

New Dawn for Forum Shopping: The Implications of *Vornado*

Robert P. Taylor

The decision of the U.S. Supreme Court in *Holmes Group, Inc. v. Vornado Air Circulation Sys.*, 122 S. Ct. 1889 (2002), marks a major shift in the relative responsibilities of the various circuits courts of appeals for handling patent cases. On first reading, the decision appears to be a routine interpretation of Title 28 (the portion of U.S. Code dealing with “Judiciary and Judicial Procedure”), determining only whether the Federal Circuit may exercise jurisdiction over an appeal from an order dismissing a trade dress claim. On further reflection, however, *Vornado* is a disruptive departure from settled procedural rules that have defined the jurisdictional divide between the regional circuits and the Federal Circuit for twenty years.

The *Vornado* decision reverses a jurisdictional practice, widely used by both the Federal Circuit and the regional circuits, that placed appellate jurisdiction in the Federal Circuit for any case in which either the original complaint or a properly pleaded counterclaim was based on a patent claim. In holding that Federal Circuit jurisdiction exists only where the complaint itself raises a substantial question of patent law, the *Vornado* ruling invites the regional circuits to expand their own role in defining rules of patent law and related areas of jurisprudence such as antitrust and unfair competition. This alone portends revival of the fine art of forum shopping in patent cases. The decision also unsettles a number of other procedural rules in ways that may take years to sort out.¹

The most interesting (and unanswered) question about *Vornado* is why the Supreme Court took interest in overruling a twenty-year old procedural rule that was relatively uncontroversial. At least one pair of commentators views the decision as a considered but unstated effort by the Supreme Court to reassess the singular and growing influence of the Federal Circuit in all matters related to patents.² Certainly the importance of the Federal Circuit has grown to proportions not envisioned when the court was created. The U.S. economy has doubled in size over the past twenty years. By any measure chosen, the economic significance of patents during the same period has increased several fold—the value of patents as corporate assets, the number and moment of patent lawsuits, or simply the presence of patent lawyers in corporate boardrooms and major financial transactions. This growing impact of patents has been the subject of much discussion in policy circles, prompted to some

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¹ The Supreme Court of Indiana, for example, recently construed *Vornado* as holding that the state courts of Indiana are compelled to litigate a copyright claim that arose in connection with a contract dispute, notwithstanding 28 U.S.C. § 1338, which gives to the federal district courts exclusive jurisdiction over copyright claims. See *Green v. Hendrickson Publishers, Inc.*, 770 N.E. 2d 784 (Ind. 2002).

² Bruce M. Wexler & Joseph M. O'Malley, Jr., *Deciding Jurisdiction in Patent Appeals: U.S. Supreme Court Vacates Federal Circuit Ruling and Opens Door to Forum Shopping*, N.Y. L.J., Aug. 12, 2002.

extent by the Federal Circuit's decision a few years ago to develop its own jurisprudence and no longer to use that of the regional circuits in resolving the interplay between patent law and antitrust law.³

Historical Background

Before considering *Vornado* and its implications, some history is useful. Prior to the creation of the Federal Circuit, procedural maneuvering for the choice of forum in patent cases was epidemic. An expensive venue fight was the norm in many if not most important patent cases. This strategic concern over forum selection was driven largely by widely disparate patent enforcement records among the regional circuits. Some circuits were thought to be biased in favor of, and other circuits heavily against, finding for the patent owner on issues of validity, infringement, and the antitrust-inspired defense of patent misuse. In that environment, the choice of a district court became critical because it determined which of the regional circuits would hear an ultimate appeal, and the choice of a regional circuit was thought likely to determine the winner.

In 1982, Congress created the United States Court of Appeals for the Federal Circuit specifically to reduce the impact of forum shopping in patent cases. The Senate Report on the Act identified "patent law as 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."⁴ A centralized national court was given exclusive appellate jurisdiction to hear cases arising under the patent law to insure "nationwide uniformity in patent law . . . make litigation results more predictable and . . . eliminate the expensive, time-consuming, and unseemly forum-shopping that characterizes litigation in the field."⁵ By concentrating all patent appeals in a single appellate court, Congress hoped to achieve nationwide uniformity in the application of patent law and thereby eliminate the expensive and contentious venue fights that characterized most important patent cases.⁶

To a large extent, the Federal Circuit has been successful in achieving both the congressional objective of uniformity in the patent law and a significant reduction in the efforts spent by litigants seeking to influence the choice of forum. With virtually all patent litigation now making its way to the Federal Circuit, the need for strategic posturing designed to secure the most desirable

