Forum Shopping More Likely As A Result Of Narrowing Of Federal Circuit Jurisdiction in *Vornado*

BY JOSEPH M. O'MALLEY, JR. AND BRUCE M. WEXLER OF FITZPATRICK, CELLA, HARPER & SCINTO

Joe O'Malley and Bruce Wexler are partners in the New York office of Fitzpatrick, Cella, Harper & Scinto, specializing in complex patent litigation.

INTRODUCTION

For the past twenty years, however complicated appellate practice could otherwise be, at least patent litigators did not have to think about where to file a notice of appeal, or how to find the right courthouse. All appeals from cases that included patent claims, whether those claims were part of the plaintiff's complaint or instead arose as counterclaims, were heard by the Court of Appeals for the Federal Circuit in Washington, D.C. Indeed, the only source of confusion for experienced patent litigators travelling to their appeal hearing was in trying to divine how the D.C. cabbies calculated their byzantine, zone-based fares.

As a result of the Supreme Court's recent decision in *Vornado*,[1] however, the Federal Circuit's long monopoly over patent appeals has now ended, and patent litgators must reacquaint themselves with the locations of the other regional courts of appeals. Specifically, the Court in *Vornado*, in holding that a patent law counterclaim is insufficient by itself to confer appellate jurisdiction in the Federal Circuit, has guaranteed that the regional circuits once again will have the opportunity to decide patent appeals.

But, this end of the Federal Circuit's monopoly may be at a cost. Specifically, the uniformity in patent law sought by Congress in creating the Federal Circuit may be a victim of the Court's decision, since the regional circuits will now be free to disagree with the Federal Circuit on issues that have not been settled by Supreme Court precedent. This lack of uniformity is not expected to be a major consequence of *Vornado*, however, except perhaps on those issues, such as the recent disclosed-but-not-claimed bar to equivalents, where the Federal Circuit itself has had internal disagreement.

The greater effect of *Vornado* is more likely to be seen in the forum shopping and races to the courthouse that result from the increased options of parties with suits that traditionally spawn patent counterclaims, such as antitrust suits, in an attempt to control the appellate forum that decides those claims.

VORNADO: PATENT COUNTERCLAIMS CANNOT SUPPORT FEDERAL CIRCUIT JURISDICTION

In *Vornado*, plaintiff Holmes Group, Inc. brought a complaint in the District of Kansas, seeking a declaratory judgment that its products did not infringe defendant Vornado Air Circulation Systems, Inc.'s trade dress. Vornado's answer included a compulsory counterclaim alleging patent infringement.

The District Court granted Holmes the declaratory judgment (and injunction) it sought, and Vornado appealed to the Federal Circuit. Notwithstanding Holmes' challenge to its jurisdiction, the Federal Circuit vacated the District Court's judgment and remanded for reconsideration in light of intervening Supreme Court trade dress case law. Vornado then petitioned for certiorari, which the Supreme Court granted. The Supreme Court vacated the Federal Circuit's judgment, holding that the patent counterclaim alone did not confer jurisdiction on the Federal Circuit.

This was a simple case for Justice Scalia, who wrote for the majority. Under 28 U.S.C. § 1295(a)(1), the Federal Circuit has patent-related jurisdiction over a final decision of a district court "if the jurisdiction of *that court* was based, in whole or in part, on [28 U.S.C.] § 1338" (emphasis in original). 28 U.S.C. § 1338(a), in turn, provides in relevant part that "[t]he district courts shall have original jurisdiction of any civil action *arising under* any Act of Congress relating to patents" (emphasis added).

