit law required a causal connection between the alleged antitrust violation and the damages claimed. *Id.* (citing *Metrix Warehouse, Inc. v. Daimler-Benz Aktiengesellschaft*, 828 F.2d 1033, 1043-44 (4th Cir.), *cert. denied*, 486 U.S. 1017 (1988)). It nonetheless could be argued that Judge Lourie's opinion for the panel again stressed an apparent preference for patent rights over antitrust law when it stated:

> The antitrust laws do not preclude patentees from putting suspected infringers on notice of suspected infringement. . . . Rather, they are designed to promote competition to the advantage of consumers, not for the protection of competitors. . . . . Thus, a patentee may lawfully police a market that is effectively defined by its patent. Similarly, the antitrust laws are not designed to penalize an individual who lawfully obtains a government procurement contract, even if the award of that contract dramatically and necessarily altered a two-supplier market. While the district court and the jury viewed [plaintiff's]

> aggressive conduct as anti-competitive and as the cause of [defendant's] market losses, [plaintiff's] enforcement of the patent rights was not unlawful.

Id. at 873-74 (citations and footnote omitted). The Federal Circuit reversed the district court's finding of an antitrust violation under Section 2 of the Sherman Act, holding that the evidence did not even support a patent misuse claim and therefore could not amount to an antitrust violation. *Id.* at 873.

Thus, prior to its decision in *Nobelpharma,* the Federal Circuit expressed views regarding the overarching relationship between antitrust principles and patent rights. Moreover, although the court was bound by its own law to apply the law of the regional circuits to antitrust issues, those views must have necessarily informed its interpretation and application of regional circuit law. Indeed, prior to *Nobelpharma,* the Federal Circuit had many opportunities to give effect to its views on the proper role of antitrust law in circumscribing patent rights in cases, like those discussed below, in which there was an absence of clear regional circuit law on point.

2. The Federal Circuit Had The Opportunity To "Make" Antitrust Law Even Prior To *Nobelpharma*

In many, if not most, of the pre-*Nobelpharma* cases dealing with antitrust or misuse issues, the Federal Circuit had some discretion in crafting the appropriate legal rule because there was no clear authority in the regional circuit (although in some of these cases, the Federal Circuit simply made no mention at all of regional circuit law) or because they involved a patent misuse defense. Thus, even prior to *Nobelpharma*, the court had a fair degree of leeway to give effect to its views on patent-antitrust issues.

a. Pre-*Nobelpharma* Cases in which No Clear Regional Circuit Law Existed and/or in which the Federal Circuit Applied Its Own Precedent

One of the first examples of the Federal Circuit's discretion in ruling on antitrust issues is its decision in *Loctite Corporation v. Ultraseal Ltd.,* 781 F.2d 861 (Fed. Cir. 1985). That case

involved, among other things, the Federal Circuit's review of the dismissal of a counterclaim alleging bad faith enforcement of a patent based on the patentee's alleged knowledge that the defendant did not infringe the relevant patent. On the choice of law issue, the Federal Circuit held that it must "approach a federal antitrust claim as would a court of appeals in the circuit of the district whose judgment we review." *Loctite Corp.*, 781 F.2d at 875. Consequently, the court stated that Seventh Circuit antitrust law would apply and that it would look to applicable law from other regional circuits for guidance especially in unexplored areas of the law. *Id.* at 875.

On one of the key issues in the appeal -- the district court's holding that the defendant had to prove bad faith enforcement by "clear and convincing" evidence -- there was no clear Seventh Circuit authority. The district court had relied on the Ninth Circuit's decision in *Handgards, Inc. v. Ethicon, Inc*, 601 F.2d 986 (9th Cir. 1979), applying a clear and convincing evidence standard to allegations of bad faith enforcement based on the patentee's alleged knowledge that the patents were invalid. *Id.* at 876. In holding in *Loctite* that "clear and convincing" was the appropriate standard for a case alleging bad faith allegations of infringement, the Federal Circuit also looked to the Ninth Circuit's decision in *Handgards*, reasoning that because a patentee's infringement action is presumptively in good faith, that presumption can only be rebutted by a showing of clear and convincing evidence.[78] Moreover, the court, as did the Ninth Circuit, reasoned that a "preponderance of the evidence" standard would chill legitimate patent enforcement suits because of the fear of treble damage awards. *Id.* According to the Federal Circuit, the Seventh Circuit would similarly decline to apply the preponderance of the

[78] The *Handgards* decision was not directly on point. The *Handgards* court's use of the clear and convincing standard was based in part on the presumption of validity of a patent that is expressly within the patent statute. The question in *Loctite* was whether the patentee had a good faith belief that the patent was infringed, not that it might have been invalid. No statutory presumption applies to the patentee's belief that the patent was infringed.

evidence standard in this context. *Id.* (noting "[w]e decline [to apply the preponderance of the evidence standard advocated by the defendant], and more importantly, we believe the Court of Appeals for the Seventh Circuit would decline to do so.").

Another early example of the Federal Circuit's enunciating antitrust rules can be seen in the development of the law on whether inequitable conduct in the prosecution of a patent could satisfy the fraud element of a *Walker Process* claim. In the first of a line of cases on this issue, *Argus Chemical Corp. v. Fibre Glass-Evercoat Co.*, 812 F.2d 1381 (Fed. Cir. 1987), the court appeared to adhere to the law of the relevant regional circuit (the Ninth), citing to a number of Ninth Circuit precedents in holding that inequitable conduct cannot satisfy the *Walker Process* requirement for "intentional fraud" on the Patent Office. *Id.* at 1384-85 (holding that "[t]here is no reason to believe that the Ninth Circuit would depart from [the intentional fraud] standard and sanction a *Walker Process* claim based upon inequitable conduct").[79]

However, in its next decision on this very same issue, *Allen Archery, Inc. v. Browning Manufacturing Co.*, 819 F.2d 1087 (Fed. Cir. 1987), the Federal Circuit appeared to ignore the application of regional circuit law (the Tenth) and rely only on its opinion in *Argus Chemical*. One of the defendant's counterclaims in *Allen Archery* (which had been rejected by the district court) involved allegations that the plaintiff violated Section 2 of the Sherman Act by obtaining

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[79] In *Argus*, the Federal Circuit also rejected the antitrust claimant's additional antitrust theory that the patentee monopolized and attempted to monopolize the relevant market by bringing an infringement suit in bad faith. 812 F.2d at 1385. Applying the regional circuit law of the *Handgards* decisions to this case, the Federal Circuit provided that "to prevail in an antitrust claim based upon enforcement of an invalid or unenforceable patent, the litigant must establish that the patentee acted in bad faith in enforcing the patent because he knew that the patent was invalid." *Id.* at 1386 (citing *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (1979), and *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282 (1984)). The Federal Circuit held that the antitrust claimant had not made a sufficient evidentiary showing of bad faith. *Id.* at 1386. The court noted that the only evidence offered to support the bad faith claim was a letter from another competitor that the patents were invalid because of an alleged prior sale. *Id.* The court held that such a letter by an accused infringer "cannot be turned into evidence that the patentee knew that the patent was invalid when it instituted an infringement suit." *Id.*

the relevant patent through inequitable conduct. *Id.* at 1098. In rejecting this claim, the Federal Circuit first found that the proofs did not demonstrate that the plaintiff engaged in inequitable conduct. It further stated that, in any event, under its decision in *Argus Chemical*, an allegation of inequitable conduct does not establish a violation of the Sherman Act. In support of this latter conclusion, the Federal Circuit provided no substantive analysis. Instead, it simply cited its previous decision in *Argus Chemical*, a case decided under Ninth Circuit law, without discussing or attempting to apply Tenth Circuit law. Judge Friedman, who wrote the opinions in both *Allen Archery* and *Argus Chemical*, did not mention this point and seems to have treated *Argus Chemical* as controlling rather than searching for relevant regional circuit law on this antitrust issue.[80]

The Federal Circuit in *Allen Archery* also affirmed the district court's finding that the patentee did not engage in inequitable conduct. Again applying Federal Circuit -- without mentioning Tenth Circuit -- precedent, the court found that the antitrust claimant failed to prove by clear and convincing evidence that the patentee had misrepresented or failed to disclose material information to the PTO in the prosecution of the patent, and failed to prove that any such misrepresentation was intentional. *Id.* at 1094-95 (citing *N.V. Akzo, Aramide Maatschapij v. E.I. du Pont de Nemours & Co.*, 810 F.2d 1148, 1153 (Fed. Cir. 1987), *J.P. Stevens & Co. v. Lex Tex, Ltd.*, 747 F.2d 1553, 1559-60 (Fed. Cir. 1984), *cert. denied*, 474 U.S. 822 (1985), *Orthopedic Equip. Co. v. All Orthopedic Appliances*, 707 F.2d 1376, 1383 (Fed. Cir. 1983)).

