May 2019

Jurisdiction Stripping Of The Federal Circuit?

Shubha Ghosh

Please take a moment to share how this work helps you through this survey. Your feedback will be important as we plan further development of our repository.

Follow this and additional works at: https://ideaexchange.uakron.edu/akronlawreview

Part of the Civil Procedure Commons

Recommended Citation

Available at: https://ideaexchange.uakron.edu/akronlawreview/vol52/iss2/8

This Article is brought to you for free and open access by Akron Law Journals at IdeaExchange@UAkron, the institutional repository of The University of Akron in Akron, Ohio, USA. It has been accepted for inclusion in Akron Law Review by an authorized administrator of IdeaExchange@UAkron. For more information, please contact mjon@uakron.edu, uapress@uakron.edu.
JURISDICTION STRIPPING OF THE FEDERAL CIRCUIT?

Shubha Ghosh*

I. Jurisdiction of the Federal Circuit ............................. 391
II. Federal Circuit and State Contract Law .................... 395
III. Jurisdiction Stripping by the Supreme Court: Gunn v. Minton ................................................................. 407
IV. Congressional Control of Jurisdiction and Substance ................................................................... 415
V. Conclusion ........................................................................ 421

I. JURISDICTION OF THE FEDERAL CIRCUIT

The Federal Circuit is a specialized court with generalist aspirations. Congress created the Federal Circuit Court from the ashes of the Court of Claims and the Court of Customs and Patent Appeals, giving the court appellate jurisdiction over the subject matter of its predecessor courts.1 Pursuant to statute, the Federal Circuit hears appeals from Article I courts, such as the International Trade Commission, the Patent Trial and Appeals Board, the Trademark Trial and Appeals Board, the Merit Service Protection Board, and others.2 District court decisions involving patent law are appealed to the Federal Circuit, whose precedents are binding nationally.3 Although the Federal Circuit is an intermediate appellate

* Dr. Shubha Ghosh is the Crandall Melvin Professor of Law and Director of the Intellectual Property Commercialization and Innovation Law Curricular Program and the Syracuse Intellectual Property Law Institute at the Syracuse University College of Law. His research focuses on the development and commercialization of intellectual property and technology as a means of promoting economic and social development.


SYMPOSIUM, ERIE AT EIGHTY: CHOICE OF LAW ACROSS THE DISCIPLINES
court with final jurisdiction with the Supreme Court, given the volume of patent appeals and the limited grant of certiorari by the high court, the Federal Circuit is effectively the “Supreme Court of Patent Law.”

Even with such detailed and limited domain, the Federal Circuit portrays itself as a generalist court. At a March 2018 meeting of the Federal Judicial Conference, a number of Federal Circuit judges referred to themselves and their colleagues as generalist judges during a plenary panel of almost all the judges on the Federal Circuit. There was no dissent from this characterization. One avenue through which the Federal Circuit has asserted its generalist inclinations is the statutory provision granting the court subject matter jurisdiction over claims arising under any act of Congress relating to patent or plant variety protection. This language has justified Federal Circuit jurisdiction over matters of copyright law, trademark law, and state patent law. This expansion of jurisdiction is troubling because it allows the Federal Circuit to create precedent that is outside its scope of specialization. This article makes the case for stripping the jurisdiction of the Federal Circuit either through amendment of the statute or through judicial interpretation of the existing statute in a manner that confers jurisdiction.

Jurisdiction stripping is a controversial topic both politically and jurisprudentially. The controversies have arisen in politically-charged areas such as abortion rights, school integration, and access to the courts. To raise the issue in the context of patent law may seem disproportionate to the broader question of separation of legislative and judicial powers. But jurisdiction stripping of the Federal Circuit has happened. The Supreme Court limited the Federal Circuit’s jurisdiction over state law


5. David Cole states as follows:
It is easy to see why scholars have found the issue such a rich one. It presents in stark relief the fundamental paradox of a constitutional democracy: how to reconcile the antidemocratic character of a Constitution with democratic principles. Congressional control over federal jurisdiction is often justified as one of the ways this reconciliation is effected.


claims in its 2013 Gunn v. Minton decision and over patent counterclaims to antitrust claims in its 2005 Holmes v. Vornado decision. Congress overturned the latter decision through the America Invents Act of 2011. Federal Circuit jurisdiction is an active topic and not merely a technical one. The concern remains that when the Federal Circuit decides cases outside of its subject matter expertise, it is shaping areas of law in ways inconsistent with Congress’s intent and potentially creating conflicts with other circuits that have jurisdiction over copyright, contract, and trademark questions.

Arising under jurisdiction is justified in terms of efficiency of adjudication. If a district court dispute involves patent claims and counterclaims, as well as copyright, trademark, or state law contract claims relating to the patents, then there is logic to having the Federal Circuit hear any appellate issues pertaining to the patent claims and related non-patent claims. The problem, however, is identifying which law the Federal Circuit should apply to the non-patent claims. Supreme Court precedent in the pertinent areas clearly binds the Federal Circuit. But in areas where there is no precedent, the court has to look at other areas of law.