The Court read its prior ruling on Federal Circuit jurisdiction, *Christianson v. Colt Industries*,[2] as requiring the "arising under" language of § 1338(a) to be interpreted in the same manner as the same language is interpreted under 28 U.S.C. § 1331, the statute that confers general federal question jurisdiction. "Arising under," in the context of § 1331, the Court held, has long been governed by the "well-pleaded complaint rule," whereby the basis for jurisdiction must be presented "on the face of the *plaintiff's* properly pleaded complaint" (emphasis in original), such that a federal counterclaim cannot support general federal question jurisdiction. Since the plaintiff's complaint in *Vornado* asserted only a trade dress claim, and not a claim arising under patent law, jurisdiction of the District Court was not based in whole or in part on patent law. Consequently, appellate jurisdiction did not lie in the Federal Circuit. In addition to vacating the Federal Circuit's judgment, the Court remanded with instructions to transfer the case to the Court of Appeals for the Tenth Circuit.

Because, in the Court's view, case law required that the phrase "arising under" invoke the well-pleaded-complaint rule with respect to § 1338, the Court concluded that it "would be an unprecedented feat of interpretive necromancy" to construe the phrase differently in § 1295(a)(1), the statute conferring Federal Circuit jurisdiction. Interestingly, the Federal Circuit's contrary en banc decision, *Aerojet*,[3] was mentioned by Justice Scalia only in a footnote, and even then, only in response to Justice Steven's concurrence which generally supported the reasoning, though not the conclusion, of that decision.

In support of its holding, the Court argued that its decision advanced several "longstanding policies underlying [its] precedents": 1) allowing a plaintiff, "the master of the complaint," the choice of a state court forum, "by eschewing claims based on federal law," 2) respecting "the rightful independence" of state courts by refusing to expand the class of removable cases (which would occur if a patent counterclaim would establish federal jurisdiction), and 3) maintaining "the clarity and ease of administration of the well-pleaded-complaint doctrine," which would be undermined by allowing responsive pleadings by the defendant to establish "arising under" jurisdiction. The Court dismissed the policy argument that allowing Federal Circuit jurisdiction based solely on patent counterclaims would further Congress' goal in creating the Federal Circuit: ensuring patent law uniformity.

Justice Stevens authored a separate opinion concurring in the judgment. First, Justice Stevens stated his view that the proper time to examine the plaintiff's pleadings for application of the well-pleaded-complaint rule is when the notice of appeal, and not when the complaint, is filed. Thus, for example, if the plaintiff's initial complaint had only had an antitrust claim but added a patent claim before the notice of appeal were filed, then appellate jurisdiction would lie in the Federal

Circuit, in Justice Stevens' view. Conversely, if the sole patent claim were dismissed from a multi-count complaint before the appeal, Justice Stevens opined that the appeal should then lie in the regional circuit. The majority had expressly declined to decide this issue.[4]

Also, Justice Stevens felt compelled to defend the Federal Circuit's en banc *Aerojet* decision against Justice Scalia's dismissive analysis of its reasoning as "an unprecedented feat of interpretive necromancy," stating that "although I am in agreement with the Court's ultimate decision . . . , I find it unnecessary and inappropriate to slight the contrary reasoning of the Court of Appeals."[5]

Justice Stevens, however, saw nothing wrong with the now certain prospect of the regional circuit courts of appeals deciding patent cases. On the contrary, according to Justice Stevens, having the other circuits decide patent cases may be a healthy development for patent law, as future conflicts between the circuits "may be useful in identifying questions that merit this Court's attention."[6] Interestingly, he also saw the other circuits' participation in patent decisions as providing "an antidote to the risk that the specialized court may develop an institutional bias."[7]

Justice Ginsburg, joined by Justice O'Connor, filed a brief concurrence, advocating a test that would give the Federal Circuit exclusive appellate jurisdiction over any decision in which a patent claim had actually been adjudicated. Because only a trade dress claim had been adjudicated below, Justice Ginsburg joined the Court's judgment. In the majority opinion, Justice Scalia quickly dismissed this suggestion, stating that the Court had "rejected precisely this argument in *Christianson*."[8]

POST-*VORNADO*: WILL THE REGIONAL CIRCUITS APPLY THEIR OWN PATENT LAW?

