Generalist Versus Specialist Courts: The Federal Circuit's Contract Law Jurisprudence and IP Federalism

Shubha Ghosh*

1. Federalism and Intellectual Property Policy

Federalism, the relationship between national and state law, plays quite an important role in patent law. 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.[1] At the same time, many practitioners and scholars[2] 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

---

* Professor Ghosh earned a BA from Amherst College, a MA and PhD in Economics from Michigan and a JD from Stanford. He is currently Vilas Research Scholar and George Young Bascom Professor of Intellectual Property and Business Law at University of Wisconsin, Madison.

[1] See U.S. Const. Art. I, Sec. 8, Cl. 5 & 8. See Paul R. Gugliuzza, The Federal Circuit As A Federal Court, 54 Wm. & Mary L. Rev. 1791 (2013); Camilla A. Hrdy, State Patent Laws in the Age of Laissez Faire, 28 Berkeley Tech. L.J. 45, 47 (2013); Paul R. Gugliuzza, Rethinking Federal Circuit Jurisdiction, 100 Geo. L.J. 1437 (2012); Jeanne C. Fromer, The Intellectual Property Clause's External Limitations, 61 Duke L.J. 1329 (2012); Jeanne C. Fromer, Patentography, 85 N.Y.U. L. Rev. 1444 (2010); Xuan-Thao Nguyen, Dynamic Federalism and Patent Law Reform, 85 Ind. L.J. 449 (2010); Paul J. Heald & Suzanna Sherry, Implied Limits on the Legislative Power: The Intellectual Property Clause As an Absolute Constraint on Congress, 2000 U. Ill. L. Rev. 1119 (2000); Mark A. Lemley, Beyond Preemption: The Law and Policy of Intellectual Property Licensing, 87 Cal. L. Rev. 111 (1999); Paul Heald, Federal Intellectual Property Law and the Economics of Preemption, 76 Iowa L. Rev. 959 (1991); John Shepard Wiley Jr., Revision and Apology in Antitrust Federalism, 96 Yale L.J. 1277 (1987)..

[2] See, e.g., Julie E. Cohen, Lochner in Cyberspace: The New Economic Orthodoxy of "Rights Management", 97 Mich. L. Rev. 462 (1998); James Boyle, A Politics of Intellectual Property: Environmentalism for the Net?, 47 Duke L.J. 87 (1997); Lawrence Lessig, How I Lost the Big One When Eric Eldred's Crusade to Save the Public Domain Reached the Supreme Court, It Needed the Help of A Lawyer, Not A Scholar, Legal Aff., March/April 2004, at 57.

series of decisions, the Supreme Court recognized broad state immunity against claims of trademark, patent, and, by implication, copyright infringement.[3] This body of case law gave state entities, such as universities, wide latitude in using works protected by intellectual 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.[4] 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*,[5] or that restrict reverse engineering, as in *Bowers v. Baystate Technologies*,[6] 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.[7] 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.[8] 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 as the Federal Circuit hereafter. The Federal Circuit

[3] Coll. Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 527 U.S. 666, 119 S. Ct. 2219, 144 L. Ed. 2d 605 (1999); Florida Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627, 119 S. Ct. 2199, 144 L. Ed. 2d 575 (1999); Chavez v. Arte Publico Press, 204 F.3d 601 (5th Cir. 2000).
[4] Authors Guild, Inc. v. Google Inc., 05 CIV. 8136 DC, 2013 WL 6017130 (S.D.N.Y. Nov. 14, 2013); Authors Guild, Inc. v. HathiTrust, 902 F. Supp. 2d 445 (S.D.N.Y. 2012).
[5] ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996).
[6] Bowers v. Baystate Technologies, Inc., 320 F.3d 1317 (Fed. Cir. 2003).
[7] See Lemley, supra note 1 at 169-70.
[8] See, e.g., Paul Marcotte, Federalism and the Rise of State Courts, ABA J., April 1987, at 60; G. Alan Tarr, Understanding State Constitutions 47 (2000).

is a specialized appellate court created by Congress in 1982 to hear appeals on matters relating to patent law.[9] 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.[10] 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.[11] However, under the Supreme Court's decision in *Aronson v. Quick Point,*[12] 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.

