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# The Federal Question in Patent-License Cases

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# The Federal Question in Patent-License Cases

AMELIA SMITH RINEHART\*

*The patent law has long recognized a patent owner’s ability to license some interest in the patent by granting to others permission to tread upon the patent owner’s property rights without legal consequence. When one of the parties to a patent license decides to seek remedies from the other party for a license harm, the resulting litigation may be a patent-infringement case with a contract issue or a contract case with a patent issue. In most cases, the patent owner brings her suit against the licensee in federal court, alleging that the licensee breached the license contract and, as a result, now infringes the patent. However, a patent owner, as the master of her suit, may choose to bring it in state court and raise only a contract claim governed by state law. The license agreement, by its very nature, implicates patent issues, but it is not always clear when a state suit like this one may be removed to federal court. This is especially true after a recent Supreme Court case, Gunn v. Minton, and amendments to the relevant jurisdictional statutes as part of the Leahy-Smith America Invents Act of 2011.*

*The jurisdictional rules governing these types of cases are convoluted, clunky, and heavily criticized. In this Article, I argue that the current jurisdictional rules are unnecessary and burdensome in patent-license cases, and I propose a new rule that would place patent-license cases—even those that would be considered state contract cases under the existing framework—in federal courts with exclusive appeals to the Federal Circuit. Ultimately, the reduced burden on litigants and courts, the increased clarity of the law, and the structural advantages for the Federal Circuit as it continues to develop an important body of licensing law outweigh any federalism costs.*

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## INTRODUCTION

In a patent license, a patent owner grants to someone else permission to tread upon the patent owner's property rights without legal consequence.<sup>1</sup> Although these licenses seem like ordinary contracts, hidden behind the basic agreement granting permission to make, use, sell, or otherwise practice the patented invention lurks a murky gumbo of contract, property, antitrust, and patent laws and policies. Because licenses have important economic consequences for licensors, licensees, and the general public,<sup>2</sup> they often end up the center of patent disputes. In fact, since 2007, the Supreme Court has heard five cases in which a patent license was essential to the Court's resolution of the dispute.<sup>3</sup> This is not surprising—patent licensing has long been considered “a critical transaction model in the information economy.”<sup>4</sup>

A patent-license dispute may involve a little (or a lot) of state contract law and federal patent law. Federal courts have original and exclusive jurisdiction over cases that arise under the laws relating to patents.<sup>5</sup> Likewise, the Court of Appeals for the Federal Circuit (“Federal Circuit”) has exclusive appellate jurisdiction over cases that arise under the patent laws.<sup>6</sup> Therefore, when courts are asked to determine whether a patent-license case belongs in federal court on patent-law grounds,

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1. *See* *Potter v. Holland*, 19 F. Cas. 1154, 1157 (C.C.D. Conn. 1858) (No. 11,329) (“A licensee is one who has transferred to him, in writing or orally, a less or different interest than either the interest in the whole patent, or an undivided part of such whole interest, or an exclusive sectional interest.”); *see also* 2 WILLIAM C. ROBINSON, *THE LAW OF PATENTS FOR USEFUL INVENTIONS* § 760 (1890) (“The conveyance of the subordinate rights in the invention, either separately or united, without affecting the monopoly otherwise than by estoppel, is also permitted; and the interests thus created are fully vindicated and sustained. To this conveyance custom and judicial sanction have attached the name of License.”). The precursor for the U.S. patent laws, the 1474 Venetian Act, also recognizes licenses in its text. Robert W. Gomulkiewicz, *The Federal Circuit's Licensing Law Jurisprudence: Its Nature and Influence*, 84 WASH. L. REV. 199, 204 (2009) (citing Giulio Mandich, *Venetian Patents (1450-1550)*, 30 J. PAT. & TRADEMARK OFF. SOC'Y 166, 177 (1948)).

2. XUAN-THAO N. NGUYEN, ROBERT W. GOMULKIEWICZ, & DANIELLE CONWAY-JONES, *INTELLECTUAL PROPERTY, SOFTWARE, AND INFORMATION LICENSING: LAW AND PRACTICE* 14–39 (2006) (describing the value of licensing as its ability to enable innovation); *see also* Robert P. Merges, *A Transactional View of Property Rights*, 20 BERKELEY TECH. L.J. 1477 (2005).

3. *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843 (2014); *FTC v. Actavis, Inc.*, 133 S. Ct. 2223 (2013); *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 131 S. Ct. 2188 (2011); *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

4. Gomulkiewicz, *supra* note 1, at 203. As Richard Epstein writes, “These multiple transactions help wring the last unit of value out of the underlying [intellectual property] asset.” Richard A. Epstein, *The Disintegration of Intellectual Property? A Classical Liberal Response to a Premature Obituary*, 62 STAN. L. REV. 455, 498 (2010).

5. 28 U.S.C. § 1338(a) (2012). For one proposal that this statute should not provide for exclusive jurisdiction to federal courts, *see* Paul R. Gugliuzza, *Patent Law Federalism*, 2014 WIS. L. REV. 11.

6. 28 U.S.C. § 1295 (2012). The previous versions of § 1295 tied the Federal Circuit's exclusive appellate jurisdiction to cases that arose under 28 U.S.C. § 1338. *See infra* Part I.B for further discussion of the relevance of this amendment.

choosing the right answer implicates not just the choice between state and federal courts but also the choice between a regional appeal and a specialized-court appeal.<sup>7</sup>

Two recent Supreme Court cases, *MedImmune, Inc. v. Genentech, Inc.*<sup>8</sup> and *Medtronic, Inc. v. Mirowski Family Ventures, LLC*,<sup>9</sup> involved disputes over whether patent-license cases belong in federal court at all. In these cases and others, complex questions of federal patent jurisdiction—what one scholar referred to as “one of the darkest corridors of the law of federal courts and federal jurisdiction”<sup>10</sup>—complicate what may be a relatively simple inquiry on the merits. This Article suggests that this dark corridor instead should be an easy, well-lighted path, best positioning the Federal Circuit to develop a robust body of licensing law.

A case arises under the laws relating to patents when either (1) the plaintiff’s well-pleaded complaint includes a patent-law cause of action or (2) the plaintiff’s well-pleaded complaint includes a nonpatent cause of action that raises a necessary, disputed, and substantial patent question whose resolution in federal court would not disrupt the proper federal-state balance.<sup>11</sup> The first category of cases includes claims for patent infringement and for correction of inventorship of an issued

7. This choice has been particularly salient in recent years, as the Federal Circuit and its jurisprudence have come under a sustained attack from the Supreme Court, the legal academy, practitioners, and even other appellate judges. The Supreme Court has rejected several Federal Circuit patent-law doctrines in recent years, including its machine-or-transformation test as the sole test for determining patent-eligible business methods, *Bilski v. Kappos*, 130 S. Ct. 3218 (2010); its “reasonable apprehension of suit” test for determining Article III standing in declaratory judgment actions, *MedImmune*, 549 U.S. 118; its “teaching, suggestion, or motivation” test to combine requirements for nonobviousness, *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007); and its presumption of irreparable harm for patent-infringement winners, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). For criticism from patent scholars, see, e.g., Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1578 (2003) (stating that in some technology fields the Federal Circuit fails to realize that its patent-law policy is “precisely backwards”); Paul R. Gugliuzza, *The Federal Circuit as a Federal Court*, 54 WM. & MARY L. REV. 1791, 1797 (2013) (providing an account of the Federal Circuit’s “power enhancement”); Craig Allen Nard & John F. Duffy, *Rethinking Patent Law’s Uniformity Principle*, 101 NW. U. L. REV. 1619, 1621 (2007). The Honorable Diane Wood, Chief Judge of the Seventh Circuit Court of Appeals, recently advocated abolishing the exclusive jurisdiction of the Federal Circuit, suggesting instead that giving parties a choice between the Federal Circuit and the regional circuit in which their claim was first filed is a way to address the “blurred lines” that occur between patent law and the other types of intellectual property law handled by regional circuits. Diane P. Wood, Keynote Address, *Is It Time To Abolish the Federal Circuit’s Exclusive Jurisdiction in Patent Cases?*, 13 CHI.-KENT J. INTELL. PROP. 1, 6 (citing ROBIN THICKE, *Blurred Lines*, on BLURRED LINES (Star Trak / Interscope 2013)).

8. 549 U.S. 118.

9. 134 S. Ct. 843 (2014).