For the first time in twenty years, the regional circuits will now, as a result of *Vornado*, have the opportunity to decide patent cases. While the general expectation is that the regional circuits will apply Federal Circuit law in their patent decisions, nothing requires that they do so. In fact, on those issues where the Federal Circuit's decision has not been unanimous, a regional circuit may very likely decide that the dissent got the better of the argument and hold contrary to Federal Circuit law.

For example, in *Johnson & Johnston*,[9] the Federal Circuit recently held en banc that subject matter disclosed in a patent, but not claimed, is dedicated to the public and cannot be recaptured under the doctrine of equivalents. Judge Newman, however, filed a blistering dissent in the case, accusing her colleagues of "launch[ing] yet another assault on the doctrine of equivalents" with a "lack of comprehension of the significance of its action," overruling the court's own decisions and those of the Supreme Court, and creating "a new, unnecessary and often unjust, per se rule."[10] Specifically, according to Judge Newman, the Supreme Court in *Graver Tank*[11] actually rejected the majority's per se disclosed-but-not-claimed bar. She pointed out that the dissenters in *Graver Tank* had argued, without success, that the subject matter in that case "became public property" because it was disclosed but not claimed. This implied, according to Judge Newman, that the majority there had rejected such a doctrine. Prior to the en banc *Johnson & Johnston* decision, the Federal Circuit panels had split —finding in some cases that subject matter disclosed but not claimed was barred from infringement, and in other cases that the disclosure of subject matter actually supported infringement, even if not claimed.

With twelve regional circuits, odds alone seem to dictate that one or more may interpret Supreme Court precedent as Judge Newman did and hold contrary to the Federal Circuit on the disclosed-but-not-claimed issue. While this split between the circuits may be a welcome development in Justice Stevens' eyes, it certainly will not further Congress' goal in creating the Federal Circuit: fostering uniformity in patent law.[12]

"ARISING UNDER" JURISPRUDENCE AS A POSSIBLE WAY AROUND *VORNADO*

Patentees may have a possible counter-strategy to retain appellate review of some issues in the Federal Circuit. In *Christianson*, the Supreme Court explained that "arising under" jurisdiction may be established in two ways. Arising under jurisdiction may exist where the well-pleaded complaint establishes either (1) that "federal 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 law."[13] *Vornado* specifically reaffirmed this two-prong test, though it did not discuss the test in any detail since the parties admitted that the well-pleaded complaint in that case did not assert any claim arising under the patent law.[14]

In several cases, however, the Federal Circuit has taken an expansive view of the second prong of *Christianson*. In fact, the court has stated that *Christianson* "sets a lenient standard for jurisdiction under 28 U.S.C. § 1338(a)."[15] For example, in *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, the Federal Circuit held that a state law tort claim of "injurious falsehood" actually arose under patent law, where the claim alleged that the defendants had falsely stated that they held exclusive rights to manufacture certain products covered by their patents, and the falsity occurred because the patents were invalid and unenforceable.[16] Similarly, in *Additive Controls & Measurement Systems, Inc. v. Flowdata, Inc.*, the court held that a state law business disparagement claim arose under federal patent law, where the plaintiff alleged that the defendant made false statements that the plaintiff was infringing its patents, and the falsity occurred because there was no infringement.[17]

Also, in *University of West Virginia v. VanVoorhies*, the Federal Circuit held that a state law contract claim arose under federal patent law, where the plaintiff alleged that the defendant was required by contract to assign its patent application, and resolution of the contract issue required the court to determine how the patent application should be classified under patent law.[xix] In another breach of contract action, *U.S. Valves, Inc. v. Dray*, the Federal Circuit held that the claim arose under federal patent law, where the plaintiff alleged that the defendant violated an exclusive license granted to the plaintiff by selling products covered by the plaintiff's patent, and the claim depended on resolution of whether the products were in fact covered by the patent.[19]

