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SHORT-CIRCUITING CONTRACT LAW:
THE FEDERAL CIRCUIT'S CONTRACT LAW
JURISPRUDENCE
AND IP FEDERALISM
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ABSTRACT

The Federal Circuit was established in 1982 as an appellate court with limited jurisdiction over patent claims. However, the Federal Circuit has used this limited jurisdiction to expand its reach into contract law, developing a federal common law of contract. Given the growing importance of patent litigation in the past three decades, this creation of an independent body of contract law creates uncertainty in transactions involving patents. This troublesome development received attention in Stanford v Roche, a 2011 Supreme Court decision upholding the Federal Circuit's invalidation of a patent assignment to Stanford University. This Article documents the development of the Federal Circuit's contract jurisprudence and develops a theoretical framework for assessing this development based on scholarship on contractual innovation by Gilson, Sabel, & Scott (2013) and on federalism by Chemerinsky (2013) and Goldstein (1974). The Article concludes with a recommendation that the Federal Circuit defer to the contractual orderings of the parties in a manner consistent with intellectual property federalism.

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I. Federalism and Intellectual Property Policy

Federal common law is alive and well in the United States Court of Appeals for the Federal Circuit. However, as I demonstrate in this Article, a judicious application of intellectual property preemption and federalism principles can replace federal common law with appropriate and viable roots in state law.

Federalism has been central to debates over civil rights and the reach of Congress’ power in regulating commerce. Less well studied and appreciated is federalism’s role in intellectual property law and innovation policy. This Article fills that scholarly and policy gap by consideration of an understudied, but salient subject in patent law: the creation of a federal common law of contracts by the Federal Circuit, referred to hereafter as the Federal Circuit’s contract jurisprudence. As a specialized court with exclusive appellate jurisdiction over patent claims and counterclaims, the Federal Circuit, as I show, has appropriated jurisdiction over contract law matters. In creating its own federal common law of contracts, the court has upset the Supreme Court’s established balance between federal and state law in promoting innovation. Such appropriation has implications...

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for the structure of specialized federal appellate courts and for intellectual property policy.3

The Federal Circuit’s questionable common law contract jurisprudence is of more than academic significance. In a 2011 Supreme Court decision, the circuit’s common law of contracts made Stanford University lose all rights in a potentially multimillion dollar patent. Justice Breyer’s dissenting opinion in the decision, *Stanford University v. Roche*, targeted the Federal Circuit’s faulty contract law rule as the reason for Stanford’s loss.4 Section Three presents a complete discussion of Justice Breyer’s opinion (joined by Justice Ginsburg and in part by Justice Sotomayor) that the Federal Circuit has made up a rule about priority of patent assignments that is inconsistent with established state law precedent. The troubling common law of contracts, identified by Justice Breyer and analyzed in this Article, has a determinative and dramatic impact on the outcome of high-profile cases.

Justice Breyer’s dissent echoed a divide within the Federal Circuit echoed a few months before the Supreme Court’s Stanford decision in the Federal Circuit’s denial of a rehearing en banc in *Abraxis Biosciences v. Navinta*.5 At issue was the patent ownership of Abraxis who had ostensibly obtained patent rights from AstraZeneca-UK. The state court found some of the assignments valid; the Federal Circuit disagreed, ruling that the assignments that the assignments did not meet the writing requirement under 35 USC 261.6 In their dissent to the denial, Federal Circuit Judges O’Malley...
and Newman chastised the majority for applying a federal common law of assignments that was inconsistent with state law. Judge Gajarsa, joined by Judges Linn and Dyk, defended the denial, insisting that federal law was clear on the matter and trumped state law. The three judges accused the dissenters of allowing state law to preempt federal law. The *Abraxis* decision indicates the deep rifts over the Federal Circuit’s approach to the law of assignments and to contract law more generally. As I discuss in greater detail in Sections Two and Four, this rift justifies the concerns of Justices Breyer, Ginsburg, and Sotomayor for a review of the Federal Circuit’s contract law jurisprudence.

Before addressing the specific question of intellectual property federalism, it is worth setting forth broader controversies raised by federalism. In the context of the commerce clause, federalism provides a limitation on Congressional power that often masks opposition to the substance of specific federal policies, such as health care or agricultural regulation. In the context of federal civil rights legislation, federalism has provided a questionable limit on the powers of the national government. These limits are questionable because of the voice they give to local majority interests at the expense of “discrete and insular minorities.” Whether framed in terms of states’ rights or expansive federal powers, federalism has curbed national legislation aimed at preventing violence against

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[8] Id. at 1240-1.
[9] Id. at 1241.
women, protecting voting rights, promoting efforts to clean the environment, or promoting diversity in broadcasting and contracting. Consequently, legal arguments based on federalism have invited skepticism from those harnessing national governmental powers to protect individual rights and promote important social values of nondiscrimination and inclusion.

In intellectual property law, however, federalism arguments play quite a different role. The United States Constitution has granted to Congress the power to enact copyright and patent legislation as well as commercial legislation, such as the Lanham Act, that deals with intellectual property.  At the same time, many practitioners and scholars are skeptical of how Congress has wielded this grant of power in enacting intellectual property legislation that unilaterally favors the interests of intellectual property owners, often large, well-heeled corporations, while neglecting the rights of intellectual property users, consisting of consumers, follow-on inventors, small businesses, start-ups, and actors engaged in educational and preservationist efforts. In the case of intellectual property, limits on federal legislation might be desirable, and federalism is one possible limiting principle.

As it turns out, however, the role of federalism in intellectual property is a complex one. In some instances, federalism provides a limit on intellectual property rights. For example, in a series of decisions, the Supreme Court recognized broad state immunity against claims of trademark, patent, and, by implication, copyright infringement.  This body of case law gave state entities, such as universities, wide latitude in using works protected by intellectual

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13 See U.S. Const. Art. I, Sec. 8, Cl. 5 & 8. See Fromer, supra note 2 at 1338; Heald & Sherry, supra note 2 at 1120-1.
property with impunity. State immunity protects not only entities whose purpose is to preserve and disseminate knowledge that otherwise would be proprietary under intellectual property law but possibly also companies who collaborate with such entities. For example, Google in initiating its project to digitize university libraries, worked closely with major public universities like Michigan and Wisconsin in order to take advantage of state immunity against intellectual property infringement. Federalism in this instance limits national rights for the benefit of the broader public, in contrast with its role in protecting states’ rights against civil liberties claims.

However, federalism can also expand the rights of intellectual property owners. For example, licensing terms that protect data, as in the case of ProCD v Zeidenberg, or that restrict reverse engineering, as in Bowers v. Baystate Technologies, expand the rights of federal intellectual property owners beyond the terms of federal intellectual property law. These expansions occur at the expense of licensees and other users of intellectual property. Federalism in intellectual property allows state law, in some instances, to expand upon federal protections. Even in the area of civil liberties, state law might serve the role of expanding individual rights. For example, in constitutional law, state constitutions might protect greater protections for speech or for criminal defendants than federal law. Since federal rights are a floor, not a ceiling, states can expand on these rights, and the examples from intellectual property of contract expanding federal IP rights illustrate this expansive potential. The difficult question is how to assess arguments based on federalism in the skein of national rights. When should federalism be recognized to either expand or limit rights?

My examination of intellectual property federalism focuses on the United States Court of Appeals for the Federal Circuit, referred to

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17 ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996).
19 See Lemley, supra note 2 at 169-70.
as the Federal Circuit hereafter. The Federal Circuit is a specialized appellate court created by Congress in 1982 to hear appeals on matters relating to patent law.\textsuperscript{21} Created, for budgetary reasons, out of several previous courts, such as the Court of Claims and Patent Appeals and the Court of Claims, the Federal Circuit’s jurisdiction goes beyond appeals involving patents to include cases arising from suits against the United States government, federal contract claims involving the federal government, and claims arising from the Merit Protection Board, reviewing pension claims under ERISA.\textsuperscript{22} What is relevant for our purposes is that as part of its jurisdiction over patent appeals, the Federal Circuit reviews cases involving patent and contract law.

As I explain in more detail in Section Two, these issues of contract law arise in transactional matters involving patents, such as licenses and assignments. These contract issues also arise under substantive patent law in cases involving the on sale bar. What I show is that the Federal Circuit, since its inception in 1982, has developed a federal common law of contracts that stands independently of state law. In other words, the Federal Circuit has ignored federalism in examining contract rules arising from patent cases. This Article presents an analysis and critique of this development.

Legal regimes can foster creation and invention in many ways. Granting Congress the power to enact copyright and patent legislation structures a uniform regime flowing from federal statutes. Preemption precludes states from enacting statutes that compete and potentially substitute for federal schemes.\textsuperscript{23} However, under the Supreme Court’s decision in \textit{Aronson v. Quick Point},\textsuperscript{24} contract rules governed by state laws are permitted to foster innovation. What the Federal Circuit’s contract law jurisprudence illustrates is the interaction between a specialist court and general rules of contracts in the context of innovation.

\textsuperscript{21} See Gugliuzza, Federal Circuit, supra note 2 at 1800-1. For the statutory basis of jurisdiction, see 28 USC §1295.
\textsuperscript{22} See 28 USC §§ 1295(a)(1)-(14).
My analysis of the Federal Circuit’s contract law jurisprudence is informed by the theoretical approach of Professors Gilson, Sabel, and Scott in their article on contract and innovation.25 These scholars argue that private parties engage in contractual innovation in response to technological changes in the environment. Depending on the degree of uncertainty in the economic environment and the thickness of markets, these contractual innovations can take the form of bilateral contracts, trade associations, or more formal regulatory structures created by the state. Generalist courts, they argue, should defer to contractual innovation because the disputes will come to these courts only after greater interactions among economic actors. Specialist courts, on the other hand, should offer more contextualized contract principles based on the type of regulatory systems that may have evolved, whether a trade association or a regulation.26 Extending the authors’ argument to the Federal Circuit’s treatment of contracts, I contend that the Federal Circuit has inappropriately assumed the role of generalist courts under the guise of its specialized jurisdiction over patent law. Instead of developing its own specialized contract rules for patents, the Federal Circuit should defer to generalist courts, i.e. state law.

How can federalism correct the overreach of the Federal Circuit’s contract jurisprudence? This Article offers a solution, extending the work of legal scholars Erwin Chemerinsky27 and Paul Goldstein.28 Professor Chemerinsky is highly critical of the federalism move in Supreme Court cases involving civil rights over the past two decades.29 He argues that this shift has curtailed federal legislative power and narrowed protections for individual liberties. As an alternative to an approach that has viewed federalism as a limit on national powers, Professor Chemerinsky endorses an empowerment approach that would frame the balance of national and state governmental powers in terms of facilitating government action

26 Id. at 178-9.
27 See supra note 1.
28 See supra note 2.
29 See supra note 1 at 162-3.
to solve national problems.\textsuperscript{30} Professor Paul Goldstein advocated for a similar approach several decades ago in his assessment of the Supreme Court’s intellectual property preemption cases.\textsuperscript{31} Professor Goldstein points out that the Supreme Court’s preemption decisions rested on a close consideration of economic realities and the goals of innovation, allowing state law when it was consistent with federal intellectual property policy and preempting inconsistent state law.\textsuperscript{32} Such an approach, I would argue, is consistent with what Professor Chemerinsky describes as an empowerment approach. The Federal Circuit’s common law contract jurisprudence is completely at odds with the economic realities approach.

Briefly described, four policies inform intellectual property preemption: (1) prevention of leveraging; (2) forestalling of state law substitutes; (3) protection of public domain; and (4) facilitating of commercialization. These four policies will be instructive in Section Four of the Article, where I apply them to assess the Federal Circuit’s contract law jurisprudence. What these four policies show is the complexity interaction of national and state regimes in the process of innovation and competition. This Article presents a case that the Federal Circuit’s creation of a federal common law of contract is inconsistent with the goals of intellectual property federalism. This key idea is developed in this Article through three parts. Section Two, which follows, presents statistical and narrative summaries of the development of the Federal Circuit’s common law contract jurisprudence. Section Three provides details of this jurisprudence in three areas: assignments, licensing, and the on sale bar. Section Four expands on the policy analysis of this Introduction. Section Five concludes.

II. Common Law Contracts at the Federal Circuit: An Overview

This section presents an overview of the Federal Circuit’s contract jurisprudence, presenting information about the role of the Federal Circuit as a specialist court and about the specific contracts cases the specialized court has adjudicated. Through this

\textsuperscript{30} Id. at 176-7.
\textsuperscript{31} See supra note 2 at 93-4.
\textsuperscript{32} Id.
presentation, I explore the policy tensions between state contract law and the Federal Circuit’s contract decisions.

The Federal Circuit is an example of what Gilson, Sabel, and Scott call a specialized court. Established by Congress in 1982 by cobbling together the predecessor Court of Customs and Patent Appeals (CCPA) and Court of Claims, the Federal Circuit’s jurisdictions extends under the enabling statute to matters “relating to Acts of Congress related to patent and plant variety protection.” What this means is that with respect to patent matters, the Federal Circuit is the centralized court for all appeals from patent litigation originating in the several district courts. Whether a patent infringement law suit is initiated in the Northern District of California or the Southern District of Florida, its appeal will go to the Federal Circuit. In 2000, the Supreme Court limited this court’s appellate jurisdiction to original patent claims, and not counterclaims. Under the America Invents Act of 2011, the appellate jurisdiction applies to both patent claims and counterclaims. The Federal Circuit also has jurisdiction to hear appeals of administrative rulings by the United States Patent and Trademark Office (USPTO) although these challenges to a USPTO decision may first be adjudicated by the United States District Court for the District of Columbia as a challenge on administrative law grounds.

