IN THE SUPREME COURT OF THE UNITED STATES

- - - - - - - - - - - - - - - - - -X

THE HOLMES GROUP, INC., :

Petitioner :

v. : No. 01-408

VORNADO AIR CIRCULATION :

SYSTEMS, INC. :

- - - - - - - - - - - - - - - - - -X

Washington, D.C.

Tuesday, March 19, 2002

The above-entitled matter came on for oral argument before the Supreme Court of the United States at 11:11 a.m.

APPEARANCES:

JAMES W. DABNEY, ESQ., New York, New York; on behalf of the Petitioner.

PETER W. GOWDEY, ESQ., Washington, D.C.; on behalf of the Respondent.

C O N T E N T S

P R O C E E D I N G S

(11:11 a.m.)

CHIEF JUSTICE REHNQUIST: We'll hear argument in next No. 01-408, The Holmes Group v. Vornado Air Circulation Systems, Inc.

Mr. Dabney.

ORAL ARGUMENT OF JAMES W. DABNEY

ON BEHALF OF THE PETITIONER

MR. DABNEY: Mr. Chief Justice, and may it please the Court:

This case concerns how far the Federal Circuit can properly go in taking jurisdiction to the exclusion of the regional circuits.

In its recent construction of its appellate jurisdiction, the Federal Circuit has effectively taken the position that the defendant's answer containing a patent counterclaim acts like a super removal petition. The Federal Circuit says that if the defendant in a non-patent suit files an answer that includes a patent counterclaim, that pleading automatically removes the plaintiff's non-patent suits from regional circuit jurisdiction and transfers it to Federal Circuit jurisdiction.

According to the respondent, that same pleading automatically has the effect of changing the substantive

law governing non-patent claims in the plaintiff's non-patent suit from regional circuit to Federal Circuit law, and the decision below demonstrates that these principles apply even when a judgment is entered which doesn't address patent law at all.

The petitioner respectfully submits that the decision below is antithetical to what the Congress had in mind when it established the Federal Circuit.

QUESTION: Well, Congress did want patent law to be uniform, didn't it?

MR. DABNEY: Congress --

QUESTION: I mean, that's why it placed the jurisdiction in the Court of Appeals for the Federal Circuit.

MR. DABNEY: One -- Mr. -- Your Honor, one of the Congress' objectives in establishing the Federal Circuit certainly was --

QUESTION: And to the extent that you then allow the other courts of appeals to deal with patent claims, you're defeating that uniformity goal.

MR. DABNEY: Your Honor, the Congress in enacting 1295, according to this Court in Christianson, establishes not that every case in which a Federal patent claim is raised automatically goes to the Federal Circuit. This Court in Christianson held -- this Court in

Christianson addressed the question, how do we know if a case belongs in the Federal Circuit? That was the specific question raised in Christianson.

Citing the legislative history of 1295, this Court answered that question. Cases fall within the exclusive jurisdiction of the Federal Circuit, this Court held, in the same sense that cases are said to arise under Federal -- under Federal law for purposes of Federal question jurisdiction.

QUESTION: Mr. Dabney, has the Federal Circuit held that whenever there's a patent claim in a -- in a -- a patent issue in a counterclaim, it has jurisdiction? Or must it be a compulsory counterclaim?

MR. DABNEY: The Federal Circuit has held in the DSC Communications case that permissive or compulsory, it doesn't matter.

QUESTION: It doesn't matter.

QUESTION: But in this case --

QUESTION: In this case, it was compulsory. Right?

MR. DABNEY: Your Honor, it is far from clear that the counterclaim in this case was in fact compulsory. The -- and the -- and the Court can see that most clearly by looking at the answer that was actually filed in this case, which appears on pages 94 to 98 of the lodging. The

one thing that's conspicuously absent from the answer filed in this case was any counterclaim for trade dress infringement. Well, if this was --

QUESTION: But did -- did the court of appeals say in this case that the -- the counterclaim was compulsory?

MR. DABNEY: The court of appeals did not say that. There's absolutely nothing in the decision --

QUESTION: We're not talking about the trade dress claim. It was the patent infringement counterclaim that was in question.

MR. DABNEY: The respondent has taken the position that the patent counterclaim that it filed in this particular case was compulsory within the meaning of rule 13. No court has passed on that question that --

QUESTION: Did it not arise out of the same transaction and occurrence which under the rules is interpreted broadly?

MR. DABNEY: The subject matter of that counterclaim was, at the time it was filed, the subject of another pending proceeding. And it is far from clear that this respondent was under any legal duty whatsoever to assert that patent counterclaim at any believable risk to itself.

QUESTION: Suppose that respondent who started

his own show in the -- in the CIT -- when the defendant in that case turns up as plaintiff in Kansas District Court -- was it? The -- the district court here?

MR. DABNEY: At the time that the present action was commenced, the plaintiff in this action was one of three named people whom the respondent was trying to get an investigation started against.

QUESTION: No. I just wanted to know where the forum was. The forum that the plaintiff is suing in is in the Tenth Circuit.

MR. DABNEY: Correct.

QUESTION: And it's in Kansas.

MR. DABNEY: That's correct.

QUESTION: Okay.

Suppose the plaintiff in the suit in New York then brings that same claim in the district court in Kansas and says, court, please consolidate these two, and then you don't have a counterclaim. You have two claims consolidated for adjudication. Suppose that were the case.

MR. DABNEY: Yes.

QUESTION: Then, I take it, the judgment is rendered. There's a patent claim, not a counterclaim, but a claim, and then the jurisdiction is in the Federal Circuit. Is that right?

MR. DABNEY: That is a hypothetical situation, different from this case. I would suggest that the district court has an arsenal of remedies to decide whether that should or should not be the outcome in that case.