10. Donald Shelby Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 639, 662–64 (1971) (assessing the jurisdictional effects of *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969)); see also Arthur Young & Co. v. City of Richmond, 895 F.2d 967, 969 n.2 (4th Cir. 1990).

11. *Gunn v. Minton*, 133 S. Ct. 1059, 1064–65 (2013). This test for federal patent jurisdiction parallels that of the general federal-jurisdiction statute, 28 U.S.C. § 1331 (2012). See *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 807–08 (1988).

patent, the only patent causes of action.<sup>12</sup> The second category of cases, which the Supreme Court has called “a special and small category,”<sup>13</sup> comprises federal causes of action that are not specific to patents (e.g., antitrust claims)<sup>14</sup> or state causes of action (e.g., contract claims).<sup>15</sup> To further confuse matters, a patent question raised as a defense to the plaintiff’s cause of action, or one raised in anticipation of a defense to the plaintiff’s cause of action, cannot support federal patent jurisdiction.<sup>16</sup> This prohibition makes declaratory-judgment cases like the ones often brought by patent licensees against patent owners (including *MedImmune* and *Medtronic*) even more complex, jurisdiction-wise. As the Supreme Court developed these complex jurisdictional rules in both patent and general federal-question cases, it emphasized how special and small the second category of federal cases is. For example, the Court refused federal patent jurisdiction over a patent legal-malpractice case in *Gunn v. Minton*.<sup>17</sup>

Alongside this line of precedent, the Supreme Court also has been promoting federal patent policy over state-law interests, effectively broadening jurisdiction to accommodate licensee challenges, which it deems important to a strong public interest in policing bad patents.<sup>18</sup> Congress, too, has stepped into the fray, amending the jurisdictional statutes in 2011.<sup>19</sup> As a result, lower courts struggle to

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12. 35 U.S.C. § 281 (2012) (“A patentee shall have remedy by civil action for infringement of his patent.”); 35 U.S.C. § 256(b) (“[A] court . . . may order correction of the [inventorship of the] patent on notice and hearing of all parties concerned . . .”). Courts accept § 281 as creating a cause of action. *See, e.g.,* *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1551 (Fed. Cir. 1995). The Federal Circuit has construed § 256 to “provide[] a cause of action to interested parties to have the inventorship of a patent changed to reflect the true inventors of the subject matter claimed in the patent.” *Fina Oil & Chem. Co. v. Ewen*, 123 F.3d 1466, 1471 (Fed. Cir. 1997).

13. *Gunn*, 133 S. Ct. at 1064 (quoting *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677, 699 (2006)).

14. *See, e.g., Christianson*, 486 U.S. at 805 (antitrust).

15. *See* *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 599 F.3d 1277, 1282–85 (Fed. Cir. 2010) (applying the second path to federal patent jurisdiction and holding the contract claim did not require resolution of a patent-law question), *appeal transferred*, 410 F. App’x 151 (10th Cir. 2011); *see also* *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000) (holding that breach-of-contract claim arose under the patent laws because the claim required a court to interpret the patents and determine whether the accused product infringed those patents).

16. *Christianson*, 486 U.S. at 809.

17. *Gunn*, 133 S. Ct. at 1066–68.

18. *See* *Lear, Inc. v. Adkins*, 395 U.S. 653, 674 (1969) (“[E]nforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain.”); *see also* *Bresnick v. U.S. Vitamin Corp.*, 139 F.2d 239, 242 (2d Cir. 1943) (“We have disposed of the patent as a whole because it has seemed to us proper that it should not remain in the art as a scarecrow.”).

19. The Leahy-Smith America Invents Act (AIA), Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified as amended in scattered sections of 35 U.S.C.), expanded the Federal Circuit’s jurisdiction to include compulsory counterclaims like the ones raised and rejected by the Supreme Court in *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002). *See* 28 U.S.C. § 1295 (2012) (granting exclusive appellate jurisdiction to the Federal Circuit over an appeal from a final decision “in any civil action arising under, or in

define the outer boundaries of jurisdiction over cases involving a patent license that implicates both patent-law and contract-law questions.<sup>20</sup> The resulting jurisdictional map, complete with state-federal border disputes, gives rise to too much spilled ink from courts and expended resources by parties, even if the parties concede jurisdiction one way or another.<sup>21</sup>

In this Article, I argue that the current jurisdictional rules are unnecessary and burdensome in patent-license cases, and I propose a new rule placing patent-license cases—even those that under the existing framework would be considered state contract cases—in federal courts with exclusive appeals to the Federal Circuit. Part I explains the current law of statutory jurisdiction in patent-license cases, including declaratory-judgment cases brought by parties other than the patent owner. Part II appraises the current jurisdictional rules as inefficient for both litigants and courts. Part III makes the case for a clear, bright-line rule, treating patent-license cases as special, mixed-law cases worthy of streamlined and uniform treatment. In this Part, I illustrate the impact of the new rule and consider the potential disadvantages of such a rule, including objections grounded in federalism concerns. Ultimately, the reduced burden on litigants and courts, the increased clarity of law, and the structural advantages of the Federal Circuit to develop an important body of licensing law outweigh any federalism costs. Finally, the Article concludes with some thoughts on the impact and importance of federal patent jurisdiction.

#### I. CASES ARISING UNDER LAWS RELATING TO PATENTS

In addition to constitutional justiciability governed by the Article III “cases and controversies” requirement,<sup>22</sup> federal cases must satisfy a statutory requirement: specifically, Congress must have conferred subject-matter jurisdiction over the dispute.<sup>23</sup> In patent cases, the statutory grant of jurisdiction comes from 28 U.S.C.

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any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents”). The legislation also added a removal statute, 28 U.S.C. § 1454 (2012), for patent, plant-variety protection, and copyright cases. *See* AIA § 19(c)(1).

20. *See, e.g.,* *Holiday Matinee, Inc. v. Rambus, Inc.*, 13 Cal. Rptr. 3d 766, 775 (Ct. App. 2004) (acknowledging “the difficulties inherent in deciding such questions”).

21. “Subject matter jurisdiction is an inquiry that this court must raise *sua sponte*, even where, as here, neither party has raised this issue.” *Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1369 (Fed. Cir. 2004); *see also* *Textile Prods., Inc., v. Mead Corp.*, 134 F.3d 1481, 1485–86 (Fed. Cir. 1998) (“[E]very federal appellate court has a special obligation to ‘satisfy itself not only of its own jurisdiction, but also that of the lower courts in a cause under review,’ even though the parties are prepared to concede it.” (alteration in original) (quoting *Bender v. Williamsport Area Sch. Dist.*, 475 U.S. 534, 541 (1986)))

22. U.S. CONST. art. III, § 2.

23. *See* ERWIN CHEMERINSKY, *FEDERAL JURISDICTION* § 5.1, at 277–83 (6th ed. 2012). The two most common statutory grants of jurisdiction are diversity jurisdiction, where Congress allows cases involving diverse parties to be adjudicated in federal courts regardless of the nature of the claims at issue, *see* 28 U.S.C. § 1332 (2012), and federal-question jurisdiction, where Congress allows cases involving certain claims to be adjudicated in federal courts, *see* 28 U.S.C. § 1331 (2012). The existence of federal jurisdiction is not controversial. However, rationales for its existence, such as lack of parity in state courts or the need for uniformity in the interpretation of the law, have been disputed. *See*

§ 1338(a), which follows closely the general federal-question jurisdiction grant in 28 U.S.C. § 1331.<sup>24</sup> Part I.A describes how courts determine federal patent jurisdiction under § 1338(a). Part I.B explains the Federal Circuit's exclusive appellate jurisdiction over patent cases. Finally, Part I.C briefly discusses how state license actions may be removed to federal court as federal patent cases.

#### A. Federal Patent Jurisdiction

The patent-jurisdiction statute, 28 U.S.C. § 1338(a), provides for original and exclusive jurisdiction over “any civil action arising under any Act of Congress relating to patents.”<sup>25</sup> In 2011, Congress added, for emphasis, “No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents.”<sup>26</sup> Courts interpreting § 1338 utilize the wealth of jurisprudence interpreting the general federal-question statute, which also uses “arising under” to define its grant of federal jurisdiction to certain cases, because the two statutes have long been linked in interpretation through “linguistic consistency.”<sup>27</sup>

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CHEMERINSKY, *supra*, § 5.2.1, at 283–84. With regard to parity, see Erwin Chemerinsky, *Parity Reconsidered: Defining a Role for the Federal Judiciary*, 36 UCLA L. REV. 233 (1988). With regard to uniformity, see John F. Preis, *Reassessing the Purposes of Federal Question Jurisdiction*, 42 WAKE FOREST L. REV. 247 (2007) (arguing that there is reason to doubt that uniformity of federal law will be undermined by permitting state courts to adjudicate federal claims).