Although the Federal Circuit has jurisdiction over non-patent issues, such as copyright, contract, and tort, through its jurisdiction over issues related to patent law, it can correctly be identified as a specialist patent court. But the court has a number of specialties beyond patent. Statutory authority extends to appeals from the Merit Systems Protection Board, focusing on claims relating to pensions and ERISA, and to appeals of claims brought against the United States government and claims based on government contracts. Even

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33 See supra note 25
34 See supra note 22.
36 See Sec. 19(b), Leahy-Smith America Invents Act of 2011, H.R. 1249, amendment codified at 28 USC §1295(a)(1).
38 See 28 USC §1295(a)(4)(C).
39 See supra note 36.
though the Federal Circuit hears appellate claims based on tort law, property, federal statutes other than intellectual property, and contract, for the purposes of this paper I will characterize the Federal Circuit as a specialized contract court. The court certainly takes contracts cases, but these cases are related to specialized areas involving pensions, agreements with the U.S. government, and patents. Characterizing the Federal Circuit as a specialized contracts court is useful in contrasting its jurisdiction and jurisprudence from generalist courts that can hear contracts cases, such as a state court or a federal court from one of the twelve other circuits under its diversity or federal subject matter jurisdiction.

Support for the Federal Circuit as a specialized contract court exists in a search of the published opinions from the court. A search (done in February, 2013) of the Westlaw database collecting Federal Circuit opinions uncovered 347 opinions that dealt with both patents and contracts since the court’s formation in 1982. A search of pre-Federal Circuit cases dealing with patents and contracts in federal courts uncovered 198 unpublished opinions going back to 1938. These would be from the Court of Customs and Patent Appeals, which started hearing patent appeals in 1929. Of the 347 Federal Circuit opinions, 35 cases dealt with the on sale bar issue alone; 106 cases, with licensing issues alone; 35 cases, with assignment issues alone; and 57 cases involved some combination of the three. The remaining 114 cases dealt with tangential contract issues, such as those arising in antitrust or Lanham Act claims. These numbers suggest that over the course of the court’s 30 year existence, contract issues have systematically and substantively come before the Federal Circuit.

Under the typology suggested by Gilson, Sabel, and Scott, the Federal Circuit as a specialized court should bring contextualized factors to addressing contract disputes which come before it as an appellate question. In the case of government contracts and appeals from the Merit Systems Protection Board, the implication from this typology is that the Federal Circuit should apply the relevant regulatory structures to resolving the contract dispute. In the case of pension matters, for example, that means applying the contextual

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40 Materials from search are on file with the author.
factors arising from ERISA regulation. In the case of government contracts, the specialized contextual factors would arise from the regulations of the particular agency that is signatory to the disputed contract.

What the prediction about the role of specialized courts would be for contracts regarding patents is a more complicated matter. At the heart of the controversy is that the Federal Circuit’s specialized jurisdiction over patent law does not make it a specialized court on contract law when patents and contracts happen to intersect. The rules and standards provided by patent law apply across industries, across markets, and across all types of inventors when contract issues arise. Gilson, Sabel, and Scott provide several examples of individualized contractual regimes for which specialized courts can serve as providing tailored, contextualized interpretations of contract terms. The two salient examples from their Article are trade associations and state level agricultural safety regulations. These contractual regimes are responses to highly uncertain economic environments in markets with many large-scale players. By contrast, there is no specialized body of law governing contracts involving patents and the Federal Circuit’s specialized role in patent law does not create such a specialized body of law.

The goal of patent law is to promote invention through rules that aid an agency and courts in identifying novel, nonobvious, and useful inventions that are disclosed to the public upon a grant of a patent. Patent rules regulate the inventive process broadly without specialized treatment for industry or market. While these rules might be tailored to particular industries, as many scholars have shown, this industry specific application of general patent rules does not imply that the Federal Circuit as specialized contract should provide

41 See Dan L. Burk & Mark A. Lemley, The Patent Crisis and How the Courts Can Solve It 37-39 (2009)(describing the diverse nature of the patent system and the range of innovation to which it applies. Burk & Lemley’s argument is that courts do, and should, tailor the application of general patent law to specific contexts. See id. at 49.
42 See supra note 25.
43 See supra note 25 at 201.
44 See supra note 25 at 203.
45 See Burk & Lemley, supra note 41.
the contextualizing factors predicted by Gilson, Sabel, and Scott.\(^{46}\) The Patent Act is not the product of industry driven regulation and is not akin to the workings of a trade association. Patent law provides rules governing the inventive process, not rules of contractual transactions. Consequently, the Federal Circuit should not act as a specialized contract court in the sense used by Gilson, Sabel, and Scott.\(^{47}\) Although nominally the Federal Circuit’s jurisdiction gives it the characteristic of a specialized court, the nature of patent law requires that it defer to generalized courts on matters of contract. This proposition is a succinct statement of the argument of this Article.

Support for this proposition arises in part from a cursory examination of how certain judges on the Federal Circuit have responded to contract decisions by the court. In *DDB Technologies v. MLB Advanced Media*,\(^{48}\) a 2008 case involving interpretation of a patent assignment, Judge Pauline Newman voiced a striking dissent to the majority’s adoption of a particular rule for determining priority of assignment. This rule will be explained in Section Three. Her dissent illustrates how the concept of preemption subverts critical policies of federalism, which will be discussed in Section Four.

The panel majority acknowledges “state contract law”, but announces that federal law preempts state law for employment contracts that include rights to patents, reasoning that “[a]lthough state law governs the interpretation of contracts generally, the question of whether a patent assignment clause creates an automatic assignment or merely an obligation to assign is intimately bound up with the question of standing in patent cases” and therefore is “a matter of federal law”. That is grievous overreaching, as well as contrary to law and precedent.\(^{49}\)

Judge Newman expresses a viewpoint consistent with the desired deference accorded by generalist courts to private contractual

\(^{46}\) See supra note 25 at 176-8.
\(^{47}\) See supra note 25 at 207 (discussing Delaware Chancery as a specialized court).
\(^{48}\) *DDB Technologies, L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284 (Fed. Cir. 2008).
\(^{49}\) Id. at 1296.
orderings. She frames this deference in terms of federalism principles that would support a rejection of preemption.

As an illustration of the overreaching identified by Judge Newman, consider this analysis from the majority decision in *Rhone-Poulenc Agro v. Dekalb Genetics,*\(^{50}\) a 2002 case raising the issue of whether a sub licensee of a license obtained originally by fraud would be a bona fide purchaser:

It may be argued that the impact of fraud upon the validity of a license as against a bona purchaser defense should also be governed by state law. However, we confront here a unique situation in which a federal patent statute explicitly governs the bona fide purchaser rule in some situations but not in all situations. It would be anomalous for federal law to govern that defense in part and for state law to govern in part. There is quite plainly a need for a uniform body of federal law on the bona fide purchaser defense. …On the related question of the transferability of patent licenses, many courts have concluded that federal law must be applied.\(^ {51}\)

The technical issue to which the court refers is section 261 of the Patent Act which makes void any subsequent transfers of an agreement not properly recorded with the USPTO.\(^ {52}\) The Federal Circuit extended this statutory provision to deny a bona fide purchaser defense to a non-exclusive licensee.\(^ {53}\) Although the court insists that a similar result would follow from an application of the pertinent state law on bona fide purchasers, the Federal Circuit expressly adopts a federal rule on the grounds that a uniform contract rule is needed in these circumstances. In other words, the Federal Circuit is acting as a specialized court adapting contextual factors to a contract involving a patent. Although Judge Newman did not participate in this appeal, her admonition against preempting the decisions of generalized courts resonates here.

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\(^{50}\) Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp., 284 F.3d 1323 (Fed. Cir. 2002).

\(^{51}\) Id. at 1327.

\(^{52}\) See supra note 6.

\(^{53}\) See supra note 50 at 1328.
The Federal Circuit appeals to the goal of uniformity in its 2001 decision *Group One v. Hallmark* case.\(^{54}\) In this decision, the court addressed the question of what contract principles would apply to the on sale bar.\(^{55}\) The unanimous opinion provides the following reasoning:

> Because of the importance of having a uniform national rule regarding the on-sale bar, we hold that the question of whether an invention is the subject of a commercial offer for sale is a matter of Federal Circuit law, to be analyzed under the law of contracts as generally understood.\(^{56}\)

Uniformity through preemption provides a rationale for a specialized court to take on a role that is arguably inappropriate for the discrete contracting that gives rise to the on sale bar. Although the Federal Circuit nominally bases its contract analysis “on general principles of contract law drawn from the Restatement and the UCC,”\(^{57}\) it plays lip service to these state law sources of law, supplanting its generalist principles and specialized context that is inconsistent with contractual innovation.

A final example of Judge Newman’s case for overreaching by a nominally specialized court into the domain of the generalist is the conditional sale doctrine. Under this controversial doctrine, a patent owner can impose additional conditions in a sale of a patented invention that provide a limitation on the rights of the purchaser. A conditional sale is a hybrid of a sale and a license, a creation that the Solicitor General has questioned in its briefs for grant of certiori in *Quanta v. LG Electronics*\(^{58}\) and in *Bowman v. Monsanto*.\(^{59}\) The problem with the conditional sale doctrine is that it seemingly eviscerates the long established doctrine of patent exhaustion that allows a purchaser to make use of a patented invention within the scope of intended transaction.\(^{60}\) Since the Supreme Court has upheld

\(^{54}\) Grp. One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041 (Fed. Cir. 2001).
\(^{56}\) See supra note 54 at 1048.
\(^{59}\) Bowman v. Monsanto Co., 133 S. Ct. 1761 U.S. (2013)
\(^{60}\) See Brief for the United States as Amicus Curiae Supporting Petitioners
patent exhaustion but has not addressed the viability of conditional sale, the doctrine stands and serves as an evidence of a specialist court adopting contextualized rules for contracts involving patents.

The Federal Circuit first recognized the conditional sale doctrine in *Mallinckrodt v. Medipart*, a 1992 decision involving restrictions on reuse of a medical device. Instead of addressing the restriction in terms of its reasonableness, the majority appealed to contract law, specifically Article 2 of the Uniform Commercial Code, to create the specialized doctrine:

In accordance with the Uniform Commercial Code a license notice may become a term of sale, even if not part of the original transaction, if not objected to within a reasonable time. U.C.C. § 2-207(2)(c).

What the Federal Circuit’s appeal to the Uniform Commercial Code does is allow patent owners to impose additional use-limiting restrictions on purchasers. This controversial interpretation of the Article 2-207 arises in other contexts, particularly involving click wrap or rolling contracts. But in the context of patent law, the application of the UCC gives support to a new doctrine of patent law that allows the patent owner to sue for patent infringement if there is a violation of the restriction. A specialized court invades the domain of a generalist court to fashion a context specific rule. What is particularly troubling is that the above words were authored by Judge Newman, who seemingly exhibits the type of overreaching she criticized in the context of patent assignments.

Whether Judge Newman’s views in *Malinckrodt* are inconsistent with her dissent in DLB Technologies is an issue I will explore in greater detail in Section IV. On the surface, the two positions are consistent with a desire to protect patentee’s rights. Her excoriation of the Federal Circuit’s rule on assignments arises from a concern that legitimate patent owners are being divested of their

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Quanta Computer, Inc. v. LG Electronics, Inc. 20-25(U.S. 2007)(Solicitor General pointing out inconsistency between conditional sale doctrine and exhaustion doctrine and urging abrogation of the former).

61 See supra note 59 at 627-8.

ownership. The parallel recognition of the conditional sale doctrine is consistent with the purpose of protecting patentee’s federal rights as exercised through contract. Judge Newman may be criticized, along with other members of the Federal Circuit, for not acknowledging the role of contract in complementing patentee’s rights and in promoting innovation.

Judge Newman, however, did sign onto Judge O’Malley’s dissent in *Abraxis*, a case mentioned in the introductory section. At issue in that case was the validity of a patent assignment, an area that, as we have seen, Judge Newman views as a matter of state law. Judge O’Malley authored the dissent to the denial of en banc, and his dissent cogently identifies the tension between the Federal Circuit’s approach and the Supreme Court’s precedent on patent preemption. Specifically, Judge O’Malley discusses the Supreme Court’s *Aronson* decision in which the Court concludes that contract law complements patent law in the promotion of invention and dissemination of innovative technologies. Judge O’Malley recognizes the independent role of contract law and urges his colleagues to follow Supreme Court precedent. Although Judge O’Malley’s position is not apposite to the facts of the *Abraxis* case, an issue I turn to in Section IV, his analysis of the *Aronson* case is critical to how the Federal Circuit should understand the role of contract in patent law.

This section has explained how the Federal Court’s contract law jurisprudence fits the analytical model of Gilson, Sabel, and Scott. Contractual innovation should be the domain of generalist courts with specialist courts providing contextual factors to contract enforcement only for evolved contractual schemes, such as trade associations and formal regulation. My argument is that the Federal Circuit has invaded the territory better delegated to generalist courts under broad principles of preemption as illustrated by three areas: assignments, the on sale bar, and the conditional sale doctrine. In Section Three, I examine the Federal Circuit’s jurisprudence in these three areas to illustrate how the Federal Circuit has coopted what is best left to generalist courts. In Section Four, I explain how intellectual property federalism proffers a cure.

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63 See supra note 5.
64 See supra note 5 at 1242.
65 Id. at 1242-3.
III. How Federal Circuit Law Transforms Contract Law

With the general discussion of intellectual property federalism in Section Two as background, I turn now to specific consideration of how the Federal Circuit has weaved a federal common law of contract in four prominent areas of patent law: (1) assignments; (2) the on sale bar; (3) licenses; and (4) settlement agreements. While the reasons for the creation of a common law of contract are complex, the effect of creating a federal common law of contract is to expand the scope of patent owner’s rights that also aggrandizes the jurisdiction of the Federal Circuit beyond patent law. This expansion has implications not only for patent policy, but for contracting and competition policy. Section Four presents a jurisprudential and policy approach to undo what the Federal Circuit has wrought.