QUESTION: I'm asking you a question that puts together two claims, not counterclaims, two claims. The district court has made the judgment that these arise out of the same transaction and occurrence and therefore consolidates them because it makes sense in terms of judicial economy. Okay. They are processed as consolidated cases. There's a judgment. Where does the appeal go?

MR. DABNEY: I -- I would say in practice that would depend in large measure on the sequence in which the matters are tried, whether they are tried at the same time, whether they are tried separately.

QUESTION: Yes, they are tried at the same time.

MR. DABNEY: Tried at the same time? I believe that under the question that this Court has not accepted expressly under question 2, it would be open to both sides in that situation to request that the district court enter judgments which would preserve regional circuit jurisdiction over the plaintiff's non-patent suit in the first case.

QUESTION: They're both plaintiffs.

MR. DABNEY: I understand. And no one in this case -- there's no question in this case as to what the appropriate disposition would be of any claim for patent infringement or any judgment adjudicating any such claim. If the question had come up --

QUESTION: Are you suggesting in -- in response to my question that they would -- these two cases that have been consolidated would then be split apart for purposes of appeal and one claim would go to a regional circuit and the other to the Federal Circuit?

MR. DABNEY: It would be open to the parties to that litigation in -- where they're both plaintiffs and they both have filed claims, to request the entry of judgments if they felt it was in their interest to do so, based on the outcome of the trial.

QUESTION: Well, you're assuming they could have separate judgments under 54(b). Is that what your point is here?

MR. DABNEY: Yes, Your Honor.

QUESTION: Yes.

But if there were a single judgment which did include the patent claim, then I think you'd say the appeal would go to the Federal Circuit.

MR. DABNEY: Not -- not necessarily.

QUESTION: Come on. Give us a little bit. Surely, surely in that case.

QUESTION: Well, why not? I mean, what are you giving up in your case by agreeing to that? I don't understand that.

MR. DABNEY: I think it's important to understand that when a -- when a person comes to court and asked for a court to vary the rights and obligations of parties, seeks judicial relief, what that person comes to court with is a bundle of rights. That's his suit. That is what he's asking the court to vindicate. This Court has never said that that bundle of rights, the plaintiff's right to choose who's going to decide that claim, and what law is going to govern that claim, can be changed at all automatically by something the defendant pleads or by how the --

QUESTION: May I -- may I interrupt and ask a kind of a basic question here?

MR. DABNEY: Certainly.

QUESTION: It seems to me that you could prevail on either of two theories, that -- that the counterclaim should be ignored for purposes of selecting the appellate court to go to, or you could say that in this particular case, you got a 54(b) judgment that had -- was totally unrelated to patent claims and therefore, in this case,

regardless of whether we agree with Aerojet or the rest, you should prevail.

But you seem to be arguing that even if the counterclaim had been decided and adjudicated on a patent issue, that you -- it would be the same case.

MR. DABNEY: That is correct, Your Honor.

QUESTION: You're not relying on the fact that -- that there was a severance of the non-patent claims under -- with a 54(b) finding, that it was a separate claim.

MR. DABNEY: That would provide a narrower basis for reversal.

QUESTION: But you're not asking us to rule on that basis.

MR. DABNEY: Well, we did in the petition, but the Court declined to accept question 2 in the petition. What Your Honor asked me was specifically question 2 in the petition for certiorari.

QUESTION: I see.

MR. DABNEY: And the Court did not accept that question before the Court. Hence, we're up on the broader question of whether or not the plaintiff's well-pleaded complaint continues to govern the basis of arising under jurisdiction in the Federal court.

In Christianson, to decide this case, the Court

need look hardly beyond 486 U.S., page 814. Right then and there the Court was faced with the question, how do we know if a case properly belongs in the Federal Circuit? And the Court held, we know that because Congress has told us the answer. What Congress said is, cases fall within the exclusive jurisdiction of the Federal Circuit in the same way that they are said to arise under Federal law for purposes of general Federal question jurisdiction under 1331. The cases are legion which say that what a defendant pleads in its answer, whether it's an affirmative defense or a counterclaim, is irrelevant to whether a case falls within the original arising under jurisdiction of the Federal court.

QUESTION: In the -- in the context where there's a great concern about Federal-State relations, cases lodged in the State court being lifted out of that State court and put into a Federal court, this context is totally different. It is an entirely Federal context, and it's a question of which appellate forum it goes to. And it seems to me that you can't just say that what arising under means in the original jurisdiction context it necessarily means when we're talking about an exclusive appellate forum for a case that's colored Federal totally. There's no State element in it.

MR. DABNEY: Your Honor, I would say two things

in response to that.

In the first place, that was exactly the argument which the respondent in Christianson made. In footnote 2 of Christianson, the Court expressly recited maybe our arising under jurisprudence is irrelevant in this case since, after all, we're only deciding whether the Seventh Circuit or the Federal Circuit should decide this antitrust case in which the district court invalidated a number of patents.

And citing the legislative history that the Congress chose, for better or for worse, to make the referent of Federal Circuit jurisdiction the same as the referent of district court jurisdiction under 1331 and 1338, under the page and in the passage that I just read, this Court I believe specifically considered and decided that notwithstanding that the outcome in this type of case is simply which of two Federal courts of appeals will hear a case. Nevertheless, for better or for worse, Congress has decided that the referent of Federal Circuit jurisdiction is the same.

QUESTION: Christianson was the first time the Court encountered this issue, and Christianson affirmed the Federal Circuit. The Federal Circuit said, we don't have the appellate authority in this case.