For trademark claims, the Federal Circuit might look to its own precedent reviewing Patent Trial and Appeals Board (PTAB) decisions, one statutory area of the court’s subject matter jurisdiction. But for questions of trademark infringement, an area outside the scope of the PTAB’s purview over registration, the Federal Circuit needs to identify the pertinent body of law on which to base its decision. A similar question arises for copyright and state contract law decisions. With respect to trademark infringement and copyright questions, the Federal Circuit has ruled that it must look to the precedent of the circuit from which the appeal arose. But this sister circuit precedent is now filtered through the interpretative lens of Federal Circuit judges. With respect to contract law, the Federal Circuit seems to revert to general principles of law, creating what I have called a federal common law of contracts,

---

10. See Schaffner, supra note 7 and accompanying text.
11. See Schaffner, supra note 7 and accompanying text.
12. See Schaffner, supra note 7 and accompanying text.
binding future cases arising from the intersection of patent and contract claims.\textsuperscript{13}

Unintentionally, a justification based in efficiency of adjudication leads to inefficient, nonuniform, and questionable results. Federal Circuit decisions on copyright and trademark laws, fields outside the court’s expertise, often add to the confusion rather than providing needed clarity. For example, in its decision in \textit{Oracle v. Google}, the Federal Circuit addressed the issue of infringement of copyrighted software.\textsuperscript{14} Its decision for the copyright owner complicated the issues of copyright ownership, fair use, and the roles of the judge and jury in determining questions of fact and law in the adjudication of copyright questions. While the Federal Circuit has jurisdiction over appeals from denial of trademark registration, the judges arguably went outside their fields of expertise in addressing questions of trademark protection for colors,\textsuperscript{15} the meaning of geographic misdescriptive marks,\textsuperscript{16} and First Amendment protection for disparaging and scandalous speech.\textsuperscript{17} These ventures into areas that are outside the court’s original subject matter expertise do not further the goals of efficiency, whether gauged in terms of the costs of adjudication or uniformity. Instead, the ventures represent a specialized court trying to fly on generalist wings.

Previous scholarship mapped the confusion cast on state contract law by application of the Federal Circuit’s \textit{arising under} jurisdiction.\textsuperscript{18} Whether determining the priority of assignments, interpreting licenses, identifying sales, or assessing settlements, the Federal Circuit has expanded its jurisdiction to create a federal common law of contract.\textsuperscript{19} This article continues that argument but addresses the case for stripping the Federal Circuit’s jurisdiction over contract law claims. The argument for jurisdiction stripping presented here in the context of contract law is intended to be paradigmatic for other areas such as copyright and trademark. While it is understandable that Federal Circuit judges do not want to be pigeonholed as lesser than their generalist colleagues on other intermediate federal appellate courts, the legal reality is that Congress

\begin{footnotesize}
\begin{enumerate}
\item 13. See Schaffner, \textit{supra} note 7 and accompanying text.
\item 15. \textit{In re Owens-Corning Fiberglas Corp.}, 774 F.2d 1116, 1128 (Fed. Cir. 1985) (allowing registration of color pink).
\item 16. \textit{In re California Innovations, Inc.}, 329 F.3d 1334 (Fed. Cir. 2003) (introducing materiality standard into determination of geographic misdescriptive marks).
\item 18. See Schaffner, \textit{supra} note 7 at 1176–77.
\end{enumerate}
\end{footnotesize}
created the Federal Circuit for a purpose. Jurisdiction stripping can return the court to its original design with the goal of curing some of the confusing judgments that can arise once the court strays.

The case for jurisdiction stripping is set forth in the following sections. Section two summarizes the existing argument that the Federal Circuit has created a federal common law of contract. Section three makes the case for jurisdiction stripping based on the Supreme Court’s decision in *Gunn v. Minton*, a decision denying Federal Circuit jurisdiction to state legal ethics claims. Section four broadens the argument to address concerns about separation of powers and access to the courts.

II. FEDERAL CIRCUIT AND STATE CONTRACT LAW

Simultaneous patent assignments are a common problem that the United States Supreme Court reviewed in 2011 in *Stanford v. Roche*. The controversy at the heart of this decision illustrates the federalism issues the Federal Circuit’s contract law jurisprudence raises. At issue in *Roche* was research pertaining to AIDS therapies, specifically, 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 an inventor’s signing of multiple assignments to various entities with which the inventor works. The *Roche* litigation raises the key practical problem of how to reconcile these conflicting legal obligations.

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 him to work with Cetus to learn the company’s technique of polymerase chain reaction (PCR), which is used to make copies of DNA sequences. Holodniy, while still employed by Stanford, visited Cetus to undertake training. As a visitor, he was required to sign a confidentiality agreement, which stated that Holodniy agreed to and “do[es] hereby assign” all interests in inventions that arose

22. *Id.* at 780.
from his work at Cetus. Due to 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 did not own 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 because Holodniy, at the time he signed the agreement with Cetus, had already assigned his legal rights to the invention to Stanford and, consequently, had nothing to convey.

On appeal, the Federal Circuit ruled that the Bayh-Dole Act did not grant Stanford any rights to Holodniy’s inventions. Instead, Stanford’s rights were based solely on the assignments (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 assigned his rights to all future inventions to Cetus. This language implied a present transfer of rights as opposed to an intention to assign rights in the future. Consequently, Cetus had the rights to Holodniy’s inventions, not Stanford. Therefore, Roche had ownership of the patented inventions. Stanford had no rights in the patents and could not sue for patent infringement.

The Federal Circuit’s ruling in Roche was greeted with much consternation. Many universities had language similar to Stanford’s in employment 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 grant certiorari was a

23. Id. at 781 (alteration in original).
24. Id.
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 the Federal Circuit’s strained reading of contractual language.

With so much at stake and such well-heeled actors involved, it was perhaps inevitable that the Supreme Court would review the Federal Circuit’s decision in Roche. Although the Supreme Court and the Federal Circuit have come to opposite conclusions on patent law matters on many other occasions, they agreed in Roche. The Bayh-Dole Act, as the Federal Circuit concluded, does not create patent rights in universities. Patent rights are a matter of assignment and other contracts. Furthermore, the Supreme Court affirmed the decision of the Federal Circuit regarding the respective assignments.

Justice Sotomayor in a concurring opinion, stated that the Court should reconsider the Federal Circuit’s case law on patent assignments. As a procedural matter, however, the issue was not presently before the Court. 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 declared this case law erroneous and stated their opinion that Stanford should have prevailed. The dissenting justices set the stage for future legal disputes.