A. The Problem of Conflicting Patent Assignments

Simultaneous patent assignments are a common problem and have been reviewed by the United States Supreme Court in 2011 in *Stanford v. Roche*. At issue was research pertaining to AIDS therapies. At issue in the *Roche* case is the ownership of three biomedical patents obtained by Stanford on HIV quantification techniques. Although the narrow focus of the case is in the field of biotechnology, it has implications for any scientific research area. The common practice at issue is the signing of multiple assignments by an inventor to various entities with which the inventor works. How to reconcile these conflicting legal obligations is the key practical problem raised by the Roche litigation.

Dr. Holodniy was a scientist working for Stanford University in the field of HIV and AIDS research. As part of his employment with Stanford, he signed a standard employment contract under which he “agreed to assign” all interests in any inventions that came out of his work to Stanford. Holodniy’s research required me to work with Cetus to learn the company’s technique of polymerase chain reaction (PCR) used to make copies of DNA sequences. Holodniy, while still employed with Stanford, visited Cetus to

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66 See supra note 4.
67 See supra note 4 at 2192.
undertake training. As a visitor, he was obligated to sign a confidentially agreement which stated that Holodniy “agreed to and hereby does assign” all interests in inventions that arose from his work at Cetus. Based on Holodniy’s work at Stanford, the university received three patents in the field of HIV counting. These patents were the basis for the lawsuit.

Roche acquired Cetus and all of its assets, including legal interests in inventions that arose from contract. Roche practiced the inventions covered by Stanford’s patents, and Stanford sued for patent infringement. One of Roche’s defenses to patent infringement was that Stanford was not the owner of the patents and therefore could not sue for infringement. The district court disagreed and found that Stanford was the owner of the patents. Under the terms of the assignment, Stanford had an interest in Holodniy’s inventions created after the date of the assignment. Stanford’s interest trumped those of Roche, standing in the shoes of Cetus, because when Holodniy signed the agreement with Cetus, he had nothing to convey since he had already assigned his legal rights in the invention to Stanford.

On appeal, the Federal Circuit ruled that the Bayh-Dole Act did not grant Stanford any rights in Holodniy’s inventions. Instead, Stanford’s rights were based solely on the assignments, or contracts, between Stanford and its employee. Parsing the language of the assignments, the court ruled that Stanford had no right in Holodniy’s invention since Holodniy simply agreed to assign his rights at some future time. By contrast, Holodniy’s agreement with Cetus did transfer rights to Cetus. In the confidentiality agreement with Cetus, Holodniy stated that he hereby assigned his rights in all future inventions. This language implied a present transfer of rights as opposed to assign rights in the future. Consequently, Cetus had the rights to Holodniy’s inventions while Stanford did not. Therefore, in short, Roche had ownership of the patented inventions. Stanford had no rights in the patents and therefore could not sue for patent infringement.

68 Id.
69 Id. at 2194; Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc., 583 F.3d 832, 842 (Fed. Cir. 2009).
The Federal Circuit’s ruling was greeted with much consternation. Many universities has language similar to Stanford’s in its agreements. These agreements as written could be readily trumped by another agreement that more clearly used words like “hereby.” Consequently, the Supreme Court’s decision to review the Federal Circuit decision was seen as a hopeful sign. Not only would the Court’s final ruling be its first on the Bayh-Dole Act, but it would overrule what many saw as a strained reading of contractual language by the Federal Circuit.

When so much was at stake and when such well-heeled actors were involved, it was perhaps inevitable that the United States Supreme Court would hear the case. The case was the first one that the Supreme Court has ever decided dealing with the Bayh-Dole Act. Although in many other instances, the Supreme Court and the Federal Circuit came to opposite conclusions on matters of patent law, in *Stanford v Roche*, the two courts agreed. The Bayh-Dole Act, as the Federal Circuit concluded, does not create patent rights in universities. Patent rights are a matter of assignments and other contracts. Furthermore, the Supreme Court concluded, the Federal Circuit was right about the respective assignments.

Justice Sotomayor agreed with the rulings, but stated that the Court should reconsider the Federal Circuit’s case law on patent

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71 “See Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc., 548 U.S. 124, 138 (2006) (Breyer, J., joined by Stevens & Souter, JJ., dissenting) ("[A] decision from this generalist Court could contribute to the important ongoing debate, among both specialists and generalists, as to whether the patent system, as currently administered and enforced, adequately reflects the ‘careful balance’ that ‘the federal patent laws ... embod[y].’" (alterations in original) (quoting Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 146 (1989))); Holmes Grp., 535 U.S. at 839 (Stevens, J., concurring in part and concurring in the judgment) ("[O]ccasional decisions [on issues of patent law] by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias.").” as cited in Paul R. Gugliuzza, Rethinking Federal Circuit Jurisdiction, 100 Geo. L.J. 1437, 1505 (2012).

72 See supra note 4 at 2195 (affirming Federal Circuit).

73 Id.
The problem is that as a procedural matter the issue was not in front of the Supreme Court. So, Justice Sotomayor left the matter for another case. Justice Breyer, however, was not so reluctant. His view and that of Justice Ginsburg, who signed onto his dissent, was that the Court was in a position to reassess the Federal Circuit’s case law on patent assignments. The dissenting justices ruled that this case law was erroneous, and therefore Stanford should win. But dissenters only set the stage for future legal disputes.

The Federal Circuit based its ruling in Stanford with respect to the conflicting assignment issue on its 1991 precedent, Filmtec v. Allied Signal. It is this decision that Justice Breyer questions because of inconsistency with prior law. The Federal Circuit ruled in Filmtec that priority of assignment depends upon whether an assignment is a present transfer of a future interest or an intention to transfer a future interest in the future. The future interest at issue is the patent which did not exist when the employee entered into the respective contracts. The assignment provisions were a promise to assign the patent rights when they arose. If, however, the assignment provision was a present transfer, as would be demonstrated by the use of the word “hereby,” then the transfer to the employer is automatic as soon as the future patent rights come into being. In the case of Holodniy, the Federal Circuit concluded that all Stanford had was a promise for its employee to transfer future patent rights sometime in the future. By contrast, Cetus had obtained a present transfer of future patent rights which would come into effect when the patent was granted. Therefore, according to the Federal Circuit’s reasoning, Cetus and its successor, Roche, owned the patent rights.

Justice Breyer finds several flaws with the Federal Circuit’s reasoning. It rests too simplistically on formal language that creates a trap for the unwary. The rule announced by the Federal Circuit is unpredictable and burdens entities that thought they had the right drafting, to be told that in fact they did not. Furthermore, the Federal Circuit’s reasoning is inconsistent with prior law, based in part on state law, that the assignment first in time would create an equitable

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74 Id. at 2199-200.
75 Id. at 2202-3.
77 See supra note 4 at 2203-4.
interest that would have to be weighed against subsequent assignments. Stanford, as the first assignee in time, should win, according to this view of patent assignments.

The Supreme Court, adopting the reasoning of the Federal Circuit, has instituted a new rule with respect to conflicting patent assignments. The rule can be stated as present assignments trump future assignments even if the present assignment is entered into after the future assignment. Justice Breyer finds this rule problematic for the reasons explained above. The challenging question is to derive an alternative, especially one that is consistent with precedent.

A simple alternative is to adopt a first in time rule, which would state that whichever assignment was entered into first trumps all subsequent assignments. While such a rule does exist in many other legal contexts, the problem with such a rule with respect to patent assignments is that not all assignments are identical. For example, an inventor might make two assignments, the first for all patent rights within the United States, the second for all patent rights in Japan. These two assignments do not conflict, and a first in time rule would not be necessary to resolve the conflict. What this example shows is that a first in time rule might make sense if there is a direct conflict, meaning the two assignments cover the exact same set of rights. If an inventor assigns all patent rights to company A on Friday and then makes an assignment of exactly the same set of rights on Monday, a first in time rule would make sense. Under such a rule, all assignees need to make sure there is no conflict either by seeking disclosure from the patent assignor or by searching a recording system.

But what if the patent rights are not exactly the same? This divergence existed between the two assignments made by Holodniy. His assignment to Stanford was a promise to assign rights in future inventions in the future. His assignment to Cetus was a promise to assign rights in future inventions today. In both cases, the assignment would not be effective until the inventions came into being. But the second assignment includes rights going forward from

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today while the first assignment covers rights starting at some future date. The temporal duration of the rights being transferred differ, and therefore two obligations are not completely inconsistent. So a pure first in time rule would not appropriate for the reasons above, namely the two obligations could in theory be satisfied. The Federal Circuit adopted a rule that favored present assignments of future interests based on the logic of how the rights would transfer. The court reasoned that the transfer of rights to Cetus today would extinguish all of Stanford’s rights in future inventions. There is no reason, as a matter of logic, why such extinction has to occur.

For example, Cetus’ rights could be deemed to be extinguished when Stanford’s rights spring up. The Federal Circuit seemingly chose a rule based on predictably and convenience, but there is a sense in which the court picked an arbitrary and unpredictable rule inconsistent with what came before.

To understand this inconsistency, it is worth introducing some contrasting opinions from within the Federal Circuit on the issue of patent assignments. Judge Pauline Newman has been the most vocal and persuasive in her criticism of Filmtec and other Federal Circuit decisions that build upon it. Her point is a simple one. Patent assignments are a matter of contract law, which is in the jurisdiction of the states. Therefore, the Federal Circuit should look more closely at state law in deciding cases about patent assignments.

The judge’s point is particularly salient when one remembers that the Federal Circuit was created as an expert patent court. It was given jurisdiction to hear some non-patent matters when these matters are related to patent cases. Patent assignments are one obvious example of when the Federal Circuit has jurisdiction to consider state matters. But, as Judge Newman points out, jurisdiction to hear a case does not mean authority to create new law, as the Federal Circuit arguably did in Filmtec and in Stanford. Instead, the Federal Circuit should look to other authorities to address non-patent law matters. For contract law matters, what state courts and legislatures have said about assignments generally would be relevant. Furthermore, state law provides a stable and predictable source of
authority for actors engaged in the business practice of negotiating patent assignments and other contracts.

The appeal to state law has historical justification. Justice Breyer, for example, cites a treatise on patent law by George Ticknor Curtis from 1873 that discusses patent assignments. Curtis addresses how state law treats assignments and cites a Massachusetts case from 1841 dealing with patent assignments. The fact that the 1841 case is from Massachusetts is important because it was decided by a state court, not a federal court like the Federal Circuit, to analyze a patent assignment under Massachusetts state law. Relevant to the issues in Stanford, the assignment involved the present assignment of an invention that had not been made yet. The court analyzed the assignment as it would any contract, identifying the terms of the document as a key to the expectations of the parties. Further examples of state courts examining patent assignments come from the early jurisprudence of Justice Oliver Wendell Holmes. Prior to being appointed to the United States Supreme Court, Justice Holmes served on the Massachusetts Supreme Court, where many of his intellectual property cases involved precisely patent assignments. A separate research project of mine entails examining and synthesizing Justice Holmes’ intellectual property jurisprudence starting with his time on the Massachusetts Supreme Court.

There are two points to be gleaned from these examples. The first is that state law does include consideration of patent assignments. The second is that arguably the Federal Circuit has aggrandized its jurisdiction, using its expertise on patent law to create

80 “See G. Curtis, A Treatise on the Law of Patents for Useful Inventions § 170, p. 155 (3d ed. 1867) (“A contract to convey a future invention ... cannot alone authorize a patent to be taken by the party in whose favor such a contract was intended to operate”); Comment, Contract Rights as Commercial Security: Present and Future Intangibles, 67 Yale L.J. 847, 854, n. 27 (1958) (“The rule generally applicable grants equitable enforcement to an assignment of an expectancy but demands a further act, either reduction to possession or further assignment of the right when it comes into existence”), cited in supra note 4 at 2188.
81 See Nesmith v. Calvert, 1 Wood & May 34 (1841).
82 See, e.g., Smith v. Moore, 134 Mass. 405 (1883)(trust with patent as corpus); Pratt v. Tuttle, 136 Mass. 233 (1884)(securitizing sale of patent).
83 Research materials on file with author.
84 See supra note 50.
a new law of contract when patent assignments are concerned.  

State law precedents perhaps offer an alternative to the questionable Federal Circuit jurisprudence, at least with respect to patent assignments.

One related area in state law is that of security interests, a part of debtor-creditor law. In entering into credit agreements, creditors ask for security in the form of collateral for a loan. Sometimes the collateral can be tangible property that the debtor has in his possession. In such cases, the debtor may transfer the tangible property as a bond or put it in escrow, allowing the creditor to take title if the debtor defaults. Other times, the collateral may be intangible property that the debtor currently owns. Such intangible collateral falls under rules that are different from those for tangible property because of the difficulty of foreclosing on intangible property. Finally, the collateral may be something that is not in existence yet. An example would be the future sales or proceeds from a debtor’s business. Another example would be inventory remaining at the end of an accounting period. These future interests are analogous to the future inventions or patents that I have been discussing. Rights can be claimed in these properties that are nonexistent at the time of the contract formation between creditor and debtor.