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³ See, e.g., *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) (determining without reliance on regional circuit precedent that withholding information from the U.S. Patent Office with an intent to deceive was sufficient to support the jury's finding of an antitrust violation); *CSU L.L.C. v. Xerox Corp.*, 203 F.3d 1322 (Fed. Cir. 2000) (using its own law in upholding summary judgment that a patent owner's unilateral refusal to license or sell was not a violation of antitrust law). See *Symposium: The Federal Circuit and Antitrust*, 69 ANTITRUST L.J. 3 et seq. (2002); Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, 68 ANTITRUST L.J. 913 (2001); Timothy J. Muris, FTC Chairman, *Competition and Intellectual Property Policy: The Way Ahead*, Remarks Before American Bar Association Antitrust Section Fall Forum (Nov. 15, 2001).

⁴ S. REP. NO. 97-275 at 5 (1981), reprinted in 1982 U.S.C.C.A.N. 11, 15.

⁵ COMM. ON THE JUDICIARY, REPORT ON THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT ACT OF 1980 TO ACCOMPANY H.R. 3806, H. REP. NO. 96-1300 at 18-21 (1980) ("At present, the validity of a patent is too dependent upon geography (i.e., the accident of judicial venue) . . . [U]niformity 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. Business planning becomes easier as more stable and predictable patent law is introduced").

⁶ See *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1437 (Fed. Cir. 1984) (en banc) (quoting congressional reports to show that the vesting of exclusive jurisdiction in the Federal Circuit "was intended to alleviate the serious problems of forums [sic] shopping among the regional courts of appeals on patent claims").

appellate court is no longer the principal concern of most litigants. While there remains considerable interest in making sure that litigation occurs in a convenient forum, the incentive for racing to the courthouse or otherwise provoking a venue fight is a fraction of what it was a few years ago.⁷

Federal Circuit Jurisdiction

The jurisdiction of the Federal Circuit is defined by statute in the terms of the original jurisdiction of the district court from which the appeal is taken. Under 28 U.S.C. § 1295, the Federal Circuit is given exclusive jurisdiction of any appeal from a case in which jurisdiction in the district court “was based, in whole or in part, on [28 U.S.C. §] 1338.” Section 1338 provides that the district courts have original and exclusive jurisdiction over “any civil action arising under any Act of Congress relating to patents,” among other things. This statutory scheme necessarily requires that both the Federal Circuit and the regional circuits act harmoniously to define jurisdictional boundaries.

Much of the success of the Federal Circuit in achieving uniformity in patent law has come about because both the Federal Circuit and the regional circuits have made this one of the underlying objectives in defining their shared jurisdictional boundary. The Federal Circuit assumed or was ceded jurisdiction over appeals in many cases that were not strictly patent infringement cases, as long as the case presented significant issues of patent law that required resolution. In so doing, the Federal Circuit confined its own independent jurisprudence to those rules of law necessary for a uniform construction and application of Title 35 (the Patent Act), applying the law of the appropriate regional circuit to procedural and nonpatent issues that were presented.⁸

⁷ The current interest of litigants in the selection of a suitable district court for patent litigation, while still driven by a desire to influence outcome, is usually less related to substantive rules of law than to more indirect considerations. Some districts are thought to have more patent expertise than others. Some districts—the so-called rocket docket—offer an opportunity for getting a case to trial more quickly than in other districts. For some litigants, the right to a local jury is an overriding concern. The cost and inconvenience of litigating on the opposite side of the continent has been a factor for many litigants.

⁸ See, e.g., *Truswal Sys. Corp. v. Hydro-Air Eng'g, Inc.*, 813 F.2d 1207, 1212 (Fed. Cir. 1987) (applying Federal Circuit law to determination of relevance under Rule 26(b)(1) in a patent infringement suit); *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1439–40 (Fed. Cir. 1984) (en banc) (applying Seventh Circuit law to issue of copyright infringement); *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574–75 (Fed. Cir. 1984) (holding that regional circuit law applied to an appeal from an order disqualifying a law firm).