24. See *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808 (1988) (“Our cases interpreting identical language in other jurisdictional provisions, particularly the general federal-question provision, 28 U.S.C. § 1331 . . . have quite naturally applied the same test.”).

25. 28 U.S.C. § 1338(a) (2012). An early patent law, the Patent Act of 1793, granted jurisdiction to infringement suits brought “in the circuit court of the United States, or any other court having competent jurisdiction.” Act of Feb. 21, 1793, ch. 11, § 5, 1 Stat. 318, 322 (repealed 1836). The Patent Act of 1836 provided that all actions arising under the patent laws shall be originally cognizable in the circuit courts. Act of July 4, 1836, ch. 357, § 17, 5 Stat. 117, 124 (amended 1870). In 1870, Congress granted exclusive jurisdiction to federal courts over cases arising under the patent laws. Act of July 8, 1870, ch. 230, §§ 55–58, 16 Stat. 198, 206–07; see also Act of Mar. 3, 1911, ch. 231, § 256, 36 Stat. 1087, 1160; 28 U.S.C. § 371 (1925–26); 28 U.S.C. § 1338 (Supp. II 1948); Note, *The Jurisdiction of State Courts over Cases Involving Patents*, 31 COLUM. L. REV. 461, 461 n.1 (1931).

26. AIA, Pub. L. No. 212-29, § 19, 125 Stat. 284, 331 (2011) (codified at 28 U.S.C. § 1338(a) (2012)). The Supreme Court recently stated, “For cases falling within the patent-specific arising under jurisdiction of § 1338(a), however, Congress has not only provided for federal jurisdiction but also eliminated state jurisdiction.” *Gunn v. Minton*, 133 S. Ct. 1059, 1064 (2013).

27. *Christianson*, 486 U.S. at 808–09. It is not enough to anticipate a patent-law defense in the complaint. *Id.* at 809. Rather, patent law must create the cause of action or comprise a necessary element of the plaintiff's claims. *Id.* at 808–09; see also *Gunn*, 133 S. Ct. at 1066–68; *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 599 F.3d 1277, 1282–83 (Fed. Cir. 2010) (finding no Federal Circuit appellate jurisdiction based on § 1338(a) when the underlying case was brought under the diversity statute), *appeal transferred*, 410 F. App'x 151 (10th Cir. 2011); *infra* Part III (suggesting that § 1338(a) be uncoupled from the interpretation and legacy of § 1331).

In patent cases, as in general ones, the Supreme Court recognizes two ways that a case arises under federal law.<sup>28</sup> The more direct way is “when federal law creates the cause of action asserted.”<sup>29</sup> This category of cases “accounts for the vast bulk of suits that arise under federal law”<sup>30</sup> and captured courts’ first understanding of the jurisdictional statute now known as § 1338(a).

In cases brought in the early twentieth century, when the patent owner sued an alleged infringer for patent infringement and requested relief in the form of an injunction or damages, the case arose under the patent laws even if the plaintiff and the defendant were in a contractual relationship.<sup>31</sup> In other words, if the patent owner licensed the patent, he still could sue the licensee for patent infringement even though the contract dictated what the licensee had permission to do.<sup>32</sup> However, as the Court noted in *Lockett v. Delpark, Inc.*,

[W]here a patentee complainant makes his suit one for recovery of royalties under a contract of license or assignment, or for damages for a breach of its covenants, or for a specific performance thereof, or asks the aid of the Court in declaring a forfeiture of the license or in restoring an unclouded title to the patent, he does not give the federal district court jurisdiction of the cause as one arising under the patent laws.<sup>33</sup>

The exclusive jurisdiction of federal courts over patents as provided by § 1338 required courts to distinguish those cases that arise under the patent laws from those cases “in which a patent may be the subject-matter of the controversy.”<sup>34</sup>

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28. See *Gunn*, 133 S. Ct. at 1064–65; *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 313–14 (2005).

29. *Gunn*, 133 S. Ct. at 1064 (citing *Am. Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916)).

30. *Id.* (citing *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 9 (1983)).

31. See, e.g., *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 260 (1897).

32. See *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 135–36 (2007). Of course, the license may be raised as a defense to the action, which goes to the merits, not the jurisdiction, of the case. *Id.*

33. 270 U.S. 496, 510 (1926). In *Lockett*, the patent owner sued his licensees, alleging breach of contract and infringement by manufacture of the licensed products after breach; the owner requested relief in the form of payment of royalties, reassignment of the patent back to the inventor, and specific performance of the contracts in general. *Id.* at 500–02. It appeared that infringement was an afterthought for the plaintiff. *Id.* at 511 (“[T]he bill in this case, as we have already fully pointed out, is really not based on threatened infringement but on the contracts; and its reference to infringements is inadequate . . . to present a bill . . .”).

34. *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473, 478 (1912). In *New Marshall Engine Co.*, the plaintiff patent owner requested specific performance of an agreement to assign an improvement on a patent. *Id.* at 479. In *Wilson v. Sandford*, the Court had declined jurisdiction when the patent owner sued to establish forfeiture of a license and requested an injunction against infringement should the forfeiture be established. 51 U.S. (10 How.) 99, 101 (1850). Chief Justice Taney wrote,

Now the dispute in this case does not arise under any act of Congress; nor does the decision depend upon the construction of any law in relation to patents. It

The Court decided these earlier cases before it developed the second, less direct path for jurisdiction, what it refers to as “a ‘special and small category’ of cases.”<sup>35</sup> “[F]ederal 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.”<sup>36</sup> Unfortunately, no bright-line rule guides a court<sup>37</sup>—it must determine whether the case involves “not only a contested federal issue, but a substantial one, indicating a serious federal interest in claiming the advantages thought to be inherent in a federal forum.”<sup>38</sup>

Addressing whether patent-license cases fall into this special and small category, the Federal Circuit has held that “issues of inventorship, infringement, validity and enforceability present sufficiently substantial questions of federal patent law to

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arises out of the contract stated in the bill; and there is no act of Congress providing for or regulating contracts of this kind.

*Id.* at 101–02. In contrast, in *Healy v. Sea Gull Specialty Co.*, the Court found federal jurisdiction when the plaintiff pleaded patent infringement and alleged breach and termination of a license in anticipation of the licensee’s defenses to the charge of infringement. 237 U.S. 479 (1915). Likewise, in *The Fair v. Kohler Die & Specialty Co.*, the Court found jurisdiction when “the plaintiff sued upon the patent law, so far as the purport and intent of the bill [was] concerned. . . . [I]t charged an infringement of its patent rights in general terms . . . which it could have done only by virtue of the statute.” 228 U.S. 22, 24 (1913). *The Fair*’s patent owner sold devices to a distributor with a retail price restriction, and the distributor sold the devices to purchasers with notice of the restriction. *Id.* at 23–24. That same Term, the Supreme Court held that resale price restrictions like these are invalid and not enforceable as a matter of patent law. *Bauer & Cie v. O’Donnell*, 229 U.S. 1, 16–17 (1913) (reasoning that such restrictions are “beyond the protection and purpose of the [Patent Act]”); see also Amelia Smith Rinehart, *Contracting Patents: A Modern Patent Exhaustion Doctrine*, 23 HARV. J.L. & TECH. 483, 496 (2010). Conditional sales and license restrictions, however, may be enforceable in both contract law and patent law, which raises the jurisdictional question of whether the case arises under the patent laws.

35. *Gunn*, 133 S. Ct. at 1064 (quoting *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677, 699 (2006)). “[T]he question is, does a state-law claim necessarily raise a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.” *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 314 (2005).

36. *Gunn*, 133 S. Ct. at 1065.