Security interests provide the most common situation in which conflicting obligations arise. Debtors often take multiple mortgages, hypothetic future proceeds to multiple creditors, and take multiple loans out on the same collateral. As long as the value of the collateral can cover all the debts, then there is no problem in general. However, if not all creditors can be satisfied, priority rules are necessary. In the case of future interests, the law does not fall back on simple rules like first in time because there are multiple interests

85 See, e.g., Gugliuzza, Federal Court, supra note 2.
87 Id. at 835.
A creditor does not want to run the risk of not receiving any return on the debt. The legal rules of priority allow the creditor to investigate the collateral and through such due diligence identify competing claimants on the collateral. Priority rules, consequently, depend not only on the timing of the contract, but also on recording and notice requirements.\(^{90}\)

The case of conflicting patent assignments bears some similarity to the law on intangible future interests in creditor-debtor law. Both entail rights in property that has yet to come into being. The main lesson from creditor-debtor law, which is largely a matter of state law, is that many interests are implicated and therefore simple rules are not satisfactory.\(^{91}\) The Federal Circuit has arguably adopted too simple and misguided a rule in the *Stanford* case, misapplying its precedent in *Filmtec*. I have made the case that the issue of patent assignments will arise in future cases. Creditor-debtor law might provide the relevant precedent with which to organize the law so as to take account of a range of interests, otherwise excluded through too simple a rule on patent assignments as we see in *Stanford*.

**B. The On Sale Bar and Contract Law**

Justice Breyer’s dissent in *Stanford v. Roche* highlighted the Federal Circuit’s federal common law approach to assignments. But the Federal Circuit’s common law of contracts extends into other areas of contract law. In this subsection, I analyze how the federal common law of contract has permeated the patent doctrine of the on sale bar through the analysis of what constitutes an offer for sale.

Contract law’s intrusion into the application of the on sale bar is a recent phenomenon. Dating back to the Supreme Court’s 1829 decision in *Pennock v. Dialogue*,\(^{92}\) the on sale bar placed limitations on the sale of patented methods.
on an inventor’s ability to commercialize an invention before seeking a patent. The Court in *Pennock* concluded that making a public use, including a sale, of an invention before filing a patent application conflicted with several patent policies. Profiting from an invention before obtaining a patent effectively extended the commercial advantage of an invention from the set term of a patent. In addition, public uses before patenting undermined the disclosure and public benefit goals of patent law by allowing an inventor to transfer the invention to the public and then obtaining an exclusive right to the invention, thereby blocking access. For these reasons, the *Pennock* court ruled that public use, including sale, before filing a patent application could bar the grant of an otherwise available patent.

Congress codified the on sale bar and public use in 1836. Initially, any sale of an invention before filing an application would bar patenting. In 1839, Congress enacted a two year grace period before filing a patent application during which public use and sales could be made. The grace period reflected the realities of commercializing inventions, including experimentation by the inventor and market testing the invention with consumers, users, and potential distributors. In 1939, the grace period was reduced to one year, which is the current duration under the 1952 Act and the America Invents Act of 2011.

From the Court’s decision in *Pennock* to its 1997 decision in *Pfaff v. Wells*, lower courts, including the Federal Circuit, grappled...
with the question of when an invention was on sale. A majority rule, which was accepted in a modified form by the Federal Circuit, focused on the question of whether an invention was “sufficiently complete.” Under this approach, if an inventor received a commercial advantage from a product or service that entailed the invention which was sufficiently completed, then the on sale bar applied. Courts were less concerned with the mechanics of commercial law such as whether a contract had been formed or a sale had been completed. Instead, the focus was on whether the invention was sufficiently completed in a form that could have been the basis for a patent application. This approach changed dramatically with the 1997 Pfaff decision.

The Supreme Court’s review of the on sale bar in 1997 was the first time the high court addressed the question of the on sale bar under the 1952 Patent Act. The grant of certiori also marked the first time the high court reviewed the on sale bar issue as developed by the Federal Circuit. Through the Pfaff decision, the Supreme Court turned the on sale bar inquiry into one that entailed both technical issues of when an invention was complete and a legal issue of commercial law. In Pfaff, the Supreme Court famously ruled that an invention was subject to the on sale bar when two conditions were met. First, the invention must be ready for patenting, in other words, the invention was sufficiently completed to allow for description in a patent application. Second, the invention must be the subject to a commercial offer for sale. It was the second requirement that was novel and provided a basis for the Federal Circuit to develop its own law of contract.


102 See Pfaff, supra note 101.


104 See Pfaff, supra note 55 at 311.

105 Id. at 312.
The Supreme Court introduced the requirement of having the invention being the subject of a commercial offer in response to the position, held by some members of the patent bar and the AIPLA,\textsuperscript{106} that the invention was not on sale until it was on the shelf or in the hands of the purchaser, in other words when the contract for sale was complete. The Court was concerned that the date of completion would allow the inventor to avoid the on sale bar by obtaining commercial benefit from the sale of the invention while delaying imposition of the bar by extending the date for completion of the sale.\textsuperscript{107} To avoid this problem, the Court chose the earliest possible date for the commercial transaction to be initiated, which would be the date of the offer. But this requirement raised the question of when an invention that was ready for patenting was subject to an offer.

Although the Supreme Court never addressed the question of what constituted an offer, even in its Pfaff decision, the Federal Circuit soon created an approach. In its 2001 decision, \textit{Linear Technology v. Micrel}, the three judge panel unanimously ruled that the notion of an offer would be determined “through general principles of contract law drawn from the Restatement and the UCC.”\textsuperscript{108} In \textit{Group One v. Hallmark Card}, another 2001 decision, the court elaborated on this position.\textsuperscript{109} As discussed in Section Two, the federal circuit emphasized in his reasoning “the importance of having a uniform national rule regarding the on-sale bar.”\textsuperscript{110} Consequently, the court held that “the question of whether an invention is the subject of a commercial offer for sale is a matter of Federal Circuit law, to be analyzed under the law of contracts as generally understood.”\textsuperscript{111} To follow state law to determine when an invention has been put on sale would result in the validity of a patent hinging on the choice of state law.

\textsuperscript{107} See supra note 55 at 309.
\textsuperscript{108} See supra note 57.
\textsuperscript{109} See supra note 55.
\textsuperscript{110} Id.
\textsuperscript{111} Id.
Arguably, the court overstates the diversity of the rule of what constitutes an offer across the states. As discussed in Section Four, there are several ways to refer to state law while preserving predictability in the federal law of patent validity. Because of its emphasis on uniformity over other policies, such as respecting the expectations of the parties, the Hallmark decision has been controversial among some scholars while uncontroversial within the Federal Circuit.

However, a year after the Hallmark decision, the Supreme Court opined on the value of uniformity in patent law. In Holmes v. Vornado, a case involving the appellate jurisdiction of the Federal Circuit, the Court considered where “arising under” jurisdiction extended to patent counterclaims or only patent claims. Analyzing the controversy under the “well-pleaded complaint rule,” the Court concluded that appellate jurisdiction extended only to patent claims. The Court dismissed the argument for uniform treatment of patent claims and counterclaims by saying: “Our task here is not to determine what would further Congress’s goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean.” Arguably, the emphasis on statutory construction over uniformity would extend to the on sale bar context at issue in Hallmark.

Subsequent cases have not led to much controversy over what constitutes an offer in determining the on sale bar. This lack of controversy may reflect the relative lack of importance of the offer issue in disputes over when a patent on an invention is barred. Cases

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112 See Timothy R. Holbrook, Liability for the "Threat of A Sale": Assessing Patent Infringement for Offering to Sell an Invention and Implications for the on-Sale Patentability Bar and Other Forms of Infringement, 43 Santa Clara L. Rev. 751, 781 (2003)(discussing the range of the meaning of offer under state law).
113 See id. at 778 (discussing the controversies).
115 Id. at 831.
116 Id. at 833.
117 See, e.g., Lacks Indus., Inc. v. McKechnie Vehicle Components USA, Inc., 322 F.3d 1335, 1348 (Fed. Cir. 2003)(most recent case citing Hallmark approach to on sale bar).
rest more controversially on the issue of when an invention is ready for patenting. Nonetheless, the Federal Circuit’s approach to the on sale bar is noting because it demonstrates how the policy of uniformity dominates in the court’s creation of a federal law of contract. Arguably such an emphasis is justified when a contract doctrine is embedded within a broader federal rule barring patenting. Justification is stronger when the federal rule is trying to prevent contractual manipulation to circumvent a patenting bar.

Even though contractual experimentation may not be desirable in the context of the on sale bar, expectations of the contracting parties may be just as salient a consideration in constructing a federal law of contract as in the case of the law of assignments. While the federal interest in a uniform rule of ownership underlies the Federal Circuit’s approach to assignments, parties may have understood the relevant background law quite a bit differently from how the court construes it under its federal common law. This unsettling of expectations may interfere with the ability of private parties to negotiate over transactions involving patents. Such considerations are absent from the on sale bar analysis. The luck of such considerations raises the same concerns and questions as discussed in the Federal Circuit’s approach to assignments. A uniform federal law of contracts as applied to patents may be justified in part on the interest in uniformity, but the Federal Circuit’s analysis provides only a partial justification.


The Federal Circuit treatment of assignments and the on sale bar illustrate how the court has usurped background contract rules to transactions involving patents under a federal common law of contracts. The justification for this usurpation is the need for uniformity in the federal patent system. Licenses provide a third example of the creation of a federal common law of contract.

See, e.g., Judge Newman’s concern with expectations in her DDB Technologies dissent, supra note 48.
Professor Mark Patterson\textsuperscript{119} has raised the question of whether patent licenses should be treated as contracts or whether courts should create a separate body of law that better reflects intellectual property policies. For the Federal Circuit, the treatment of licenses reflects the policing of the boundaries between patent law and contract law. The creation of a federal common law of contract is a way to expand the scope of patent law. This expansion is apparent in the controversial area of the conditional sale doctrine, which illustrates how specialized courts, like the Federal Circuit, find themselves in tension with generalized courts, like state courts and the Supreme Court.\textsuperscript{120}

A consideration of the Federal Circuit treatment of licenses illustrates once again an emphasis on uniformity in creating a federal common law of contract. While the Federal Circuit does recognize in its case law that “[i]n general, the Supreme Court and this court have turned to state law to determine whether there is contractual ‘authority’ to practice the invention of a patent.”\textsuperscript{121} In other words, state law governs how the court interprets the formation of a license and its terms, a point consistent with Professor Mark Patterson’s recommendation that licenses be interpreted as contacts for the purposes of determining formation.\textsuperscript{122} The Federal Circuit also has acknowledged that “the consequences of fraud in the negotiation of such contracts is a matter generally governed by state law.”\textsuperscript{123} But when the patent statute contains an explicit provision regarding bona fide assignees, the court confronts “a unique situation in which a federal patent statute explicitly governs the bona fide purchaser rule in some situations but not in all situations.”\textsuperscript{124} To avoid inconsistent application of the patent statute, the Federal Circuit concludes that “it would be anomalous for federal law to govern that defense in part and for state law to govern in part. There is quite plainly a need for a uniform body of federal law on the bona fide purchaser defense.”\textsuperscript{125}

\textsuperscript{119}Mark R. Patterson, Must Licenses Be Contracts?: Consent and Notice in Intellectual Property, 40 Florida State University Law Review 105 (2012).

\textsuperscript{120}See Gugliuzza, Federal Circuit, supra note 2.

\textsuperscript{121}See supra note 54.

\textsuperscript{122}Id.

\textsuperscript{123}Id.

\textsuperscript{124}Id.

\textsuperscript{125}Id.
As we saw in the case of assignments, the Federal Circuit finds an analogous interest in uniformity in determining transfers of ownership.

Of course, application of state law for formation and federal law for bona fide purchases and transfers itself undermines the goal of uniformity. Nonetheless, the Federal Circuit’s primary interest in uniformity supports the creation of a federal common law of contract to interpret the transferability of patent rights. Specifically, the Federal Circuit points to the need for uniformity in the transfer of contract rights and in the application of the bona fide purchaser defense when there is a fraud in the transfer of a license, as in Rhone-Poulenc.\(^{126}\) In that case, the Federal Circuit looked to general state law principles on bona fide purchasers to rule that the defense did not apply under its federal common law.\(^{127}\)

What is unsettling about the court’s analysis in this extended passage is the seeming deference to state law on contractual “authority.” Never is this term adequately defined. Presumably, it may mean the existence of an agreement. Therefore, the court is suggesting that issues of formation may be a matter of state law. A natural question is what other type of authority than contractual might be at issue in these cases. In the case of patent licenses, the answer is whether the parties are acting pursuant to contract or to patent law. The tension between contractual authority and patent authority comes to the foreground in the Federal Circuit’s case law on conditional sales.\(^{128}\)

The conditional sale doctrine arises in situations where the patent license contains a limitation on the rights granted to the licensee. Examples of these limitations include restrictions on resale, prohibitions on reuse, and conditions on place and manner of use.\(^{129}\) Under the conditional sale doctrine, violations of these restrictions by the licensee provide a basis for a claim of patent infringement with the consequent patent remedies of reasonable royalties, lost profits,

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126 See supra note 55.
127 See supra note 56.
128 For a discussion, see Shubha Ghosh, Carte Blanche, Quanta, and Competition Policy, 34 J. Corp. L. 1209, 1211 (2009)
129 See id. at 1215. See Malinckrodt, supra note 67.
and treble damages. What makes the conditional sale doctrine controversial is its conflict with the exhaustion doctrine, under which the patent owner’s patent rights are exhausted upon a first sale. Under the exhaustion doctrine, violations of limitations in the contract would give raise to contract remedies as the patent rights would be exhausted upon the first sale.

The Federal Circuit recognized its conditional sale doctrine in the 1996 *Malinckrodt* decision. Since that ruling, the Supreme Court has had the opportunity to review the conditional sale doctrine. The Solicitor General has recommended that the Court overrule the conditional sale doctrine on the grounds that it is conflicts with the exhaustion doctrine and creates a gray area between a sale and license. While the Court has reviewed the Federal Circuit’s treatment of sales and licenses in two cases, the Court did not address the conditional sale doctrine issue in either. Instead, the Court examined whether the agreement between a patent owner and a user resulted in the exhaustion of patent rights.