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[80] There were other occasions prior to *Nobelpharma* in which the Federal Circuit did not rely upon regional circuit law. For example, in *Indium Corporation of America v. Semi-Alloys, Inc.*, 781 F.2d 879 (Fed. Cir. 1985)), cert. denied, 479 U.S. 820 (1986), the Federal Circuit made no reference to any regional circuit law in deciding an issue related to antitrust standing. Instead, the court looked only to Supreme Court precedent in holding that an antitrust claimant who alleged that the patent holder procured its patents by fraud lacked standing because it failed to present evidence that it was prepared to enter the market or that the patentee enforced the relevant patents against it. *Id.* at 882.

The Federal Circuit once again appeared to rely on its own precedents in connection with a *Walker Process* claim in *FMC Corp. v. Manitowoc Co.* 835 F.2d 1411 (Fed. Cir. 1987). In that case, the District Court for the Northern District of Illinois upheld the validity of a patent for heavy lift cranes, found that the patent was not infringed, and found no inequitable conduct nor any antitrust violations. *Id.* at 1412. The antitrust claimant appealed the district court's judgment with respect to its *Walker Process* claim and its general Sherman Act Section 2 claim. In discussing the *Walker Process* claim, the Federal Circuit found that since the antitrust claimant did not establish inequitable conduct on the patentee's part, it had failed to establish its greater burden of proving fraud under *Walker Process.* In so holding, the court relied on its earlier decisions regarding the distinction between inequitable conduct and the type of fraud required in a *Walker Process* claim, including those in *Argus Chemical*, 812 F.2d at 1384-85 and *American Hoist,* 725 F.2d at 1368. *Id. at 1417*-18.

Similarly, in *Genentech, Inc. v. Eli Lilly & Co.* 998 F.2d 931 (Fed. Cir. 1993), the Federal Circuit did not discuss regional circuit law in commenting on the antitrust consequences of an exclusive licensing arrangement. In that case, Genentech brought suit against the Regents of the University of California (the University) and Eli Lilly & Co. in the District Court for the Southern District of Indiana claiming, among other things, that the defendants violated Sections 1 and 2 of the Sherman Act when they conspired, through their licensing activities, to exclude Genentech from the human growth hormone market. *Id.* at 948. With respect to the defendants' licensing arrangements, the Federal Circuit broadly held that "Genentech has not pled facts which if proved constitute violation of the antitrust laws." *Id.* at 949. The court reasoned that a grant of an exclusive license is a lawful right to exclude under the Patent Act, and the University's right to select its licensees is not a restraint of trade. *Id.* at 949 ("The patenting and licensing of the results of University research is not a violation of antitrust principles, and the grant of an exclusive

license is a lawful incident of the right to exclude provided by the Patent Act. The University's right to select its licensees, the decision to grant exclusive or non-exclusive licenses or to sue for infringement, and the pursuit of optimum royalty income, are not of themselves acts in restraint of trade."). In so holding and affirming the district court's dismissal of the antitrust claim pursuant to Rule 12(b)(6), the Federal Circuit did not mention regional circuit law at all. *Id.* at 949.[81]

Again, in *Carroll Touch, Inc. v. Electro Mechanical Systems, Inc.*, 15 F.3d 1573 (Fed. Cir. 1993), the Federal Circuit similarly did not consider the substantive antitrust law of the regional circuit in an appeal on an antitrust issue. In that case, the Federal Circuit considered, *inter alia*, an appeal from a dismissal of an antitrust counterclaim based on allegations that the patent infringement claim constituted "sham litigation" such that the patent holder's conduct violated the antitrust laws. The district court granted summary judgment to the patent holder on this issue, finding that the antitrust claimant failed to establish a genuine issue of material fact. In discussing whether the sham litigation exception applied, such that there could be antitrust liability, the Federal Circuit cited its decision in *Loctite*, and stated that "[w]e must approach a federal antitrust claim as would a court of appeals in the circuit of the district court whose judgment we review." 15 F.3d at 1583.

Although the court stated that it would look to Seventh Circuit law in deciding whether the antitrust counterclaim was properly dismissed, its analysis of the substantive antitrust issue did not rest upon principles developed in the Seventh Circuit. Rather, it referred to Seventh Circuit cases setting forth standard summary judgment principles, and then concluded, based on Supreme Court antitrust precedent, that the antitrust claimant failed to satisfy the objective prong

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[81] The court also held that the sovereign immunity doctrine did not bar Genentech's state law counterclaims and defenses and other antitrust counterclaims and defenses (to the extent not based on the licensing activities). *Genentech*, 998 F.2d at 947-48.

of the two-part definition of "sham litigation." The Court's reference to substantive antitrust law appeared in a footnote, where it cited its decision in *Loctite* in support of its conclusion that it was not necessary to consider the patent holder's subjective intent in instituting the patent suit. *Id.* at 1583 n.10.

The Federal Circuit clarified its pre-*Nobelpharma* approach to regional circuit antitrust law in *Nobelpharma AB v. Implant Innovations, Inc,* 129 F.3d 1463 (Fed. Cir. 1997) ("*Nobelpharma I*"), *withdrawn*, 141 F.3d 1059 (Fed. Cir. 1998) (en banc), the predecessor to the 1998 *en banc* decision. As an assignee of a dental implant patent, Nobelpharma brought a patent infringement suit in the district court against Implant Innovations, which counterclaimed by alleging antitrust violations by Nobelpharma. After a jury returned a verdict that Nobelpharma violated antitrust laws by bringing suit against Implant Innovations, Nobelpharma sought a judgment as a matter of law or in the alternative a new trial under Federal Rule of Civil Procedure 50(b). The district court rejected both motions. *Id.* at 1469. The Federal Circuit held that the District Court erred in denying the motion for judgment as a matter of law. *Id.* at 1470.

In reaching its conclusion concerning the antitrust claim, the Federal Circuit explained that it would apply Seventh Circuit law if the law was clear concerning when a patentee may incur antitrust liability for enforcing its patent. *Id.* at 1470. Absent such clear law, however, the court turned to Supreme Court precedent and other regional circuit law to determine how the Seventh Circuit would decide the issue. *Id.* The Federal Circuit concluded that there was no evidence to prove that the "patent was obtained by fraud", *i.e.* knowingly false statements, required under a *Walker Process* counterclaim. *Id.* at 1472. The Federal Circuit again stated that evidence of inequitable conduct does not necessarily support a claim of antitrust liability under *Walker Process*. *Id.* at 1473. Relying on what it determined to be regional circuit law, though citing cases from several circuits, the Federal Circuit panel concluded that failure to disclose is

not fraud under *Walker Process*, since in the panel's view there was a clear distinction between omissions, which would not constitute fraud under *Walker Process*, and affirmative misrepresentations, which would constitute fraud. *Id.* at 1472-73.

