# Intellectual Property

## Case Note: *The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*

*By Arun Chandra**

A significant portion of the patent bar was caught off-guard when the Supreme Court recently ruled that the Court of Appeals for the Federal Circuit (hereinafter "Federal Circuit") cannot assert jurisdiction over a case in which the plaintiff does not assert a patent claim.[1] Consequently, a defendant's original counterclaim for patent infringement is insufficient to bring the case within the appellate jurisdiction of the Federal Circuit and all appeals must be taken to the regional Court of Appeals that reviews decisions from the district court where the case is tried.[2]

Prior to the Supreme Court's *Holmes Group* ruling, the Federal Circuit took the view that it had jurisdiction over all cases that included a patent law issue.[3] Consequently, if, for example, ABC Corporation brought a trade dress infringement suit against XYZ Corporation and then XYZ Corporation counterclaimed alleging that ABC Corporation infringed its patent, all resulting appeals would be heard by the Federal Circuit. However, as noted above, after *Holmes Group*, this is no longer the case.

**History of *Holmes Group* Case**

In May of 1990, Vornado Air Circulation Systems, Inc. (hereinafter "Vornado") obtained a utility patent for a ducted fan.[4] In addition to the patent, Vornado believed that its patented fans also had a unique trade dress. As a result, in late 1992 it sued its competitor, Duracraft Corporation (hereinafter "Duracraft"), claiming that Duracraft's use of a "spiral grill design" in fans infringed Vornado's trade dress.[5] Unfortunately for Vornado, the Court of Appeals for the Tenth Circuit ruled that Vornado did not have any valid trade dress rights in its grill design, as a result of which Durasoft did not infringe any trade dress.[6]

A few years later, despite the earlier ruling against it, Vornado filed a complaint with the United States International Trade Commission (hereinafter "ITC") against The Holmes Group, Inc. (hereinafter "Holmes Group").[7] The complaint alleged that Holmes Group's sale of fans and heaters with a spiral grill design infringed Vornado's patent as well as the same trade dress that was held unprotectible in *Vornado I*.[8]

Immediately after Vornado filed its ITC complaint, Holmes Group filed suit against Vornado in the United States District Court for the District of Kansas. Holmes Group sought a declaratory judgment that its products did not infringe Vornado's trade dress and an injunction restraining Vornado from accusing it of trade dress infringement in promotional materials.[9] Vornado's answer asserted a compulsory counterclaim alleging patent infringement by Holmes Group.[10] The district court granted the declaratory judgment and injunction that Holmes Group sought.[11] It also held that Vornado was collaterally estopped from relitigating its claim of trade-dress rights in the spiral grill design because of *Vornado I*.[12]

Vornado appealed the district court's ruling to the Federal Circuit. Holmes Group responded by arguing, *inter alia*, that the Federal Circuit lacked appellate jurisdiction since its original complaint had not included any patent-law issues. Ignoring Holmes Group's challenge to its jurisdiction, the Federal Circuit went ahead and vacated the district court's judgment in an unpublished *per curiam* opinion.[13] The case was remanded for consideration of whether the "change in the law" exception to collateral estoppel applied in light of Supreme Court's decision in *TrafFix Devices, Inc.* v. *Marketing Displays, Inc.*[14]

Upon losing in the Federal Circuit, Holmes Group appealed to the Supreme Court, which granted certiorari.[15]

**Supreme Court's Ruling**

Justice Scalia delivered the opinion of the Court that was joined by Justices Rehnquist, Kennedy, Souter, Thomas and Breyer. Justice Stevens filed an opinion concurring in part and concurring in judgment. Justice Ginsburg issued a separate opinion concurring only in the judgement, which was joined by Justice O'Connor.

The Court began its analysis by noting that Congress vested the Federal Circuit with exclusive jurisdiction over appeals from final decisions of district courts of the United States if the district court's jurisdiction was based, in whole or in part, on 28 U.S.C. § 1338.[16] In turn, Section 1338(a) states that "district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents."[17]

Because Section 1338(a) does not provide any black-and-white test to determine whether a case arises "under any Act of Congress relating to patents," the Court sought guidance from its earlier rulings interpreting other similar statutes.[18] In particular, the Court looked to its interpretation of the phrase "arising under" in Section 1331,[19] which empowers district courts with jurisdiction over civil actions "arising under the Constitution, laws, or treaties of the United States."[20] Since the well-pleaded-complaint rule governs whether a case arises under federal law for purposes of Section 1331, a similar adaptation of the rule to Section 1338(a) required that a consideration of "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 ....'"[21] In other words, the "plaintiff's well pleaded complaint 'must establish 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 ....'"[22]