The Federal Circuit initially applied the law of the regional circuits to the so-called “interface” issues that arise when patent law must be reconciled with antitrust law or the principles of competition that underlie antitrust law. See, e.g., *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1366–67 (Fed. Cir. 1984) (applying Ninth Circuit law in determining whether fraud on the U.S. Patent Office was sufficiently established to support antitrust and unfair competition claims). More recently, however, the Federal Circuit began to develop its own jurisprudence for such issues. See, e.g., *Nobelpharma AB v. Implant Innovations*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) (applying Federal Circuit law to affirm jury finding that fraud on the Patent Office rose to a level sufficient to uphold verdict of attempted monopolization); *CSU L.L.C. v. Xerox Corp.*, 203 F.3d 1322 (Fed. Cir. 2000) (using Federal Circuit law to uphold summary judgment ruling that a patent owner’s unilateral refusal to license or sell was not a violation of antitrust law).

Although somewhat controversial, that change in course is consistent with the Federal Circuit’s congressional mandate of achieving nationwide uniformity in the handling of issues that affect the outcomes of patent cases. In *Nobelpharma*, for example, the Federal Circuit noted:

Because most cases involving these issues will therefore be 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. 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.

141 F.3d at 1068.

More compelling, perhaps, is the increasing difficulty in trying to glean sensible rules of law for current use from what a regional circuit might have said or done twenty or more years ago. When the Federal Circuit was created, the “recent” experience with these issues lay in the regional circuits. Today, the bulk of these issues occur in cases that the Federal Circuit is handling, and the bulk of current experience resides with that court. In the intervening twenty years, antitrust law has gone through changes that relegate many of the older cases to

Over the twenty-year history of the Federal Circuit, dozens of cases taken collectively have established this well-settled and comfortable channel through which any case that required resolution of substantial patent law issues was likely to be given to the Federal Circuit for decision. A few exemplary cases illustrate the key points at which *Vornado* unsettles the law and invites new attention to procedural posturing.

The decisions of the Ninth and Federal Circuits in *In re Innotron Diagnostics*, 800 F.2d 1077 (Fed. Cir. 1986), marked a major milestone in early efforts at dividing jurisdiction. The case began as a simple antitrust complaint alleging that the defendant, Abbott Laboratories, tied its patented blood analyzer to the sale of reagents. Abbott then filed a separate lawsuit for patent infringement in the same court. The antitrust plaintiff moved for dismissal of the patent case, arguing that it was a compulsory counterclaim in the antitrust case. In lieu of dismissing, and apparently with the approval of the antitrust plaintiff, the district court consolidated the two cases under Rule 42, Federal Rules of Civil Procedure. Thereafter, the district court stayed the antitrust case to await trial of the patent case. The antitrust plaintiff sought a writ of mandamus in the Ninth Circuit, which refused to accept jurisdiction. The Federal Circuit assumed jurisdiction of the petition and denied the writ, holding that the district court had not abused its discretion. In agreeing with the Ninth Circuit that jurisdiction belonged in the Federal Circuit, the latter court relied on the fact that the patent case was clearly within its jurisdiction as a result of the initial filing, stating that the act of consolidating the patent case with the antitrust case should not alter the analysis. The Federal Circuit relied specifically on the “in whole *or in part*” language in Section 1295. *Innotron*, 800 F.2d at 1079–80.

In *Christianson v. Colt Industries*, 486 U.S. 800, 806 (1988), the Supreme Court held that the Federal Circuit did not have jurisdiction over an appeal from an order in a monopolization case finding several patents to be invalid under 35 U.S.C. § 112 for failure to disclose certain aspects of the patented technology. Because the need to address the patent law issues was not required by any issue pleaded in the complaint, the Court held that the Federal Circuit was without jurisdiction.⁹ *Christianson* set forth a two-prong test for determining when a case is one “arising under” the patent law:

[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, in that federal [patent] law is a necessary element of one of the well-pleaded . . . claims.”

Id. at 808 (emphasis added).

In *Xeta, Inc. v. ATEX, Inc.*, 825 F.2d 604, 606–07 (1st Cir. 1987), the First Circuit relied on *Innotron* to concede jurisdiction to the Federal Circuit of an appeal in a case, initially filed as an antitrust case, but in which a counterclaim for patent infringement was properly filed. The decision

museum status. The recent decision of the Seventh Circuit in *Scheiber v. Dolby Laboratories*, 293 F.3d 1014 (7th Cir. 2002) (Posner, J.), illustrates the impossibility of reconciling some of the older interface precedents with modern views of economics. The Seventh Circuit, faced with a 1964 decision of the Supreme Court squarely on point, refused to enforce a patent license calling for post-expiration royalties, even though the contract clearly required it. The opinion laments the absence of any economic justification for the 1964 rule and essentially invites the Supreme Court to grant certiorari and overrule it. (“[W]e have no authority to overrule a Supreme Court decision no matter how dubious its reasoning strikes us, or even how out of touch with the Supreme Court’s current thinking the decision seems.”) *Id.* at 1018.