The Federal Circuit based its ruling on the conflicting assignment issue in Roche on its 1991 precedent, Filmtec v. Allied Signal. Justice Breyer questions this decision 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


30. Id.

31. Id. at 794.

32. Id. at 798–801

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 use of the word hereby would demonstrate, then the transfer to the employer is automatic, occurring as soon as the future patent rights come into being. In Roche, the Federal Circuit concluded that all Stanford had was its employee’s promise to transfer future patent rights sometime in the future.34 In contrast, Cetus received 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. First, it rests too simplistically on formal language that creates a trap for the unwary.35 The Federal Circuit’s announced rule is unpredictable and burdens every entity that thought it had the right language in its employment contracts, only to be told it did not. Furthermore, the Federal Circuit’s reasoning is inconsistent with prior law, based in part on state law, that the first assignment (from Holodniy to Stanford) would create an equitable interest that would have to be weighed against any 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: 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.

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 exercised its jurisdiction over patent claims to create a body of contract doctrine that is divorced from state law or any 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 of 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

34. Roche, 563 U.S at 784.
35. Id. at 799–800.
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, patent policies inform the court, 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.

Perhaps there is no simple explanation for the origin of the Federal Circuit’s contract jurisprudence. One theory is that the court has expanded its jurisdictional reach by aggrandizing contract law.36 This hypothesis does not seem consistent with the differences among the judges on the role of state contract law in the court’s jurisdiction. Arguably, the court has not expanded its jurisdiction in other areas of state law such as tort law or remedies, which come before the court attendant to patent claims.37

A stronger theory may lie in how the court views the commercialization of patented inventions. On one hand, 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 previously 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 that must approve the settlements. Therefore, the Federal Circuit’s approach to settlement agreements does 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 the Federal Circuit’s creation of 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, and the answer rests on an understanding of the intersection of patent law, contract law, and technology policy, with 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 state law as an Erie problem 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 adopted the latter approach precisely. The court’s adoption of this approach, however, is not inevitable and is inconsistent with federalism both in terms of the structure of the United States court system and intellectual property laws.

The Federal Circuit addressed its own role in the federal court system in Atari v. JS & A Group. 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 exercising jurisdiction over a federal question related to patent law. Uniformity was one of these policies, but the court also 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.


40. Id.
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 defer to state law. In effect, the court has ignored the *Erie* doctrine. Under the Supreme Court’s 1937 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, however, 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. The Federal Circuit reveals a fundamental error in its understanding of the federal court system by creating its own federal common law of contracts.

A federal court making such a fundamental error seems unfathomable. 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 the Supreme Court defined in *Pfaff*, is a matter of patent law rather than contract law. While the Federal Circuit’s conceptualization 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

---

41. *Erie*, 304 U.S. 64 (1938)
42. The general rule, stated in *Erie 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, 174 (1942) (holding that a patent licensee could raise a 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.
43. *Butner v. United States*, 440 U.S. 48, 54 (1979). A possible defense of the Federal Circuit’s federal common law of contract may lie in the Supreme Court’s decision in *Clearfield Tr. 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 interest vested in a private party. Therefore, the rule of *Clearfield Trust* would not apply.
44. *Atari, Inc.*, 747 F.2d at 1422.
contract law issues into patent law issues conflicts with the established case law on patent preemption. Consequently, the Federal Circuit compounds its error on the structure of federal courts with an error regarding 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 a contract governing an unpatentable invention. At issue in *Aronson* 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 keychain, which the inventor sought to patent. If the patent was granted, the royalty fee would increase. The patent was denied. The company refused to manufacture and sell the keychain because it was unpatented and thus competitors could readily copy it. The company’s rationale was that a contract on an unpatentable item would undermine the federal patent system. The Supreme Court disagreed, reasoning that contracts 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 patent law will preempt any contract term. In a prior case, for example, the Court held that a contract term requiring payment on a patented invention for a period longer than the term of the 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 *Aronson* Court emphasized the ways in which 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. Contract law complements federal intellectual property law in the promotion of invention and innovation. That lesson summarizes the analysis of the previous subsection.

The detailed discussion of the Federal Circuit’s contract law jurisprudence reveals two errors the *Aronson* Court made, one relating to

---

47. *Id.* at 263.
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 correct these two errors. The solution relies on state contract law and a rejection of the federal common law of contract. Buttressing this solution are the policies underlying 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 which the federalist principles of patent law set forth by the Supreme Court informed.

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. Together, the two bodies of law serve as a broad system of rules to meet the constitutional goal of promoting progress.\(^{50}\) Supreme Court decisions such as *Aronson*, finding patent law did not preempt some contract terms, 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 Federal Circuit’s contract decisions presented in sections two and three illustrate this supremacy argument. Ultimately, a full assessment of this argument would lead to its rejection. This subsection presents the pros and cons of the supremacy argument, concluding that the Federal Circuit has taken the 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, certainly it is not the only goal. Uniformity serves the goals of clarity and predictability 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 state law. At

\(^{50}\) See U.S. Const. art. I, § 8, cl. 8.
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 and 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 allows inventors to invest reliably in the process of invention and commercialization without the vagaries of the law that may deter research and business. Such a fiction of law and the process of invention may, in fact, fuel the Federal Circuit’s construction of a uniform body of contract law.

This second argument can be dubbed the patents are special justification. In light of the range of legal doctrines involving patents, the justification proves excessive. It ignores the ways in which patent law itself is unpredictable and uncertain. Patentable subject matter, nonobviousness, the treatment of prior art, and the written description requirement are 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 of the unpredictability of patent law is the shifting view of judges as they engage in disagreement within a specific court and across courts. To a certain extent, such changes may 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. \(^56\) That theory is far from true. 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. An issue may arise as to which state law will apply, but the range of possibilities might be quite narrow compared to the open field of a judge’s reason 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.

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 while refraining from creating its own law of other state law areas, such as torts. But many of the points discussed 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 50 states, it is unclear 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 a federal court. The case may be litigated as a patent matter or it may not be. \(^57\) 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 unclear whether 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.