In one case, *Quanta v. LG Electronics*, the Court did find exhaustion; in the other, *Bowman v. Monsanto*, the Court did not. At issue in *Quanta* was a downstream restriction placed by the patent owner on a subsequent agreement between Intel and computer manufacturers. The Court ruled that once the patent invention was transferred to Intel for installation by the manufacturers, patent rights were exhausted and the downstream restrictions were subject to contract law. At issue in *Bowman* was purchase of genetically modified seeds in the aftermarket, specifically from granaries that obtained extra seeds from licensees of Monsanto. The Court ruled that Bowman could not replant the seeds obtained in the aftermarket.

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130 35 USC § 281.
131 See Ghosh, supra note 128.
132 See supra note 58.
133 See supra note 59.
134 Id.
135 See supra note 58.
136 See supra note 59.
137 See supra note 60 at 627.
138 Id.
139 See supra note 62 at 1771.
without infringing the patent. Although both the Quanta and Bowman cases involved the downstream reach of contractual restrictions, the difference between the two cases is that Bowman was found to have made a new version of the patented invention, which is impermissible under the exhaustion doctrine. Therefore, patent law rather than contract law applied in Bowman, contrasting with the result in Quanta.

The conditional sale doctrine demonstrates how the interest in uniform patent law translates into the expansion of patent rights to limit primary licensees as well as downstream users and purchasers. Although the Federal Circuit states that it would defer to state law on matters of contractual authority, the scope of contractual authority is quite narrow because of the expansion of patent rights through the conditional sale doctrine. Through a federal common law of contracts, the Federal Circuit ostensibly creates a uniform body of law with the result that patent law trumping contract law in transactions involving patents. As I explain in Section IV, this trumping is in conflict with the role of contract law itself as a mechanism for innovation.

D. Settlement Agreements

The Federal Circuit’s treatment of settlement agreements provides the final example of the court’s approach to contract law. Surprisingly, the court has taken the opposite approach in this example, deferring to the agreement and eschewing the creation of a federal common law of contracts. As the Federal Circuit stated in a 2012 opinion: “Because the interpretation of a settlement agreement is not an issue unique to patent law, we apply the law of the appropriate regional circuit.” Note that the deference is not to the state law of contract, but to the regional circuit’s treatment of a particular settlement agreement. The more deferential approach

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140 Id.
141 See discussion of authority in Rhone Polenc, supra note 50, and the expansion of what constitutes patent infringement under Bowman and Malinckrodt, supra notes 58 & 59.
142 See Alexx, Inc. v. Charm Zone, Inc., 484 F. App’x 476, 478 (Fed. Cir. 2012), citing Sanofi–Aventis v. Apotex Inc., 659 F.3d 1171, 1178 (Fed.Cir.2011) (citing Novamedix, Ltd. v. NDM Acquisition Corp., 166 F.3d 1177, 1180 (Fed.Cir.1999)).
reflects the judicial nature of the contract. A settlement agreement is a contract, but one entered into in the context of a judicial proceeding and often subject to the court’s approval. Therefore, the Federal Circuit’s deference is not to background contract law, but to fellow federal courts.

Nonetheless, the court’s approach to settlement agreements illustrates an alternate path to the creation of a federal common law. In an early 1984 decision involving settlement agreements, the Federal Circuit addressed the various policies underlying the creation of a federal common law of settlement agreements in the area of patents. Although the court mentioned uniformity, the interest of uniformity gave way to other values, such as avoiding forum shopping, avoiding bifurcated appeals, and avoiding appropriation by the Federal Circuit. The 1984 decision in Atari shows that the court has in its early years taken a richer approach to analyzing federalism issues even though it has seemingly strayed from this more balanced approach. I will return to the Atari decision in more detail in Section Four.

What is particularly striking about the treatment of settlement agreements is the relationship between patent law and antitrust law. Although antitrust law deals broadly with anticompetitive conduct, a large portion of its subject matter entails contracts that restrain trade. Such contracts include agreements among direct competitors and distribution agreements that limit the entry of new firms and products into the marketplace. Under antitrust laws, some contracts such as agreements to fix the market price or to divide territories are subject to per se illegality. Other agreements are subject to a rule of reason. The controversial area is the antitrust treatment of agreements involving patents. The Federal Circuit’s view was that as long as the agreement was within the scope of the

144 See Atari, supra note 143 at 1436-8.
145 See discussion in Nobelpharma, supra note 143, overruling Atari on application of regional circuit law in antitrust cases.
146 See 15 USC §1.
patent owner’s rights, the agreement was not subject to the antitrust laws. The Supreme Court’s 2013 decision in FTC v. Actavis changed this approach, ruling that agreements involving patents would be subject to the rule of reason even if the patent owner was acting within the scope of patent rights.

The settlement agreement at issue in Actavis involved that between a pharmaceutical patent owner and a potential generic competitor seeking market entry under the Hatch-Waxman Act. Arguably, the Court’s ruling applied only to those narrow set of settlements, and not to all settlement agreements. Nonetheless, the Federal Circuit’s approach to settlement agreements reflected a very narrow scope of antitrust review of patent licenses. The Supreme Court’s ruling in Actavis was quite broad and signals potentially a broader review of patents under the antitrust laws.

It is useful to briefly consider how the Federal Circuit’s approach to contract law corresponds to its views on antitrust law. As I have established in this section of the Article, the Federal Circuit has created a federal common law of contracts as a means to expand the scope of patent law and the rights of patent owners. One consequence is that contractual arrangements involving patents become immunized from antitrust law since acting within the scope of patent rights allows a patentee to escape antitrust review under the Federal Circuit’s approach to the relationship between patent and antitrust laws. The Federal Circuit’s approach, however, is now outmoded in light of the Supreme Court’s Actavis decision. Therefore, it will be interesting to see how the Federal Circuit’s approach to patents and contracts evolves.

The Actavis decision illustrates how the Supreme Court can disrupt established ways of thinking within the Federal Circuit. Justice Breyer’s dissent in Stanford is calling for further disruption of the Federal Circuit’s broader approach to contract law. Section Four

149 Id. at 2230.
IV. Reclaiming Intellectual Property Federalism

What Section Four documents is the creation of a federal common law of contracts created by the Federal Circuit in cases involving patent law. When contract issues intersect with patent law in areas such as licensing and assignments, the on-sale bar, the first sale doctrine, and settlement agreements, the Federal Circuit has used its jurisdiction over patent claims to create a body of contract doctrine that is divorced from state law or broader contract policy. Instead, the Federal Circuit has emphasized the value of uniformity in patent law to address contract disputes within the largely groundless realm of the court’s own common law.

The Federal Circuit’s common law contract has been far from homogeneous. In the area of settlement agreements, for example, the Federal Circuit defers to the law of the regional circuit from which the dispute arose to interpret the terms of the agreement. Furthermore, in areas where the Federal Circuit creates its own law, such as the first sale doctrine, the court is informed by patent policies, consistent with the basis for its specialized jurisdiction in patent law (although almost certainly inconsistent with other federal laws, such as antitrust law). In the areas of licensing, assignments, and the on-sale bar, however, the court creates contract rules that do not depend on patent expertise, but instead focus on typical transactions among private parties involving the sale or transfer of an asset. Uniformity in these last two types of patent cases seems overstated as a goal since patent law is arguably not even implicated. While the Federal Circuit’s approach to contract law is nominally based on the goal of uniformity, the federal common law it has created is neither internally consistent nor consistent with the court’s patent expertise.

There perhaps are no simple explanations for the origins of the Federal Circuit’s contract jurisprudence. One hypothesis is that the court has expanded its jurisdictional reach by aggrandizing contract law. This hypothesis does not seem consistent with the differences among the judges on the role of state contract law in the court’s jurisdiction. The court arguably has not expanded its
jurisdiction in other areas of state law, such as tort law or remedies, which comes before the court attendant to patent claims.\textsuperscript{151}

A stronger hypothesis may lie in how the court views the commercialization of patented inventions. What the four identified areas of disputes have in common is the intersection of commercial law and patents. The goal of uniformity may be seen as promoting the goals of the patent owner to monetize and commercialize inventions through the system of contract law, whether in the form of licenses, assignments, or conditioned sales. Within the scheme of commercialization, the need for uniform rules to guide transactions may serve as a means of maximizing value through minimizing the cost of complex and disparate rules. Such an explanation is consistent with the court’s treatment of settlement agreements, which are outside the purview of the federal common law of contracts I have identified. Settlement agreements arguably do not arise in a transactional setting. Instead, they serve to resolve litigation that is within the jurisdiction of the relevant district court. The Federal Circuit’s deference to the interpretative rules of the regional circuit is not a deference to private orderings, but to the findings of the district court which must approve these settlements. Therefore, the Federal Circuit’s approach to settlement agreements do not ostensibly maximize transaction value by creating a uniform federal law of contract. The goal is to lower the costs of settling litigation by deference to local rules. Such cost reduction may indirectly have an effect on transaction value maximization although through a mechanism different from the creation of a uniform federal law of contract.

Whatever the positive analysis for why the Federal Circuit has created a federal common law of contract, the more challenging question is the normative desirability of such a body of law. That question is the primary focus of this section. The answer to that question rests on an understanding of the intersection of patent law, contract law, and technology policy with its goals of promoting progress through invention and commercialization. Explicit in this

\textsuperscript{151} See, e.g., Waner v. Ford Motor Co., 331 F.3d 851, 855 (Fed. Cir. 2003) (analyzing and applying state law of unjust enrichment).
intersection is the role of a specialized federal court whose jurisdiction is patent law.

Arguably, the problem informing this Article may vanish if we remove the Federal Circuit’s specialized jurisdiction. Absent such jurisdiction, a court would view the problem of state law as an *Erie* problem\(^{152}\) and would adopt a deference to state law on the underlying contract law. A specialized court, however, might view the matter as one arising from patent law and resolve the contract law matter as one of its specialized body of law. The Federal Circuit has precisely adopted this approach. This move, however, is not inevitable and is inconsistent with federalism, both in terms of the structure of the United States court system and the intellectual property laws.

The Federal Circuit addressed its own role in the federal court system in its 1984 decision, *Atari v. JSA Group*.\(^{153}\) At issue in this decision was the role of deference to regional circuits, a point discussed above in the context of settlement agreements. The Federal Circuit identified several policies that would justify it taking jurisdiction over a federal question related to patent law. Uniformity was one of these policies, but in addition, the court recognized the policies of preventing forum shopping, avoiding bifurcated appeals, and avoiding self-appropriation. The court concluded that it could hear the related federal question, but should defer to the decisions of the relevant regional circuit.\(^{154}\)

The Federal Circuit, erroneously, has not taken this position with respect to state contract law. Instead, the court has emphasized the policy of uniformity while ignoring the other three policies that would point towards more deference towards state law. In effect, the court has ignored the *Erie* doctrine. Under the Supreme Court’s 1937


\(^{153}\) See supra note 150.

\(^{154}\) Id.
decision in *Erie v. Tompkins*, a federal court ruling on a matter of state law under its diversity jurisdiction must apply the law of the state from which the dispute arose. Which state law to apply is a matter of choice of law principles. What the federal court cannot do is create its own federal common law in lieu of the state statutory or common law. As the Court affirmed in *Butner v. United States*, the Erie doctrine applies to a court’s supplemental jurisdiction over state law claims attendant to a federal question. By creating its own federal common law of contracts, the Federal Circuit reveals a fundamental error in its understanding of the federal court system.

A federal court making such a fundamental error seems unfathomable. As the discussion in Sections Two and Three demonstrate, the Federal Circuit characterizes the contract law questions it confronts as matters of patent law. An agreement involving a patent, whether a license, a sale, or an assignment, entails questions of patent law, rather than contract law, according to the Federal Circuit. Similarly, the question of whether a patent is on sale, as defined by the Supreme Court in its *Pfaff* decision, is a matter of patent law, rather than contract law. While this conceptualization by the Federal Circuit can explain why the court has created its own federal law of contract, this explanation cannot justify what is a

155 See supra note 152.
156 "The general rule, stated in Erie R.R. Co. v. Tompkins, 304 U.S. 64, 78 (1938), is '[t]here is no federal general common law.' However, in the area of patent law, as in the area of antitrust, ‘the [Erie] doctrine ... is inapplicable to those areas of judicial decision within which the policy of the law is so dominated by the sweep of federal statutes that legal relations which they affect must be deemed governed by federal law having its source in those statutes, rather than by local law.'” *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173, 176 (1942)(holding that patent licensee could raise Sherman Act claim against patent owner despite any state rules of estoppel against licensee). The Patent Act, however, does not contain specific rules relating to interpretations of agreements pertaining to patents. Therefore, deference to state contract law would be appropriate.
157 *Butner v. United States*, 440 U.S. 48, 54, 99 S. Ct. 914, 917, 59 L. Ed. 2d 136 (U.S.N.C. 1979). A possible defense of the Federal Circuit’s federal common law of contract may lie in the Supreme Court’s decision in *Clearfield Trust Co. v. United States*, 318 U.S. 363 (1943)(holding that federal law would apply in disputes involving federal government property). If patents are viewed as a form of federal government property (such as the commercial paper at issue in Clearfield Trust), then there is a case for a federal common law pertaining to contracts involving property. But a patent is arguably a federally recognized interested vested in a private party. Therefore, the rule of Clearfield Trust would not apply.
fundamental error. Furthermore, this transformation of state contract law issues into patent law questions conflicts with the established case law on patent preemption. Consequently, the Federal Circuit compounds its error on the structure of federal courts with one about the relative supremacy of patent law and contract law.