⁹ The initial appeal in *Christianson* was taken to the Federal Circuit, which declined jurisdiction in favor of the Seventh Circuit. The Seventh Circuit also declined jurisdiction. The Federal Circuit treated the latter ruling as “law of the case” and decided the appeal. The Supreme Court reversed, noting that having initially held itself lacking in jurisdiction, the Federal Circuit should not have then made any rulings. The Court noted that the Seventh Circuit should have accepted the appeal, treating the Federal Circuit’s decline as the law of the case. *See 486 U.S.* at 816–17.

is deferential to the need for uniformity in the administration of patent law and rests on the statutory language “in whole *or in part*.”¹⁰

In *Aerojet-General Corp. v. Machine Tool Works*, 895 F.2d 736, 739–42 (Fed. Cir. 1990), the Federal Circuit sitting en banc reviewed the entire body of jurisdictional law related to counterclaims, concluding that it had jurisdiction over cases in which compulsory patent counterclaims were pending, given the congressional objective for uniformity in the patent law and the “in whole *or in part*” language in Section 1295. The *Aerojet* court reserved judgment as to permissive or noncompulsory patent counterclaims. 895 F.2d at 739. In *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 1358–59 (Fed. Cir. 1999), the court went on to hold affirmatively that it had jurisdiction over a nonpatent case in which a noncompulsory patent counterclaim was filed, citing the *Innotron* case for its rationale.

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The *Vornado* Ruling

The specific ruling in *Vornado* is that the Federal Circuit is without jurisdiction to hear an appeal in a case, properly pleaded as a trade dress case, even though the defendants filed a compulsory counterclaim for patent infringement. The majority opinion by Justice Scalia rejects uniformity in the patent law as the primary determinant of Federal Circuit jurisdiction, emphasizing instead the right of a plaintiff to select its own forum (including the court to which appeals will be directed), and holding that a “well-pleaded complaint” alone determines the proper path for appellate jurisdiction. The Court seizes upon the “arising under” language in Section 1338, analogizing it to similar language in Section 1331 (establishing federal question jurisdiction) and Section 1441 (creating removal jurisdiction). Using precedents from these other areas, the Court holds that the Federal Circuit’s jurisdiction should be rigidly confined to whether the *complaint* raises a substantial question of federal patent law.¹¹

In so ruling, the Supreme Court appears willing to tolerate diversity among the circuits as to issues of patent law and the related matters that often accompany them, most commonly antitrust and unfair competition claims. Indeed, a concurring opinion by Justice Stevens suggests that divergence between the regional circuits and the Federal Circuit on such issues may even be beneficial:

Necessarily, therefore, other circuits will have some role to play in the development of this area of the law. 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.

122 S. Ct. at 1898.

This aspect of the *Vornado* decision, in particular, has far-reaching implications. Certainly the decision invites the revival of conditions fertile for forum shopping and venue fights. It is too soon

¹⁰ After *Christianson*, the Federal Circuit began treating transfer orders as the “law of the case.” See, e.g., *Xeta, Inc. v. AteX, Inc.*, 852 F.2d 1280, 1281 (Fed. Cir. 1988) (citing *Christianson*).

¹¹ Curiously, there is only passing reference in the opinion of the fact that Section 1338, in addition to giving the district courts jurisdiction over patent cases, also gives jurisdiction over “any civil action arising under any Act of Congress relating to . . . trademarks,” which presumably would include the trade dress case at issue in *Vornado*. Section 1295, in defining the appellate jurisdiction of the Federal Circuit, carves out “a case involving a claim arising under an Act of Congress relating to copyrights, exclusive rights in maskworks, or trademarks and no other claims under section 1338(a) . . .” Although the Supreme Court might have reached the same conclusion as it did using only the patent provision of section 1338, the trademark provision seems as or more relevant than the patent provision.

to know the extent to which the regional circuits—in response to the suggestion of Justice Stevens in *Vornado* to create “an occasional conflict” between circuits—are likely to develop and apply rules of patent law that diverge from those of the Federal Circuit. What is clear, however, is that *Vornado* at least suggests that possibility, which in turn is likely to prompt strategic maneuvering intended to exploit whatever opportunities may exist or be created.¹²

Despite its pejorative name, forum shopping is neither improper nor unusual. Lawyers have a duty to their clients to consider and take proper advantage of all factors likely to bear on the outcome of a case. If the choice of forum is such a factor, and if the stakes are high enough to justify the costs involved, forum shopping is inevitable. The reason that forum shopping in patent cases is not more prevalent today is that the benefits do not justify the costs. If the cost-benefit equation changes, litigants may discover new incentives to “steer” the litigation to the appellate court of preference, depending upon whether and how the patent issues are raised.