In light of these rulings, a party in a case involving non-patent-law claims may still seek to try to notice its appeal to the Federal Circuit by arguing that the case arose under patent law under the second prong of *Christianson* — that is, that the plaintiff's right to relief necessarily depends on resolution of a patent law claim. For example, a losing patentee-defendant in an antitrust suit would have a good argument for Federal Circuit jurisdiction if the antitrust claims had alleged that the defendant sought to enforce a patent which the defendant-patentee knew to be invalid or unenforceable,[20] otherwise engaged in sham patent enforcement, or if the antitrust claim is based on the patentee's refusal to license its invention.[21]

This strategy is not fool-proof, however, because the antitrust plaintiff can still try to avoid Federal Circuit jurisdiction by alleging alternative non-patent theories in its complaint, such as tying or group boycotts, in which case the right to relief would not necessarily depend on the patent law issues.[22]

FORUM SHOPPING AND RACES TO THE COURTHOUSE?

Although much of the discussion of *Vornado* has focused on patent law and the effect of allowing the regional circuits to now decide patent cases, a major impact of the decision may be seen in the shopping that will now occur to control the forum that decides, on both the district court and appellate level, those cases that traditionally include patent counterclaims. In particular, forum shopping may occur to a much greater extent than before *Vornado* in connection with antitrust claims, which commonly see patent counterclaims.

One reason why antitrust plaintiffs will likely take a hard look at their increased forum options, is the perception in the bar that the "patent-friendly" Federal Circuit is more hostile to antitrust claims compared to some of the regional circuits, particularly the Ninth Circuit. Indeed, this difference was clearly seen in the Federal Circuit's decision in *CSU v. Xerox*.[23]

In *CSU*, plaintiff CSU brought antitrust claims against Xerox alleging, among other things, that Xerox's refusal to sell or license its patented copier parts violated antitrust laws. Xerox counterclaimed for patent and copyright infringement. The District Court granted summary judgment to Xerox on the antitrust claims, holding as a matter of law that if a patent is lawfully acquired, a unilaterally refusal to sell or license the invention covered by that patent is not a violation of antitrust laws. Appeal went to the Federal Circuit, which affirmed.

In doing so, the Federal Circuit expressly refused to follow the Ninth Circuit's holding in *Image Technical Services v. Eastman Kodak*.[24] In that case, the Ninth Circuit had adopted a more antitrust-plaintiff friendly "rebuttable presumption," whereby the refusal to sell or license is presumed to have a valid business justification, but the antitrust plaintiff is given the opportunity to rebut that presumption. The Ninth Circuit affirmed the jury's finding of antitrust liability on the refusal to license claim, holding that there was sufficient evidence that Kodak's business justification was merely a "pretext."

As a result of *Vornado*, the Federal Circuit would not decide *CSU v. Xerox*, if it went up on appeal today, since its appellate jurisdiction there was based only on the presence of the patent law counterclaim. Today, a plaintiff looking to bring a "refusal to license" antitrust claim would be much more motivated to file its complaint in a circuit that followed the Ninth Circuit's more favorable refusal to license law, since the regional circuit would decide the appeal even if a patent counterclaim were then filed by the antitrust defendant.

Note also that, at least in the Ninth Circuit, even if Xerox had won the race to the courthouse and had filed its patent infringement complaint before the antitrust claims were filed against it, *Vornado* would still have given CSU an opportunity to have the appeal of its antitrust claim decided by the regional circuit. Specifically, even though CSU's antitrust claims were arguably logically related to the patent infringement claims, and thus compulsory counterclaims in an earlier filed patent infringement suit under the general test for compulsory counterclaims, they fall under an exception to the general compulsory counterclaim rule in the Ninth Circuit.