In addition, the court found that Nobelpharma's infringement suit was not objectively baseless and therefore not a sham. *Id.* at 1474. In a part of the opinion later withdrawn, the panel stated that inequitable conduct could never support a bad faith litigation claim because inequitable conduct requires a balancing of materiality and intent, the outcome of which could not be known conclusively prior to trial.[82] Although it purported to apply regional circuit law, one could argue that the court's decision again was influenced by its views of the relationship between antitrust law and patent rights. Indeed, the court stated that imposing antitrust liability on Nobelpharma would "thwart its entitlement to test the validity and scope of its patent." *Id.* at 1474.

b. **The Federal Circuit's Application of Its Law in Cases Involving the Patent Misuse Defense**

One area in which the Federal Circuit, even prior to *Nobelpharma*, ruled on antitrust-related issues without necessarily relying on regional circuit law is the application of the patent misuse defense. Although the Federal Circuit has not specifically discussed choice of law issues in patent misuse cases, it has cited Supreme Court cases and cases from various circuits but has not purported to follow the law of the regional circuit involved. From its method of analysis in these cases, it appears that the Federal Circuit has assumed its law would apply, as the patent misuse issue is bound up with enforcement of patent rights. As discussed below, one could argue that application of the patent misuse doctrine is one area in which the Federal Circuit has

[82] *See* James B. Kobak, Jr., *The Doctrine That Will Not Die: Nobelpharma, Walker Process, and the Patent-Antitrust Counterclaim,* 13 Antitrust 47, 48 (1998).

curtailed the use of antitrust principles which might otherwise limit the manner in which a patent holder can use its intellectual property.

Patent misuse is an affirmative defense raised by an alleged infringer to avoid liability in an infringement action, and has traditionally been asserted in two situations: (i) where a patent has allegedly been used to violate the antitrust laws, and (ii) where a patentee has allegedly attempted to use the patent in a manner designed to extend its scope.[83] The Federal Circuit, however, has tended to merge patent misuse and antitrust principles, virtually limiting misuse to situations in which the patent has been used to violate the antitrust laws.

The Federal Circuit first began to equate misuse with an antitrust violation in *Windsurfing International, Inc. v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir.), *cert denied*, 477 U.S. 905 (1986). In that case, the district court found that Windsurfing had engaged in patent misuse by inserting a provision in the patent license agreement that required the licensee to acknowledge the validity of registered trademarks and to avoid their use. *Id.* at 1001. The Federal Circuit, however, reversed the District Court's decision, holding that to sustain a misuse defense based on conduct not held to be per se anticompetitive by the Supreme Court, "a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market." *Id.* at 1001-02.

The Federal Circuit went on to observe that a license agreement provision which required the licensee to acknowledge the validity of registered trademarks and to avoid their use does not unlawfully restrain competition in an appropriately defined relevant market and therefore does not constitute patent misuse. *Id.* at 1002. In fact, the Federal Circuit went so far as to state that

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83. *The Antitrust Counterattack in Patent Infringement Litigation*, Antitrust Practice Handbook Series, at 48-49 (1994); George Gordon & Robert J. Hoerner, *Overview and Historical Development of the Misuse Doctrine*, ABA Section of Antitrust Law, *Intellectual Property Misuse: Licensing and Litigation*, at 1 (2000) [hereinafter "*Licensing and Litigation*"].

"[r]ecent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive." *Id.* at 1002 n.9 (citing *USM Corp. v. SPS Techn., Inc.*, 694 F.2d 505, 510-14 (7th Cir. 1982), *cert denied*, 462 U.S. 1107 (1983)). As one commentator has observed, the Federal Circuit's holding in *Windsurfing* "clearly takes issue with Supreme Court precedent, and suggests that no licensing practice should be deemed misuse unless it violates an antitrust-type rule of reason." James B. Kobak, Jr., *The Federal Circuit as a Competition Law Court,* J. of the Patent and Trademark Off. Soc'y 527, 544 (Aug. 2001); *see also Licensing and Litigation, supra,* at 23.

In *Senza-Gel Corp. v. Seiffhart,* 803 F.2d 661 (Fed. Cir. 1986), the Federal Circuit retreated slightly from its position in *Windsurfing.* Senza-Gel required the user of its process patent to lease its "macerator" machine as well. The district court found that Senza-Gel's tying practice was misuse but certified for appeal the elements of misuse in a tying context. *Id.* at 664. In its determination of the elements of misuse in a tying context, the district court conspicuously left out any requirement of market power in the tying product. *See Licensing and Litigation, supra* at 24.

On interlocutory appeal, the Federal Circuit stated with some apparent reluctance that Supreme Court precedent required the court to recognize some *per se* categories of misuse:

> Commentators and courts have questioned the rationale appearing in Supreme Court opinions dealing with misuse in view of recent economic theory and Supreme Court decisions in non-misuse contexts. We are bound, however, to adhere to existing Supreme Court guidance in the area until otherwise directed by Congress or by the Supreme Court.

Senza-Gel Corp., 803 F.2d at 665 n.5. The Federal Circuit went on to discuss the interplay of patent misuse and antitrust law by providing that certain conduct "may constitute patent misuse without rising to the level of an antitrust violation." *Id.* at 668 (citing *Zenith Radio Corp. v. Hazeltine Research, Inc.,* 395 U.S. 100, 140 (1969)). The court stated:

> The law of patent misuse in licensing need not look to consumer demand (which may be non-existent) but need look only to the nature of the claimed invention as the basis for determining whether a product is a necessary concomitant of the invention or an entirely separate product. The law of antitrust violation, tailored for situations that may or may nor involve a patent, looks to consumer demand test for determining product separability.

Id. at 670 n.14. In rendering its decision to affirm summary judgment on the patent misuse defense, the Federal Circuit held that tying the patented process to the lease of an unpatented machine constituted misuse and thereby rendered the patent unenforceable. *Id.* at 668-69.

At the same time, the Federal Circuit affirmed the district court's denial of summary judgment with respect to the antitrust claim. *Id* at 679. Relying on Ninth Circuit and Supreme Court precedent, the Federal Circuit held that the issue of whether there are separate products for purposes of a tying claim centered around the character of the demand for the items. *Id.* at 670 (citing *Jefferson Parish Hosp. Dist. No.2 v. Hyde*, 466 U.S. 2, 19 (1984) (stating that "the answer to the question whether two products are involved turns not on the functional relationship between them, but rather on the character of the demand for the two items")); *Drinkwine v. Federated Publ'ns, Inc.*, 780 F.2d 735, 741 (9th Cir.), *cert. denied*, 475 U.S. 1087 (1986) (noting that separability is "a question of character of demand"); *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1339 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985) (noting that separability is established by demand for tied product). Thus, the court held that the separate product analysis for misuse purposes is distinct from the separate product analysis for antitrust purposes, that latter requiring an examination of "consumer behavior (market demand)." *Id.* at 670.

The Federal Circuit returned to the *Windsurfing* approach in *Mallinckrodt, Inc. v. MediPart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). In that case, the patentee included a "single use only" restriction on a label affixed to a medical device created to diagnose and treat respiratory ailments. Mallinckrodt sued MediPart for infringing the label license since MediPart sterilized

used devices and sent them back to hospitals for reuse. MediPart argued that the right to bring an infringement suit was exhausted due to the sale of the device. The district court granted summary judgment in MediPart's favor.