In its Aronson decision, the Supreme Court held that patent law does not preempt enforcement of contract governing an unpatentable invention. At issue was an agreement between an inventor and a company that agreed to manufacture and distribute a keychain. Under the terms of the agreement, the company agreed to pay a royalty fee based on its sales of the chain, which the inventor was seeking to patent. If the patent were granted, the royalty fee would escalate to a higher level. The patent was denied, and the company after paying for a number of years decided it did not have to pay to manufacture and sell a keychain that was unpatented and readily copied by competitors. The rationale was that a contract on an item that was found unpatentable would undermine the federal patent system. The Supreme Court disagreed, reasoning that contracting supplemented the commercialization goals of the patent system and the specific escalator clause was consistent with the incentives to obtain a patent. The company benefitted from being an early seller of the product and assumed the risk that the product would not be patentable.

The Aronson decision should not be read as holding that any contract term will not be preempted by patent law. In a prior case, for example, the Court had held that a contract term requiring payment on a patented invention for a period longer than the term of patent conflicted with patent law. In a subsequent case, the Court held that a contract term prohibiting a patent licensee from challenging the validity of the patent was invalid. There is no claim that contracts provide a sanctuary from patent law. Instead, the Court in Aronson was emphasizing how contracting and contract law can supplement patents. Implicit in this view of preemption is the independent role of contract law within the federal system of patent

158 See supra note 24.
159 Id.
law. The Federal Circuit ignores this independence by turning contract law questions into matters of patent law. In effect, the Federal Circuit ignores the Supreme Court’s established precedent on the federalist system of intellectual property.

The detailed discussion of the Federal Circuit’s contract law jurisprudence in Sections Two and Three reveals two errors made by the court, one relating to the relationship between federal and state courts and one relating to the place of contract law in the scheme of federal intellectual property. The rest of this Section turns to correction of these two errors. The solution rests on greater reliance on state contract law and a rejection of the federal common law of contract. Buttressing this solution are the policies underlying a contract law as a policy lever for innovation working in tandem with federal intellectual property law. This will be the subject of the next two subsections. The challenge is identifying mechanisms for reforming the Federal Circuit’s contract law jurisprudence. How does one overrule the body of cases identified in this Article? The last two subsections address these legal reform issues by first turning to a reaffirmation of the Supreme Court’s preemption jurisprudence and its proper balance between contract and patent law. The section concludes with a discussion of statutory and judicial reforms informed by the federalist principles of patent law set forth by the Supreme Court.

A. Theoretical Framework to Assess the Federal Circuit’s Contract Jurisprudence

This subsection presents the case for contract law in the scheme of federal intellectual property. By turning contract law issues into matters of patent law, the Federal Circuit ignores the independent role of contract law in promoting invention and innovation. Although contract law by itself cannot provide a legal foundation for the creation and dissemination of new products, this body of state law can in combination with federal law serve to “promote progress in science and the useful arts,” to borrow the Constitutional language. Conversely, the federal system of intellectual property, as embodied in patent, copyright, and related doctrines, does not serve as a unified and complete legal regime to regulate the processes of invention and innovation. For these
reasons, the Federal Circuit overemphasizes the policy of uniformity as justification for its contract jurisprudence.

The limitations of contract law are well understood both among practitioners and scholars. During the oral arguments in the *Bowman v. Monsanto* case in 2013, Justices Roberts and Kagan excoriated the attorney representing Bowman for suggesting that contract law could provide adequate compensation for patent owners whose invention had been resold or reused after a first sale. The justices questions the adequacy of this compensation both in terms of amount and in terms of the set of legal rights granted to the inventor. Contract law’s inadequacy results from the requirements of privity. An inventor would have legal rights only against a party with whom she directly negotiated. Stronger rights to exclude would grant rights against the world.

Furthermore, even if contracts could be negotiated with every potential party, creating effective rights against the world, contract rights are limited by information problems over defining the scope of the invention and the full set of rights that the inventor would seek to implement. For example, contract law might not prevent outright misappropriation of the invention once its features have been disclosed. Terms over all the possible uses and derivatives of the inventions may be impossible to specify, leaving open critical interpretation issues for the courts. Such problems are not specific to the context of technology and invention as uncertainty bedevils all contract negotiation. However, negotiating over technology may create unique problems given the changing economic and social environment within which innovation occurs.

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163 See Oral Arg., supra note 162.
164 See Suzanne Scotchmer, Innovation and Incentives 82-4 (2004)(describing the problem of disclosure leading to misappropriation absent some right to exclude ex post).
Given the inadequacy of contract law, a federal system of rights are deemed necessary to provide legal rights and remedies for inventors against misappropriation and misuse of their inventions. This federal system would exhibit many of the same uncertainties as a privately negotiated system. The boundaries of federal legal rights may be uncertain because of the changing environment and the lack of predictability of the uses and developments of new technologies. But a federal system will bring uniformity and different legal institutional mechanisms for identifying and enforcing the system of legal rights. Federal courts, as courts of limited jurisdiction, can provide some degree of specialization at least as compared to state courts. This specialization arises not from any inherent superiority of federal judges, but from their ability to concentrate on a narrower scope of cases and legal issues. More importantly, federal courts can be guided by federal agencies which can lend a degree of expertise that would be missing from state courts.

It would be erroneous, however, to conclude that federal rights preclude the need for state contract law. A federal system, in the ideal and in practice, can better define the scope of legal rights than contract law. A federal system can also provide a better enforcement mechanism for these rights. But any federal system will be deficient in negotiations with respect to these rights both before they are defined and after. With respect to ex ante negotiations, an inventor may not fully know what she seeks to do with an invention. There may be questions of whether the new item even would constitute an invention. Before pursuing federal rights, the inventor may want to test the new item to see if it is worth disseminating to the public. Such negotiations would involve manufacturing agreements, as in Aronson, or financing of potential ventures commercializing the new product. Many of these issues can be addressed by making federal rights attach “automatically,” perhaps upon creation of the new product as in modern copyright law. But such a regime would still contain questions regarding when and if the rights attach. In addition, even after the federal rights did attach, the questions of negotiation would arise, leading inevitably to matters of contract law.

166 See 17 USC § 101 (copyright created upon creation of work).
All of these points might be fairly obvious, but they are presented in such detail to highlight the bigger question of how contact fits into a scheme of federal intellectual property rights (however those rights are actually implemented). The Federal Circuit’s approach, to repeat the point, has been to emphasize the value of uniformity with the result that contract law becomes subsumed under federal law. But this ignores the independent role of contract law in a system of invention and innovation. It also ignores the dynamic relationship between state and federal law. On this last point, it is valuable to turn to a theory of contract and federal law, such as those governing intellectual property.

Traditionally, federal laws regulating contract have been justified on the grounds of market failure. Markets driven by contract in many situations lead to third party harms that are not internalized in the negotiation of private parties. A federal law corrects this market failure by internalizing the external costs either through the payment of fines, the creation of property rights, or both.\textsuperscript{167} A criticism of this traditional framework is that it ignores the independent regulatory role of contract.\textsuperscript{168} Third party harms could be corrected through more complex contractual arrangements, such as we see in trade associations\textsuperscript{169} or in third party beneficiary contracts.\textsuperscript{170} A theory of federal law, under this broader view, does not rest on the existence of market failure, but on the deeper question of what institutional arrangement can best resolve the problem that regulation seeks to address: a private mechanism based on complex contracts or a more specialized mechanism guided by agencies and courts.

Gilson, Scott, and Sabel pose this last choice between generalist courts that apply contract law principles and specialized

\textsuperscript{167} See Scotchmer, supra note 164 at 117-8 (analyzing optimal design of intellectual property).
\textsuperscript{169} See Gilson, supra note 25 at 202 (discussing trade associations).
\textsuperscript{170} Id. at 188 (discussing complex contractual arrangements as braided contracts).
\textsuperscript{171} See Ghosh, supra note 168 at 1330.
courts that enforce a specially designed regulatory regime. The authors identify an evolution from private contracting to specialized regulation that is guided by the uncertainty of the economic environment and the thickness of markets, as measured by the number of actors and the level of transactions. As both of these variables increase, private contractual arrangements evolve into more specialized regulatory regimes. Courts in reviewing private agreements should defer to these specialized regimes as opposed to the terms of the contract. In other words, the regulatory regime shifts from contract law over time with the complexity of the economic environment. The authors apply this theory to the development of specialized corporate law and the Delaware Chancery Court as the enforcer of the specialized regime.

In the context of this Article, the choice between generalist and specialist courts maps onto one between contract law as delineated by state courts and patent law as enforced by a specialized court, namely the Federal Circuit. The analysis by Gilson, Scott, and Sabel supports Federal Circuit’s deference to contract law in matters involving patents. Contracts over patents do not arise in thick markets as an invention may not be fully developed into a marketable commodity. Inventions arise in inchoate markets as the inventor and potential buyers determine the scope of the new product and its potential uses. Furthermore, the uncertainty is specific to the parties as they make their predictions based on their knowledge of the technology and relevant market for the commercial potential of the new device. In addition, the patent statute does not embody a set of specialized rules pertaining to contract. Although the Federal Circuit has tried to create a specialized body of contract law, this tack has ignored the generalized contracting rules that parties engage in to deal with the uncertainty of an incipient market for the invention.

172 See Gilson, supra note 25 at 178.
173 Id. at 180-3.
174 Id. at 185.
175 Id. at 207-8.
176 See Scotchmer, supra note 164 at 117-8 (describing market structure for intellectual property).
177 See id. at 55-56 (describing development of market for intellectual property).
178 See id. at 57 (describing process of investment in innovation).
179 See text accompanying notes 46-7.
What we are left with is a dynamic understanding of the relationship between contract and patent law that runs counter to the Federal Circuit’s overemphasis of uniformity in creating its specialized body of contract law. In some ways, contracts involving patents have resulted in specialized patent rules, but these have been quite narrow. Examples include provisions involving collaborative research agreements between universities and industry\textsuperscript{180} and assignments filed with the USPTO.\textsuperscript{181} But the Federal Circuit has gone beyond these narrow situations where specialized contract rules might be justified for patents. Instead, the Federal Circuit has created a specialized jurisprudence for all contracts involving patents in conflict with the evolution of contract law into specialized regulatory regimes.\textsuperscript{182} Patent law does not represent such a specialized regulatory regime that supplants contract law. With this theoretical assessment, I turn next to the specific policy arguments raised for and against the Federal Circuit’s contract jurisprudence.

**B. Assessing the Federal Circuit’s Contract Jurisprudence**

Contract law complements federal intellectual property laws in the promotion of invention and innovation. That lesson summarizes the analysis of the previous subsection. Patent law does not resolve a market failure resulting from the inadequacies of contract law, but instead serves as a body of law that supplements contract law in guiding inventors through the creation and marketing of new products. The two bodies of law together serve as a broad system of rules to meet the Constitutional goal of “promoting progress.”\textsuperscript{183} The Supreme Court’s decisions, such as *Aronson*, finding some contract terms not preempted by patent law are consistent with this understanding. These decisions are the foundation for the federalist conception of intellectual property law.

Nonetheless, the argument arises for the supremacy of patent law over contract law even within this federalist framework. The contract decisions by the Federal Circuit presented in Sections Two and Three illustrate this supremacy argument. Ultimately, a full

\textsuperscript{180} See 35 USC § 102 (c).
\textsuperscript{181} See 35 USC §261, supra note 6.
\textsuperscript{182} See Section III, supra.
\textsuperscript{183} See U.S. Const. Art. III, Sec. 8, cl. 8.
assessment of this argument would lead to its rejection. This subsection presents the pro’s and con’s of the supremacy argument with the final conclusion that the Federal Circuit has taken a wrong path in constructing its own contract law.

What stands out in the Federal Circuit contract opinions is the value of uniformity in patent law decisions. While uniformity is an important role of federal law, it certainly is not the only goal. Uniformity can serve the goals of clarity and predictability, but at the expense of allowing for experimentation and development in legal regimes. A uniformly bad rule is nonetheless a bad rule, and one that may be difficult to alter. Uniformity by itself cannot justify the supremacy of a federal rule over a state one. At best, it is an important consequence of supremacy rather than an explanation.

Informing the Federal Circuit’s emphasis on uniformity is the basis of the court’s jurisdiction in patent law.Implicit in the argument for uniformity is the presumed need for a homogeneous, predictable body of law to govern patents. Such predictability may foster creativity and inventiveness by providing some degree of certainty in an otherwise turbulent and changing economic environment. Having clear rules that do not vary by state allow inventors to invest reliably in the process of invention and commercialization without having research and business be sidetracked by the vagaries of the law. Such a fiction of law and the process of invention may in fact be informing the Federal Circuit’s construction of a uniform body of contract law.

This second argument, standing independently or as a foundation for the uniformity rationale, can be dubbed the “patents are special” justification. In light of the range of legal doctrines involving patents, the justification proves too much. It ignores the ways in which patent law itself is unpredictable and uncertain.\textsuperscript{184} Patentable subject matter,\textsuperscript{185} nonobviousness,\textsuperscript{186} the treatment of prior

\textsuperscript{184} See, e.g., Mark Lemley & Carl Shapiro, Probabilistic Patents, 19 J. Econ. Persp. 75 (2005).
art, and the written description requirement are each examples of the changing winds of patent law. Some of the unpredictability may arise from industry-specific applications of seemingly general patent rules to particular inventive contexts. Another source is the shifting view of judges themselves as they engage in disagreement within a specific court and across courts. To a certain extent, such changes may themselves be predictable, but the vagaries of patent law belie the notion that the pronouncements of federal law introduce a reign of calm and certainty.