---

56. To phrase it 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).

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 demonstrates 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 cases of licenses, sales, or assignments, federal courts do not create their own specialized rules of contract law. Instead, they defer to the contract law of the state in which the contract arose, consistent with the Eric6 decision and its progeny. It is unclear why uniformity is any less important as a policy in copyright and trademark law than in patent law.

What may explain the differing treatment of contract issues in copyright and trademark cases in federal court 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 the court’s aggrandizement of contract law as compared to other federal appellate courts. With respect to areas of federal law other than patent law, the Federal Circuit defers to the law of the regional circuit, including any state law issues that that circuit has decided. This asymmetric treatment of choice of law across intellectual property regimes may explain why patent law has been the area in which the Federal Circuit has chosen to develop its own specialized contract

58. See 28 U.S.C. § 1295(a)(4) (2012) (Federal Circuit jurisdiction over appeals from Trademark Trial and Appeals Board); 28 U.S.C. § 1295(a)(2) (2012) (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).

59. Examples of this can be seen in Federal Circuit case law:

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 Azzalone, 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) (treating the copyright license under rules of conditions and covenants).

60. See Blizzard, 629 F.3d 928.


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.

Nor does the Federal Circuit’s specialized jurisdiction over patents justify a differential treatment of contracts in patents from other areas of intellectual property. If uniformity is the goal, 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 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 others. 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 apply state law in contract cases involving patents. There is no directive from Congress or from the Supreme Court that points to anything different.

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 action is inconsistent with the Supreme Court’s decision in Aronson which held that federal intellectual property law, as a general matter, did not preempt state contract law.63 The next section elaborates on this point with a thorough exegesis of Supreme Court intellectual property preemption cases involving contracts as a step to developing a solution to the jurisprudential dilemma the Federal Circuit created.

III. JURISDICTION STRIPPING BY THE SUPREME COURT: GUNN V. MINTON

While the issue of the Federal Circuit’s jurisdiction over contract claims has eluded the Supreme Court, the Court’s analysis of its jurisdiction over state attorney malpractice claims in Gunn v. Minton64

serves as a comparative model for arising under jurisdiction and state claims more broadly. In Gunn, the Court rejected the argument that there was exclusive federal jurisdiction over attorney malpractice claims when the attorney in question is a patent attorney who allegedly mishandled a patent law matter. The state court retained jurisdiction over the malpractice claim, even if patent issues were superficially involved. Implicitly, the Court rejected arguments for the need for uniformity in limiting federal jurisdiction and looked instead to the substantive federal claim within the state claim. The Court’s focus on substance in Gunn provides a model for how courts can limit the expansion of arising under jurisdiction to include state law contract claims. Combined with the Supreme Court’s analysis of the well-pleaded complaint rule in Holmes v. Vornado, a case concerning Federal Circuit jurisdiction over patent counterclaims, the Court’s methodology in Gunn implies that stripping Federal Circuit jurisdiction over state contract claims is a possibility.

Patent owner Minton asserted a patent infringement claim which laid the path to the Supreme Court. Minton lost his patent infringement claim in federal district court in Texas. The court concluded that his patent was invalid under the on-sale bar. Subsequently, Minton brought an attorney malpractice suit in state court, alleging his attorneys failed to raise the defense that the alleged sale was an experimental use, which would have supported the validity of the patent. Minton’s attorneys successfully argued that their client would have lost the infringement suit even if the experimental use defense had been raised. In his appeal of the trial court’s ruling, Minton challenged the trial court’s jurisdiction. He argued that the malpractice claim raised a substantive patent law issue over which the federal court had exclusive jurisdiction. Minton’s argument was referred to the Texas Supreme Court, which ruled in his favor. Minton’s attorneys, with Gunn as the principal named petitioner, successfully obtained review of the Texas Supreme Court ruling from the United States Supreme Court, which ruled against Minton. The state court had proper jurisdiction, and the malpractice claim did not arise under patent law.

Arising under jurisdiction is determined through the four-part test set forth in Grable v. Darue. Under Grable and as the Supreme Court summarized in Gunn,

federal jurisdiction over a state law claim will lie if a federal issue is: (1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable

of resolution in federal court without disrupting the federal-state balance approved by Congress. Where all four of these requirements are met, we held, jurisdiction is proper because there is a “serious federal interest in claiming the advantages thought to be inherent in a federal forum,” which can be vindicated without disrupting Congress’s intended division of labor between state and federal courts. 68

Writing for a unanimous Court, Justice Roberts concluded that the first two factors are satisfied in Minton’s state law claim. In order to establish malpractice, he must show that he would have been successful on his patent infringement claim. Therefore, the federal patent law issue is necessarily raised in the state claim. Furthermore, the federal issue is actually disputed. Minton’s attorneys would argue that the patent infringement claim would not be successful. Minton fails to establish federal jurisdiction under the last two factors.

Justice Roberts rules that the patent law issue is not substantial for several reasons. Contrary to the reasoning of the Texas Supreme Court, Justice Roberts points out:

it is not enough that the federal issue be significant to the particular parties in the immediate suit; that will always be true when the state claim “necessarily raise[s]” a disputed federal issue, as Grable separately requires. The substantiality inquiry under Grable looks instead to the importance of the issue to the federal system as a whole. 69

In Minton’s case, the federal issue is backward looking, meaning that its resolution would not affect the prospective validity of the patent, which is invalid since the experimental-use defense was not raised in a timely manner. The Gunn Court reasoned:

the question is posed in a merely hypothetical sense: If Minton’s lawyers had raised a timely experimental-use argument, would the result in the patent infringement proceeding have been different? No matter how the state courts resolve that hypothetical “case within a case,” it will not change the real-world result of the prior federal patent litigation. Minton’s patent will remain invalid. 70

In other words, the federal question in Gunn is not substantial because its resolution is relevant to Minton’s state law claim and does not alter his patent rights.