A couple of years later, the Federal Circuit

looked at the issue again in Aerojet and it wrote an opinion saying these are different. In one case we were dealing with a defense, an issue, a question, and in another case, we've got a claim. And for purposes of which court of appeals it goes to, maybe the court is -- in Aerojet is saying we have to qualify Christianson's reasoning if not -- not its result.

MR. DABNEY: Justice Ginsburg, in Aerojet, the Federal Circuit stated, among other things, that the traditional prerogative of the plaintiff to choose his law and to choose his court applies only to the trial court level. The Aerojet case said that the plaintiff in that case had fully exhausted his right to choose his court and to choose his law because he had access to a district court forum.

This Court -- this case demonstrates how that rationale of Aerojet is mischievous and dangerous and incorrect. Since Aerojet in 1989, there has been a sea change in the Federal Circuit's approach to what law it chooses to apply in cases such as this, and it is the Federal Circuit's choice of law approach, adopted in the late 1990's, which has given birth to this entire action.

QUESTION: When you say choice of law, you're not talking strictly about patent law, I take it.

MR. DABNEY: Absolutely not. This -- it's

undisputed that what --

QUESTION: You're talking about Federal law interpreted differently by different circuits.

MR. DABNEY: Precisely.

QUESTION: It's not like am I going to choose the law of France or the law of Oklahoma versus the law of New York.

MR. DABNEY: That's absolutely the case. And the Federal Circuit, being a co-equal court of appeals, is fully entitled, I suppose, to fashion its own liability rules and apply them even to claims over which it has only nonexclusive or pendent jurisdiction. But by doing that, it has given rise to great incentives, which the respondent has attempted to avail itself of in this case, to get a case into the Federal Circuit and take advantage of the different law of the Federal Circuit on a non-patent claim.

So, I would suggest to Your Honor that this Court has never wavered from the idea that a person who comes to court seeking relief -- there's a lot of uncertainty in litigation. I'm called upon to advise clients all the time whether they should or should not bring suit, where they should bring suit, how they should bring suit. The one thing this Court has said, whatever else is uncertain in litigation, the one thing you know

is, number one, if you bring a suit, you have -- you are absolute master to decide what law you're going to rely on in your complaint. That's your claim. If I specify the law of California in my complaint, that's my choice. If the plaintiff specifies the law of the Tenth Circuit or a judgment of the Tenth Circuit, that is the plaintiff's choice.

QUESTION: That's a little odd, don't you think? We are talking about one law, a Federal law. It is not quite the same as talking about the law of California, the law of Nevada. And wasn't one of the purposes of having the Federal Circuit so that you would reduce the number of disparities in -- in Federal law?

MR. DABNEY: Well, early in its history the Federal Circuit seemed to be more mindful of that type of conflict than it is today.

It's very important that Your Honor understand. In the Midwest case, which fomented this whole thing, the 1999 Midwest case, that was a case that involved not just Federal law claims, that was a case that involved claims under Iowa State law. And the Federal Circuit in that case was considering whether or not a plaintiff could properly claim trade dress protection for the shape a boat trailer winch post. And the district court had granted summary judgment dismissing the plaintiff's claims not

just under the Lanham Act, but under Iowa State law.

QUESTION: Well, you -- you don't mean that the Federal Circuit has asserted that where you have a State claim, that it's going to apply Federal law to that State claim.

MR. DABNEY: That is exactly what it did in the Midwest case. The Federal Circuit --

QUESTION: Mr. Dabney, we're all quite close to you. I think perhaps we can hear you even if you don't speak so quite so loudly.

(Laughter.)

QUESTION: You -- you are saying that the Federal Circuit said we have the right not only to determine what is an answer to a Federal issue, but we have a right to tell Iowa what the law of the State of Iowa is? That would be astonishing.

MR. DABNEY: I invite Your Honor to look at pages 1564 and 65 of volume 175 of Federal 3rd, and Your Honor will read there that the Federal Circuit reversed a summary judgment under Iowa State law on the ground that in its view the Federal patent law doesn't limit any claim that can be asserted under Iowa State law. And therefore, the district court erred in not holding that Iowa State law could protect the shape of a trailer winch post.

QUESTION: Mr. Dabney, would you heed my

admonition? Please do.

MR. DABNEY: Thank you, Your Honor. I apologize, Mr. Chief Justice.

So, therefore --

QUESTION: On -- on one point that you made about the Federal Circuit saying, well, if it's a Federal question, what is the Federal law? We decide that as our sister circuits do. It's just asserting that it's a court of equal dignity, that it's not under the enthrall of the Tenth Circuit or any other circuit.

MR. DABNEY: I am not questioning that that is what the Federal Circuit is currently doing, and that it -- it -- I'm not questioning it has the power to do that.

QUESTION: May I ask this -- just a question about the history of what we've got before us? Am I correct in believing that until the Federal Circuit changed its view and started to apply its own law to non-patent issues as opposed to applying other circuits' law when the case arose in another circuit, the bar generally was totally happy with the rule that the counterclaim would -- counterclaim alleging a patent claim would be sufficient to give appellate jurisdiction to the Federal Circuit?

MR. DABNEY: I cannot say that that is a fair characterization of what the bar generally holds. I

believe that the bar is very cautious in what it says about any court in which it may appear in front of.

QUESTION: Is it --

QUESTION: So, it is true that this -- this has become a much more important problem since they changed the -- their rule on what they do with the ancillary claims.

MR. DABNEY: It has much greater practical significance now. But the fact of the matter is that the arising under basis --

QUESTION: The jurisdiction rule is the same in either event.

MR. DABNEY: Is -- is the same. We have a bright line test. How do we know whether a case belongs in the Federal Circuit or in any Federal court? You look at what's presented on the place -- on the face of the plaintiff's well-pleaded complaint. You don't inquire into the plaintiff's motives or -- or spin-out theories as to why the plaintiff is doing what it's doing.