It may be some time before we know the full procedural reach of *Vornado*. Facially, at least, the decision appears to unsettle much established law. Arguably, for example, *Vornado* overrules all cases, such as *Aerojet-General* and *Xeta v. Atex*, in which Federal Circuit jurisdiction turned on a patent counterclaim in an otherwise nonpatent case.¹³ This will not be dispositive for all cases, however, because in *Vornado* there was no argument that the trade dress cause of action required resolution of a substantial question of patent law. Where the underlying case in the district court is a nonpatent claim, but one in which resolution of a substantial patent question is required, there remains a compelling argument that the Federal Circuit should still have jurisdiction. Many antitrust cases involving patents, for example, are premised on the theory that the patent in question is not valid. This would seem almost always to satisfy the second prong of *Christianson*.

Nor is it clear how *Vornado* will affect consolidation of patent causes of action with nonpatent causes of action, such as occurred in *Innotron*. Since the patent portion of the case clearly satisfies the test for Federal Circuit jurisdiction, it seems likely at least that the “in whole or in part” language in Section 1295 would take effect and confer such jurisdiction.

Compulsory vs. Permissive Counterclaims

One issue that is certain to see action in the new era is whether a counterclaim is “compulsory.” A patent owner confronted with a first-filed nonpatent complaint (as in *Innotron*) will immediately consider whether it is *required* to file a counterclaim for infringement or is merely *permitted* to do so. With the knowledge that any appeal from a counterclaim is likely to lie in the regional circuit, whereas an appeal from a separate patent case will go to the Federal Circuit, the patent owner will then assess which appellate court it wants to be in, based on the issues most likely to be determinative. If the former, it will file a counterclaim. If the latter, it will file a separate action.

¹² At least one proposal for legislation to override *Vornado* is in circulation. An ad hoc committee of the Federal Circuit Bar Association has proposed an amendment to Section 1338(a) to add the words “involving any claim for relief,” an indirect reference to Fed. R. Civ. P. 8, in which the term “claim for relief” is defined to include claims, counterclaims, cross-claims and third party claims. The report argues that the *Vornado* decision is directly at odds with the intent of Congress in creating the Federal Circuit.

¹³ The Federal Circuit recently transferred jurisdiction over an antitrust action in which a patent infringement counterclaim was raised to a regional court of appeals, specifically acknowledging that prior to *Vornado* it would have retained jurisdiction. See *Telcomm Tech. Servs., Inc. v. Siemens Rolm Communications, Inc.*, 295 F.3d 1249 (Fed. Cir. 2002). In the most recent post-*Vornado* decision, the Federal Circuit exercised jurisdiction over an appeal from the dismissal of the plaintiff’s federal and state antitrust and unfair competition claims, because the plaintiff’s declaratory relief action for patent noninfringement clearly “arises under the patent laws.” *Ilan Golan v. Pingel Enter., Inc.*, No. 01-1626 (Fed. Cir. Nov. 7, 2002).

The party with the nonpatent claim will make the same assessment. If it prefers to be in the Federal Circuit, it can always try to file a declaratory relief action (assuming the patent owner has created the requisite apprehension of imminent litigation to support declaratory relief). If the regional circuit is the preferred appellate forum, the nonpatent claimant can file the case without reference to the patent issues. Conversely, if the nonpatent claimant is sued first for patent infringement, it will decide whether it prefers to have the appeal of the antitrust case heard in the Federal Circuit, in which case it will file a counterclaim. If the nonpatent claimant wants the antitrust case to be heard in the regional circuit, it will file a separate case.