69. Id. at 260.
70. Id. at 261.
Furthermore, Justice Roberts did not find that state jurisdiction would undermine the goal of uniformity in federal law:

Nor will allowing state courts to resolve these cases undermine “the development of a uniform body of [patent] law.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 162, 109 S.Ct. 971, 103 L.Ed.2d 118 (1989). Congress ensured such uniformity by vesting exclusive jurisdiction over actual patent cases in the federal district courts and exclusive appellate jurisdiction in the Federal Circuit. See 28 U.S.C. §§ 1338(a), 1295(a)(1). In resolving the nonhypothetical patent questions those cases present, the federal courts are of course not bound by state court case-within-a-case patent rulings. In any event, the state court case-within-a-case inquiry asks what would have happened in the prior federal proceeding if a particular argument had been made. In answering that question, state courts can be expected to hew closely to the pertinent federal precedents. It is those precedents, after all, that would have applied had the argument been made.71

Federal law precedent binds state courts, yet any state court decisions to the contrary do not upset federal precedents. The hierarchy of court authorities logically prevents any harm to the uniformity of patent law. There is little, if any, threat of state courts upsetting uniformity by addressing novel questions of patent law. Should a new patent question arise in state court, the dynamics of litigation and the supremacy of federal law would resolve any problems errant state courts created. As Justice Roberts described:

As for more novel questions of patent law that may arise for the first time in a state court “case within a case,” they will at some point be decided by a federal court in the context of an actual patent case, with review in the Federal Circuit. If the question arises frequently, it will soon be resolved within the federal system, laying to rest any contrary state court precedent; if it does not arise frequently, it is unlikely to implicate substantial federal interests.72

Justice Roberts offers an analysis of uniformity that, as I elaborate below, has implications for *arising under* jurisdiction over state contract law claims.

Finally, the *Gunn* Court rejects Minton’s argument that “real-world effects” and the need for federal experience make the patent question substantial. Any state court rulings about Minton’s patents would not

---

71. Id. at 261–262. (internal citations omitted).
72. Id. at 262.
implicate the preclusive effect of res judicata on future patent disputes. Justice Roberts writes:

The Patent and Trademark Office’s Manual of Patent Examining Procedure provides that res judicata is a proper ground for rejecting a patent “only when the earlier decision was a decision of the Board of Appeals’ or certain federal reviewing courts, giving no indication that state court decisions would have preclusive effect.”

Furthermore, the Court cannot “accept the suggestion that the federal courts’ greater familiarity with patent law means that legal malpractice cases like this one belong in federal court.” As the Gunn Court concludes, “the possibility that a state court will incorrectly resolve a state claim is not, by itself, enough to trigger the federal courts’ exclusive patent jurisdiction, even if the potential error finds its root in a misunderstanding of patent law.”

With respect to the fourth Grable factor, which requires maintaining the federal-state balance, the Court found that appropriate balance between state and federal responsibilities weighs against federal jurisdiction. While there is no substantial federal interest in Minton’s claim, the state does have a substantial interest in regulating the conduct of attorneys within its borders. As the Court in Gunn concludes: “We have no reason to suppose that Congress—in establishing exclusive federal jurisdiction over patent cases—meant to bar from state courts state legal malpractice claims simply because they require resolution of a hypothetical patent issue.”

Several points from the Gunn decision are relevant to Federal Circuit jurisdiction over state contract claims: (1) the Court’s characterization of Minton’s claim as backward-looking; (2) the approach to a case within a case; and (3) the Court’s assessment of uniformity as a basis for jurisdiction. The third point connects to the Court’s analysis of arising under jurisdiction in its 2005 Holmes decision, which addressed the issue of Federal Circuit jurisdiction over appeals.

The argument can be made that the Court’s analysis in Gunn applies to backward-looking federal questions. Although the Court does not explain what backward-looking means, the context in which the term appears suggests that the patent issue is backward-looking because the

73. Id. at 263.
74. Id.
75. Id.
76. Id. at 264.
77. Id.
patent is invalid and a state court’s adjudication of Minton’s malpractice claim would not alter Minton’s federal rights. State court review would only focus on whether Minton’s attorneys were negligent in failing to raise a defense. But a finding of negligence would entitle Minton to remedies under state law since the underlying patent claim has been resolved and cannot be revived. If it is correct that *Gunn* applies only to backward-looking federal issues, then one may reason that state contract law questions involving patents are subject to federal jurisdiction. Consider the example of the on-sale bar: whether a transaction involves an offer to sell or an actual sale may be a question of state law; resolution of that question, however, would affect the rights of the patent owner since a finding that the invention was on sale outside the safe-harbor period would invalidate the patent. The question is not backward-looking. The doctrine of exhaustion provides another example: A sale would exhaust the patent owner’s distribution rights and the state issue regarding when a transaction constitutes a sale would affect the patent rights of the patent owner. The issue is not backward-looking but rather has prospective effect.

But even if *Gunn* is read so narrowly, some state law contract issues may be backward-looking. Such would be the case with resolving patent ownership. State rules of assignment priority can affect the ownership of a patent. While determining the owner of a patent may ostensibly affect prospective rights, the state law question of priority relates back to the moment the assignments were made. Therefore, the issue is backward-looking and, under the narrow reading of *Gunn*, the subject of state court jurisdiction rather than federal. At a minimum, the narrow reading of *Gunn* would strip the federal courts of jurisdiction over some state claims that implicate patents.

However, *Gunn* should not be read so narrowly. The Court’s analysis extends to the substantiality of the federal question and the balance between federal and state interests. The broader and more correct reading of *Gunn* supports stripping the arising under jurisdiction for patent-based contract claims beyond issues of assignment. As read correctly, the *Gunn* decision speaks to the assessment of federal and state interests when there is a “case within a case.”