The Federal Circuit used the case as a vehicle to limit further the misuse defense.[84] The Federal Circuit held that patent rights were not exhausted when a patented article was sold with conditions on its use, and that such conditions could be enforced through an infringement suit. *Mallinckrodt*, 976 F.2d. at 706. It also ruled on the merits of a misuse defense based on the resale condition, an issue that was not argued before the district court or the Federal Circuit. The Federal Circuit held that the threshold inquiry for patent misuse purposes is whether the challenged conduct "is reasonable within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason." *Id.* at 708. Under the *Mallinckrodt* test, antitrust principles do not come into play unless the conduct is outside the scope of the patent grant. Even if the conduct is beyond the scope of the patent, however, its effects must still be analyzed under the antitrust rule of reason. *Id.*

In effect, the two-pronged test set forth in *Mallinckrodt* created a "scope of the patent" screen for courts to apply before even beginning a competitive effects inquiry. The Federal Circuit appeared to apply the test in this manner in both *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997), *cert denied*, 525 U.S. 815 (1998), and in *B. Braun Medical Inc., v. Abbott Laboratories*, 124 F.3d 1419 (Fed. Cir. 1997). In *Virginia Panel*, the Federal Circuit rejected the claim that threats to enforce patents constitute misuse because such conduct falls within the legitimate rights of the patentee. 114 F.3d at 869-70. In *B. Braun*, the Federal Circuit

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[84]. *See* James B. Kobak, Jr., *Some Thoughts About the CAFC's Mallinckrodt Decision*, 75 J. Patent Trademark Off. Soc'y 550 (1993).

remanded the district court's judgment finding patent misuse for a determination of whether the use restrictions at issue exceeded the scope of the patent grant. 124 F.3d at 1426. Similarly, in *Engel Industries, Inc. v. Lockformer Co.*, 96 F.3d 1398 (Fed. Cir. 1996), the Federal Circuit rejected a claim of misuse based on a license requiring royalty payments predicated on sales of unpatented components that the licensee had the option of purchasing from the patent owner. *Id.* at 1408. The Federal Circuit relied on the facts that the purchase of the unpatented goods was voluntary and that the license was not conditioned on the purchase of the those items. *Id.* at 1408-09. Finally, the court also reasoned that threats to enforce patents do not constitute misuse. *Id.* at 1408.

3. The Federal Circuit Rarely Ruled in Favor of Parties Asserting Antitrust Claims

A review of the Federal Circuit cases involving antitrust issues confirms that antitrust claimants did not fare well on appeal. In all but two of the cases before *Nobelpharma*, the Federal Circuit ruled against the party claiming an antitrust violation and/or patent misuse.[85] Given the Federal Circuit's pronouncements regarding the relationship between patent rights and antitrust law, some might jump to a quick conclusion based on antitrust claimants' dismal

[85] In *Senza-Gel*, the court affirmed summary judgment in favor of the alleged infringement on the patent misuse defense, but also affirmed the denial of summary judgment on the related antitrust claim. The other decision is *U.S. Phillips v. Windmere Corp.*, 861 F.2d 695 (Fed. Cir. 1988) in which the Federal Circuit reversed the grant of a directed verdict against an antitrust claimant. The Federal Circuit held that the district court took too narrow a view of the evidence in support of the allegation that the patentee willfully maintained its monopoly in the rotary shaver market and found that the antitrust claimant presented sufficient evidence of predatory pricing to preclude a directed verdict on that issue. Id. at 703. Again relying on Supreme Court precedent, the Federal Circuit noted that "[e]vidence that a firm holding 90 percent of a market that has substantial entry barriers drastically slashes its prices in response to the competition of a new entrant, for the purpose and with the effect of eliminating that entrant, is sufficient to show monopolization, in violation of section 2 of the Sherman Act." *Id.* at 704 *(citing Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 610-611 (1985)*; Am. Tobacco Co. v. United States*, 328 U.S. 781 (1946)). Judge Newman, however, wrote a vigorous dissent, in which Chief Judge Markey joined.

appellate record in the Federal Circuit. It is not clear, however, that the results necessarily reflect hostility to antitrust principles as opposed to the weakness of the antitrust claims in the cases before the court.

Indeed, a review of the Federal Circuit decisions before *Nobelpharma* reveals very few surprises. For the most part, the court's application of antitrust principles, even where there was no guiding regional circuit law, appears to have been consistent with mainstream antitrust law.[86] There are no cases in which it is clear that a regional circuit would have come to a different result. For example, the Federal Circuit's repeated holdings that inequitable conduct is insufficient to satisfy the elements of a *Walker Process* claim are consistent with the language of the *Walker Process* decision itself, which required "intentional fraud," and with the law of the Ninth Circuit at the time (the law which the Federal Circuit was applying in *Argus Chemical*).

Similarly, there is nothing particularly surprising about the Federal Circuit's other antitrust holdings during this time period: that an antitrust claimant must prove a relevant market to prevail on a Section 2 claim (*American Hoist*), that specific intent requires something more than recklessness or negligence (*American Hoist*), that clear and convincing evidence is necessary to prevail on a bad faith litigation claim (*Loctite*),[87] that an antitrust claimant who had not been sued by the patentee did not have standing to assert a *Walker Process* claim (*Indium*), that there is nothing inherently unlawful about an exclusive licensing arrangement (*Genentech*), and that there must be some effort at enforcement before a patent can serve as a basis for an antitrust claim

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[86] *See* Peter M. Boyle, Penelope M. Lister and J. Clayton Everett, Jr., *Antitrust Law At The Federal Circuit: Red Light Or Green Light At The IP-Antitrust Intersection*, 69 Antitrust L.J. 739, 741 (2002) (concluding that "the Federal Circuit's holdings in antitrust cases find ample support in mainstream antitrust principles and cannot be characterized as a patent court's efforts to thwart the antitrust laws").").

[87] While the issue in *Loctite* was somewhat different than that in *Handguards* as discussed above, it seems likely that most courts would agree with the Federal Circuit's resolution of it.

(*Cygnus Therapeutic Sys. v. Alza Corp.*, 92 F.3d 1153, 1159 (Fed. Cir. 1996), *overruled on other grounds*, *Nobelpharma AB v. Implant Innovations*, 141 F.3d 1059 (Fed. Cir. 1998) (en banc)).

There are perhaps three possible exceptions to this general observation. First, in *Atari*, the Federal Circuit seemed to use fairly limited language to describe the four situations in which a patentee might violate the antitrust laws. It is not at all clear, however, from the language of the decision that the court meant the list to be exhaustive. Second, in *Nobelpharma I*, the court held that omissions could not provide the basis for a *Walker Process* claim. One can easily imagine the regional circuits coming out differently on that question, as did the Federal Circuit itself (en banc) in *Nobelpharma II*. Finally, the Federal Circuit's patent misuse decisions have significantly raised the hurdle for using antitrust-type principles, through a misuse defense, to limit the manner in which a patent is used, and it is not clear that other courts would necessarily have reached the same result as the Federal Circuit did in *Engle* or would conclude that threats to enforce patent rights could never constitute a misuse.

C. The Federal Circuit's Treatment Of Antitrust Issues after *Nobelpharma*.

Interestingly, the court in *Nobelpharma II* reversed not only its choice of law precedent, but also its conclusion in the case before it that an omission could not form the basis for a *Walker Process* claim. The court explained that "we arrive at this conclusion because a fraudulent omission can be just as reprehensible as a fraudulent misrepresentation." 141 F.3d at 1070. Although the court emphasized the distinction between inequitable conduct and *Walker Process* fraud, it concluded that a reasonable jury could have found that the patentee in that case engaged in fraud sufficient to support a claim under *Walker Process*. *Id.* at 1073.

Since the March 1998 decision by the Federal Circuit in *Nobelpharma,* the court has rendered a number of decisions that flesh out its view of antitrust law, as well as its choice of law

rules. Some of these recent decisions are also among the Federal Circuit's most controversial. In them, the court expanded the issues to which it applied its own law beyond the patent prosecution issues in *Nobelpharma* to antitrust issues involving "predatory" product development, preemption, and refusals to deal.

The Federal Circuit's first post-*Nobelpharma* antitrust decision, *In re FilmTec Corp.*, No. 548, 1998 WL 398431, 155 F.3d 573 (Fed. Cir. 1998) (unpublished), was the court's third opinion in that contentious battle. In that case, the Federal Circuit refused to extend its ruling in *Nobelpharma* to cover jurisdiction as well as choice of law. The appeal arose when FilmTec sought a petition for a writ of mandamus to reverse the district court's denial of a summary judgment motion in Hydranautics' antitrust action against FilmTec (which did not involve any patent claims at all). FilmTec asserted that the Federal Circuit had jurisdiction to decide its mandamus petition, arguing (among other things) that, based on *Nobelpharma*, the Federal Circuit had exclusive jurisdiction to determine whether a patentee "should be stripped of immunity from antitrust laws." The court rejected this argument, explaining that its *Nobelpharma* decision related to choice of law, not jurisdiction.