Reviewing the law on the issue of whether a federal law counterclaim can serve as a basis for establishing federal jurisdiction in cases originating in state courts,[23] the Court noted that because the plaintiff is the master of the complaint, the well-pleaded-complaint rule enables him to have his cause heard in state court by eschewing claims based on federal law.[24] If, however, a counterclaim could form the basis of federal jurisdiction, then "a defendant [would be able] to remove a case brought in state court under state law, thereby defeating a plaintiff's choice of forum, simply by raising a federal counterclaim,"[25] and the plaintiff would no longer remain the master of his complaint. The Court worried that conferring such a power to remove cases upon the defendant would radically expand the class of removable cases, which would be contrary to the due regard for the independence of state governments.[26] In addition, "allowing responsive pleadings by the defendant to establish 'arising under' jurisdiction would undermine the clarity and ease of administration of the well-pleaded-complaint doctrine, which serves as a 'quick rule of thumb' for resolving jurisdictional conflicts."[27] Clearly, these reasons recommended against "transform[ing] the longstanding well-pleaded-complaint rule into the well-pleaded-complaint-*or-counterclaim* rule,"[28] as applied to Section 1338.

Living up to his reputation of a textualist, Justice Scalia dismissed the argument that the Court must effectuate Congress' goal of promoting uniformity in patent law by interpreting Sections 1295(a)(1) and 1338(a) as conferring exclusive appellate jurisdiction on the Federal Circuit whenever a patent-law counterclaim is raised.[29] He refused to speculate what would further Congress' goal of ensuring patent-law uniformity, but instead noted that it was the words of the statute that governed.[30] Continuing on, Justice Scalia argued that "[i]t would be an unprecedented feat of *interpretive 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)."[31]

Justice Stevens agreed that "the exclusive jurisdiction of the Court of Appeals for the Federal Circuit in patent cases is fixed with reference to that of the district court."[32] Further, because "the jurisdiction of the court of appeals is not 'fixed' until the notice of appeal is filed,"[33] Justice Stevens was of the view that an amendment by plaintiff that added a patent law claim to the original complaint would also bring the case within Federal Circuit's jurisdiction.[34]

As a result:

> … 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. Conversely, if the only patent count in a multi-count complaint was voluntarily dismissed in advance of trial, it would seem equally clear that the appeal should be taken to the appropriate regional court of appeals rather than to the Federal Circuit.[35]

Justice Ginsburg, on the other hand, argued that the Congress' purpose in enacting the underlying statute should control. As such, she would "give effect to Congress' endeavor to grant the Federal Circuit exclusive appellate jurisdiction at least over district court adjudications of patent claims."[36] She was of the view that "when the claim stated in a compulsory counterclaim arises under federal patent law and is adjudicated on the merits by a federal district court, the Federal Circuit has exclusive appellate jurisdiction over that adjudication and other determinations made in the same case."[37] Justice Ginsburg concurred in the judgment, however, solely because no patent claim was adjudicated at the district court level.[38]

**Conclusion**

As an initial matter, *Holmes Group* illustrates that the Supreme Court does remain aware of happenings at the Federal Circuit, and will not hesitate to review cases even where a Federal Circuit opinion appears uncontroversial. This should definitely surprise those who believe that the Supreme Court gives high deference to the Federal Circuit on patent law issues.[39]

After *Holmes Group*, it is clear that a plaintiff can avoid review of his case by the Federal Circuit by omitting patent claims from his complaint.[40] For example, where a plaintiff fears that the Federal Circuit may be less receptive, he can ensure that an appeal from his case goes to his regional Court of Appeals by asserting only non-patent claims in the original complaint. However, the question of whether an amendment adding a patent law claim to the original complaint brings the case within Federal Circuit's jurisdiction remains a mystery to be solved at a later date.

Of course, a necessary corollary of the decision is that regional Courts of Appeals will also get to decide patent issues raised in response to antitrust, trademark, copyright, trade secret, contract, unfair trade practices, or other non-patent claims filed by a plaintiff. That is, "other circuits will [now] have some role to play in the development of … [patent] law."[41] While the prospect of all Courts of Appeals ruling on patent issues may trouble some, others will agree with Justice Stevens that "[a]n occasional conflict in [patent law] decisions may be useful in identifying questions that merit … [the] 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."[42]

* Arun Chandra is an associate in the New York office of Jones, Day, Reavis & Pogue, where he concentrates on intellectual property litigation. Arun also serves as co-chairman of the Patent Subcommittee of The Federalist Society. The views expressed herein are the personal views of the author and do not necessarily reflect those of his firm or its clients.