QUESTION: Well, may I ask a question?

MR. DABNEY: Certainly.

QUESTION: Not -- not your case certainly, but we had a case called Cardinal Chemical Company v. Morton International in 1993, which seemed to say that a patent law counterclaim could serve as an independent basis for a

district court's original jurisdiction.

MR. DABNEY: That's not how I read Cardinal Chemical, Justice O'Connor.

QUESTION: Okay.

MR. DABNEY: Cardinal Chemical was a straight-up patent infringement case. The defendant in that case asserted two -- at least two things in -- in response to the claim of patent infringement. The defendant in Cardinal Chemical said, your patent is invalid, and therefore I'm not liable. And then, as many defendants do nowadays, the defendant in Cardinal Chemical says, I also want a counterclaim for declaratory judgment that your patent is invalid. One of the reasons why I want that is so that if you, the plaintiff, decide to pull the plug on your suit, I can stay in court on my counterclaim. And that was what came up and that was the issue.

However, it's very clear that since at least 1990 the source of a district court's power to hear a counterclaim like that is in 1367, supplemental jurisdiction. The district court unquestionably --

QUESTION: Not 1338?

MR. DABNEY: Not -- absolutely not. 1367. So --

QUESTION: What is -- what is -- taking a case, Mr. Dabney -- and this has come up I think again and again

-- where you have a counterclaim that would qualify for Federal jurisdiction whether under 1331, 1338, whatever, that for whatever reason, the main claim drops out, maybe because it failed -- fails to state a claim. The counterclaim, whether it's an antitrust claim, patent claim, copyright claim, stays in Federal court and it's not supplemental to anything. It has its own jurisdictional base. It's a Federal claim. And if it weren't a Federal claim, it couldn't stay there because it would have nothing to pend to.

MR. DABNEY: I don't believe that's a correct statement of 1367. I believe that a Federal court can retain --

QUESTION: Are there not many, many cases in the district court, blessed by the courts of appeals, where exactly what I've described happens? The main claim drops for whatever reason. There's a counterclaim that would qualify independently for Federal jurisdiction. The court will adjudicate that. But if it has a counterclaim that would not independently qualify, it is not likely to hang onto that case. Right?

MR. DABNEY: That is what happens --

QUESTION: Because -- because the only Federal peg is gone. And pendent jurisdiction is exercised when there's a tail that's attached to a dog, but when the dog

is gone, the tail doesn't stay.

MR. DABNEY: Yes. But in that situation, Justice Ginsburg, you're not talking about nullifying a plaintiff's choice of law and forum through the -- the assertion of a well-pleaded complaint. If a plaintiff asserts a defective complaint and shouldn't --

QUESTION: The question I asked you is you said that what had been going on for years before there was 1367 codified, all of a sudden that independent Federal claim, be it an antitrust claim, a patent claim, suddenly becomes shrunken to a supplemental jurisdiction rather than having its own jurisdictional peg.

MR. DABNEY: I don't know that the legal significance of the source of a district court's power to act in that situation has ever been a subject on which any legal consequences followed so that the body of law that developed on that would have any precedential significance in this situation.

The fact -- the critical distinction between this situation and the one Your Honor is positing is that in the situations Your Honor is talking about, you're not talking about a plaintiff who had a well-pleaded complaint who he prevailed on being ousted of his chosen court and forum. I don't believe that the appropriate disposition of a counterclaim in that situation sheds any light on

what should happen to a plaintiff who files suit under non-patent law and wins, and the plaintiff doesn't seek relief under Federal patent law. The plaintiff doesn't care what the defendant does with other claims the defendant has. If the respondent wants to have a patent counterclaim, go to the Federal court or litigate a Federal patent counterclaim in the International Trade Commission, more power to it.

This suit was brought to get preliminary injunctive relief against threatened, imminent, irreparable harm to the plaintiff's business which was granted. There was a preliminary injunction that was issued in January of 2000, which remains in effect to this day upon the posting of a $100,000 bond. The plaintiff had every right and entitlement to go into court, to plead his claim in the way that the plaintiff thought would best accomplish the plaintiff's objectives. That is a prerogative which this Court has said over and over and over again is the plaintiff's right. No well-counseled plaintiff could possibly file a lawsuit without thinking what court is most likely to give me the relief that I'm seeking. That's not forum shopping. That's good lawyering. And that's what happened in this case.

QUESTION: And what about a defendant who would just love to have -- not particularly litigious, has a

claim, a good claim, asserts it as a counterclaim, goes into the district court because that's where it belongs? I just don't understand why the rule that would apply to the district court carries over to the specialized court of appeals if you are, in fact, dealing with a patent claim that's been adjudicated.

MR. DABNEY: This Court has held and the -- the congressional choice of the arising under referent for Federal Circuit jurisdiction clearly recognized that there will be many, many times when patent law questions and patent law issues, including the issue of validity, will be decided not just in the regional circuits, but in the State courts.

Would it really have mattered in Lear v. Adkins if the defendant in that case hadn't just said, the contract is invalid because the patent is no good and there's no consideration, if it had filed a counterclaim, as was done in Cardinal Chemical and said, I want a declaratory judgment that the patent isn't valid? No legal consequence should follow from that.

And in the real world, Justice Ginsburg, if a defendant really is concerned about maintaining its access to the Federal Circuit, the defendant will file his own suit, as Your Honor suggested in that --

QUESTION: This defendant did.

MR. DABNEY: I'm sorry?