Even more striking is the unpredictability introduced by federal common law because of the vagueness of its source. Writ large, federal common law is grounded in the reason of the judge, and some may believe that since we all share in reason, different decision makers will come to the same predictable result. That path is far from the truth. Needless to say all law involves a prediction of what a court might do. In that sense, all law is ultimately unpredictable. But there are differences in degree and in kind. State common law is grounded in case law and statute. An inventor entering into a contract involving a patent might have greater certainty in predicting how a particular contract will be enforced under the statutes and case law of a particular state than in gleaning the thoughts of a federal judge. There may exist the issue of what state law will apply, but the range of the possible might be quite narrow compared to open field of a judge’s reason as applied to a particular contract. Whether or not patents are special, there is no reason to think that federal courts provide more predictability than state courts and many reasons to think the opposite.

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189 To phrase more elegantly: “The life of the law has not been logic: it has been experience. The felt necessities of the time, the prevalent moral and political theories, intuitions of public policy, avowed or unconscious, even the prejudices which judges share with their fellow-men, have had a good deal more to do than the syllogism in determining the rules by which men should be governed.” Oliver Wendell Holmes, The Common Law 1 (1881).
A more modest version of the “patents are special” argument is the need for uniform contract rules to facilitate patent licensing and other means of commercialization. This argument may help to understand why the Federal Circuit has created its own law of contracts, but not of other state law areas, such as torts. But many of the points rehearsed above regarding the predictability of patent law hold a fortiori in rebutting this argument. While the Federal Circuit’s contract jurisprudence creates a uniform body of law that transcends the law of the fifty states, it is not clear where the source of this law is adding to the unpredictability. Furthermore, at the outset, parties to a contract involving a patent may not know where any future disputes will be litigated. The venue may be one of the several state courts or it could be a federal court. The case may be litigated as a patent matter or it may not be. If not, the Federal Circuit will not be implicated. While the range of this uncertainty may not be as broad as I depict, it is not clear that a uniform Federal Circuit law of contracts makes matters more predictable. Instead, it may just add another contingency to the legal regime for which the parties have to prepare.

Uniformity is an unsatisfactory foundation for the supremacy of federal over state law with respect to contracts involving patents even when supplemented with arguments pertaining to patents and patent licensing. A consideration of intellectual property regimes other than patents demonstrate a more deferential approach to contract law. Neither copyright cases nor trademark cases are subject to specialized appellate jurisdiction. Instead, the appeal goes to the relevant circuit court of appeals. In some situations, copyright and trademark claims that are attendant to a patent claim may go to the Federal Circuit. When one looks at copyright and trademark cases involving contract issues, most often in the case of licenses, sales, or assignments, federal courts do not create their own specialized rules

See supra notes 88-9 and text accompanying.
See 28 USC 1295(a)(4) (Federal Circuit jurisdiction over appeals from Trademark Trial and Appeals Board); 28 USC 1295(a)(2)(Federal Circuit jurisdiction over appeals from district court in federal question matters such as copyright or trademark when a patent claim or counterclaim has been raised).
of contract law. Instead, they defer to the contract law from the state in which the contract arose, consistent with the Erie decision and its progeny. It is not clear why uniformity is any less important as a policy in copyright and trademark than in patent law.

What may explain the difference in the federal court treatment of contract issues in copyright and trademark is the lack of a specialized appellate court for these areas of law. There is not a sample of copyright or trademark cases involving contracts before the Federal Circuit to test the hypothesis of aggrandizement of contract law by the Federal Circuit as compared to other federal appellate courts. With respect to areas of federal law other than patent, the Federal Circuit defers to the law of the regional circuit, including any state law issues that have been decided by that circuit. This asymmetric treatment of choice of law across intellectual property regimes may reinforce why patent law has been the area in which the Federal Circuit has chosen to develop its own specialized contract jurisprudence. Once again, the assumption that patents or patent licenses are special does not justify the creation of a federal common law pertaining to contracts in those two areas.

The Federal Circuit’s specialized jurisdiction over patents also does not justify a differential treatment of contracts in patents from other areas of intellectual property. If uniformity is the goal, then there is arguably a need for uniformity across intellectual property regimes as well as within a regime. But uniformity is seemingly a straw argument. More to the point, specialized jurisdiction does not imply specialized law pertaining to contracts involving patents. As a conceptual matter, jurisdiction of a court says

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192 “We refer to contractual terms that limit a license’s scope as “conditions,” the breach of which constitute copyright infringement. Id. at 1120. We refer to all other license terms as “covenants,” the breach of which is actionable only under contract law. Id. We distinguish between conditions and covenants according to state contract law, to the extent consistent with federal copyright law and policy. Foad Consulting Group v. Musil Govan Azzalino, 270 F.3d 821, 827 (9th Cir.2001),” as cited in MDY Indus., LLC v. Blizzard Entm’t, Inc., 629 F.3d 928, 939 (9th Cir. 2010), Accord, Jacobsen v. Katzer, 535 F.3d 1373 (Fed. Cir. 2008)(Federal Circuit treating the copyright license under rules of conditions and covenants).

193 See Blizzard, supra note 192.

little about the source of law for deciding a particular case. A federal
court may look at federal law in some cases and state law in other.
Similarly, a state court might look to different sources of law based
on the particular case. Some judges on the Federal Circuit have made
the conscious decision to create a federal body of contract law as a
consequence of their exclusive appellate jurisdiction over patent
matters. That decision does not follow logically from the court’s
jurisdictional grant or from patent law itself. Consistent with Erie
and Supreme Court precedent on intellectual property preemption,
the Federal Circuit should be applying state law in contract cases
involving patents. There is no directive from Congress or from the
Supreme Court that would point to a different direction.

The jurisdiction argument leads to the final point of this
subsection, the implication of preemption doctrine for the Federal
Circuit’s approach to contract law. Arguably, without using the word
preemption, the Federal Circuit has created a supreme body of federal
contract law that trumps state contract law. Such a move is
inconsistent with the Supreme Court’s decision in Aronson, holding
that state contract law is not preempted by federal intellectual
property law as a general matter. The next subsection elaborates
on this point with a thorough exegesis of the Supreme Court intellectual
property preemption cases involving contracts as a step to developing
a solution to the jurisprudential dilemma created by the Federal
Circuit.

C. Patent Federalism

Four policies inform the case law on intellectual property
preemption: (1) limiting leveraging of intellectual property rights
through the expansion of rights via contract terms and state statutes;
(2) preventing state law from serving as a substitute for the federal
intellectual property system; (3) limiting the use of state law to
remove subject matter that is in the public domain under federal
intellectual property law; and (4) facilitating the commercialization
and dissemination of creations and inventions protected under federal
intellectual property law. The first goal is illustrated by Brulotte v.
Thys, striking down a license term requiring payments beyond the

\[^{195}\text{Brulotte v. Thys Co., 379 U.S. 985 (1965).}\]
term of the patent. While the particular result has been questioned, the Supreme Court’s reasoning is robust on the need to limit the patent owner’s expansion of its federal statutory rights through contract. The second policy goal is illustrated by cases preempting state statutes that create alternatives to federal intellectual property protection, such as the Florida statute preventing copying of yacht hull designs in *Bonito Boats v. Thunder Craft.\(^{196}\) When the Court held that a license term preventing licensee challenges to patent validity was preempted, the rationale was the conflict with the policy of the patent system to ensure patent quality. Limitations on challenges to patent validity would create a system that took away rights of users to obtain review of patents. The first two policy rationales serve to create a strong and robust national system of intellectual property rights.

The third and fourth policy rationales are more controversial. Both have tended to find against preemption. Contract terms and state statutes can expand the scope of federal intellectual property subject matter without creating a conflict with federal policy. In *Goldstein,\(^{197}\) the Supreme Court upheld a state criminal statute preventing the piracy of sound recordings. In a series of decisions flowing from the Seventh Circuit’s decision in *ProCD v. Zeidenberg,\(^{198}\) lower court have upheld contract terms that allow protection for subject matter, such as data, not protected by federal intellectual property statutes. Although these decision are controversial, the rationale, however thin, seems to be that what federal law excludes, state law can govern, permitting add-ons to national intellectual property protection. The third policy rationale is directly related to the fourth one, which recognizes the need for state commercial law to facilitate transactions involving intellectual property. The Supreme Court’s decision in *Aronson v. Quick Point\(^{199}\) underscores both the third and fourth policies favoring state over federal law. In *Aronson*, the inventor obtained contract protection for an invention that provided unpatentable by shifting the risk of a rejection by the USPTO to the licensee who agreed to pay a higher royalty rate if the patent had been granted. In *Aronson*, the contract

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\(^{196}\) See supra note 23.


\(^{198}\) See supra note 17.

\(^{199}\) See supra note 24.
not only covered subject matter outside of federal law, but also served as a legal instrument to promote the business relationship between an inventor and a manufacturer and distributor of the invention.

The Federal Circuit’s common law jurisprudence implicitly preempts state law through the supremacy of federal law in a way that is inconsistent with these four objectives of Supreme Court precedent. More strikingly, the Federal Circuit’s treatment of contract law contradicts the fourth goal of commercialization. A corrective to the Federal Circuit’s contract law jurisprudence is to more effectively and correctly apply the preemption precedents. How this reform can be achieved is the subject of the next and last subsection. Here, I detail the conflicts between the Federal Circuit’s own law and the precedents.

The Federal Circuit’s approach to contract law has very little to do with the goals of limiting leveraging by intellectual property owners. In cases involving assignments and sales of patents, the court’s goal seems to be to identify a clear cut and applicable rule to address disputes over ownership and the transfer of rights. In the first sale cases, however, the Circuit seems to permit restrictions on post-sale uses and resales of patented technologies which arguably extend the scope of the patent rights in an anticompetitive manner. The Supreme Court, however, has cabined the ability of the patent owner to leverage its rights to prevent post-sale uses and resales by limiting conditional sales through the first sale doctrine. However, the Court has resisted overruling the conditional sale doctrine itself despite recommendations from the Solicitor General. Some scholars pontificated that the Court granted review in the 2013 Bowman decision in order to overrule the conditional sale doctrine. The Court, however, failed to do so but did cabin a broad ruling by the Federal Circuit that would have eviscerated the first sale doctrine for all self-replicating technologies. While leveraging may offer little explanatory power for the Federal Circuit’s contract cases, its

The creation of the conditional sale doctrine has introduced leveraging concerns voiced through appeals to the Supreme Court.

The complexity of the Federal Circuit’s approach to leveraging and preemption is illustrated in its *Baystate Technologies* decision. At issue was a contract term preventing the licensee of a computer assisted design software from reverse engineering the software. The court ruled that the term was not preempted by the fair use doctrine of federal copyright law. From one perspective, this ruling seems to facilitate the leveraging of copyright arguably beyond the scope of statutory rights. But while the court does allow the intellectual property owner to limit the rights of licensees, the court also states that any breach of the term would give rise only to contract-based remedies and not statutory copyright remedies. The former are substantially lower than the latter. As I point out below, the decision in *Baystate Technologies* may be consistent with the commercialization rationales for preemption even though it arguably supports the leveraging of intellectual property rights through contract.

As to the creation of an alternative state-based intellectual property system through contract, the Federal Circuit’s contract law jurisprudence is more silent. If anything, the court seeks through its contract cases to strengthen the federal patent system. Whether the court views state contract law as a competitive threat is not completely clear. Its stated goal of uniformity supports the court’s buttressing of a federal system against a diffuse and unpredictable state system of law. But it is not clear that competition from state law is a concern for the Federal Circuit as it reinforced federal patent law.

A similar point arises for the role of preemption in regulating federal subject matter from being captured by state law. The cases discussed do not directly involve unpatentable subject matter. Instead, the Federal Circuit case law focuses on ownership over inventions to which the USPTO has granted a patent. In the on-sale bar cases, the court is deciding whether an invention has fallen into the prior art and therefore becomes unpatentable because of a sale

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201 See supra note 18.
202 See supra note 18 at 1327-8 (setting forth contract damages).
203 See text accompanying note 33.
outside the one-year grace period. Under the Supreme Court’s gloss on the on-sale bar in *Pfaff*, whether an invention is on sale depends on whether there was an offer to sell, or to buy, the invention.\textsuperscript{204} The existence of an offer is ostensibly a matter of state law, but the court has tried to create a uniform rule in order to avoid gamesmanship in choice of forum for sales. Arguably, the Federal Circuit’s desire for uniformity parallels the Supreme Court’s goals to base protected subject matter on federal law principles. But the relationship between the Federal Circuit’s law and patentable subject matter may be tangential as state law is not trying to appropriate federal subject matter. Rather, under the on-sale doctrine, the law of sales, however construed, is merely an element of the federal doctrine.

What I have argued is the creation by the Federal Circuit of a supreme federal law that trumps contract law is inconsistent with the Supreme Court’s intellectual property preemption jurisprudence. Where the inconsistency is the most striking is in the principle of facilitating commercialization, which guides Supreme Court decisions that find against preemption. In this line of preemption cases, the Supreme Court identifies ways in which contract law supplements patent law by permitting negotiations between the inventor and companies as they pursue the goals of marketing and distributing new products. Within these cases, the Court identifies a realm of contract law that would not be preempted by patent law.

As discussed in Section Two, Judge O’Malley articulated the need for the Federal Circuit to follow Supreme Court precedent on the complementary roles of patent and contract law, specifically the Court’s Aronson decision, in his *Abraxis* dissent, joined by Judge Newman.\textsuperscript{205} While the dissent is quite accurate and inspiring in its defense of contract law and patent federalism, the facts of the *Abraxis* case support the majority conclusion that the patent assignments did not transfer ownership to Abraxis. This conclusion rested on a specific patent law requirement that assignments be in writing.\textsuperscript{206} A contradictory state requirement would be properly preempted by federal law. Such a finding of preemption is not inconsistent with

\textsuperscript{204} See supra note 108 and accompanying text.  
\textsuperscript{205} See supra note 5 and accompanying text.  
\textsuperscript{206} See supra note 7.
Aronson which deals with the terms on which an invention would be licensed.