## Footnotes

[1] *See The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 122 S.Ct. 1889 (2002).
[2] *See id*.
[3] *See The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 13 Fed. Appx. 961 (2001); *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 1359 (Fed. Cir. 1999) (holding that "any counterclaim raising a nonfrivolous claim of patent infringement is sufficient to support … [the Federal Circuit's] appellate jurisdiction."); *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990).
[4] *See* U.S. Patent No. 4,927,324 (issued May 22, 1990).
[5] *See Holmes Group*, 122 S.Ct. at 1892.
[6] *Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995) (*Vornado I*).
[7] *See* ITC Institutes Section 337 Investigation on Certain Spiral Grilled Products Including Ducted Fans and Components Thereof (January 21, 2000), *at* http://www.usitc.gov/er/nl2000/ER0121X3.HTM.
[8] *Id*.
[9] *See Holmes Group*, 122 S.Ct. at 1892.
[10] *Id*.
[11] *The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc*., 93 F. Supp. 2d 1140 (D. Kan. 2000).
[12] *Id*. at 1142-43.
[13] 13 Fed. Appx. 961 (2001).
[14] *Id*. *TrafFix Devices, Inc.* was decided after the district court's judgment and resolved a circuit split in trade dress law. *See* 121 S.Ct. 1255 (2001).
[15] *The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 122 S.Ct. 510 (2001).
[16] *See Holmes Group*, 122 S.Ct. at 1892-93.
[17] 28 U.S.C. § 1338 (a).
[18] *Holmes Group*, 122 S.Ct. at 1893 (reviewing previous cases involving 28 U.S.C. § 1331 because Section 1331 uses the same operative language as 28 U.S.C. § 1338). The Court explained that linguistic consistency required it "to apply the same test to determine whether a case arises under § 1338(a) as under § 1331." *Id*. (*citing Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 808 (1988)).
[19] *Id*.
[20] 28 U.S.C. § 1331.
[21] *Holmes Group*, 122 S.Ct. at 1893 (*quoting Christianson,* 486 U.S. at 809).
[22] *Id*. (*quoting Christianson,* 486 U.S. at 809) (internal brackets omitted). It should be noted that the Court left unanswered the question of whether the Federal Circuit can have jurisdiction where an actual or constructive amendment to the complaint raises a patent-law claim, but not the original complaint. *Id*. at 1893, n. 1.
[23] *Id*. at 1894 ("Allowing a counterclaim to establish 'arising under' jurisdiction would also contravene the longstanding policies underlying our precedents.").
[24] *Id*.
[25] *Id*.
[26] *See id*.
[27] *Id*.
[28] *Id*. (emphasis in original) (internal quotation marks omitted).
[29] *Id*. at 1894-95.
[30] *Id*. at 1895.
[31] *Id*. (emphasis added).
[32] *Id*. (Stevens, J., concurring) (internal quotation marks omitted).
[33] *Id*. at 1895 (Stevens, J., concurring).
[34] *Id*. at 1895-96. Justice Scalia had refused to discuss whether an amended complaint that added a patent law claim could bring the case within Federal Circuit's jurisdiction. *See id*. at 1893, n. 1.
[35] *Id*. at 1896.
[36] *Id*. at 1898 (*citing* Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U.L.Rev. 1, 36 (1989)).
[37] *Id*.
[38] *Id*.
[39] In fact, the Supreme Court has reversed or vacated seventy percent of all patent decisions rendered by the Federal Circuit since it came into existence in 1982, including four of the last five decisions. *See* Bruce M. Wexler & Joseph M. O'Malley, Jr., *Deciding Jurisdiction in Patent Appeals*, N.Y.L.J. S3 (Aug. 12, 2002).
[40] In fact, in light of *Holmes Group*, the Federal Circuit recently transferred an antitrust case with patent law counterclaims to a regional circuit court. *See Telecomm Technical Servs., Inc. v. Siemens Rolm Communications, Inc.*, 2002 WL 1425237 (Fed. Cir. 2002).
[41] *Holmes Group*, 122 S.Ct. at 1898 (Stevens, J., concurring).
[42] *Id*.