In *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340 (Fed. Cir.), *reh'g en banc den.*, 161 F.3d 1380 (Fed. Cir. 1998), *cert. denied*, 526 U.S. 1130 (1999), the Federal Circuit, among other things, returned to the proof necessary in a *Walker Process* claim. Relying on *Walker Process* and its own precedents, the Federal Circuit emphasized once again the rigorous standard of fraud necessary to prevail on such a claim in contrast to the lesser standard under an inequitable conduct defense.[88] *Id.* at 1364-65. After reviewing the evidence, the court reversed the jury's verdict that Bard violated the antitrust laws under *Walker Process*, finding that there had been no

[88] On this same point, *see also In re Spalding Sports Worldwide, Inc.*, 203 F.2d 800, 807 (Fed. Cir. 2000).

fraudulent conduct. The court also considered whether or not the infringement suit was a sham. The court stated that neither an unsuccessful suit, nor enforcing a patent that "falls to invalidity" subjects the patentee to antitrust liability. *Id.* at 1368-69. The court found that the evidence that Bard "knew" its patents were not infringed (which consisted of testimony from one engineer who said that other employees told him one of the relevant patents was not infringed) was insufficient to support a claim of sham litigation.[89] *Id.* The court also held that this conduct could not support the jury's finding that Bard had engaged in patent misuse. *Id.* at 1371-73.[90]

The court's holding on the *Walker Process* claim and its ruling on the sham litigation claim did not represent significant departures from pre-*Nobelpharma* law or mainstream antitrust jurisprudence (although it is significant that the Federal Circuit was willing to review the evidence in such detail in reversing jury verdicts on those claims). However, its ruling on the final basis for the antitrust claims was more controversial, albeit in a manner favoring the antitrust claimant, M3. In addition to its *Walker Process* and sham litigation claims, M3 alleged that Bard attempted to monopolize the relevant market for biopsy needles by modifying its patented biopsy gun for no reason other than to render M3's needle's incompatible. A divided panel (per Judge

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89 *See also Glass Equip. Dev. Inc. v. Besten, Inc.*, 174 F.3d 1337, 1343-44 (Fed. Cir. 1999) (a lawsuit to enforce patent rights is exempt from the antitrust laws unless the patent was obtained by fraud or the lawsuit is a sham).

90 The court again expressed a very limited view of the scope of the misuse defense:

> M3 Systems did not propose any of the classic grounds of patent misuse, such as tying or enforced package licensing or price restraints or extended royalty terms …, but generally urged the view that Bard's actions, even if not illegal, were an improper use of patents. Although the law should not condone wrongful commercial activity, the body of misuse law and precedent need not be enlarged into an open-ended pitfall for patent-supported commerce.

Id. at 1373.

Bryson, joined by Chief Judge Mayer) affirmed the jury's verdict in favor of M3, although it vacated the damage award because it did "not provide clear guidance as to the proper allocation of damages due to the injury suffered by M3 in the injury replacement needle market" (the only injury for which the court allowed recovery on the antitrust claims). *Id.* at 1382. Judges Mayer and Bryson held that the evidence supported the jury's conclusion that Bard had modified its biopsy gun for predatory reasons, "i.e., for the purpose of injuring competitors in the replacement needle market, rather than for improving the operation of the gun." *Id.* at 1382.

Interestingly, on this issue -- which has no necessary connection to patent rights -- the Federal Circuit did not mention the law of the regional circuit (the Seventh). Instead, for the proposition that M3 could base an antitrust claim on a showing that "Bard made a change in its Biopty gun for predatory reasons," the court cited a decision from the Northern District of California. *In re IBM Peripheral EDP Device Antitrust Litig.*, 481 F. Supp. 969, 1002 (N.D. Cal. 1979).

The impact of the *Bard* decision may be limited. As characterized by the majority, the case presented a fairly stark set of facts with respect to Bard's motivation for modifying the gun. In their ruling, for example, Chief Judge Mayer and Judge Bryson relied on specific internal Bard documents showing that the modifications had a detrimental effect on the gun's performance, which they said had not been contradicted. Moreover, in concurring in the decision to deny a rehearing, Judge Gajarsa explained that the precedential value of this decision is limited by virtue of the manner in which the issues were argued on appeal:

> Given these facts, the patent bar may, at first glance, be alarmed that the majority opinion opens the floodgates with respect to a new antitrust cause of action. However, it is important for the bar to note that the only argument Bard made on appeal regarding the antitrust violation was directed to the sufficiency of the evidence on this issue. Bard did not argue to this court that

> modification of a patented product within the scope of the claims by a patentee cannot, as a matter of law, constitute an antitrust violation. Nor did Bard challenge the jury instructions. See *C.R. Bard*, 157 F.3d at 1382 ("Because Bard did not challenge the court's instructions ... the legal sufficiency of the jury charge on the antitrust issues is not properly before us on appeal.") In light of our limited review of jury findings, the majority affirmed the jury verdict based on its determination that there was substantial evidence to support the verdict. *See id.* at 1383.
>
> ***Consequently, this case does not establish or endorse a new antitrust theory. The majority opinion turns solely on Bard's argument regarding the sufficiency of the evidence and its failure to challenge the propriety of the jury instructions. The question of whether or not a cause of action premised upon the antitrust laws exists when a patentee redesigns a patented product within the scope of the patent claims, awaits another day.***

C.R. Bard, Inc. v. M3 Sys., Inc., 161 F.3d 1380 (Fed. Cir. 1998) (denial of petition for reh'g *en banc*) (Gajarsa, J., with Clevenger, J., concurring) (emphasis added).[91]

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[91] The issue of antitrust liability predicated on product design was discussed recently by the Court of Appeals for the District of Columbia in *United States v. Microsoft Corp.*, 234 F.3d 34 (D.C. Cir.), *cert. denied*, 122 S.Ct. 350 (2001). There the plaintiffs claimed, *inter alia*, that Microsoft unlawfully maintained a monopoly in the PC operating system market in violation of § 2 of the Sherman Act. In particular, plaintiffs claimed that Microsoft engaged in exclusionary acts to maintain its monopoly, including, *inter alia*, its method of integration of its "Internet Explorer" ("IE") product into its "Windows" product. The D.C. Circuit agreed with the District Court's conclusion that two of the three technological changes Microsoft made to "weld" IE to Windows constituted exclusionary conduct with an anticompetitive effect sufficient to sustain a § 2 monopolization violation. Those changes were (1) excluding IE from the "Add/Remove Programs" utility; and (2) commingling code related to browsing and other code in the same files, so that any attempt to delete the files containing IE would, at the same time, cripple the entire operating system. The court observed that, as a general rule, "courts are properly very skeptical about claims that competition has been harmed by a dominant firm's product design changes" but also stated that design changes are not "per se lawful." *Id.* at 65. The court found that these two innovations had an actionable anticompetitive effect because they significantly reduced the usage of rivals' products. *Id.* at 65-66. It also concluded that Microsoft offered no argument that its conduct achieved any "integrative benefits," and presented no evidence that its conduct served a purpose other than protecting its operating system monopoly. *Id.* Nevertheless, the court of appeals reversed the District Court's determination that the third technological change--causing Windows to override the user's choice of a default browser --violated § 2, because Microsoft presented valid technological reasons for the innovation that Plaintiffs did not attempt to rebut. *Id.* at 67. Thus, the court's discussion of the "purpose" of Microsoft's product designs, while not couched as an analysis of Microsoft's