QUESTION: Didn't -- this defendant did. He started in the -- in the --

MR. DABNEY: The respondent -- and -- and it was free at all times to pursue all available remedies in that forum and that's not -- that's not even in question at this point. But just as the respondent was free to choose a forum that it thought was most favorable to it, which, by the way, would have been subject to Federal Circuit review, so was the petitioner. And the petitioner filed suit in accordance with the rules. It got a judgment. It won, and it's had its judgment taken away by a court that clearly does not have jurisdiction to hear the controversy.

If there's no further questions, I'd like to reserve the rest of my time.

QUESTION: Very well, Mr. Dabney.

Mr. Gowdey, we'll hear -- hear from you.

ORAL ARGUMENT OF PETER W. GOWDEY

ON BEHALF OF THE RESPONDENT

MR. GOWDEY: Mr. Chief Justice, and may it please the Court:

In light of the colloquy that we've had, I want to make a preliminary point and then a couple other starting points.

The first is that there's absolutely no issue that the Federal Circuit has failed to follow this Court's precedents and, as Justice Ginsburg pointed out previously, correctly anticipated this Court's holding in Christianson.

And to respond to a question that Justice O'Connor raised, in the Cardinal case, this Court did say, in this case Cardinal properly invoked the original jurisdiction of a district court by way of its patent counterclaim.

QUESTION: Mr. Gowdey, do you think the court of -- the Federal Circuit's opinion here is entirely consistent with footnote 2 in our Colt opinion?

MR. GOWDEY: In the which opinion, Your Honor?

QUESTION: In -- in our Christianson v. Colt Industries?

MR. GOWDEY: I think -- I think that the position that the Federal Circuit has taken this Court is completely consistent with Christian v. Colt.

QUESTION: And -- and with footnote 2 therein?

MR. GOWDEY: Yes. And -- and I say that because of the reasoning and the procedures and the -- and the considered exhaustive review that the Federal Circuit made in Aerojet or the Christian v. Colt case. They started their Aerojet decision saying that the question was of

exceptional importance and, because of that, sat on their choice en banc. They exactly framed the question in that case, which was whether --

QUESTION: Mr. Gowdey, may I suggest that you raise that a little higher? The podium. I'm having some trouble hearing.

QUESTION: We had the opposite problem. The first counsel had a very loud voice and yours is very soft. So --

MR. GOWDEY: I -- I do have a soft voice and I apologize.

They framed the question in Christian v. Colt -- in -- in Aerojet as being one where you do not have a patent issue as the complaint, but you have a patent counterclaim coming in. And in that case, it was a compulsory patent counterclaim. Should that be a sufficient basis for giving exclusive appellate jurisdiction to the Federal Circuit? They answered that it was.

The Aerojet opinion is -- is well-crafted. It's a thoughtful opinion. It goes through analysis --

QUESTION: Well, that's -- that's this CAFC's ruling on its own jurisdiction.

MR. GOWDEY: That's correct.

QUESTION: In the Aerojet case.

MR. GOWDEY: Yes. Yes, Your Honor.

QUESTION: So, in effect, we're trying to decide whether that's right in this circumstance.

MR. GOWDEY: That is absolutely correct, Your Honor.

They -- they looked --

QUESTION: But it does seem to be unlikely, does it not, that where the counterclaim raising the patent issue hasn't been dealt with and what we're dealing with is an appeal from this injunction which was rendered in the plaintiff's suit below -- why should the CAFC get into it at all?

MR. GOWDEY: Because we should look at jurisdiction for an appellate court at the time of the pleading stage of the case, Your Honor. And at the pleading stage, you have the complaint and you have the answer and counterclaims --

QUESTION: I would think it would have to be considered also in light of what's happened in this case. I don't see why you would be so limited necessarily. It seems so odd that this appeal would go to the Federal Circuit.

MR. GOWDEY: I -- I don't think it's odd, Your Honor. I think that you have to establish appellate jurisdiction at the beginning of a case so that as a case

proceeds, if there are interlocutory appeals that -- that are going to happen, where is it that they should be properly directed? And there should not be a conundrum as -- as to that. And if you look at the claims in the case, if you look under 1338 and 1295, talking about civil actions and claims, the jurisdiction of a Federal Circuit should -- should be decided by what claims are pled.

QUESTION: Well, what case of ours do you think most strongly supports your view of this jurisdictional question?

MR. GOWDEY: I -- I think you have to look at Christian v. Colt and the fact that in that case, the decision said it should be adapted to 1338. I think the Aerojet decision that comes along after that and its exhaustive review of Christianson makes clear that -- that you should look at claims. And as you're adapting 1338 to the patent situation --

QUESTION: Mr. Gowdey, I -- I think Aerojet makes a whole lot of sense if -- if the issue before the -- the court there and the issue before us here were what makes sense. Then -- then Aerojet may -- may well be right.

But -- but it seems to me that the issue really before us is what does section 1295 mean. What was it understood to mean when it spoke of a claim arising under

any act of Congress relating to copyrights and trademarks? And that's a different question. And when you have a long history known to every first-year law student that a case arises under a certain law, if the well-pleaded complaint invokes that law and does not arise under that law if -- if a counterclaim invokes it, I find it hard to believe that anyone would interpret the statute, written with that magic language, in any other way.

Now, it -- it might well be the case, as you argue, that another disposition is more sensible for the Federal Circuit. But we have to deal here with what Congress said, and the -- and the whole issue is whether a claim arising under an act of Congress isn't magic language that -- that the whole legal community has known for many years, which means you have to have a well-pleaded complaint invoking it.

MR. GOWDEY: Well --

QUESTION: And that's what I think we said in Christianson.

