WILMERHALE

Recent Decisions on Patent and Copyright Jurisdiction

2002-08-14

The Court of Appeals for the Federal Circuit was created in 1982 as the court having exclusive appellate jurisdiction over appeals from a final decision of a district court "if the jurisdiction of that court was based on an action arising under federal patent law." Before the Federal Circuit was created, appeals went to the regional circuits (as they do for most cases), where the likelihood of success could vary significantly among circuits. Some circuits had a reputation for holding patents invalid much more often than other circuits. The Federal Circuit was supposed to bring uniformity to patent law.

The Federal Circuit has asserted jurisdiction over all cases with a patent law claim. But in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, the United States Supreme Court applied the "well-pleaded complaint" rule to restrict the jurisdiction of the Court of Appeals for the Federal Circuit. This rule looks to the plaintiff's complaint as the basis for jurisdiction, and not necessarily whether a patent issue is part of the case. As the Court stated: "Not all cases involving a patent-law claim fall within the Federal Circuit's jurisdiction." A subsequent Indiana Supreme Court decision in *Green v. Hendrickson Publishers, Inc.*, provides, contrary to the accepted wisdom, that not all cases involving a patent law claim are limited to the federal courts.

In *Holmes Group*, the United States Supreme Court held that, for purposes of determining jurisdiction, a case "arises under" federal patent law only if the plaintiff's well-pleaded complaint "establis[hes] 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." Consequently, when a complaint does not raise a substantial question of patent law, a compulsory counterclaim alleging patent infringement does not suffice to give the Federal Circuit jurisdiction over an appeal.

In 1999, the Holmes Group brought suit in federal district court, seeking a declaratory judgment that Holmes's sale of products did not infringe Vornado's trade dress. Vornado responded with a compulsory counterclaim alleging patent infringement. On the basis of collateral estoppel by a prior decision of the Court of Appeals for the Tenth Circuit, the district court granted summary judgment of no trade dress infringement. Because of an intervening decision by the Supreme Court in *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, affecting the law as stated in the earlier Tenth Circuit decision, the Federal Circuit vacated the district court's judgment and remanded for further

consideration of whether a "change in the law" exception to collateral estoppel applied.

The Supreme Court vacated the Federal Circuit's judgment for lack of subject matter jurisdiction. In an opinion written by Justice Scalia, the Court held that the Federal Circuit lacked jurisdiction because the plaintiff's well-pleaded complaint "did not include any claim based on patent law." Consequently, the case did not "arise under" federal patent law, as required for jurisdiction under 28 U.S.C. § 1295(a)(1).

The Court rejected arguments that a patent-law counterclaim could establish "arising under" jurisdiction. The Court pointed to precedent from cases involving removal of an action from state court to federal court holding that such jurisdiction must be determined solely from the face of the plaintiff's well-pleaded complaint. A contrary rule, the Court stated, would complicate well-pleaded complaint doctrine and, by "radically expand[ing] the class of removable cases," undermine regard for state governments and the plaintiff's right, as "master of the complaint," to choose a state forum. Finally, the Court found that even though Congress had a goal of promoting patent law uniformity, Section 1295 did not require that the Federal Circuit have exclusive appellate jurisdiction whenever a patent law counterclaim has been raised or had been adjudicated on the merits.

Subsequently, the Indiana Supreme Court ruled in *Green*, that the *Holmes Group* decision required it to "reject the federal authorities stating or implying that a state court may not entertain a counterclaim under patent or copyright law."

In 1999, Hendrickson had initiated an action in state court seeking monies for books sold on account. The Greens counterclaimed, alleging that Hendrickson had infringed the Greens' copyright by continuing to print and sell the Greens' books after Hendrickson's original distribution agreement had expired. According to federal statute, the federal courts have exclusive jurisdiction over "any civil action arising under" the patent or copyright laws.

The issue presented to the Indiana Supreme Court was whether a counterclaim under the Copyright Act could be heard in a state court. The *Green* court first noted that the question of whether a federal claim may be asserted in state court is governed by federal law. The court then noted 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 law.

"All of the foregoing," concluded the Indiana Supreme Court, is "trumped by the Supreme Court's ruling in *Holmes Group*." The Indiana Supreme Court noted that the only basis for concluding that a state court may not entertain patent or copyright counterclaims is the exclusive jurisdiction conferred by statute. But following the reasoning of *Holmes Group*, the Indiana Supreme Court ruled that a "counterclaim under those laws does not fall within that language."

The Indiana Supreme Court went on to conclude that the *Holmes Group* decision accordingly permits state courts to entertain a counterclaim under patent or copyright law.

The United States Supreme Court's holding permits some strategic forum-shopping in a limited and likely small number of cases. Where a patent-law claim and a non-patent claim are sufficiently related, a potential defendant can choose an appellate forum by filing a preemptive, non-patent suit

(an action with no patent infringement claim and no claim for a declaratory judgment of no patent infringement) that forces the filing of a patent-law counterclaim in a case outside the Federal Circuit's jurisdiction. On the other hand, when the patent-law counterclaim is sufficiently unrelated to the original non-patent claim, the party sued on the non-patent claim may have the option to bring a counterclaim with a patent action or a separate patent action, thereby determining the forum for the appeal.

The Indiana Supreme Court's holding means that, if the original claim is brought in state court, the same forum-shopping possibilities may apply. Depending on the parties and the particular claim brought, the defendant may have the option of removing the case to federal court and bringing a patent or copyright law counterclaim there (where the appeal would be heard by a regional Federal appellate court instead of the Federal Circuit), bringing the patent or copyright law counterclaim in state court (where the appeal would be heard by the state's appellate courts), or bringing a separate patent or copyright law claim in federal court (where an appeal of a patent claim would be heard by the Federal Circuit and a copyright claim by a regional Federal appellate court). However, if the patent or copyright claim is sufficiently related to the original claim and cannot be removed to federal court, the defendant could be forced to pursue the patent or copyright law claim as a counterclaim in that state's court.

David Bassett
david.basset@haledorr.com