37. *Grable*, 545 U.S. at 317. In his concurrence in *Grable*, Justice Thomas states that “[j]urisdictional rules should be clear” and indicates his own preference for the bright-line rule in *American Well Works* (in an opinion from Justice Holmes) where only federal causes of action arise under federal law. *Id.* at 321 (Thomas, J. concurring). Justice Thomas offers that the *Smith* framework, adopted by *Grable*, “may not be worth the effort it entails.” *Id.* In *Gunn*, Chief Justice Roberts wrote, “In outlining the contours of this slim category, we do not paint on a blank canvas. Unfortunately, the canvas looks like one that Jackson Pollock got to first.” *Gunn*, 133 S. Ct. at 1065.

38. *Grable*, 545 U.S. at 313. The Court “has resisted all attempts to frame a single, precise definition for determining which cases fall within, and which cases fall outside, the original jurisdiction of the district courts.” *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 8 (1983).

support jurisdiction under § 1338(a).<sup>39</sup> In these cases, some of which are described below, the court asks whether the contractual rights and duties disputed in the state action implicate one of these substantial patent issues relating to the licensee's privilege to operate without liability under the patent claims. If so, the court holds that the case arises under the laws relating to patents.

Of the four issues listed, the most obvious of these is infringement, which is the basis of the patent cause of action found in 35 U.S.C. § 281.<sup>40</sup> For example, the Federal Circuit in *U.S. Valves, Inc. v. Dray* held that a question of patent infringement, when necessary for resolution of a state contract action, raised a substantial question of federal patent law sufficient to carry jurisdiction under § 1338(a).<sup>41</sup> The breach-of-contract action in *U.S. Valves* required a determination of whether the license covered the products sold by the defendant or whether those products fell outside of it.<sup>42</sup> This in turn required a determination of which products the patent-in-suit covered.<sup>43</sup> Interestingly, the court did not need to resolve the question of patent law to make the determination of breach (a contractual question); rather, the question of what products the license covered related only to the measure of damages for the prevailing plaintiff.<sup>44</sup>

Likewise, in *Scherbatskoy v. Halliburton Co.*, the Fifth Circuit found Federal Circuit appellate jurisdiction over a case involving a patent owner's suit against a licensee for failure to pay royalties under a patent license.<sup>45</sup> The license involved an

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39. Bd. of Regents *ex rel.* Univ. of Tex. v. Nippon Tel. & Tel. Corp., 414 F.3d 1358, 1363 (Fed. Cir. 2005).

40. 35 U.S.C. § 281 (2012) ("A patentee shall have remedy by civil action for infringement of his patent."); *see also* 35 U.S.C. § 271(a) (2012) ("[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.").

41. 212 F.3d 1368, 1372 (Fed. Cir. 2000). Further, in *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), *overruled on other grounds by* *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999), and *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476 (Fed. Cir. 1993), the Federal Circuit confirmed that patent infringement also raises a substantial question of patent law when it is an element of a plaintiff's state tort claim. *Cf.* *ClearPlay, Inc. v. Abecassis*, 602 F.3d 1364, 1367 (Fed. Cir. 2010) (finding no jurisdiction over a case involving six various state-law counts, because even though it was possible that patent infringement could arise during the course of the litigation, no count necessarily required resolution of a patent-law issue).

42. *U.S. Valves*, 212 F.3d at 1372.

43. *Id.*; *see also* *Arlaine & Gina Rockey, Inc. v. Cordis Corp.*, 175 F. App'x 329 (Fed. Cir. 2006) (finding jurisdiction over a contract case where the plaintiff alleging breach would have to prove infringement to obtain relief).

44. *U.S. Valves*, 212 F.3d at 1374–75; *see also* *Portney v. CIBA Vision Corp.*, 401 F. App'x 526, 528–29 (Fed. Cir. 2010) (retaining jurisdiction over a breach-of-contract action where the plaintiff would have to establish that the defendant's products fell within the scope of the patent claims).

45. 125 F.3d 288, 291 (5th Cir. 1997) *appeal transferred*, 178 F.3d 1312 (Fed. Cir. 1999) (unpublished decision). The Fifth Circuit first held that it, not the Federal Circuit, had jurisdiction over the question of whether the district court in that case had federal patent jurisdiction, stating:

enhanced royalty provision that required the court to determine whether the licensee acquired a new company pursuant to the license terms, whether the new company offered the licensed services prior to the acquisition, and whether the new company was immune from suit or had a license to the patents-in-suit.<sup>46</sup> The Fifth Circuit held that these questions could only be answered by determining a substantial question of patent law, namely, whether the services provided fell within the claims of the licensed patent.<sup>47</sup>

*Laboratory Corp. of America Holdings v. Metabolite Laboratories, Inc.* presented a very similar case: a breach-of-contract action involving a question of whether the patent-in-suit covered certain products.<sup>48</sup> However, in *Metabolite*, the question of patent infringement (or scope of the license) had been resolved in a previous litigation between the parties that would serve as *res judicata* in the case.<sup>49</sup> The Federal Circuit refused jurisdiction over the case, holding that the patent owner's breach-of-contract action would "not require resolution of a disputed question of patent law central to the disposition of the breach of contract claim."<sup>50</sup> Because the patent infringement question had already been determined, it did not need to be resolved by the *Metabolite* court.<sup>51</sup>

In addition to questions of infringement, the Federal Circuit has acknowledged that questions of invalidity and unenforceability of the patent are also substantial in the context of § 1338. For example, in *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, the court stated,

In keeping with our precedent, we treat validity and enforceability the same as infringement. We see no reason why our jurisdictional jurisprudence should distinguish the first two from the latter. Each of these issues is substantial in the federal scheme, for they are essential to the federally created property right: one determines whether there is a property right, another whether that right is enforceable, and the third what is the scope of that right.

In deciding that the issues of validity and enforceability are substantial enough, we also look to the purposes that Congress intended to promote by forming this court. In enacting the Federal Courts Improvement Act of

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We decline to read section 1295 as granting exclusive jurisdiction to the Federal Circuit over issues of the propriety of a district court's jurisdiction under section 1338. Such an interpretation conflicts with the inherent principles that a regional circuit court can determine its own jurisdiction and supervise the exercise of jurisdiction by the district courts within its circuit.

*Id.*

46. *Id.* at 289–90.

47. *Id.* at 291. The Federal Circuit also confers jurisdiction where the patent question in the plaintiff's well-pleaded complaint concerns not hypothetical infringement but simply how the claims of the patent-in-suit should be construed. *See Immunoccept, LLC v. Fulbright & Jaworski LLP*, 504 F.3d 1281, 1285 (Fed. Cir. 2007) ("As a determination of patent infringement serves as the basis of § 1338 jurisdiction over related state law claims, so does a determination of claim scope. After all, claim scope determination is the first step of a patent infringement analysis.").

48. 599 F.3d 1277 (Fed. Cir. 2010), *appeal transferred*, 410 F. App'x 151 (10th Cir. 2011).

49. *Id.* at 1283.

50. *Id.*

51. *Id.* at 1286.

1982, which created this court, Congress made manifest its intent to effect “a clear, stable, uniform basis for evaluating matters of patent validity/invalidity and infringement/noninfringement,” so as to “render[] more predictable the outcome of contemplated litigation, facilitate[] effective business planning, and add[] confidence to investment in innovative new products and technology.” To achieve those goals, we conclude . . . that validity and enforceability represent federal interests of great stake over which, when the other requirements of section 1338(a) are satisfied, we should exert our appellate jurisdiction under section 1295(a)(1) via section 1338(a) jurisdiction. To conclude otherwise would undermine Congress’s expectations for this court.<sup>52</sup>

What are “the other requirements of section 1338(a)”?<sup>53</sup> Presumably, the Federal Circuit intended that a question of patent validity or unenforceability *could* support federal patent jurisdiction, but the question must also be necessarily raised, actually disputed, and capable of resolution in federal court without disrupting the important state-federal balance.<sup>54</sup> As with the question of infringement (i.e., the scope of the patent to cover licensed products), a question of invalidity or unenforceability gives rise to federal patent jurisdiction under § 1338 in the Federal Circuit when the question must be answered to establish the contractual rights and duties found in the agreement.<sup>55</sup>

The Supreme Court also links “arising-under” jurisdiction (whether federal question or patent) with what it refers to as the well-pleaded complaint rule, a coarse filter for jurisdiction that aspires to separate federal *claims* from federal *issues*.<sup>56</sup> The Court first formulated the rule in *Louisville & Nashville Railroad Co. v. Mottley*:<sup>57</sup>

[A] suit arises under the Constitution and laws of the United States only when the plaintiff’s statement of his own cause of action shows that it is based upon those laws or that Constitution. It is not enough that the plaintiff alleges some anticipated defense to his cause of action and asserts that the defense is invalidated by some provision of the Constitution of the United States.<sup>58</sup>

Following *Mottley*, the Supreme Court has consistently reaffirmed that a plaintiff cannot establish federal jurisdiction simply by raising or anticipating a federal defense—the plaintiff’s complaint must present a federal question on its

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52. 153 F.3d 1318, 1330–31 (Fed. Cir. 1998) (alterations in original) (citations omitted), *overruled on other grounds by* *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999).