MR. GOWDEY: Well, in Christian v. -- in Christianson, however, there was no counterclaim. That -- that issue was not before the Court. That issue has not yet been addressed by this -- by this Court, which is why I think looking at the Aerojet decision and looking at the review that it made of Christianson is important for this

Court to -- to undertake and to look at. There were --

QUESTION: Not just Aerojet, but I would like you to pursue that because my understanding is the same as Justice Scalia's. You started out by saying, in response to the Chief Justice's question, that footnote 2 applies. I take it that means we now have an issue that does not just concern patent law. It concerns all of Federal jurisdiction.

You then said we look to what is filed in the district court at the complaint stage. Again, all of Federal jurisdiction.

You then say that all these other cases involved a well-pleaded complaint and an answer. This one, though, involves a well-pleaded complaint and a compulsory counterclaim.

MR. GOWDEY: Yes --

QUESTION: I agree. So, I look up Wright and Miller, and Wright and Miller says it is not sufficient for the Federal question to enter the case as a counterclaim asserted by the defendant. Now, he didn't just make that up. He has dozens of citations. So, at that point I think QED. You lose.

Now, why don't you?

MR. GOWDEY: Well, for the reasons set forth in Aerojet. First, had the --

QUESTION: Aerojet, to my way of thinking, just said it's a counterclaim. It's not a defense. Okay, I accept that. But I still have Wright and Miller and all the cases they cite.

MR. GOWDEY: And -- and I think most of the cases that I'm aware of that talk about counterclaims are removal cases. That's where you have a -- a State/Federal issue.

QUESTION: Are what -- what kind of cases?

MR. GOWDEY: Removal cases, Your Honor, where -- where you -- and there is no issue of federalism here. The -- the petitioner properly brought a case in -- in the Federal district court in Kansas.

QUESTION: Then you're -- you're now defeating your first concession which was with footnote 2 in Aerojet, that we are to deal with this case exactly as if it were a removal case because it's a question of all Federal jurisdiction, not just patent. The word is arising under. That's in fact -- I flag it because that's what frightens me. I thought that if all that were at issue here were patent cases, we weren't going to make a big mistake either way.

MR. GOWDEY: Well --

(Laughter.)

QUESTION: But once you tell me that this

involves all cases of removal, I suddenly get quite nervous about departing from well-settled law.

MR. GOWDEY: Then -- then I must retract it. It does not -- it does not involve all cases of removal. This is a patent case, and -- and I think we're talking about patent issues and whether the Federal Circuit has proper jurisdiction of claims in a case involving patent issues.

QUESTION: Well, then that means we interpret, under your view, arising under in different ways in the -- in the patent statute and in -- in the Federal jurisdiction statute.

MR. GOWDEY: I -- I think that arising under is not to be interpreted in a different way, but I think as this Court said in Christianson, that it should be adapted to 1338. It should be adapted to 1338 because, under 1295, Congress was interested in getting as many patent claims to the Federal Circuit as it could.

QUESTION: But certainly Christianson gave no intimation that the phrase, arising under, should be interpreted differently in the statute conferring jurisdiction on the Federal Circuit as it has traditionally been in 1331.

MR. GOWDEY: That's correct, Your Honor.

QUESTION: Is there a difference in interpreting

a different way and adapting?

MR. GOWDEY: I -- I think it's a question of -- of looking at claims that are pled in a case. If -- if you look at the second point of Chief -- Chief Judge Markey in Aerojet, he was -- he was taking a -- a look at claims. And a patent claim, as Justice O'Connor pointed out earlier, has its own separate, independent jurisdictional base under 1338. Once you find that a patent claim comes in under 1338 with its own jurisdictional basis, under 1295 that is an appeal-directing mechanism that Congress put into place.

And -- and I think that if you go again to Aerojet, as Chief Judge Markey pointed out in his first reason for why the patent counterclaim should be considered arising under and give appellate jurisdiction, had that counterclaim been filed as a complaint, there's no question that -- that Federal Circuit jurisdiction would have been invoked.

QUESTION: But that's -- you can say that by analogy to 1331 too, that although you can have a -- a compulsory counterclaim will not change the result there. It still goes to Federal court if -- if the well-pleaded complaint doctrine is applied. You could say, well, the compulsory counterclaim could have been in its own right a case of Federal question, but that doesn't change the

rule.

MR. GOWDEY: It does not change the rule. I believe, Your Honor, you're talking about removal cases. And certainly if -- if you have --

QUESTION: But why does it make a difference if we're talking about removal cases? Because the language is exactly the same.

MR. GOWDEY: Because I think in a Federal/Federal situation where there is no federalism, there is no issue with respect to States' rights and States' claims. And -- and we're not talking about a -- a reading of 1338 or 1295 where you -- where we're concerned about somehow taking away the essence of -- of a State court to deal with State court actions. And -- and we're not talking about that. This Court does not need to, I think, even go there.

We're talking about a situation where you have a Federal question that has been properly presented in a Federal court. Original jurisdiction has been applied. A -- a patent counterclaim comes in that has its own separate jurisdictional base under 1338. The question then is, from an appellate standpoint, has Congress set up and dictated an appellate-directing mechanism with 1295? And I think they have. And they recognized when they said, as long as jurisdiction was based in whole or in

part under 1338, that not all of the case would have to be patent cases. It could be part of it.

And once you have the nexus between a district court having original jurisdiction under 1338, 1295 directs that that appeal -- for the patent cases, 1295 directs that appeal should go to the Federal Circuit.

I -- I think the basic purpose of -- of the well-pleaded complaint rule was -- was to avoid the -- the sort of State/Federal conflicts. Since that's not here, then there is -- is no reason to say that there should be a compelled disregard of -- of counterclaims. And where Congress' intent was to get as many patent claims as possible to the Federal Circuit, again --

QUESTION: But you -- you can say, I think, that when Congress used the term, well-pleaded complaint, its intent was to have the same sort of analysis as there is in 1331.