The Federal Circuit extended its approach to choice of law articulated in *Nobelpharma* in *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir.), *cert. denied*, 528 U.S. 1019 (1999). Overruling prior precedents, the court decided that it would apply its own law to questions of whether federal and state causes of action were preempted by patent law. The court reiterated that its choice of law rules were designed to further the goal of promoting "uniformity in the law with regard to subject matter within [its] exclusive appellate jurisdiction." *Id.* at 1359. The court reasoned that "cases such as *Pro-Mold* and *Nobelpharma* make clear that our responsibility as the tribunal having sole appellate responsibility for the development of patent law requires that we do more than simply apply our law to questions of substantive patent law." *Id.* at 1360; *see Pro-Mold and Tool Co. v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1574 (Fed. Cir. 1996) (applying Federal Circuit precedent in deciding whether alleged inequitable conduct in prosecution of patent application constitutes unfair competition because the question "clearly does impact our exclusive jurisdiction"); *see also Zenith Elec. Corp. v. Exzec, Inc*, 182 F.3d 1340, 1351-56 (Fed. Cir. 1999) (applying Federal Circuit law in holding that Lanham Act and state tort law claims based on patentee's statements that a rival's product infringed the relevant patents were not preempted by patent laws or antitrust laws but that the rival must prove that statements were made in bad faith).[92]

"motivation" in implementing the design changes, focused upon Microsoft's technological justifications (or lack thereof) in assessing Plaintiffs' monopolization claim. The court's findings at least confirm that there are certain product innovations that are not immune to antitrust challenges. *See also Caldera, Inc. v. Microsoft Corp.*, 72 F.Supp. 2d 1295, 1312-13 (D. Utah 1999) (rejecting argument that an antitrust plaintiff must prove that an allegedly predatory design change had no purpose other than to restrain competition and citing with favor a standard requiring that plaintiffs merely show that "the design choice is unreasonably restrictive of competition").

[92] The holding in *Zenith Electronics* is consistent with *Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1138 (1999) and *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), *overruled in part by Midwest Indus. Inc.*, 175 F.3d at 1356, in which the court held that state law claims of

Two of the Federal Circuit's recent antitrust decisions -- *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346 (Fed. Cir. 1999), and *CSU v. Xerox*, 203 F.3d 1322 (Fed. Cir. 2000)[93] -- are also two of its most controversial. Both of these cases involved, albeit in different ways, a patentee's right to deny rivals access to its intellectual property. Some have argued that the Federal Circuit went too far in limiting the role of antitrust principles in governing the use of patents.[94] On the other hand, others have argued that in neither case did the Federal Circuit go beyond Congress' admonition in 35 U.S.C. §271(d)(4) that a patent holder cannot be deemed guilty of misuse *or* an illegal extension of the patent simply by virtue of refusing to license.[95] Moreover, it is not clear that either case would have come out any differently if the court had been applying its pre-*Nobelpharma* rule of looking to the law of the regional circuits.

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unfair competition or tortious interference based on publicizing or asserting its patents in the marketplace are not preempted by patent law so long as the patentee is alleged to have acted in bad faith. One district court, however, has expressed disagreement with it and with the Federal Circuit's conclusion that it has exclusive jurisdiction. *Spotless Enters. Inc. v. Carlisle Plastics, Inc.*, 56 F. Supp.2d 274 (E.D.N.Y. 1999).

93 The full citation to the *Xerox* case is *In re Indep. Serv. Orgs. Antitrust Litig.* 203 F.3d 1322 (Fed. Cir. 2000).

94 E.g., *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, remarks at the American Antitrust Institute's Conference: An Agenda for Antitrust in the 21st Century (June 15, 2000) <http://www.ftc.gov/speeches/pitofsky/000615speech.htm>; *see also, e.g.*, Katz & Safer, *supra* note 49, at 687 ("A potential and unintended effect of the creation of the Federal Circuit is that the delicate balance maintained for many years between intellectual property law and antitrust law may have been tipped decisively in favor of intellectual property"), Kathryn Lutton & Richard Lutton, *At the Intersection of Antitrust and Intellectual Property: Lessons from* Integraph v. Intel *and* CSX v. Xerox, 10 Fed. Circuit B.J. 129, (2000) (noting controversy).

95 *E.g.*, Melvin A. Schwarz, *Balancing IP Rights and Competition: The Search for a Coherent Policy Continues*, Global Competition Rev. (Apr./May 2001); Jonathan Gleklen, *Antitrust Liability for Unilateral Refusals to License Intellectual Property:* Xerox *and Its Critics*, Antitrust and Intellectual Property (ABA Antitrust Law Sec.), Spr. 2001, at 11, 16-18.

In *Intergraph*, Intel had designated Intergraph, which made computer work stations, as a "strategic customer" and provided Intergraph with various benefits, including materials and patented products. In 1997, Intergraph sued Intel for infringement of patents covering an Intergraph microprocessor, the "Clipper microprocessor." Intel stopped providing Intergraph with what Intel characterized as the "special" benefits. The district court granted Intergraph's motion for a preliminary injunction, prohibiting Intel from cutting off the special benefits.

The Federal Circuit rejected each of the six theories on which the district court had relied (essential facilities and refusals to deal; leveraging and tying; coercive reciprocity; conspiracy; improper use of intellectual property; and retaliatory enforcement of non-disclosure agreements). Two conclusions were central to the Federal Circuit's rulings: (1) that Intel and Intergraph did not compete in any relevant market and, thus, Intel did not engage in conduct that had the requisite effects on competition in any market in which the two companies operated;[96] and (2) that Intel had the right to refuse to grant Intergraph access to its intellectual property and proprietary information. *See e.g.,* 195 F.2d at 1352-56, 1358-59, 1360-62.

With respect to the access to intellectual property, the Federal Circuit rejected the district court's reading of the Ninth Circuit's decision in *Image Technical Services Inc. v. Eastman Kodak Co.,* 125 F.3d 1195 (9th Cir. 1997), *cert. denied,* 423 U.S. 1094 (1998), as standing for the idea that a refusal to license intellectual property can be unlawful exclusionary conduct. *Id.* at 1362. Instead, the Federal Circuit emphasized the Ninth Circuit's observation that it had found "no reported case in which a court had imposed antitrust liability for a unilateral refusal to sell or

[96] For example, Intergraph alleged that Intel had monopoly power in two microprocessor markets but also alleged that the effect of Intel's conduct was felt in the separate markets for computer work stations and graphics subsystems, in which there was no evidence that Intel really competed let alone had market power of any sort. One district court has noted that the Federal Circuit apparently ignored the concept of technology markets articulated in the FTC's Antitrust Guidelines for the Licensing of Intellectual Property.

license a patent or copyright." *Id.* The Federal Circuit also cited other authority from the Second, Sixth and Ninth Circuits, as well as the *Antitrust Guidelines for the Licensing of Intellectual Property* (1995), for the proposition that the antitrust laws do not impose an obligation to license the use of intellectual property to others. *Id.* at 1362-63.

Although the Federal Circuit was relatively dismissive of Intergraph's claims, it is interesting to note that the Federal Trade Commission found sufficient grounds to file a complaint against Intel based on similar facts (and additional facts involving other computer manufacturers). *See In the Matter of Intel Corporation,* Docket No. 9288. Intel and the Commission settled that action.

In *CSU v. Xerox*, 203 F.3d 1322 (Fed. Cir. 2000), the Federal Circuit considered directly the antitrust consequences of an alleged monopolist's refusal to license intellectual property to a rival. In that case, CSU, an independent service organization, filed suit alleging that Xerox violated the Sherman Act by refusing to sell copier parts to CSU and by refusing to provide other materials, including software and copyrighted manuals. Xerox counterclaimed for patent and copyright infringement. The District Court for the District of Kansas entered summary judgment for Xerox on the antitrust claims.