53. *Id.* at 1331.

54. *Gunn v. Minton*, 133 S. Ct. 1059, 1064–65 (2013).

55. *See* *Bd. of Regents ex rel. Univ. of Tex. v. Nippon Tel. & Tel. Corp.*, 414 F.3d 1358, 1363 (Fed. Cir. 2005).

56. *See* Christopher A. Cotropia, *Counterclaims, the Well-Pleaded Complaint, and Federal Jurisdiction*, 33 HOFSTRA L. REV. 1, 5 (2004) (describing the well-pleaded complaint rule as an analytical filter to be used as a first step in an “arising under” analysis).

57. 211 U.S. 149 (1908).

58. *Id.* at 152.

face.<sup>59</sup> By corollary, a defendant cannot convert a nonfederal case into a federal one simply by asserting a federal defense or counterclaim.<sup>60</sup> The plaintiff, as master of his suit, determines whether his case arises under federal law.<sup>61</sup>

In modern cases, the Supreme Court continues to place the arising-under inquiry solely within the plaintiff's well-pleaded complaint: federal-question jurisdiction extends to the two *Grable* categories,<sup>62</sup> and then "only [to] those cases in which a well-pleaded complaint establishes either that federal law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal law."<sup>63</sup> This rigidity has been criticized over the years,<sup>64</sup> but it remains an essential element of federal arising-under jurisdiction of all flavors.<sup>65</sup> As a result, when a plaintiff does not plead a federal cause of action, courts must determine from that plaintiff's complaint the importance of the federal question to the case at hand; courts must further decline jurisdiction over federal questions that arise in defense to or in anticipation of the defendant's defenses or counterclaims.<sup>66</sup> Moreover, when the plaintiff brings a claim for relief supported by multiple theories, the claim does not arise under federal law unless the federal

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59. CHEMERINSKY, *supra* note 23, § 5.2.3, at 294–95.

60. *See* *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002). In patent cases, the addition of 28 U.S.C. § 1454 and the amendment to § 1295 abrogates *Holmes Group* in the context of compulsory patent counterclaims. *See* Joe Matal, *A Guide to the Legislative History of the America Invents Act* (pt. 2), 21 FED. CIR. BAR J. 539, 539–41 (2012); *see also supra* note 19.

61. *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913). As Justice Holmes explained,

[T]he party who brings a suit is master to decide what law he will rely upon and therefore does determine whether he will bring a "suit arising under" the patent or other law of the United States by his declaration or bill. That question cannot depend upon the answer, and accordingly jurisdiction cannot be conferred by the defence even when anticipated and replied to in the bill. Conversely, when the plaintiff bases his cause of action upon an act of Congress jurisdiction cannot be defeated by a plea denying the merits of the claim.

*Id.* (citation omitted). As one scholar notes, "[I]f a party alleges a federal substantive right in good faith, jurisdiction exists no matter how wrong he is on the merits." Herman L. Trautman, *Federal Right Jurisdiction and the Declaratory Remedy*, 7 VAND. L. REV. 445, 462 (1954).

62. *See Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308, 312 (2005) (describing federal-question jurisdiction as invoked most frequently by plaintiffs who plead a cause of action created by federal law and less frequently by those who plead "state-law claims that implicate significant federal issues").

63. *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 27–28 (1983).

64. *See, e.g.,* Donald L. Doernberg, *There's No Reason for It; It's Just Our Policy: Why the Well-Pleaded Complaint Rule Sabotages the Purposes of Federal Question Jurisdiction*, 38 HASTINGS L.J. 597 (1987); Paul J. Mishkin, *The Federal "Question" in the District Courts*, 53 COLUM. L. REV. 157 (1953).

65. *Franchise Tax Bd.*, 463 U.S. at 4 (reaffirming the rule despite describing it as based more on "history than logic"); CHEMERINSKY, *supra* note 23, §5.2.3, at 301.

66. *Franchise Tax Bd.*, 463 U.S. at 9–11.

question is essential to each of the theories presented by the plaintiff in support of her claim for relief.<sup>67</sup>

Restating the well-pleaded complaint rule as applied to § 1338(a), the Supreme Court instructed that patent defenses raised by a defendant in his answer do not supply federal patent jurisdiction to the suit, even if those defenses oblige the court to interpret the validity of a patent or to resolve other patent issues.<sup>68</sup> In other words, § 1338(a) requires that the plaintiff's cause of action carry the substantial patent question necessary for federal jurisdiction and for Federal Circuit appellate review.<sup>69</sup>

Two relatively modern cases further explain the operation of the well-pleaded complaint rule in patent cases, both addressing the rule indirectly through the exclusive appellate jurisdiction of the Federal Circuit.<sup>70</sup> In *Christianson*, the plaintiff alleged federal antitrust liability and state trade-secret theft giving rise to tortious interference with business relations, where the state claim required proof that the defendant's patent-law accusations were false.<sup>71</sup> The court held that the case did not arise under the patent laws because patent law was not an essential element of *each* of the plaintiff's multiple theories for relief in his case.<sup>72</sup>

67. *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 810 (1988). In *Christianson*, the court distinguished between theories and claims, allowing jurisdiction only if the claim is based solely on theories involving questions of federal law.

68. *See Am. Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916). Justice Holmes wrote, "A suit arises under the law that creates the cause of action. The fact that the justification may involve the validity and infringement of a patent is no more material to the question under what law the suit is brought than it would be in an action of contract." *Id.* Coincidentally (or perhaps not), Justice Holmes wrote the opinions in *American Well Works* (denying jurisdiction over business tort), *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913) (recognizing that a defendant may not force a case to come within federal patent jurisdiction), and *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479 (1915) (granting jurisdiction where patent owner claimed patent infringement).

69. *See Am. Well Works*, 241 U.S. at 260. In *American Well Works*, the plaintiff brought a state suit for libel and injury to its business, claiming that the patent owner falsely and maliciously accused it of infringing its patents. The defendant removed the case to federal court, alleging that the patent laws gave the case federal jurisdiction because the plaintiff would have to prove that he was not infringing the patent in order to establish his state law claim of libel. The Court disagreed that federal jurisdiction existed, holding that "[a] suit for damages to business caused by a threat to sue under the patent law is not itself a suit under the patent law." *Id.* at 259.

70. The Federal Circuit receives exclusive appellate jurisdiction over patent cases from 28 U.S.C. § 1295. *See infra* Part I.B.

71. *Christianson*, 486 U.S. at 800. Because the district court established federal jurisdiction through diversity and the Sherman Act, the Federal Circuit initially refused to hear the appeal due to a lack of § 1338 jurisdiction and transferred the case to the Seventh Circuit. *See Christianson v. Colt Indus. Operating Corp.*, 822 F.2d 1544, 1549 (Fed. Cir. 1987) (citing an unpublished Federal Circuit order), *vacated*, 486 U.S. 800. The Seventh Circuit, in turn, transferred the case back to the Federal Circuit. *Christianson v. Colt Indus. Operating Corp.*, 798 F.2d 1051 (7th Cir. 1986). The Federal Circuit then agreed to weigh in on the merits in the "interest of justice." *Christianson*, 822 F.2d at 1559–60. The Supreme Court later vacated this Federal Circuit decision. *Christianson*, 486 U.S. 800.