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.[13] 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

[9] See Gugliuzza, Federal Circuit, supra note 1 at 1800-1. For the statutory basis of jurisdiction, see 28 USC §1295.
[10] See 28 USC §§ 1295(a)(1)-(14).
[11] See, e.g., Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 109 S. Ct. 971, 103 L. Ed. 2d 118 (1989).
[12] Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979).
[13] Ronald J. Gilson et. al., Contract and Innovation: The Limited Role of Generalist Courts in the Evolution of Novel Contractual Forms, 88 N.Y.U. L. Rev. 170 (2013).

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.[14] 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 Chemerinsky[15] and Paul Goldstein.[16] Professor Chemerinsky is highly critical of the federalism move in Supreme Court cases involving civil rights over the past two decades.[17] 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 to solve national problems.[18] Professor Paul Goldstein advocated for a similar approach several decades ago in his assessment of the Supreme Court's intellectual property preemption cases.[19] 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.[20] Such an approach, I would argue, is consistent with what Professor Chemerinsky describes as an

[14] Id. at 178-9.
[15] See See, e.g., Erwin Chemerinsky, Reconceptualizing Federalism, in Marjorie S. Zatz & Doris Marie Provine, eds., Law and the Quest for Justice 159 (2013); Alison LeCroix, The Ideological Origins of American Federalism (2010); Larry Kramer, Understanding Federalism, 47 Vand. L. Rev. 1485, 1490 (1994)
[16] See supra note 1.
[17] See supra note 15 at 162-3.
[18] Id. at 176-7.
[19] See supra note 1 at 93-4.
[20] Id.

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.

2. 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 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.[21] 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."[22] 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

[21] See supra note 13.
[22] 28 USC §§ 1295(a)(1)-(14).

Supreme Court limited this court's appellate jurisdiction to original patent claims, and not counterclaims.[23] Under the America Invents Act of 2011, the appellate jurisdiction applies to both patent claims and counterclaims.[24] The Federal Circuit also has jurisdiction to hear appeals of administrative rulings by the United States Patent and Trademark Office (USPTO)[25] 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.[26]

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,[27] 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 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)[28] 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

[23] See Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826 (2002)
[24] See Sec. 19(b), Leahy-Smith America Invents Act of 2011, H.R. 1249, amendment codified at 28 USC §1295(a)(1).
[25] See 28 USC §1295(a)(4)(A).
[26] See 28 USC § 1295(a)(4)(C).
[27] See supra note 23.
[28] Materials from search are on file with the author.

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 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.[29] 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.[30] The two salient examples from their Article are trade associations[31] and state level agricultural safety regulations.[32] 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.

[29] 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.
[30] See supra note 13.
[31] See supra note 13 at 201.
[32] See supra note 13 at 203.

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,[33] this industry specific application of general patent rules does not imply that the Federal Circuit as specialized contract should provide the contextualizing factors predicted by Gilson, Sabel, and Scott.[34] 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.[35] 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*,[36] 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

[33] See Burk & Lemley, supra note 29.
[34] See supra note 13 at 176-8.
[35] See supra note 13 at 207 (discussing Delaware Chancery as a specialized court).
[36] DDB Technologies, L.L.C. v. MLB Advanced Media, L.P., 517 F.3d 1284 (Fed. Cir. 2008).

> is "a matter of federal law". That is grievous overreaching, as well as contrary to law and precedent.[37]

Judge Newman expresses a viewpoint consistent with the desired deference accorded by generalist courts to private contractual 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*,[38] 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.[39]

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.[40] The Federal Circuit extended this statutory provision to deny a bona fide purchaser defense to a non-exclusive licensee.[41] Although the court insists that a similar result would follow from an

---

[37] Id. at 1296.
[38] Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp., 284 F.3d 1323 (Fed. Cir. 2002).
[39] Id. at 1327.
[40] "Subject to the provisions of this title, patents shall have the attributes of personal property.
"Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States….
"An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage." 35 USC §261.
[41] See Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp., 284 F.3d 1323, 1328 (Fed. Cir. 2002).