Under Rule 13(a) of the Federal Rules of Civil Procedure, a party must assert any counterclaim “if it arises out of the transaction or occurrence that is the subject matter of the opposing party’s claim.” The law is not well defined as to when a counterclaim is compulsory, but the risk is on the defendant in not filing. The danger is that the counterclaim will be lost in trying to assert it in subsequent litigation.¹⁴

The Supreme Court’s decision in *Vornado* states in passing that the patent counterclaim there was “compulsory” in light of the trade dress claim but does not state why.¹⁵ The subject came up in oral argument, but was deflected by both parties. The trade dress plaintiff, trying to defeat Federal Circuit jurisdiction, argued for noncompulsory status. The patent owner, trying to sustain jurisdiction, argued that it was required to assert the patent case as a compulsory counterclaim. This reversal of roles from the usual situation, in which the failure to assert a counterclaim in prior litigation is argued to be preclusive, detracts significantly from any precedential effect that the Supreme Court’s dicta might have.¹⁶ Moreover, it will be an unusual nonpatent case for which a patent infringement counterclaim is both (1) compulsory and (2) does not simultaneously require resolution of a “substantial question of patent law,” the latter of which would seem to create

¹⁴ See, e.g., *Critical-Vac Filtration Corp. v. Minuteman Int’l, Inc.*, 233 F.3d 697, 703–04 (2d Cir. 2000) (dismissing complaint because antitrust claims were compulsory counterclaims in earlier patent litigation between the parties).

¹⁵ Although the same set of products would have been the subject of both the trade dress claim and the patent claim, this seems to be a tenuous basis for entwining—as “compulsory” counterclaims—all imaginable causes of action relating to a single set of products. It seems strange, for example, to hold that liability for the sale of a defective product and a patent infringement claim *must be* litigated together merely because both are concerned with the same products.

Regional circuit law on compulsory counterclaims underscores this point. The regional circuits, using as a foundation the logical relationship test set forth by the Supreme Court in *Moore v. N.Y. Cotton Exch.*, 270 U.S. 593 (1926), have identified several factors to determine whether a counterclaim is part of the “same transaction or occurrence,” thereby making it compulsory under Rule 13(a). See, e.g., *Pipeliners Local Union No. 798 v. Ellerd*, 503 F.2d 1193, 1198 (10th Cir. 1974). The factors considered include (1) similarity of factual and legal issues; (2) whether res judicata would bar subsequent suit on the counterclaim (absent the compulsory counterclaim rule); (3) similarity of the evidence which supports or refutes the claim and counterclaim; and (4) whether a logical relationship exists between the claim and counterclaim. See *id.* Considering these factors, it seems unlikely that causes of action, related solely because both are concerned with the same products, would be compulsory counterclaims.

¹⁶ In few if any decisions has the Federal Circuit actually resolved a dispute over this issue by holding squarely that a patent infringement counterclaim is compulsory in a case filed as a nonpatent claim. In *Aerojet-General*, for example, the Federal Circuit assumed that the counterclaim was compulsory because the parties had agreed that it was. 895 F.2d at 738. Most of the situations in which the Federal Circuit has actually held patent counterclaims to be compulsory are those in which the original case seeks declaratory relief on the patent claims. See, e.g., *Vivid Techs., Inc. v. Am. Sci. & Eng’g, Inc.*, 200 F.3d 795, 802 (Fed. Cir. 1999) (holding that a counterclaim for patent infringement is compulsory in a declaratory judgment action for noninfringement).

Procedurally, the Federal Circuit uses the law of the regional circuit when deciding whether an antitrust counterclaim is compulsory in a patent infringement suit. See, e.g., *Genentech, Inc. v. Regents of the Univ. of Cal.*, 143 F.3d 1446, 1456 (Fed. Cir. 1998) (applying Seventh Circuit law to hold that an antitrust claim was compulsory in an earlier filed suit).

Federal Circuit jurisdiction under the second part of the *Christianson* test, despite *Vornado*.¹⁷

The question of when a counterclaim is compulsory in cases raising both patent and antitrust issues is somewhat distorted as a result of *Mercoïd Corp. v. Mid-Continent Investment Corp.*, 320 U.S. 661 (1944). There, the Supreme Court—in a determined effort to find against the patent owner—allowed an unsuccessful infringement defendant to bring a subsequent antitrust claim alleging a conspiracy to expand the patent monopoly, even though the antitrust claim could have been brought in the first action. The Court viewed such a counterclaim as permissive only, and therefore not barred by failure to plead it in the first patent infringement suit.¹⁸ Thus, the Court concluded that the antitrust counterclaim was not barred since it involved different “matters in issue or points controverted” than the earlier patent infringement litigation.

The Fifth and Ninth Circuits appear to follow *Mercoïd*, although in some cases reserving judgment on whether the *Mercoïd* exception applies to every antitrust counterclaim arising in a patent infringement context.¹⁹ Other circuits, such as the Second and Fourth, appear to limit the holding in *Mercoïd* to its facts.²⁰ The Federal Circuit, because it uses the law of the regional circuits in deciding what is a compulsory counterclaim, has no unique rule of its own on the application of *Mercoïd*. This interplay between *Mercoïd* and the remainder of the rules on compulsory counterclaims promises to add layers of complexity to the identification of the appropriate regional circuit in which to file.