72. *Christianson*, 486 U.S. at 812–13 (distinguishing between a patent theory and a patent claim and holding that only patent claims give rise to federal jurisdiction under

Similarly, in *Holmes Group*, the declaratory plaintiff brought a claim for a declaration of noninfringement of trade dress under the Lanham Act, and the declaratory defendant (a patent owner) counterclaimed for patent infringement pursuant to 35 U.S.C. § 281.<sup>73</sup> The Court held that the well-pleaded complaint rule prevented the case from arising under the patent laws because the patent counterclaim was not part of the plaintiff's well-pleaded complaint.<sup>74</sup> As a result, the well-pleaded complaint rule blocks federal patent jurisdiction over cases in which the plaintiff does not facially plead an essential question of patent law—either a federal patent cause of action or a cause of action that raises a necessary, substantial, disputed, and important federal patent question—as part of her case or controversy.<sup>75</sup>

One final rule applies when a party (usually an alleged infringer or licensee) opts to file a suit against the patent owner to request anticipatory declaratory relief. Because the mechanism for doing so does not confer federal jurisdiction,<sup>76</sup> the declaratory plaintiff must demonstrate that § 1338(a) confers federal patent jurisdiction.

Because either party to a controversy may request declaratory relief, declaratory cases typically fall into two categories: (1) cases in which the plaintiff could bring her own coercive action (referred to here as alternative-relief cases), and (2) cases in which the plaintiff has no coercive action of her own (referred to here as mirror-image cases).<sup>77</sup> In the former category, the plaintiff could bring her own coercive action, but she seeks declaratory relief in addition to or instead of the coercive relief she has the right to seek.<sup>78</sup> For example, a patent owner may file suit for patent infringement against an alleged infringer and include claims requesting a declaratory judgment that the patent is infringed. The court may decline to award damages or an injunction and yet still grant the declaration, which the patent owner may use in the future as *res judicata* against the alleged infringer.<sup>79</sup> A

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§ 1338). For an analysis of how the Federal Circuit interprets federal-state and federal-federal cause-of-action conflicts, see John Donofrio & Edward C. Donovan, *Christianson v. Colt Industries Operating Corp.: The Application of Federal Question Precedent to Federal Circuit Jurisdiction Decisions*, 45 AM. U. L. REV. 1835, 1899–901 (1996).

73. *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002). For a discussion of *Holmes Group* and its impact on Federal Circuit appellate jurisdiction, see Christopher A. Cotropia, “*Arising Under*” *Jurisdiction and Uniformity in Patent Law*, 9 MICH. TELECOMM. & TECH. L. REV. 253 (2003); see also 28 U.S.C. § 1295(a) (2012) (granting exclusive jurisdiction to the Federal Circuit over an appeal from a final decision “in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents”).

74. *Holmes Grp.*, 535 U.S. at 832–34; see also Cotropia, *supra* note 56, at 16–17.

75. See *Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308, 314 (2005).

76. See *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 138 (2007) (“[T]his Court has held that ‘the operation of the Declaratory Judgment Act is procedural only.’” (quoting *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240 (1937))).

77. See EDWIN BORCHARD, *DECLARATORY JUDGMENTS*, at xi (2d ed. 1941).

78. The Declaratory Judgments Act expressly authorizes a plaintiff with a right to coercive relief to request declaratory relief without joining a claim for coercive relief. See 28 U.S.C. § 2201 (2012).

79. Declaratory judgments granted under § 2201 are considered final judgments and have the same preclusive effect as corresponding coercive judgments. 18A CHARLES ALAN

patent owner may even choose solely to request declaratory relief from the court.<sup>80</sup>

In the latter category of declaratory cases, mirror-image cases, the declaratory plaintiff has no cause of action or legal right to coercive relief of her own.<sup>81</sup> For example, an alleged patent infringer may file suit against the patent owner, requesting only declaratory relief in the form of a declaratory judgment of noninfringement. The alleged infringer has no affirmative right of her own to cancel the patent by bringing a coercive action against the patent owner or the government.<sup>82</sup>

In both types of declaratory cases, a declaratory plaintiff embroiled in an otherwise justiciable controversy may have difficulty establishing federal patent jurisdiction under the well-pleaded complaint rule. In mirror-image cases, a declaratory plaintiff may plead anticipatory federal patent defenses to her adversary's coercive cause of action (which may not be a federal patent question).<sup>83</sup> In alternative-relief cases, a declaratory plaintiff without her own patent cause of action may plead patent questions in anticipation of her adversary's defenses or counterclaims. When considering the application of the well-pleaded complaint rule to declaratory patent cases, the Supreme Court has had to reconcile the anticipatory character of the declaratory proceeding with the formalistic well-pleaded complaint rule, which forbids anticipatory patent pleading (a difficult reconciliation, to be sure).<sup>84</sup>

Federal patent jurisdiction, even in declaratory cases, turns on whether the declaratory plaintiff's complaint, on its face, presents a federal patent question "unaided by anything alleged in anticipation of avoidance of defenses which it is thought the defendant may interpose."<sup>85</sup> The Declaratory Judgments Act's allowance for relief "necessary or proper" against the adverse party necessitates a request for the "present declaration of [a] right or immunity," not something to hold in one's pocket for potential use in later judicial proceedings (i.e., the prohibited

WRIGHT, ARTHUR R. MILLER & EDWARD H. COOPER, FEDERAL PRACTICE AND PROCEDURE § 4446 (2d ed. 2002) ("The very purpose of this remedy is to establish a binding adjudication that enables the parties to enjoy the benefits of reliance and repose secured by *res judicata*.").

80. See 28 U.S.C. § 2201.

81. These cases had no remedy in federal courts prior to passage of the Declaratory Judgments Act in 1934. BORCHARD, *supra* note 77, at 806. Indeed, the Act itself sprang from recognition of the social and economic advantages in making relief available to these plaintiffs despite the lack of any cognizable wrong in law or equity. See *id.* at 804–05.

82. *Mowry v. Whitney*, 81 U.S. 434, 441 (1871) ("It would seriously impair the value of the title which the government grants after regular proceedings before officers appointed for the purpose, if the validity of the instrument by which the grant is made, can be impeached by any one whose interest may be affected by it, and would tend to discredit the authority of the government in such matters."); see also *United States v. Am. Bell Tel. Co.*, 167 U.S. 224 (1897) (limiting government invalidity challenges to cases of fraud or deceit); *Enka B. V. v. E. I. Du Pont De Nemours & Co.*, 519 F. Supp. 356, 361 (D. Del. 1981) (saying that the "admirable" policies supporting the Act "do not, however, constitute the courts as roving inquirers into patent validity"). More recently, the government has been allowed to challenge patents on antitrust grounds. See *United States v. Glaxo Grp. Ltd.*, 410 U.S. 52 (1973).

83. BORCHARD, *supra* note 77, at 804–05.

84. See Frank M. Gilliland, Jr., Note, *Federal Question Jurisdiction of Federal Courts and the Declaratory Judgment Act*, 4 VAND. L. REV. 827, 830–32 (1951).

85. *Id.* at 834 (quoting *Skelly Oil Co. v. Phillips Petroleum Co.*, 339 U.S. 667, 672 (1950)).

hypothetical case).<sup>86</sup> How does a court determine whether a declaratory plaintiff has raised a federal patent question? The Supreme Court emphasizes the impropriety of a declaratory plaintiff seeking to establish a federal defense against a coercive state cause of action that the declaratory defendant might bring in the future.<sup>87</sup> The character of the *threatened action* (the cause of action that the declaratory plaintiff anticipates from the declaratory defendant) must be the touchstone for federal jurisdiction in declaratory cases, not the character of the declaratory plaintiff's anticipated defense.<sup>88</sup>

Most recently, the Court in *Medtronic* reiterated that the proper jurisdictional inquiry in patent declaratory judgment cases with respect to the well-pleaded complaint rule relates to "the nature of the threatened action in the absence of the declaratory judgment suit."<sup>89</sup> The *Medtronic* licensee believed that it owed no royalties because its products did not infringe the licensed patent.<sup>90</sup> According to the Court, if the licensee had acted on that belief, the patent owner could terminate the license and bring an action for patent infringement in federal court.<sup>91</sup> As such, the Court wrote, "this declaratory judgment action, which avoids that threatened action, also 'arises under' federal patent law."<sup>92</sup>

In sum, a case arises under the patent laws when a plaintiff's well-pleaded complaint claims a patent cause of action or when other nonpatent claims raise a necessary, disputed, and substantial patent question whose resolution in federal court does not disrupt the proper federal-state balance.<sup>93</sup> There is no exclusive federal

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86. See *Pub. Serv. Comm'n v. Wycoff Co.*, 344 U.S. 237, 245 (1952).