Minton’s claim involved a federal question of patent infringement embedded within a state law claim of attorney malpractice. The Court concluded that the patent issue was not substantial in this “case within a

---

Patent-related state contract claims are different, however. In adjudication over the on-sale bar, priority of assignments, or the exhaustion doctrine, the state law issue is embedded within the federal patent question. The case within the case is inverted and, arguably, there is a less compelling reason for federal jurisdiction over the state law issues under the Grable factors. While there is a federal interest in resolution of the patent claim, there is also a considerable state interest in uniform and predictable contract law, much like the state’s interest in the regulation of the legal profession, which the Court recognizes. Furthermore, state contract law claims are subject to a similar dynamic between state and federal law that the Gunn Court describes. If a federal court decides the state law issue, the resulting federal decision potentially provides a new source of law in resolving future state claims—a source outside the state legislative, executive, and judicial processes. A federal common law of contract creates anti-democratic pressures that destabilize the development of state law.

One may argue that any instability in state law should be balanced against the uniformity required for federal law. This argument is slightly different from the Court’s point about uniformity in Gunn, where state review of patent law could counter federal court developments. As the Gunn Court emphasized, any state court pronouncements have no precedential or preclusive effect in federal court because federal courts are supreme. However, state law decisions may potentially upset patent law doctrines such as the on-sale bar or exhaustion doctrine. If state laws differ as to what constitutes a sale, patent law would become more unpredictable because the force of federal law would depend on the home state of the transaction. But uniformity in state contract law may rebut this argument.

Furthermore, the need for uniformity in patent law may be overstated. As Justice Scalia stated in the majority opinion in Holmes, “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.” In Holmes, the Court found that the language of the Patent Act in 2002 granted Federal Circuit jurisdiction over patent claims but not counterclaims. Holmes brought a declaratory judgment action in federal district court, seeking a declaration
that it had not infringed Vornado’s trade dress as the company alleged in an International Trade Commission (ITC) proceeding.\textsuperscript{85} Vornado counterclaimed for patent infringement. Vornado lost on the trade dress claims, and the district court dismissed the patent counterclaim.\textsuperscript{86} Vornado appealed to the Federal Circuit, which vacated the district court ruling. Holmes then appealed to the Supreme Court, which applied the “well-pleaded complaint rule” and concluded that the Federal Circuit lacked appellate jurisdiction since the dispute did not involve a patent claim.

Effectively, the Court’s ruling in \textit{Holmes} promoted lack of uniformity in the adjudication of patent claims. Since Vornado filed the original complaint in the District Court of Kansas, it should have appealed the trade dress and patent issues to the United States Court of Appeals for the Tenth Circuit. Congress did address this anomaly in the America Invents Act by extending Federal Circuit jurisdiction to claims and counterclaims arising under patent law.\textsuperscript{87} But the \textit{Holmes} decision demonstrates that courts need not defer to a policy of uniformity in determining federal jurisdiction. Instead, a court should strongly consider the language of the Patent Act and perhaps Congress’s intent in creating a specialized court for patent law\textsuperscript{88} (although Justice Scalia would not accept a reading based on congressional intent).

Justices Ginsburg and O’Connor issued a joint concurrence favoring a position that would have been more advantageous to Federal Circuit jurisdiction, illustrating the many dimensions of the uniformity arguments. The concurring justices emphasized Congress’s goal in creating the Federal Circuit:

The sole question presented here concerns Congress’s allocation of adjudicatory authority among the federal courts of appeals. At that appellate level, Congress sought to eliminate forum shopping and to advance uniformity in the interpretation and application of federal patent law.\textsuperscript{89}

Justices Ginsburg and O’Connor would find Federal Circuit jurisdiction over patent counterclaims if the district court had fully adjudicated them. In \textit{Holmes}, however, since the district court dismissed Vornado’s

\begin{thebibliography}{99}
\bibitem{86} Id.
\bibitem{88} \textit{Holmes}, 535 U.S. 826, 833 (2002).
\bibitem{89} Id. at 840.
\end{thebibliography}
counterclaim without review, the concurring justices agreed with the majority’s decision that the Federal Circuit lacked jurisdiction. Rather, the concurrence focused on the manner in which the counterclaims were disposed of by the district court and the need to avoid forum shopping in patent litigation. Justices Ginsburg and O’Connor offer a policy-oriented analysis of jurisdiction—one that goes beyond the face of a well-pleaded complaint.

What Gunn and Holmes teach us is this: jurisdiction stripping of the Federal Circuit is possible. These cases also identify viable models of how to limit the specialized court’s jurisdiction to patent claims. In Gunn, jurisdiction over the attorney malpractice claim rests with the relevant state court. In Holmes, appellate jurisdiction over patent counterclaims lies with the relevant geographic circuit court. A practical inquiry is how the federal courts should treat state contract claims that arise in conjunction with patent questions. I argue that arising under jurisdiction would not vest the matter in federal courts but rather would require adjudication by state courts. The administration of this prescription may be impractical. A federal court hearing a patent matter may refer any state court issues to the appropriate state court. Alternatively, the federal court can defer to the relevant state law as it would in a diversity action. The least desirable method is allowing the federal court create its own common law of contract solely to promote uniformity of patent law.

Issues of law and policy regarding jurisdiction stripping are even more compelling than the practical issues of implementation. Should federal jurisdiction over questions that arguably pertain to federal law be restricted? Would such limitation be consistent with the Constitution and the legislative intent of Congress? These issues, tacit in the present argument, are the focus of the next section.

IV. CONGRESSIONAL CONTROL OF JURISDICTION AND SUBSTANCE

Congress can limit the jurisdiction of the Federal Circuit just as readily as it created it. Under the America Invents Act of 2011, Congress expanded arising under jurisdiction to include patent counterclaims in addition to patent claims in response to the Court’s ruling in Holmes. What Congress can expand, it can also contract. In response to the concerns surrounding a federal common law of contracts set forth in this article, Congress should strip the Federal Circuit of its jurisdiction over contract issues. Such a result would best accommodate state contract

---

doctrine within patent law. This section sets forth the ways in which Congress can limit the Federal Circuit’s jurisdiction in light of Supreme Court precedent and academic scholarship.