With respect to choice of law, the Federal Circuit applied its law in reviewing the district court's grant of summary judgment on CSU's antitrust claims arising from the refusal to sell patented parts, but applied Tenth Circuit law in reviewing the antitrust claims based on Xerox's refusal to sell or license its copyrighted manuals and software. The court's application of Federal Circuit law to an antitrust claim based on the refusal to license went beyond *Nobelpharma*, in which the court stated its intention to develop a body of law relating to antitrust claims based on

the prosecution and enforcement of patents.[97] The Federal Circuit's opinion does not appear to acknowledge this extension of *Nobelpharma* and the court's explanation of the grounds for its application of Federal Circuit law to the refusal to license issues in *CSU* is conclusory:

> We apply our own law, not regional circuit law, to resolve issues that clearly involve our exclusive jurisdiction. See Pro-Mold & Tool Co. v. Great Lakes Plastics, Inc., 75 F.3d 1568, 1574-75, 37 USPQ2d 1626, 1631 (Fed.Cir.1996). "Whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law." Nobelpharma, 141 F.3d at 1068, 46 USPQ2d at 1104; see Midwest Indus., Inc. v. Karavan Trailers, Inc., 175 F.3d 1356, 1360, 50 USPQ2d 1672, 1676 (Fed.Cir.1999) (en banc in relevant part) ("Pro-Mold and Nobelpharma make clear that our responsibility as the tribunal having sole appellate responsibility for the development of patent law requires that we do more than simply apply our law to questions of substantive patent law. In order to fulfill our obligation of promoting uniformity in the field of patent law, it is equally important to apply our construction of patent law to the questions whether and to what extent patent law preempts or conflicts with other causes of action."). The district court's grant of summary judgment as to CSU's antitrust claims arising from Xerox's refusal to sell its patented parts is therefore reviewed as a matter of Federal Circuit law, while consideration of the antitrust claim based on Xerox's refusal to sell or license its copyrighted manuals and software is under Tenth Circuit law.

As to the merits of the antitrust claim, the court held that absent exceptional circumstances, a patent confers the right to exclude competition altogether in more than one antitrust market. Rather than attempting to harmonize its decision with the Ninth Circuit's *Kodak* decision, as it had done in *Intel*, the Federal Circuit specifically disavowed *Kodak*, stating that the Ninth Circuit's "logic requires an evaluation of the patentee's subjective motivation for refusing to sell or license its patented products for pretext. We decline to follow [*Kodak*]." *Id.* at 1326. The court went on to state that "[w]e see no more reason to inquire into the subjective motivation of Xerox in refusing to sell or license its patented works than we found in evaluating the subjective motivation of a patentee in bringing suit to enforce that same right." *Id.* " Because it

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[97] The court also arguably applied its own, as opposed to regional circuit law, to issues in *Bard* and *Intel* that did not involve the procurement or enforcement of patents. Those cases, however, contain no analysis or discussion of the choice of law issue.

concluded that Xerox's refusal to sell patented parts did not exceed the scope of the patent grant, the court held that "our inquiry is at an end." *Id.* at 1328.

The Federal Circuit expressed its view that the patentee's right to exclude is not without limits. *Id.* at 1326. However, it then went on to define only three circumstances in which a refusal to license a rival might result in antitrust liability: illegal tying, fraud in the Patent and Trademark Office or sham litigation. *Id.* at 1327. In broad language, the court proclaimed that:

> In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws.

Id. This aspect of its decision has generated a good deal of controversy.

As for the copyright claim, the Federal Circuit, purporting to base its decision on how the Tenth Circuit would view the issue, concluded that it would follow the First Circuit's holding in *Data General*. In that case, the First Circuit refused to examine Data General's subjective motivation in asserting its right to exclude in the absence of any evidence that the relevant copyrights were obtained by unlawful means or were used to gain monopoly power beyond the statutory copyright granted by Congress. Thus, it affirmed the district court's grant of summary judgment. The court's treatment of the copyright claim supports the proposition that, regardless of whether the Federal Circuit applied its own law or that of the regional circuit (the Tenth Circuit) on the antitrust claims, the result likely would have been the same in *CSU*.

The same, of course, would not necessarily be true if *CSU* had been appealed from a court within a different circuit, e.g. the Ninth Circuit. If that were the case, the Federal Circuit's decision to apply its own law to the patent-antitrust issues might well lead to an entirely different outcome as compared to the result if Ninth Circuit law were applied. The analysis becomes even more complicated when one considers the antitrust claims based on the refusal to license

copyrights if *CSU* were appealed from a court in the Ninth Circuit. In that situation, the Federal Circuit would have been forced to apply Ninth Circuit law, in light of *Kodak*, to the copyright-based antitrust claims and its own law to the patent-based antitrust claims. It is not too hard to imagine a set of circumstances in which the Federal Circuit could come to a different result when analyzing the antitrust consequences of a defendant's refusal to license a patent (applying its own law) and a defendant's refusal to license a copyright (applying the law of the regional circuit).

In *CSU*, the Federal Circuit only had jurisdiction because Xerox filed a patent counterclaim. Given that the holding in *Holmes* is likely to mean that regional circuits will be addressing patent claims to a greater degree than before, the question arises whether other circuits will feel bound to follow Federal Circuit precedent on an issue such as the duty to license. It should also be observed that the context of *CSU* was somewhat unusual in that no issue of whether the patents were infringed was presented. This issue would often be hotly contested both in the district court and on appeal, and this circumstance might affect appellate jurisdiction.

As noted above, many have pointed to the Federal Circuit's decision in the *CSU* case as an example of the court's hostility to antitrust principles, particularly as compared to the Ninth Circuit's decision in *Image Technical Services, Inc. v. Eastman Kodak Co*, 125 F.3d 1195 (9th Cir. 1997). One of the most vocal critics of the Federal Circuit's decision has been former FTC Chairman Pitofsky.[98] Chairman Pitofsky expressed concern that, applied broadly, the Federal Circuit's dicta in *Xerox* could be applied to legitimize other types of conduct that courts (including the Supreme Court) have previously condemned. Specifically, he questioned whether, under *CSU*, a patent holder would be allowed (1) to refuse to sell or license except on condition that the purchaser/licensee not deal with a potential competitor; (2) to terminate a licensee

[98] *E.g.*, Pitofsky remarks, *supra* note 94; *see also, e.g.*, Katz and Safer, *supra* note 49 , at 705-08 (arguing that CSU is contrary to other judicial and administrative authorities).

because it was a price cutter where the termination was motivated by anticipation of what other licensees wanted; (3) to refuse to license a rival as the result of a patent pooling arrangement in which participants retain veto power over licensees; and (4) to refuse to license rivals under a patent necessary to meet an industry standard when the patent holder had failed to disclose the existence of the patent when asked by the standard setting body. Chairman Pitofsky opined that *Xerox* was among recent decisions that have upset the "traditional balance" between antitrust principles and intellectual property rights.

With respect to Chairman Pitofsky's specific examples, it has been argued that the conduct he pointed to would be condemned even under the *CSU* standard either because it is a form of tying (example 1), it is collusive (example 3) or it involves conduct falling outside of the scope of the patent (example 4).[99] Moreover, the court's decision in *CSU* arguably is within the mainstream of antitrust law.[100] Indeed, a number of appellate courts, including the Ninth Circuit before *Kodak*, have held that a refusal to license intellectual property, without more, cannot as a matter of law form the basis for an antitrust violation.[101] Even the Ninth Circuit in *Kodak*

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99 Schwarz, supra note 95; Jonathan Gleklen, *supra note 95* at 16-18. Moreover, one would argue that example 2, which involves unilateral termination of a licensee, would not give rise to antitrust liability under the principles of *Monsanto v. Spray-Rite Serv. Corp.*, 465 U.S. 752 (1984).

100 Boyle, Lister & Everett, *supra* note 86, at 747 (concluding that the holding in *CSU* "finds support in orthodox antitrust principles" but noting that the court's reasoning is murky and its support thin on critical points).

101 *See Cygnus Therapeutic Sys. v. Alza Corp.*, 92 F.3d 1153, 1160 (Fed. Cir. 1996) (patentee "under no obligation to license"); *Service & Training, Inc. v. Data Gen. Corp.*, 963 F.2d 680, 686 (4th Cir. 1992) (applying a rebuttable presumption and finding that Data General had no duty to license diagnostic software to an independent service organization); *Miller Instuform v. Insituform of N. Am.*, 830 F.2d 606, 609 (6th Cir. 1987) (refusing to license cannot be a § 2 violation); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1209 (2d Cir. 1981) (liability for refusal to license would "severely trample upon the incentives provided by our patent laws"); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981) ("right to … refuse to license at all, is 'the untrammeled right' of the patentee"); *W.L. Gore & Assocs. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976) ("right to refuse to license is the essence of the patent holder's right").

acknowledged that it could find no case in which an antitrust violation had been based simply on the refusal to license a patent. *Kodak*, 125 F.3d at 1195.