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.

The Federal Circuit appeals to the goal of uniformity in its 2001 decision *Group One v. Hallmark* case.[42] In this decision, the court addressed the question of what contract principles would apply to the on sale bar.[43] 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.[44]

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,"[45] 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*[46] and in *Bowman v. Monsanto*.[47] The problem with the conditional

[42] Grp. One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041 (Fed. Cir. 2001).
[43] See 35 USC § 102(b). See Pfaff v. Wells Electronics, Inc., 525 U.S. 55 (1998).
[44] See supra note 42 at 1048.
[45] Linear Tech. Corp. v. Micrel, Inc., 275 F.3d 1040, 1052 (Fed. Cir. 2001).
[46] Quanta Computer, Inc. v. LG Electronics, Inc., 553 U.S. 617 (2008).
[47] Bowman v. Monsanto Co., 133 S. Ct. 1761 U.S. (2013)

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.[48] Since the Supreme Court has upheld patent exhaustion but has not addressed the viability of conditional sale,[49] 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).[50]

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

---

[48] See Brief for the United States as Amicus Curiae Supporting Petitioners
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).
[49] See supra note 47 at 627-8.
[50] Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 708n. 7 (Fed. Cir. 1992).

divested of their 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*.[51] At issue was the patent ownership of Abraxis who had ostensibly obtained patent rights from Astra-Zeneca-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. 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. 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.[52] Judge O'Malley recognizes the independent role of contract law and urges his colleagues to follow Supreme Court precedent.[53] In Section IV, I conclude that 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

[51] See Abraxis Bioscience, Inc. v. Navinta LLC, 672 F.3d 1239 (Fed. Cir. 2011).
[52] See id. at 1242
[53] Id. at 1242-3.

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.

3. Reclaiming Intellectual Property Federalism

What Section Two 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.[54]

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 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

[54] See, e.g., Waner v. Ford Motor Co., 331 F.3d 851, 855 (Fed. Cir. 2003) (analyzing and applying state law of unjust enrichment).

state law as an *Erie* problem[55] 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*.[56] 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.[57]

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 decision in *Erie v. Tompkins*,[58] 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

[55] See Erie R. Co. v. Tompkins, 304 U.S. 64, 71 (1938). For recent scholarly analysis of Erie, see Donald Earl Childress III, When Erie Goes International, 105 Nw. U. L. Rev. 1531, 1558 (2011) (describing areas of specialized federal common law); Abbe R. Gluck, The Federal Common Law of Statutory Interpretation: Erie for the Age of Statutes, 54 Wm. & Mary L. Rev. 753, 755 (2013) (contending that federal courts engage in "under-the-radar" efforts to fashion federal common law).

[56] See See, e.g., Shubha Ghosh, Convergence?, 15 Minn. J.L.Sci& Tech.____ (2013).

[57] Id.

[58] See Erie R. Co. v. Tompkins, 304 U.S. 64, 71 (1938). For recent scholarly analysis of Erie, see Donald Earl Childress III, When Erie Goes International, 105 Nw. U. L. Rev. 1531, 1558 (2011) (describing areas of specialized federal common law); Abbe R. Gluck, The Federal Common Law of Statutory Interpretation: Erie for the Age of Statutes, 54 Wm. & Mary L. Rev. 753, 755 (2013) (contending that federal courts engage in "under-the-radar" efforts to fashion federal common law)..

state statutory or common law.[59] As the Court affirmed in *Butner v. United States*,[60] 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 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,[61] 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

[59] "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.

[60] 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.

[61] See supra note 12.

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.[62] 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.[63] In a subsequent case, the Court held that a contract term prohibiting a patent licensee from challenging the validity of the patent was invalid.[64] 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 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 on overrule the body of cases identified in this

[62] Id.
[63] See Brulotte v. Thys Co., 379 U.S. 29, 32 (1964).
[64] See Lear, Inc. v. Adkins, 395 U.S. 653, 659 (1969).