By stripping the federal courts of jurisdiction over patent-based contract claims, Congress still permits judicial review. State courts will hear the claim, and any federal questions can serve as the basis for federal jurisdiction with ultimate review by the Supreme Court. For example, if there is a conflict between state contract law and patent law, federal courts can still address the conflict under Article VI of the Constitution. For these reasons, jurisdiction stripping of the Federal Circuit would not create a conflict with Article III of the Constitution by denying access to federal courts on federal issues.

Contract law arises in the patent context in two ways. First, as a stand-alone question, contract law issues present as disputes as to the formation of an agreement, interpretation of contractual terms, breach of contract, or priority of multiple overlapping agreements among different parties. These stand-alone contract issues should fall within the jurisdiction of state courts, and the Federal Circuit should defer to state court rulings in resolving these questions. Second, state contract law issues may be incorporated into federal doctrine, such as the on-sale bar. In this second category of cases, contract law issues such as whether a transaction is a sale or a license, whether an offer has been made, or questions of contract formation are incorporated into the federal law. In fact, federal law may set forth rules for how to address contract law issues by statute or judge-made law. When confronted with these types of contract law issues, the Federal Circuit has jurisdiction but should look to state law precedent for guidance in resolution of the case. In effect, what seems to be a state law issue is a federal question. The federal doctrine has adopted the language of state contract law in creating a nation-wide standard for patent law.

An attendant issue is distinguishing the two types of cases. For example, in patent exhaustion cases, limitations in the sale of a patented product will raise questions as to when contract law applies and when patent law applies.91 In its recent Lexmark decision, the Supreme Court

91. The Supreme Court in Quanta Computer Inc. v. LG Elecs., Inc stated:
We note that the authorized nature of the sale to Quanta does not necessarily limit LGE’s other contract rights. LGE’s complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages. See Keeler v. Standard Folding Bed Co., 157 U.S. 659, 666, 15 S. Ct. 738, 39 L. Ed. 848 (1895) (“Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that
rejected the Federal Circuit’s conditional sale doctrine. The Court ruled that a sale would exhaust the patent owner’s distribution rights regardless of whether there are conditions on the sale.92 The question remains as to how courts should remedy a purchaser or subsequent transferee’s breach of the limitation. This example illustrates the first type of cases discussed in the previous paragraph with respect to the issue of what constitutes a sale.

I would suggest that this issue be resolved through state law as opposed to a federal common law as it is currently. Congress could define the term sale in the patent statute, which would convert a type-one case into a type-two case. But Congress has not done so. Although the question of what constitutes a sale is resolved, the issue of remedy remains. The Federal Circuit has created confusing jurisprudence regarding treatment of limitations in transfers of patents and patented products by treating some limitations as a matter of patent law and some as a matter of contract law.93 Some scholars have tried to make sense of Federal Circuit case law through the distinction between in personam and in rem rights, with the former relegating the limitations to a matter of contract law.94 I cannot resolve this problem here, but I have addressed it in other work.95 For the purposes of this article, I merely flag the issue and conclude that once contract issues are identified, state law should apply.

Congress can address this problem of Federal Circuit jurisdiction over state law issues through jurisdiction stripping. This action would entail amendments to § 1295. Such amendments would be consistent with Article III, which grants Congress the power to create federal courts along certain parameters. Article III, Section I states, “The judicial Power of the United States, shall be vested in one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish.”96 Section II defines this judicial power as follows:

The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority:. . . In all the other

---

94. Id.
95. See SHUBHA GHOSH & IRENE CALBOLI, EXHAUSTING INTELLECTUAL PROPERTY RIGHTS (2018).
96. U.S. Const. art. III.

such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws”).
Cases before mentioned, the supreme Court shall have appellate Jurisdiction, both as to Law and Fact, with such Exceptions, and under such Regulations as the Congress shall make.97

Congress created the Federal Circuit as an inferior court that has the power to decide patent cases. It is important to note that in creating the Federal Circuit, Congress effectively stripped sister circuits of the power to hear appellate cases involving patent law.98 Congress can allocate appellate jurisdiction as it sees fit without infringing upon other provisions of the Constitution.99 If Congress determines that some contract law issues are not a question of federal law, then the Federal Circuit can be stripped of its jurisdiction to hear such cases. Contract law issues can still be heard in state courts or in federal courts pursuant to diversity jurisdiction. In either case, however, the contract issue must be resolved under state law.

One criticism of this approach is that litigants might lose the opportunity for Supreme Court review. But the high court can still review state contract law issues regardless of whether they arise in state court or in federal court as a matter of diversity jurisdiction. The question before the Court would be whether the contract law determination is consistent with federal patent law under Article VI. This question could be one of preemption or could be one of interpreting the federal statute and its purposes in light of the state law determination. Arguably, Justice Breyer’s dissent in Stanford v. Roche would have based Supreme Court appellate jurisdiction to hear the priority of assignment issues on Article VI.100 How the Supreme Court resolves the state law issue is another matter. Preemption principles might provide some guidance but would not be the sole basis for its decision. Justice Breyer’s dissent suggests examining the Federal Circuit approach to priority in light of underlying principles of commercial and patent law.101 The outstanding point is that my proposal would strip the Federal Circuit of its jurisdiction while allowing for Supreme Court review.

Stripping the Federal Circuit’s jurisdiction by limiting its review of state contract law issues, while still allowing these issues to be heard in

97. Id.
99. “Congress may withhold from any court of its creation jurisdiction of any of the enumerated controversies. Courts created by statute can have no jurisdiction but such as the statute confers.” Sheldon v. Sill, 49 U.S. 441, 448 (1850).
101. Id. at 794, (Breyer S., dissenting).
federal court on the basis of diversity jurisdiction and preserving the opportunity for Supreme Court review, might seem byzantine. But this intricacy reflects the unique position of the Federal Circuit as a specialized intermediate court of appeals. In this special role, the Federal Circuit can exercise its expertise in patent law. But this special role currently allows the Federal Circuit to extend its jurisdiction to areas outside its expertise such as copyright law or contract law. Furthermore, this extension of jurisdiction creates a jurisprudential monopoly over issues that are critical for commercial transactions but in which patents play only a small part. Limiting Federal Circuit jurisdiction serves to remove this bottleneck in the development of law, given the prevalence of patents in all areas of technology and many areas of contract.