87. *Id.*

88. *Id.* at 248 ("If the cause of action, which the declaratory defendant threatens to assert, does not itself involve a claim under federal law, it is doubtful if a federal court may entertain an action for a declaratory judgment establishing a defense to that claim. This is dubious even though the declaratory complaint sets forth a claim of federal right, if that right is in reality in the nature of a defense to a threatened cause of action."). Justice Reed, concurring in the judgment, argued that the controversy was "clear and definite," but he would have declined jurisdiction as a matter of discretion. *Id.* at 250–251 (Reed, J., concurring). Because the Declaratory Judgment Act "exists as an instrument to protect the citizen against the dangers and damages that may result from his erroneous belief as to his rights under state or federal law," courts seeking to provide this relatively new alternative form of relief should "appraise the threatened injuries to complainant, the necessity and danger of his acting at his peril through incurring heavy damages, [and] the adequacy of state or other remedies." *Id.* In *Wycoff*, Justice Reed identified no unusual danger of loss or damage. Justice Douglas, dissenting, argued that the declaratory plaintiff had both a justiciable controversy and federal-question jurisdiction under § 1331 on the facts. Douglas criticized the majority's failure to exercise jurisdiction as "relegat[ing] the declaratory judgment to a low estate." *Id.* at 253 (Douglas, J., dissenting); see also *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 848 (2014); *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 19 (1983).

89. *Medtronic*, 134 S. Ct. at 848.

90. *Id.*

91. *Id.*

92. *Id.*

93. *Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308, 313–14 (2005) ("[T]he question is, does a state-law claim necessarily raise a stated federal issue,

jurisdiction over *questions* arising under the patent laws, only over *cases* arising under the patent laws.<sup>94</sup> Some cases involving patent *questions* that do not qualify as patent *cases* may find their way to federal courts sitting in diversity, but the Federal Circuit will not have appellate jurisdiction over these appeals.<sup>95</sup> Other cases involving patent questions may remain in state courts, which is not without precedent.<sup>96</sup>

### B. Federal Circuit Appellate Jurisdiction

In 1982, Congress created the Federal Circuit and gave it appellate jurisdiction over patent-case appeals from the district courts and the United States Patent and Trademark Office (USPTO).<sup>97</sup> The Federal Circuit initially obtained exclusive jurisdiction over “an appeal from a final decision of a district court . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title.”<sup>98</sup> Therefore, the appellate jurisdiction of the Federal Circuit also required application of the well-pleaded complaint rule, as underscored by the *Holmes Group* case.<sup>99</sup> Any case brought in federal district court under § 1338 gave rise to appellate jurisdiction within the Federal Circuit.<sup>100</sup> In cases like *Christianson* and *Holmes Group*, the jurisdictional question surrounding application of the well-pleaded complaint rule was one and the same with those relevant to a § 1338 analysis.<sup>101</sup>

In 2011, Congress amended § 1295 to remove the direct reference to § 1338, replacing it with a grant of exclusive appellate jurisdiction over “an appeal from a final decision of a district court . . . in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents or plant variety protection.”<sup>102</sup> This amendment was intended to abrogate *Holmes Group* by allowing for appellate jurisdiction when a defendant’s counterclaim carries the federal patent question, rather than looking solely to the plaintiff’s complaint.<sup>103</sup>

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actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.”)

94. *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808–09 (1988).

95. *See* 28 U.S.C. § 1291 (2012).

96. Historically, state courts have determined questions involving the scope, validity, or infringement of a patent when such determinations are necessary to decide the case before them. *See* *Diematic Mfg. Corp. v. Packaging Indus., Inc.*, 381 F. Supp. 1057 (S.D.N.Y. 1974), *appeal dismissed*, 516 F.2d 975 (2d Cir. 1975); *Imperial Appliance Corp. v. Hamilton Mfg. Co.*, 430 F.2d 185 (7th Cir. 1970).

97. Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, § 127, 96 Stat. 25, 37 (codified as amended at 28 U.S.C. § 1295 (2012)).

98. 28 U.S.C. § 1295(a)(1) (2006).

99. *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002) (rejecting § 1295 and § 1338 jurisdiction over a compulsory counterclaim for patent infringement pleaded by the defendant); *see supra* text accompanying notes 73–75.

100. 28 U.S.C. § 1295(a)(1) (2006).

101. *See supra* text accompanying notes 70–75.

102. 28 U.S.C. § 1295 (a)(1) (2012).

103. The 2011 amendments not only extend jurisdiction to the Federal Circuit over civil actions in which compulsory counterclaims arise under the patent laws but also provide for removal by any party who brings a claim arising under the patent laws. *See* AIA, Pub. L. No.

*C. Removal of State Patent Cases to Federal Court*

A case originally filed in state court can be removed to federal court if the case could have been brought in federal court to begin with.<sup>104</sup> Until 2011, patent cases filed in state court could be removed to federal court only through the general removal statute, 28 U.S.C. § 1441(a).<sup>105</sup> Section 1441(a) allows for removal by a defendant of “any civil action brought in a State court of which the district courts of the United States have original jurisdiction.”<sup>106</sup> This provision does not alter the arising-under jurisprudence governing whether the district courts of the United States have original jurisdiction over the civil action that the defendant seeks to remove.<sup>107</sup> The state plaintiff’s well-pleaded complaint must meet the *Grable* two-category test by presenting either a federal claim for relief or a state claim for relief that raises a necessarily raised, actually disputed, and substantial issue whose resolution in federal court would not disrupt the federal-state balance struck by Congress.<sup>108</sup> To be removed to federal court with a right of appeal to the Federal Circuit, the federal issue or claim for relief must necessarily be one arising under the laws relating to patents in accordance with § 1338.<sup>109</sup>

The AIA added a new patent-specific removal section to enable its reversal of *Holmes Group*.<sup>110</sup> The new statute, 28 U.S.C. § 1454, governs removal in all cases arising under the patent laws.<sup>111</sup> In contrast to § 1441, patent litigants on either side of the case (“any party”) are given the opportunity to remove the case to federal court based on any claims or counterclaims that relate to patent laws.<sup>112</sup> In the few cases that have ruled on this provision since its enactment, the courts have held, in dicta, that the provision also would be subject to the well-pleaded complaint rule,

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112-29, § 19, 125 Stat. 284, 331 (2011) (codified as amended in scattered sections of 35 U.S.C.); S. 23, 112th Cong. § 17 (2011); H.R. REP. NO. 109-407, at 5 (2006); Matal, *supra* note 60, at 539-41. Note, the new language mimics that of § 1338 purposefully—suggesting that “the principles of the well-pleaded complaint that determine the district court’s jurisdiction also determine appellate jurisdiction.” *Kennedy v. Wright*, 851 F.2d 963, 968-69 (7th Cir. 1988) (citing *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808 n.2 (1988)).

104. *See* 28 U.S.C. §1441(a) (2012); *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 21-22 (1982) (holding that case was not within the removal jurisdiction of § 1441 because it did not fall within the original jurisdiction of the federal courts); *see also* *Uroplasty, Inc. v. Advanced Uroscience, Inc.*, 239 F.3d 1277, 1279 (Fed. Cir. 2001) (“A case may only be removed from state to federal court if it originally could have been brought in federal court.”).

105. In 2011, Congress added a new removal statute applicable to patent cases, transferring patent removals from § 1441 to new § 1454. *See* AIA, Pub. L. No. 112-29, § 19(c), 125 Stat. 284, 332 (2011); *Univ. of Ky. Research Found., Inc. v. Niadyne, Inc.*, Civ. No. 13-16-GFVT, 2013 WL 5943921, at \*5 (E.D. Ky. Nov. 5, 2013) (discussing legislative changes made by the AIA with respect to patent-case removal).

106. 28 U.S.C. §1441(a).

107. *See Caterpillar Inc. v. Williams*, 482 U.S. 386, 392-93 (1987).

108. *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 313-14 (2005).

109. *See* 28 U.S.C. § 1295(a)(1) (2012).

110. *See supra* note 103.

111. 28 U.S.C. § 1454(a) (2012).