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.[65] 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.[66] 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

[65] See supra note 47. See Vernon Hugh Bowman, Petitioner, v. Monsanto Company, et al., 2013 WL 606035 (U.S.), 4 (U.S.Oral.Arg.,2013).
[66] See Oral Arg., id.

invention once its features have been disclosed.[67] 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.[68]

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

[67] See Suzanne Scotchmer, Innovation and Incentives 82-4 (2004)(describing the problem of disclosure leading to misappropriation absent some right to exclude ex post).
[68] See, e.g., Nancy Gallini & Suzanne Scotchmer, Intellectual Property: When Is It the Best Incentive Mechanism?, 2 Invention Policy and the Economy 51, 62 (2001)(discussing problems of defining scope of technology); J.J. Laffont & J. Tirole, Auctioning Incentive Contracts, 95 Journal of Political Economy 921, 935-6 (1987)(describing information problems). See also Gilson, supra note 13 at 177 (analyzing effect of uncertainty on innovation through contract).

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.[69] 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.

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 laws, 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.[70] A criticism of this traditional framework is that it ignores the independent regulatory role of contract.[71] Third party harms could be corrected through more complex contractual arrangements, such as we see in trade associations[72] or in third party beneficiary contracts.[73] 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:[74] a private mechanism based on complex contracts or a more specialized mechanism guided by agencies and courts.

---

[69] See 17 USC § 101 (copyright created upon creation of work).
[70] See Scotchmer, supra note 67 at 117-8 (analyzing optimal design of intellectual property).
[71] See discussion in Shubha Ghosh, Patents and the Regulatory State: Rethinking the Patent Bargain Metaphor After Eldred, 19 Berkeley Tech. L.J. 1315, 1328 (2004).
[72] See Gilson, supra note 13 at 202 (discussing trade associations).
[73] Id. at 188 (discussing complex contractual arrangements as braided contracts).
[74] See Ghosh, supra note 71 at 1330.

Gilson, Scott, and Sabel pose this last choice between generalist courts that apply contract law principles and specialized courts that enforce a specially designed regulatory regime.[75] 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.[76] 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.[77] The authors apply this theory to the development of specialized corporate law and the Delaware Chancery Court as the enforcer of the specialized regime.[78]

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.[79] Inventions arise in inchoate markets as the inventor and potential buyers determine the scope of the new product and its potential uses.[80] 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.[81] In addition, the patent statute does not embody a set of specialized rules pertaining to contract.[82] 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.

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

[75] See Gilson, supra note 13 at 178.
[76] Id. at 180-3.
[77] Id. at 185.
[78] Id. at 207-8.
[79] See Scotchmer, supra note 67 at 117-8 (describing market structure for intellectual property).
[80] See id. at 55-56 (describing development of market for intellectual property).
[81] See id. at 57 (describing process of investment in innovation).
[82] See text accompanying notes 46-7.

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[83] and assignments filed with the USPTO.[84] 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.[85] 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. 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,

[83] See 35 USC § 102 (c).
[84] See 35 USC §261, supra note 40.
[85] See Section II, supra.

federalism should be empowering in the sense of enabling government action to reach socially desirable outcomes.[86] 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.[87] 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.[88] 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 *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 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

[86] See supra notes 15-19 and accompanying text.
[87] See supra note 16 and accompanying text.
[88] See supra note 20 and accompanying text.

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 *Brulotte*[89] and in *Lear*[90]. 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

[89] See supra notes 63.
[90] See supra note 64.

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.[91] 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.[92] 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 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

[91] See supra note 63.
[92] See supra note 6 and accompanying text.

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.[93] Justice Breyer in his *Stanford v Roche* dissent seemingly has noted this dissonance. The answer to the problem of

[93] See supra notes 51 and accompanying text as illustration of disagreement among judges on the Federal Circuit.

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.

4. 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.