The Federal Circuit’s ruling is also consistent with the dissents’ claim that ownership is a matter of state law. That statement is true since patents are deemed to be personal property subject to state rules on security interests, inheritance, and other forms of transfer. But to say that patent ownership is a matter of state law does not mean it is a matter solely of state law. A specific federal rule, such as one that assignments must be in writing, would still have effect, and the Abraxis majority was correct in applying that rule to facts of the case. Such application, however, is different from the determination of priority of assignments on which the Patent Act is in part silent.

The quandary in Judge Gajarsa’s opinion in Abraxis, supporting the finding that the assignments failed, is that it frames the issue not solely as a matter of the federal statute, but in terms of broader need for uniformity in patent law. As discussed above, uniformity, however, is only one interest. Judge O’Malley correctly identifies the competing interests of respecting the private orderings of the parties and their expectations under state law. These interests are precisely the ones raised in the fourth line of preemption cases discussed above. However, since a pertinent federal statute applied in Abraxis, these other interests were less compelling. Therefore, Judge O’Malley articulates the federalism concerns presented in this Section even though their application may not have been salient in the particular case.

The Federal Circuit’s contract law jurisprudence is certainly in conflict with the fourth line of preemption cases in which the Supreme Court would advise deference to state law in order to facilitate commercialization. By creating its own federal contract

\[207\] Id.
\[208\] See 35 USC § 261, supra note 6.
\[209\] See supra notes 81 et. Seq. and accompanying text.
\[210\] See supra note 6, which discusses a partial rule of priority. See discussion in Rhone Poulenc, supra note 56, for discussion of bona fide purchaser rule.
\[211\] See supra note 6.
\[212\] See supra notes 121-3 and accompanying text.
law rules, justified solely on the goal of uniformity, the Federal Circuit disregards the policies articulated by the Supreme Court in recognizing an independent body of contract law and its role in promoting invention and innovation. Specifically, the Supreme Court points to the need for contracts to facilitate transactions involving new technologies and the role of contract in creating incentives not only for the acquisition of patents (as with the escalator clause) but also for their dissemination. Contract law also serves as a basis for enabling financing of new inventions through the use of credit and other arrangements. These independent roles of contract law point against a uniform, supreme federal law of patents that trumps contract law. The Federal Circuit’s jurisprudence ignores the Supreme Court’s determination of the federal scheme for intellectual property.

D. Towards a Solution

The solution to the problem identified in this Article is deceptively straightforward: the Federal Circuit should defer to state contract law. Such a solution can be implemented in one of two ways: either Congress can create a statutory solution requiring the use of state law through the Federal Circuit’s organic statute or the Patent Act or the Supreme Court can overrule the Federal Circuit’s approach to contract law by identifying its conflict with the preemption line of cases. In *Stanford v. Roche*, Justices Breyer, Ginsburg, and Sotomayor came somewhat close to the second option. Given the political climate, looking for the right case to bring to the Supreme Court might be the less costly alternative to Congressional action.

My analysis of reform strategies is framed in terms of how the Federal Circuit can defer to state courts. Such a discussion will complete the policy and theoretical discussions of this Article. In short, there are three types of deference a federal court could adopt: (1) deference to a state institution; (2) deference to the sources of state law; and (3) deference to private agreements. I will address each within the theoretical framework presented in Section IV.A.

Each of these three proposals provide different means to incorporating state law as a means of promoting innovation through contracting and private bargaining. As discussed in the beginning of
the Article, pursuant to the arguments of Professors Chemerinsky and Goldstein, federalism should be empowering in the sense of enabling government action to reach socially desirable outcomes.\textsuperscript{213} For Professor Chemerinsky, these socially desirable outcomes would include the protection of civil rights and the enactment of sensible economic regulation at either the national or state level.\textsuperscript{214} Professor Goldstein’s scholarship extends to the empowerment of creators and inventors to produce new works and to distribute them through the mechanisms of contract law and the market.\textsuperscript{215} My three proposals can reach the desirable goals of empowerment in different ways that involve considerations of institutional choice and design.

Consider the first proposal of requiring the Federal Circuit to defer to state institutions. Under this approach, the Federal Circuit will defer to the decisions of the relevant state court in examining contract decisions. As with all three proposals, the first raises questions of choice of law as to which state’s institution will be the source of deference. But the choice of law issues can be readily predicted or resolved by parties through contract language or choice of forum.

Deference to state institutions on contract law issues has the benefit of paralleling the approach of federal courts in cases of diversity. Under the \textit{Erie} decision and its progeny, a federal court will defer to the decisions of state courts on matters of state law. Analogously, with respect to state law matters involving assignments, offers, or any of the other matters analyzed in Section Three, the Federal Circuit should defer to decisions of the relevant state court and avoid adopting its own contract law based on general principles. Parties can anticipate what contract law would apply to their agreements, and the Federal Circuit would need to follow state law like any other federal court. Uniformity would be sacrificed on contracts questions where states might diverge, but predictability of private orderings would be gained.

The problem with this first proposal is that state courts may not design contract law with the goal of innovation and technology

\textsuperscript{213} See supra notes 28-31 and accompanying text.
\textsuperscript{214} See supra note 29 and accompanying text.
\textsuperscript{215} See supra note 31 and accompanying text.
development in mind. Policies underlying contract law transcend the specifics of a particular transaction. Contract doctrine extend widely to a broad set of transactional settings. While contract rules may be tailored for particular agreements, such as the sale of goods, leases, provision of services, and employment, the constant throughout these tailored regimes is the goal of protecting expectations that promises are fulfilled and private orderings are respected. Innovation is not an express goal of contract law although contracting can be instrumental in promoting innovation. Deference to state institutions might not adequately coordinate with the federal goals of promoting progress in science and the useful arts.

To take one example, consider the role of remedies. Contract remedies as determined by state courts serve to protect the expectations of the breached party to a contract. If contract remedies alone were applied to breach of a copyright or a patent license, intellectual property owners may be undercompensated for the value of the work that was the subject of the license. Courts enforcing the license would need to look beyond contract law to determine the adequate level of remedies. Similarly, if the intellectual property owner was the breaching party, the licensee may not simply want monetary damages for the lost expectations due to the denial of access to the copyrighted or patented work. Federal policies of disseminating the intellectual property may trump the contract remedies available. State institutions would not take into consideration these federal interests in constructing state contract law.

The second proposal of deferring to sources of state law addresses the deficiencies of the first through incorporation of intellectual property policies. Instead of deferring to what state institutions actually have pronounced about contract law, the Federal Circuit could defer to the sources of contract law that state courts might rely upon in deciding contract disputes. These sources would include relevant case law and statutes. On the surface, this proposal may not sound very different from what the Federal Circuit has been doing in practice. As the court has stated, in determining contract law the Federal Circuit looks to general sources of contract law like the Restatement and the UCC. The difference from current practice that I am proposing is the emphasis on deference. The Federal Circuit
should look first to the relevant state law and apply those rules unless there is a conflict with federal intellectual property policy. Absent a conflict, the state law applies.

This second proposed approach is consistent with the analysis in Brulotte216 and in Lear217. Although commentators disagree on the federal policy at issue in these two cases, the methodology is the appropriate one in enforcing state contracts. In each case, the Supreme Court found a conflict with federal intellectual property policy. The payment terms in Brulotte conflicted with the statutory patent duration. Therefore, the contract term was struck down. The restriction on licensees challenging a patent in Lear was found inconsistent with patent policy on judicial review of validity determinations. Therefore, the federal policy trumped. In effect, the second proposal is one that incorporates the rules of intellectual property preemption. But absent a finding of preemption, state law, rather than an ungrounded and unpredictable federal common law, applies to the review of contracts by the Federal Circuit.

A strong criticism of the second proposal is its unpredictability. Would the Federal Circuit be able to arbitrarily strike down contract provisions based on its perception of conflicting federal policy? A salient limitation of this broad use of appellate discretion is possibility of review by the Supreme Court. Admittedly, the Court has not addressed an intellectual property preemption issue since the 1990 Bonito Boats decision.218 But a more active consideration of preemption by the Federal Circuit might invite review by the Supreme Court.

In reality, however, the Federal Circuit has been reluctant to find preemption of contract terms, as its Baystate Technologies case indicates.219 This reluctance reflects the pattern identified in this Article of the Federal Circuit taking contract law under its wing to both expand the rights of patent owners and to expand its own jurisdiction. Therefore, the concern might be that the Federal Circuit is less likely to find preemption and therefore defer to the terms of

216 See supra notes 33, 167.
217 See supra note 168.
218 See supra note 23.
219 See supra notes 203-4 and accompanying text.
the contract. However, if the goal is to move away from a federal common law of contract, this second proposal may be a step in the right direction. By requiring the Federal Circuit to defer to sources of state law, its contract law jurisdiction would have a grounding that is more predictable and consistent with the approach of other federal courts. The court may be less likely to stray into a wholly new body of federal contract law that has no moorings other than in the minds of Federal Circuit judges. If, however, the concern is that state law might conflict with federal intellectual property policy, then the solution is a preemption doctrine that sways more in favor of federal interests.

The final proposal is for the Federal Circuit to defer to the private agreement itself and simply enforce the terms of the contract. This solution is not completely satisfactory because the parties may be in disagreement over the relevant rights under the contractual agreement. However, this third proposal assumes a highly textualist reading of the contract with strict enforcement of the agreement that leaves no room for judicial discretion or consideration of state contract law. Such an approach contrasts with the other approaches which took into consideration questions of policy. But a textualist approach is arguably consistent with the point of this article: that contract law can serve as a means to implement the goals of intellectual property law.

The key to understanding this last sentence is to recognize that private orderings by parties transacting over patents (and other forms of intellectual property) serve to disseminate the new technology. Contracts facilitate this goal. Consequently, a court like the Federal Circuit reviewing a court should defer to the private agreement and enforce its terms strictly. This approach precisely describes what the Supreme Court did in its Aronson decision. By not finding preemption of the escalated royalty term, the Court implicitly the lower courts to enforce the term as written. The understanding was that the escalator clause created incentives to pursue a patent and was consistent with the dissemination of the invented keychain. Therefore, a strict application of the contract was the result of the Court’s decision.
Strict enforcement by the Federal Circuit essentially removes the question of contract law from the court’s jurisdiction. Even if the parties raise contract issues like enforceability, adequacy of terms or enforcement, the Federal Circuit will refuse to address these contract issues in favor of enforcing the contract as written. These unaddressed issues can be appealed in other relevant fora, perhaps as an appeal to the Supreme Court or as a case for a relevant state court.

The third proposal is a modest one asking the Federal Circuit to remain unobtrusive as possible in disputes over contract law. In this way, parties can utilize contract to promote innovation, and the federal patent system no longer faces the risk of aggrandizement by the Federal Circuit. Should the Federal Circuit decide a contract issue, the Supreme Court can strike the intermediate appellate court’s decision down as inconsistent with intellectual property federalism as outlined in this Article. By deferring to private agreements, the Federal Circuit no longer becomes a source of questionable federal law and invites the Supreme Court to invoke a more rigorous effective preemption jurisprudence.

There are several ways this third proposal can be implemented. One is through statute. Another is through Supreme Court review. A third is through changing the Federal Circuit’s culture of judicial review. This last one is perhaps the most difficult, but as this Article shows, there is some dissension within the Circuit about its approach to contract law.\footnote{220 Justice Breyer in his \textit{Stanford v Roche} dissent seemingly has noted this dissonance. The answer to the problem of the federal common law of contract may well be for the Federal Circuit to get out of the business of contract law altogether through deference to private orderings. Such an approach may actually situate the development of contract law more properly within the federal scheme of intellectual property.}

\section{Conclusion}

Federalism strikes at the heart of federal regulation under the Commerce Clause. It also provides a backdrop to the historical and
ongoing struggle for civil rights. The struggle for balance between federal and state governments also informs intellectual property law. While Congress and the federal courts are ostensibly the venues for determination of policies over invention and the promotion of innovation, state law plays an equally vital role in shaping intellectual property policy. This Article has looked at contract law as a source of friction in shaping intellectual property federalism. Future research should look at other areas such as state university policies regarding intellectual property ownership and commercialization and state financing of technology development and dissemination.

Contract law, however, is a critical foundation for understanding intellectual property federalism. As demonstrated, contract rules determine issues of ownership, patent validity, patent use, and litigation outcomes. How courts understand contract rules as applied to patents shapes intellectual property policy. Not surprisingly, the Federal Circuit, as a court of specialized statutory jurisdiction, has in many ways coopted contract law in order to fit within its mission. While perhaps predictable and understandable, the Federal Circuit’s move is inconsistent with our federal intellectual property system. The court has created a federal common law of contracts that ignores the role of contract law in promoting invention and innovation. This Article has documented this move, analyzed its causes, and proposed resolutions to the controversy.

Justice Breyer in his Stanford dissent diagnosed the problem of the Federal Circuit’s common law contract jurisprudence and attempted through judicial review to offer a solution. The problem was, as Justice Sotomayor pointed out, that the specific contract law issue was not presented in the specific case before the Court. The Federal Circuit grappled with the issue in the denial of en banc in Abraxis, but in a case where an express federal statute governed. What is needed is a good test case to bring the proposals and analysis of this Article into effect. But even if that test case never arises (a small possibility), this Article should serve as a foundation for rethinking intellectual property federalism and the dynamic of the Federal Circuit as it grapples with state law issues in its efforts to establish a coherent and cogent body of patent jurisprudence within our scheme of federal and state lawmaking. The many inventors, users, and commercial actors, as well as society at large, could
benefit from such a patent jurisprudence, one grounded in rules that promote the invention and dissemination of technologies that benefit us all.