Specifically, the Ninth Circuit has held that antitrust claims arising from the initiation of patent litigation are permissive and may be brought in a subsequent suit, based on a broad reading of the Supreme Court decision in *Mercoid*.[25] This is in contrast to other circuits that have limited *Mercoid* to its facts, holding that most antitrust counterclaims if logically related are still compulsory, and only those based on patent misuse (like classic tying) are permissive.[26] Thus, if Xerox had filed a patent suit first in the Ninth Circuit, CSU could then still file a separate litigation asserting its refusal to license antitrust claims. And, whereas pre-*Vornado*, Xerox could have engineered Federal Circuit appellate review of those claims by counterclaiming for patent infringement in CSU's lawsuit, and then dismissing its earlier-filed patent case, today that trick is no longer available. The Ninth Circuit would hear the appeal of CSU's later-filed antitrust case whether or not there were a patent infringement counterclaim.

CONCLUSION

Certainly, the patent bar is curious to see how the regional circuits handle their first patent appeals in twenty years. On issues in which the Federal Circuit has not itself spoken with one voice, it certainly would not be shocking to see the regional circuits disagree with an aspect of Federal Circuit jurisprudence, but this is not expected to be a major result of the Court's decision. Instead, the greater effect of *Vornado* may be seen in the resultant forum shopping, as parties with non-patent claims now have more options to steer the appeal of those claims to the regional circuits of their choosing. IPT

ENDNOTES

1. The *Holmes Group v. Vornado Air Circulation Sys. Inc.*, 122 S.Ct. 1889 (2002).
2. *Christianson v. Colt Industries*, 486 U.S. 800 (1989).
3. *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990) (en banc).
4. *Vornado*, 122 S. Ct. at 1894.
5. *Id.* at 1896, 1897 n.1 (Stevens, J., concurring).
6. *Id.* at 1898
7. *Id.*
8. *Id.* at 1894 n.3.
9. *Johnson & Johnston Assoc. Inc. v. R.E. Service Co., Inc.*, 285 F.3d 1046 (Fed. Cir. 2002).
10. *Id.* at 1064.
11. *Graver Tank & Mfg., Co. v. Linde Air Prods. Co.*, 339 U.S. 605 (1950).
12. *Aerojet*, 895 F.2d at 742-5.
13. *Christianson*, 486 U.S. at 808.
14. *Vornado*, 122 S. Ct. at 1893.
15. *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000). The Federal Circuit has, at times, found that the plaintiff's right to relief did not depend on resolution of the patent law issue and refused jurisdiction. *In re Oximetrix, Inc.*, 748 F.2d 637, 642 (Fed. Cir. 1984); *Ballard Med. Prods. v. Wright*, 823 F.2d 527 (Fed. Cir. 1987); *Speedco, Inc. v. Estes*, 853 F.2d 909 (Fed. Cir. 1988); *American Tel. & Tel. Co. v. Integrated Network Corp.*, 972 F.2d 1321 (Fed. Cir. 1992); *Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567 (Fed. Cir. 1997); *Uroplasty, Inc. v. Advanced Uroscience, Inc.*, 239 F.3d 1277 (Fed. Cir. 2001).
16. *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1329-31 (Fed. Cir. 1998), *overruled on other grounds by Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359 (Fed. Cir. 1999) .
17. *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 478-79 (Fed. Cir. 1993).
18. *University of West Virginia v. VanVoorhies*, 278 F.3d 1288, 1295 (Fed. Cir. 2002).
19. *U.S. Valves*, 212 F.3d at 1372-73.
20. *Walker-Process Equip., Inc. v. Food Machinery & Chem. Corp.*, 382 U.S. 172 (1965); *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979) and 743 F.2d 1282 (9th Cir. 1984).
21. *See Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067-68 (Fed. Cir. 1998) (en banc) (holding, in case involving both patent and antitrust claims, 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").
22. *Christianson*, 486 U.S. at 811-13.
23. *CSU, L.L.C. v. Xerox Corp.*, 203 F.3d 1322 (Fed. Cir. 2000).
24. *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997).
25. *Hydranautics v. FilmTec Corp.*, 70 F.3d 533 (9th Cir. 1995); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1994).
26. *See, e.g., Critical-Vac Filtration Corp. v. Minuteman Int'l, Inc.*, 233 F.3d 697 (2d Cir. 2000).