MR. GOWDEY: I -- I think the language is the same. But again, going back to what this Court --

QUESTION: Congress didn't use it -- Congress didn't say well-pleaded complaint. It said -- it said arising under.

MR. GOWDEY: Yes, Your Honor.

And I think, as this Court said in Christianson, by adapting that under 1338, there are -- there is a way

to accomplish both the jurisdictional goals and the intent of Congress of getting patent claims --

QUESTION: But you are giving arising under a different meaning for appellate purposes. You are including the counterclaim, a different meaning from original jurisdiction where, as Justice Breyer read, everybody agrees that for original jurisdiction purposes, counterclaims don't count.

MR. GOWDEY: I -- I think --

QUESTION: You're suggesting they do count for appellate jurisdiction.

MR. GOWDEY: I'm suggesting that they do, and I'm suggesting that Congress recognized that in 1295 where -- where, unlike petitioner, I -- I think when -- when a plaintiff comes into court, clearly he has his choice of -- of what Federal court to go to, what State, and so on. Under 1295, once you have patent claims in à case, I think Congress set up an appellate-directing mechanism that -- that does not make it a litigant's choice. It defines where it goes.

QUESTION: Suppose you did do that, which -- I mean, suppose you took Justice Stevens' concurring view in Christianson, which was a view that would come closer to doing what you want. It would make sense. You'd look at the -- look at the case after it's decided in the district

court to see where -- whether there's a patent claim. You'd still lose here, wouldn't you?

MR. GOWDEY: Well, I think Justice Stevens actually goes farther than we need to go because --

QUESTION: Well, why farther? Because I would go just as far as he went. You went just as far as he went. You look at the whole thing after it's decided.

MR. GOWDEY: Well --

QUESTION: Now, how could you go further than that?

MR. GOWDEY: Well, I'm saying he -- he went further. He -- he's saying, I believe, that you could even look at -- at Federal Circuit jurisdiction being -- being shown where you have amended a complaint later on, that you could get a patent issue under that -- in at that point.

In -- in this case here, there was a patent issue that came in at the pleading stage. And so that -- that's the distinction that I -- that I would see. That's why I'm saying you don't have to go so far as -- as to say you look at the well-tried case.

QUESTION: Was there patents issue adjudicated at all here? And there was not a judgment. The judgment, the 54(b) judgment, was on trade dress alone?

MR. GOWDEY: There has not been a patent ruling

yet, Your Honor. We didn't get that far. We haven't --

QUESTION: So, there's not only the no judgment, but no adjudication?

MR. GOWDEY: No adjudication, not even any discovery, Your Honor. So -- so, we have a patent -- a patent case that has, in essence, a -- a very young one, that has not gotten very far except for the fact that we have this preliminary injunction from Judge Brown in Kansas.

QUESTION: I think it would be consistent with Justice Stevens' opinion to say you look to see what was adjudicated. His concurring opinion suggests that. And if what was adjudicated was the patent claim, whether it were a claim or a counterclaim, then that's what should count. If what were adjudicated were a trade dress claim, then that's what should count.

MR. GOWDEY: 1338, however, talks about civil actions, and civil actions goes -- goes back to a description of being all claims for relief. We would say that you should look for the claims that are made for relief at the time the case is -- is being pled. That is the point at which I think you should have appellate jurisdiction being decided so that as interim or interlocutory appeals happens, you know appellate court it goes to.

If you waited until you -- you saw what was actually tried in a case and, as Justice Stevens suggested, you waited even to see if the -- if a complaint would be amended subsequently after the pleading stage, earlier -- earlier disposition of interlocutory orders might go somewhere else, and appropriately so.

QUESTION: If the district court has to decide which of two different circuits' laws you're going to follow, I guess he knows what the case is going to look like at the end -- or she. Maybe -- maybe the trial judge doesn't because the trial doesn't know which circuit to follow, so he doesn't know how it's going to come out.

MR. GOWDEY: Well, but if -- Your Honor, if -- if --

QUESTION: It's a circular analysis.

MR. GOWDEY: If -- if you're looking at the claims that are pled at the pleading stage, the district court judge will know what appellate court will -- will apply certainly under the Aerojet rule, which -- which again would -- would place appellate jurisdiction at the Federal Circuit if you have a well-pled patent counterclaim coming in at the pleading stage as part of the defendant's answer.

QUESTION: But you will -- you will have the situation then in which the district judge is -- is going

to have to defy the law of his circuit on a -- on the non-patent issue.

MR. GOWDEY: Perhaps that's a more difficult question. I think the Federal Circuit, being a sister -- sister circuit to the rest of the regional circuit courts of appeal, certainly would make an effort to apply the appropriate regional circuit law to non-patent issues.

QUESTION: Well, the claim is -- and I -- I will be candid to say I'm not in a position to -- to evaluate this claim because I haven't gone back and looked at -- at many of the cases on it to find out what's really going on. But I mean, the claim is made that the Federal Circuit is not doing that.

MR. GOWDEY: Well, I think the Federal Circuit is making an attempt to look at its -- its historical base for decisions with respect to those issues that relate to, in effect, patent law issues. Now, the way I read cases coming from the Federal Circuit, they're making an attempt to apply law of their own where they find either there -- there is conflict or where there has not been a well-grounded set of policies or law to decide an issue. Where the regional circuit has laws that are not affecting patents, my reading is the Federal Circuit is applying regional circuit law in an appropriate way as they see fit from panel to panel.

QUESTION: That's what it used to do. You say they -- you think it's still doing that? It's still following circuit rule on non-patent law issues?