The Preference for a Particular Circuit Will Not Be Predictable

It is not entirely clear which direction forum shopping is likely to take in particular situations. The accused infringer, for example, may not always want to be in the regional circuit on a patent law issue. The patent owner may not always prefer the Federal Circuit for either patent law issues or for antitrust issues.

Although the Federal Circuit is often viewed as a patent-friendly court, there are many issues on which that court has been tougher on patent owners that might be true in one of the regional

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¹⁷ In a post-*Vornado* ruling, for example, *In re Tamoxifen Citrate Antitrust Litig.*, 2002 WL 1962125, 2002 U.S. Dist. LEXIS 17211 (E.D.N.Y. Aug. 26, 2002), the Eastern District of New York denied a motion to remand an antitrust case to state court, holding that plaintiffs' state antitrust claims necessarily required resolution of a “substantial question of federal patent law.” Plaintiffs allege that a settlement agreement reached by patent holder Zeneca and manufacturer Barr in a separate suit enabled Zeneca to revive a patent Barr had proven was invalid and unenforceable and to exclude competition from generic manufacturers. Because plaintiffs must prove that Zeneca's patent was invalid or unenforceable, and there was no alternate nonpatent theory on which the plaintiffs could rely to prevail, the district court had original jurisdiction under § 1338.

¹⁸ The antitrust plaintiff, *Mercoïd*, although not a party to the first patent suit, had paid for and directed the unsuccessful defense of a customer sued for patent infringement. After prevailing in the first patent case, the patent owner then sued *Mercoïd* for contributory infringement. *Mercoïd* asserted patent misuse as a defense and an antitrust counterclaim for damages, both of which could have been asserted in the earlier action but were not. Without putting too fine a point on its reasoning, the Supreme Court held that the “claim for [antitrust] damages is more than a defense; it is a separate statutory cause of action. The fact that it might have been asserted as a counterclaim in the prior [infringement] suit by reason of Fed. R. Civ. P. 13 (b) does not mean that the failure to do so renders the prior judgment *res judicata* as respects it.” *Mercoïd*, 320 U.S. at 671. The Court held that the case should be “governed by the principle that where the second cause of action between the parties is upon a different claim, the prior judgment is *res judicata* not as to issues which might have been tendered, but ‘only as to those matters in issue or points controverted, upon the determination of which the finding or verdict was rendered.’” *Id.*

¹⁹ See, e.g., *Tank Insulation Int'l, Inc. v. Insultherm, Inc.*, 104 F.3d 83, 88 (5th Cir. 1997) (holding that while an antitrust claim based upon conspiracy to file a wrongful patent infringement suit was compulsory in the underlying infringement suit, *Mercoïd* created an exception, but declining to decide whether *Mercoïd* applied to every antitrust counterclaim); *Hydranautics v. Filmtec Corp.*, 70 F.3d 533, 536 (9th Cir. 1995) (holding that an antitrust counterclaim based on predatory patent litigation was permissive in a patent infringement suit).

²⁰ See, e.g., *Critical-Vac Filtration*, 233 F.3d at 703–04; *Burlington Indus., Inc. v. Milliken & Co.*, 690 F.2d 380, 389 (4th Cir. 1982).

*In light of the complexities and uncertainties of the possible need to counterclaim, one of the early casualties of *Vornado* may be the willingness of patent owners to engage in pre-litigation efforts to find a commercial solution to a potential patent dispute.*

circuits. Examples abound. The entire body of law that has evolved since 1988 applying 35 U.S.C. § 112(6) to “means-plus-function” claims has narrowed significantly the scope of protection afforded to the patent owner.²¹ Similarly, the Federal Circuit has been tough on patent owners seeking to expand their claim coverage through the doctrine of equivalents.²² The Federal Circuit has also been demanding of patent owners with respect to the enablement of patent claims in the less predictable arts, such as biological sciences and chemistry.²³ If the regional circuits were to develop rules that soften those of the Federal Circuit in any of these areas, it will be the patent owner, not the accused infringer, that benefits from steering any appeal away from the Federal Circuit.