Moreover, in refusing to allow antitrust liability to be based on a refusal to license, some have argued that the Federal Circuit was going no farther than Congress in 35 U.S.C. § 271(d)(4), which provides that "[n]o patent owner otherwise entitled to relief for infringement or contributory infringement shall be denied relief or deemed guilty of misuse *or illegal extension of the patent right* by reason of his having … refused to license or use any rights to the patent." Some courts, including the Ninth Circuit, have held that § 271(d)(4) only applies in the context of a patent misuse defense and does not bar antitrust claims based on a refusal to license. *See Kodak*, 125 F.2d at 1214 n. 7; *see also Grid Sys. Inc. v. Texas Instr. Inc.*, 771 F. Supp. 1033, 1037 (N.D. Cal. 1991). Others, however, have held that such a narrow interpretation of § 271(d)(4) is inconsistent with the plain language of the statute, which prohibits not only a misuse defense but any finding that the patent owner has illegally extended its patent right based solely on a refusal to license. *In re Indep. Servs. Orgs. Antitrust Litig.*, 989 F. Supp. 1131 (D. Kan. 1997) (holding that the Ninth Circuit's limited interpretation of 271(d)(4) "is contrary to the statutory language and legislative history of the amendment"); *see also* III Areeda & Hovenkamp, *Antitrust Law*, ¶ 709(b) at 220 (2d ed. 2002) ("To interpret the highly general and older language of the Sherman or Clayton Acts inconsistently with the highly specific and newer language of the Patent Act would frustrate Congress's intentions to protect the refusal to license.")

Nevertheless, there is a risk that the court's opinion in *CSU* -- particularly when combined with its dictum that appears to elevate the importance of patent rights over antitrust principles -- might be applied too broadly by district courts. One such example, as pointed out by Chairman Pitofsky, is *Townshend v. Rockwell Int'l Corp.*, 2000-1 Trade Cases ¶ 72,890 (N.D. Cal. 2000), a case in which the district court applied *CSU* to preclude any inquiry into conditions

imposed on patent licensees. Those conditions included a requirement that, if competitors wanted to license patents covering an industry standard (which was allegedly obtained by fraud on the trade association), they would have to license their technology to the licensor (a reciprocal dealing requirement).

Relying on the Federal Circuit's decision in *CSU*, the *Townsend* court concluded that because "a patent owner has the right to refuse to license his or her patents on any terms, the existence of a predicate condition to a license agreement cannot state an antitrust violation." Stated in that way, the holding in *Townsend* appears to be an overly expansive reading of *CSU*. Indeed, the Federal Circuit in CSU did not absolve any "predicate condition" to a license from potential antitrust scrutiny or state (even in dicta) that a patent owner has the right to refuse to license "on any terms." To the contrary, the Federal Circuit itself recognized the principle that "[t]he patentee's right to exclude, however, is not without limit." 203 F.3d at 1325.

In any event, noting that the *Townsend* court may have misapplied *CSU* does not change the fact that it directly relied on the Federal Circuit's opinion for its holding. Thus, whether or not the actual holding in *CSU* is sufficiently expansive to create a broad grant of immunity for patent owners' licensing activities, the dicta in *CSU* may be susceptible to potential misinterpretation by lower courts.

Conclusion

Regardless of which side one takes in the debate over the court's holdings in *Intel* and *CSU* and the implications of those and other Federal Circuit decisions, a few things can be noted from a review of the case law discussed above: (1) the Federal Circuit has already played an important role in the development of patent-antitrust law; (2) the significance of the court's role in this area has increased dramatically in the last few years; and (3) that increase has been a

combined result of the widening scope of the Federal Circuit's jurisdiction and its decision to develop a body of Federal Circuit law on (an increasing) number of patent-antitrust issues.

Whether the court's role in this area will continue to expand depends in large part on the developing law with respect to the scope of its jurisdiction. The more patent-antitrust issues that are subject to review by the Federal Circuit, the fewer opportunities that regional circuits will have to make law on these issues. It is too early to tell how the Supreme Court's decision in the *Holmes* case will affect the number of antitrust issues considered by the Federal Circuit. Even if *Holmes* has a significant impact in that regard, however, it is likely that the court will continue to play an important role in future development of the law at the antitrust-intellectual property interface.

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CH01/12232734.1

LETTER FROM MEREDITH MARTIN ADDY, ESQ., BRINKS HOFER GILSON & LIONE TO BLAINE MERRITT, ESQ., CHIEF COUNSEL, SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY, COMMITTEE ON THE JUDICIARY, REGARDING CORRECTIONS TO WRITTEN STATEMENT OF MARCH 17, 2005

MEREDITH MARTIN ADDY
312-321-4280
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March 25, 2005

Blaine Merritt, Esq.
Chief Counsel for the Subcommittee on
the Courts, the Internet and Intellectual Property
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Re: Correction to Written Statement of March 17, 2005 Hearing on *Holmes Group*, the Federal Circuit, and the State of Patent Appeals

Dear Mr. Merritt:

Please allow me to amend my written statement in the paragraph bridging pages 19-20, and starting with "One measure of the Court's success . . . ." I would like to replace that paragraph with the attached paragraph and accompanying footnotes.

This amendment does not change the percentages previously reported in that paragraph; rather, it modifies the date ranges for those percentages.

If you have any questions, please do not hesitate to contact me. Thank you again for the opportunity to speak at the Subcommittee hearing. I would be honored to be of service to the Subcommittee in the future.

Warmest regards,

Meredith Martin Addy

MMA/bn

cc: Edward R. Reines, Esq.
Arthur D. Hellman, Esq.
Sanjay Pradad, Esq.

Amended Statement of Meredith Martin Addy
Holmes Group, the Federal Circuit, and the State of Patent Appeals
March 25, 2005

Please replace the paragraph bridging pages 19-20 with the following paragraph:

One measure of the Court's success may be the extent "to which its decisions have been reviewed and reversed or vacated by the Supreme Court."[1] Since its inception through July 8, 2002, the Federal Circuit had a *certiorari* "grant rate" at the Supreme Court of about 2.8% over the breadth of its jurisdiction.[2] This "grant rate" is below the average for all courts from 1982 through 2000.[3] Also, since its inception through July 8, 2002, the Supreme Court has affirmed Federal Circuit decisions in 12 of 42 cases in which an opinion was issued; yielding an affirmance rate of 28.6% that also appears to be better than the average at the Supreme Court.[4] Of course, these statistics also may represent a Supreme Court that is relatively disinterested in patent jurisprudence, or the numbers may be low for the Federal Circuit because of the large number of criminal appeals from regional circuits and state courts.[5]

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[1] *Seamon* at 593 and n.325.

[2] *Id.*

[3] *See id.* at 593 n.327 (The author "base[s] the 7.2% [overall average grant rate at the Supreme Court] on Harvard Law Review statistics" from the 1982 Term through the 2000 Term. *See The Supreme Court, 2000 Term: The Statistics*, 115 HARV. L. REV. 546, tbl.II(B) (2001); *The Supreme Court in the Nineties: A Statistical Retrospective*, 114 HARV. L. REV. 402, tbl.I (2000); *The Supreme Court in the Eighties: A Statistical Retrospective*, 104 HARV. L. REV. 367, tbl.I (1990)).

[4] *See Seamon* at 593-94 and ns.296, 328 ("reporting a 21.3% [average] affirmance rate from the 1982 Term through the 2000 Term") (citing multiple Harvard Law Review articles).

[5] The Federal Circuit does not have jurisdiction over criminal cases.

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