MR. GOWDEY: I think they are, and I think as the -- the court was started in 1982, and by -- by that measure, it's a relatively young court. Aerojet has been around half of its lifetime since 1990.

QUESTION: Well, I understand at the time Aerojet was decided, they did that. But I thought there was a recent -- in the last year or 2, they had taken a different view and were applying their own law as opposed to the Tenth Circuit law in this case on the non-patent law issues.

MR. GOWDEY: Certainly in Midwest, they -- they were -- they were taking a look at trade dress law because of the interrelationship trade dress has on the Lanham Act with patent issues. To that extent, they certainly were looking at new law and saying where there is an interaction of laws and holdings with respect to patent issues, that that is an area that they -- they can and perhaps should get into.

QUESTION: But that seems somewhat inconsistent with the last part of 1295(a), which in effect says that when it's a non-patent law issue, they -- the 1291 and the 1292 and 1294 shall apply.

MR. GOWDEY: Are you talking about the exception of 1295, Your Honor?

QUESTION: Yes.

MR. GOWDEY: Certainly that's a two-part exception, and where you have other claims pending, you can still have jurisdiction under 1338.

QUESTION: Okay. So, now the trial judge has to say, well, there may be two circuits involved here. One is my own circuit and it's not related, and so the Federal Circuit won't control, but if it's somehow related to the patent claim, then the Federal Circuit would -- so, this -- this is a further metaphysical exercise. This -- this is great for the legal profession actually.

(Laughter.)

MR. GOWDEY: It keeps all well employed, Your Honor.

I -- I think that where -- where there are issues that relate to patent law, certainly they -- they will be looking to Federal Circuit precedent to help them. Where there are non-patent law issues, it's the regional circuit law that can and should control. And -- and I think that as the court develops in time, there will be -- there will be a larger body of law that -- that will help district circuit judges in that regard.

As respects this case, however, where -- where

we have a patent counterclaim, I think the Aerojet decision and looking at what went on before Christian -- Christianson, looking at -- at the Christianson decision itself and the analysis that that court did with Chief Judge Markey speaking for the whole court en banc, very carefully and thoughtfully gives a legitimate basis for why a Federal Circuit should have jurisdiction over cases where there is a well-pleaded compulsory counterclaim at the district court level.

Chief Judge Markey also noted at 895 F.2d at 742, in all events, the Supreme Court did hold in Christianson or in any other case that for all cases and circumstances only the complaint and never a counterclaim can serve as the basis of district court jurisdiction. And under section 1295, the basis of district court jurisdiction is for this Court an appeal-directing mechanism. And I think that's where 1295 really is -- is important and the interconnection with -- with 1338.

If there are no other -- no other questions, I thank the Court.

QUESTION: Thank you, Mr. Gowdey.

Mr. Dabney, you have 3 minutes remaining.

REBUTTAL ARGUMENT OF JAMES W. DABNEY

ON BEHALF OF THE PETITIONER

MR. DABNEY: In response to your question, Mr.

Justice Kennedy, there is no difference between different interpretation and adaptation. The respondent's position would call for this Court to retreat from Christianson and to adopt some special interpretation of arising under unique to 1338(a) that deviates from the arising under language as it was clearly adopted by Congress in 1295.

Secondly, with regard to the question of -- of Federal Circuit choice of law, what Mr. Gowdey stood here -- I just would call -- call Your Honors' attention to page 94a of the joint appendix which is the district court's opinion in this case in which the district court says, Vornado -- that's the respondent -- contends that this change in the law exception is met because in Midwest Industries, the Federal Circuit expressly rejected the Tenth Circuit's Vornado I holding, ruling instead that a claim for trade dress protection was not barred by the fact that a product configuration has been claimed as a significant inventive element of the patent. As part of its ruling in that case, the Federal Circuit abandoned its prior practice of applying regional circuit law on questions involving the relationship between patent law and other Federal law rights and said, quote, henceforth, we will apply our own law to such questions.

There is no doubt whatever that the Federal Circuit has recently and radically changed how it

adjudicates trade dress claims, and it was the opportunity to try to take advantage of the -- of the Federal Circuit's view of trade dress protection which was before the Court in the TrafFix case, and rejected by the Court in the TrafFix case, which drove the case that's currently before the Court, which isn't to say that the Federal Circuit can't do that. But by doing that, whatever legitimacy could have been before it, even as a matter of common sense, Justice Scalia, in derogation of clearly expressed congressional intent, in 1989, the Federal Circuit has done a 180 degree U-turn in its approach to its choice of law in these matters. And therefore, the -- a critical underpinning of the Aerojet principle has been completely wiped out.

QUESTION: You're -- you're telling us that this is unqualified. I think Mr. Gowdey said that the relationship language is -- that it's -- it's only in the intersection of patent law, not just any -- any question that comes along.

MR. DABNEY: That -- it is the issue that was before this Court in the TrafFix case. It is a question of how far State law, how far Federal law can properly go in allowing a company like the respondent to claim unregistered, judge-made --

QUESTION: And I don't see what the Federal

Circuit meant when it said the relationship between patent law and other Federal rights.

MR. DABNEY: The Federal --

QUESTION: Questions involving the relationship between those two. The Federal Circuit has interpreted that to be unlimited?

MR. DABNEY: The Federal Circuit has taken the position that -- I'm sorry. My time is up. May I answer the question?

QUESTION: Yes, briefly.

MR. DABNEY: The Federal Circuit has taken the position that Federal patent law does not create any right to copy or use anything, and therefore, it was wrong for the Court in Midwest to say that Iowa State law could not protect that.

CHIEF JUSTICE REHNQUIST: Thank you, Mr. Dabney.

The case is submitted.

(Whereupon, at 12:05 p.m., the case in the above-entitled matter was submitted.)