The converse may be true of antitrust claims related to patents. Although the general perception seems to be that the Federal Circuit is more harsh than the regional circuits on antitrust claims raised in connection with patent issues, antitrust claimants facing an actual decision as to the appellate court of choice may prefer the Federal Circuit over one of the regional circuits on particular issues. In *Nobelpharma*,²⁴ for example, the Federal Circuit held that enforcement of a patent found by a jury to have been procured by fraud, given proper market conditions, was properly the basis for finding a violation of Section 2 of the Sherman Act. A number of the regional circuit courts of appeals have no similar precedential rulings in favor of an antitrust plaintiff on such a claim. Similarly, in *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), the Federal Circuit affirmed liability under Section 2 of the Sherman Act based on a claim that an anticompetitive purpose by the patent owner in designing the patented disposable needles used in a patented biopsy device gave rise to a violation of Section 2. One would search long and without success for a comparable precedent in most if not all of the regional circuits.

In light of the complexities and uncertainties of the possible need to counterclaim, one of the early casualties of *Vornado* may be the willingness of patent owners to engage in pre-litigation efforts to find a commercial solution to a potential patent dispute. Unlike many other types of litigation, patent cases often are preceded by significant negotiations between the patent owner and the accused infringer. To start the running of the clock on damages, for example, patent owners sometimes give formal written notice that certain products infringe their patents, leading to dialogue in search of a settlement. Patent owners occasionally send cease and desist letters to give an infringer the opportunity to redesign its product so as not to infringe, again leading either to a redesign or dialogue in search of a settlement. Patent owners sometimes approach an accused infringer, or vice versa, in hopes of negotiating a license and avoiding litigation.

Even without the holding in *Vornado*, such efforts at a commercial resolution of a potential dispute must be carried out with considerable care by both sides. Patent owners wanting to retain

²¹ *Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931 (Fed. Cir. 1987) (finding against the patent owner because a claim subject to Section 112(6) is actually more narrow than it reads); *Valmont Indus., Inc. v. Reinke Mfg. Co.*, 983 F.2d 1039 (Fed. Cir. 1993) (finding against patent owner because accused structure was not the equivalent of what was disclosed); *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448 (Fed. Cir. 1998) (en banc) (holding patent not infringed based on arguments made to the Patent Office).

²² The recent Supreme Court decision in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 122 S. Ct. 1831 (2002), is an excellent example. There the Federal Circuit all but eliminated the doctrine of equivalents, holding essentially that any claim that had been modified during prosecution before the Patent Office was not entitled to a range of equivalents. See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558 (Fed. Cir. 2000). The Supreme Court reversed, holding that the ruling was unnecessarily rigid and deprived the patent owner of substantial rights.

²³ See, e.g., *Enzo Biochem, Inc. v. Calgene, Inc.*, 188 F.3d 1362 (Fed. Cir. 1999) (antisense technology not enabled for higher life forms); *In re Wright*, 999 F.2d 1557 (Fed. Cir. 1993) (full scope of broad claims to vaccine not enabled, based on post-filing experimentation).

²⁴ *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998).

the option of selecting the trial court in the event litigation becomes inevitable must avoid creating in the other party an “apprehension of litigation” sufficient to trigger the right to pursue declaratory relief.²⁵ The dialogue between patent owner and infringer is thus designed to differentiate an offer to license or a notice of infringement from a threat of litigation. Where circumstances make such differentiation impossible, the prudent course, even before *Vornado*, has been for the patent owner to “shoot first and negotiate later.” *Vornado* may exacerbate the problem, particularly where the infringer is likely to have a significant nonpatent claim that, if asserted alone, could steer even the patent issues to the regional court of appeals, or alternatively, if asserted as a declaratory relief action against the patent could steer the case to the Federal Circuit. In an environment that raises the value of selecting the appellate forum that ultimately will hear the case, efforts to resolve patent disputes commercially may disappear altogether.

Conclusion

Vornado appears to presage a significant shift in the way that patent cases are brought. By giving litigants the opportunity to steer the appeals in their cases, the decision will clearly rejuvenate interest in a comparative analysis of the various circuits in an effort to discern possible advantage in one procedural strategy over another. The way that all this will play out is difficult to discern generally and is likely to vary from case to case. In a search for winners and losers, the legal profession appears likely to post the largest gains. Patent litigants appear destined to foot the bills. ●

²⁵ See, e.g., *EMC Corp v. Norand Corp*, 89 F.3d 807 (Fed. Cir. 1996) (holding district court’s exercise of jurisdiction over declaratory relief action for noninfringement and invalidity was proper where patent owner’s conduct during license negotiations created a reasonable “apprehension of litigation”).