Some may argue that my characterization of the Federal Circuit as a jurisprudential monopolist undermines the value of uniformity in patent law. Others may go further and say jurisdiction stripping would weaken the patent incentives for invention and innovation. However, the Federal Circuit is not a monopolist, and unification speaks to the authority of the Federal Circuit in guiding patent law. This authority underwrites the patent system and its incentives to inventors. Of course, I do not seek to strip the Federal Circuit of its jurisdiction over patent law. Rather, the goal of jurisdiction stripping is to limit the Federal Circuit’s jurisdiction to its designated area of expertise—patent law—and exclude from its jurisdiction matters of contract law. Such a limitation can only strengthen the Federal Circuit’s credibility and authority. Furthermore, jurisdiction stripping ensures that contract law issues are decided pursuant to state law, which is predictable, rather than the vagaries of federal common law. This can only reinforce the goals of commercializing patents.

Stanford’s epic loss in Roche provides one illustration. Like other universities and corporate entities, Stanford’s assignment policies were crafted on an understanding of priority of assignment that the Federal Circuit’s hereby rule undermined. Although assignees can respond to this new rule, as many have, it would be unwise to ignore how the Federal Circuit’s federal common law of assignment priority undermined commercial expectations in the name of patent uniformity. Similarly, with respect to the on-sale bar issue, the Federal Circuit has addressed the question of what constitutes a commercial offer for sale in light of the Supreme Court’s decision in Pfaff v. Wells.102 The Federal Circuit’s creation of a multi-factor test in Pfaff to determine when an invention is on sale ignores state law of contract, which could potentially undermine

commercial expectations. State contract law should be developed through state courts even if incorporated into federal questions.

For these reasons, the value of uniformity should be weighed against other values such as the transactional role of patents and the negotiations among patent owners, purchasers, and licensees. Jurisdiction stripping is one way to promote recognition of these other values by incorporating state law into patent disputes. Balancing patent rights with commercial negotiations will likely lead to the proper alignment of patent law and contract law. Through jurisdiction stripping, questions of contract law do not become subsumed under patent law. But as mentioned above and discussed in more detail below, Congress could amend patent law to more effectively address contract law within the patent statute. As it has done in other areas such as securities and antitrust laws, Congress could federalize contract law and direct inferior courts on how to implement and develop the federal standard. Perhaps direct amendment of the statute is more desirable and effective than jurisdiction stripping. More importantly, congressional amendment of substantive law is the product of democratic deliberation on the role of patents in commercial transactions. Jurisdiction stripping is an indirect procedural means to that same substantive end.

However Congress acts, aligning patent and contract law will promote respect for vertical separation of powers between state and federal governments. As more commercial transactions involve patents, the Federal Circuit has greater opportunity to review transactions governed by state law. Although it is unlikely that all of commercial law would fall under Federal Circuit jurisdiction, expanded federal review could upset the balance between federal and state law that has emerged over the past two centuries. Through competition among state courts and the projects for uniform state laws, commercial law has evolved in a direction that has shaped the expectations of parties. As parties increasingly negotiate over technology, there is a need to consider both federal patent law and state commercial law. A federal common law of contracts shifts these expectations without the benefit of democratic deliberation. Contracting parties did not expect that the Federal Circuit would reshape their expectations. Congressional action, such as jurisdiction stripping, can realign the balance between federal and state courts.

One alternative to jurisdiction stripping is for Congress to directly amend the Patent Act to address contract issues. Congress has the power

---

to enact such amendments under either its Article I Section 8 Clause 8 or Clause 5 powers. Such a legislative pronouncement has the potential to more effectively direct the courts on how to handle patent-based contract issues. This alternative provides a comparison for assessing jurisdiction stripping. Arguably, amending the Patent Act could be a more politically palpable option than jurisdiction stripping and could serve as a more direct means of shaping the substantive law.

In conclusion, Congress may be more effective than the Supreme Court in stripping the Federal Circuit of its jurisdiction. While the Court can act only by resolving cases before it, Congress can adopt a broader perspective. But Congress can also act through altering substantive patent law directly. Regardless of whether substantive law is altered through judicial process or congressional amendments to the Patent Act, we must confront the authority of the Federal Circuit. Failing to do so, I conclude, is the least desirable option given the stakes for commercial transactions involving patents.

V. CONCLUSION

Creating procedural hurdles to raise the costs of pursuing legal claims can calibrate substantive law. Procedural rules are a policy lever. While procedural rules such as pleading requirements and statutes of limitation can guide the courts in assessing substantive claims, jurisdiction stripping is a draconian means of controlling courts through legislation. The jurisdiction-stripping strategy is often the subject of theoretical discussion rather than actual implementation. Nonetheless, the strategy is used occasionally, as we have seen in the context of habeas corpus and access to courts in the war against terror and the management of wartime claims. Furthermore, jurisdiction stripping provides a valuable thought experiment for assessing substantive issues of law, as we see in the Federal Circuit’s management of contract law issues that arise within patent disputes.

This article is intended to guide a reformation of patent law and the role of the Federal Circuit. These ends, however, may be best met through reformation of the Patent Act itself rather than through its jurisdictional arms. As a thought experiment, jurisdiction stripping highlights where the source of the contention lies. Substantive legal reform can, as a result, address the source of the problem. Needless to say, the current Congress may be difficult to persuade on legal reform unless the change restores an imaginative order of private patent rights. At a minimum, jurisdiction
stripping as a thought experiment reminds us that the Federal Circuit is a specialized court, as Congress intended and as Congress can shape.