112. *Id.*

albeit applied in a manner consistent with allowing *either* party's claims for relief to support removal.<sup>113</sup>

## II. TRAVELING THE DARK CORRIDOR OF PATENT JURISDICTION

When a patent owner enters into a license agreement, the resulting agreement represents an arm's-length negotiation between the patent owner and his licensee, complete with rights and duties enforceable through contract law. The license agreement also grants permission to the licensee to practice the patented invention, a privilege nullifying the patent owner's right to exclude others. If a dispute arises between the parties, the patent owner may sue the licensee for relief in contract or patent law.<sup>114</sup> If the patent owner decides to pursue only his contract claims, the licensee may raise an affirmative defense of patent noninfringement or invalidity, occasionally in the form of a counterclaim for declaratory relief. The licensee also can sue the patent owner for relief in contract law and can bring his own declaratory action in patent law. Accordingly, the universe of cases that might arise looks like this:

- (1) The patent owner sues the licensee for patent relief in federal court.
- (2) The licensee sues the patent owner for declaratory relief in federal court.
- (3) The patent owner sues the licensee for contract relief in federal court and the parties are diverse.
- (4) The patent owner sues the licensee (or the licensee sues the patent owner) for contract relief in state court.

In category one, the case arises under the laws relating to patents. Because the cause of action concerns patent law, proper jurisdiction lies in federal court with a right of appeal to the Federal Circuit.<sup>115</sup> In category two, the Supreme Court has effectively determined that the case arises under the patent laws (at least when the

113. The cases applying § 1454 have not ruled on the question of patent claims but on the question of timely filing for removal. *See, e.g.*, *Univ. of Ky. Research Found., Inc. v. Niadyne, Inc.*, Civ. No. 13–16–GFVT, 2013 WL 5943921, at \*6, \*10 (E.D. Ky. Nov. 5, 2013) (holding that the state-court defendant did not timely remove the action to federal court in accordance with procedural rule, 28 U.S.C. § 1446).

114. *Chisum*, *supra* note 10, at 646; DONALD S. CHISUM, *CHISUM ON PATENTS*, § 21.01[1][a][v] (describing the patent owner's decision as a "pleader's choice"). This does not preclude supplemental claims sounding in contract law, which the patent owner may be able to bring based on the particular details of the license at issue. *See, e.g.* *Sims v. Western Steel Co.*, 403 F. Supp. 450, 453 (D. Utah 1975) (allowing supplemental jurisdiction over a state contract claim based upon a substantial federal patent infringement claim derived from the same operative facts).

115. *See* *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808–09 (1988); *Kunkel v. Topmaster Int'l, Inc.*, 906 F.2d 693, 695–96 (Fed. Cir. 1990) (granting jurisdiction over a suit where the patent owner alleged infringement without authority and requested remedies under 35 U.S.C. § 284, because "[t]hat is all [the patent owner] needed to do to invoke federal jurisdiction").

license has a termination clause for nonpayment of royalties).<sup>116</sup> In category three, the question of arising-under jurisdiction governs whether the case is appealed to the Federal Circuit or a regional appellate court.<sup>117</sup> In category four, the question of arising-under jurisdiction governs whether the case can be removed to federal court and then appealed to the Federal Circuit.<sup>118</sup> Categories three and four (both involving state-law claims for relief) pose the same question: because the cause of action is not grounded in patent law, does the case fit into the small category of cases defined by the *Grable* two-part test, raising an issue of patent law that is necessary, in dispute, substantial, and resolvable in federal court without disrupting the federal-state balance approved by Congress?<sup>119</sup>

As described in Part I, post-*Christianson* and post-*Grable*, the Federal Circuit has approached its jurisdiction (and all patent arising-under jurisdiction) over license cases in these state-claim categories with some degree of formalism—does the case at hand raise a question of infringement, inventorship, invalidity, or unenforceability?<sup>120</sup> The question of infringement arises in license cases if the license ties contractual rights and duties to only those products or services that would otherwise infringe the patent or if the claims of the patent require interpretation in order to determine the rights and duties under the contract.<sup>121</sup> The questions of invalidity and unenforceability arise if the license ties contractual rights and duties only to those patents that are valid or neither invalidated nor declared unenforceable prior to the termination of the license.<sup>122</sup> By taking jurisdiction over these four patent issues that can arise in state suits, the Federal

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116. See *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 848 (2014).

117. See, e.g., *Jang v. Boston Scientific Corp.*, 767 F.3d 1334 (2014), where the Federal Circuit noted that “[a]lthough this case arises from a contract claim, rather than directly as a patent infringement claim, Jang’s right to relief on the contract claim as asserted in the complaint depends on an issue of federal patent law. . . .” Nothing in the Supreme Court’s decision in *Gunn* alters that conclusion.” *Id.* at 1336.

118. See, e.g., *Uroplasty*, 239 F.3d at 1279 (applying § 1441 for removal jurisdiction). As described above, the AIA added § 1454 to allow either party to remove the case to federal court based on any claims or counterclaims that relate to the patent laws. See Part II.C. *supra*.

119. *Gunn v. Minton*, 133 S. Ct. 1059, 1064–65 (2013).

120. Since *Gunn*, which took a narrow view of what cases arise under the laws of patents in accordance with § 1338, the Federal Circuit has not reviewed a patent-license case with a jurisdictional question.

121. See, e.g., *Arlaine & Gina Rockey, Inc. v. Cordis Corp.*, 175 F. App’x 329, 331 (Fed. Cir. 2006); *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000).

122. See, e.g., *Natec, Inc. v. Deter Co.*, 28 F.3d 28, 29 (5th Cir. 1994) (transferring an appeal to the Federal Circuit after determining that the plaintiff’s state contract claim required a determination of whether his license was enforceable after the patent expired). The question of inventorship often arises over ownership disputes; such disputes are not the focus of this Article.

Circuit has concluded that the need for uniformity in patent law justifies elevating some state claims to the federal courts and to its own appellate jurisdiction.<sup>123</sup> Despite this laudable attempt to craft a well-defined rule for federal patent jurisdiction, the Federal Circuit's approach appears to conflict directly with the Supreme Court's recent analysis in *Gunn*, resulting in several problems: (1) inconsistency among the various courts considering these issues; (2) inefficiency produced by each court's obligation to satisfy itself of its own jurisdiction, which increases the litigation time and expense for both litigants and courts; and (3) uncertainty following *Gunn*. Each problem will be addressed in turn.

#### A. Inconsistency Among Courts

The complex layers of rules for determining whether a case arises under the laws relating to patents (including the Supreme Court's recent decision in *Gunn*) leave litigants vulnerable to inconsistent rulings from the various courts making jurisdictional decisions. As discussed in Part I, the Federal Circuit has developed a formal heuristic for making the determination—asking whether the state claim at issue involves a patent question of infringement, inventorship, invalidity, or unenforceability. However, the Federal Circuit need only apply its own heuristic when it assures itself of its own jurisdiction over the case; other courts are free to develop their own rules to assure themselves of their own jurisdiction over license cases.<sup>124</sup>

Even before *Gunn* called into question the Federal Circuit's rule of thumb, other courts hearing similar disputes decided the jurisdictional question in different ways. In *U.S. Valves*, the Federal Circuit held that an accounting for which products the patent claims covered—a question of infringement—caused the case to arise under the patent laws.<sup>125</sup> In contrast, in *Applera Corp. v. MP Biomedicals, LLC*, a California state court of appeals heard a license case involving a determination of both claim scope and validity, keeping jurisdiction in its own state court.<sup>126</sup> As in *U.S. Valves*, the *Applera* patent owner filed a breach-of-contract suit against its licensee, alleging that the licensee did not pay royalties or supply mandatory royalty reports as required by the license agreement.<sup>127</sup> The *Applera* agreement required the licensee to pay royalties on products identified by certain patented processes and features.<sup>128</sup> The defendant-licensee challenged the state court's jurisdiction, arguing that the patent owner's contract claim required a resolution of

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123. See *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1330–31 (Fed. Cir. 1998), *overruled on other grounds by* *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999). In *Hunter Douglas*, the Federal Circuit stated that in order to achieve Congress's goals of clarity, stability, and uniformity on questions of invalidity and infringement, it must exert jurisdiction over cases involving patent validity and enforceability because they “represent federal interests of great stake.” *Id.* at 1331.

124. See *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 877 (Fed. Cir. 1983) (“This court has inherent jurisdiction to determine its own jurisdiction.” (citing *United States v. United Mine Workers of Am.*, 330 U.S. 258 (1947))).

125. 212 F.3d at 1372.

126. 93 Cal. Rptr. 3d 178 (Ct. App. 2009).

127. *Id.* at 186.

128. *Id.* at 189.

substantial questions of patent law (i.e., determining whether the products sold were licensed products and whether the underlying patents were invalid).<sup>129</sup> Considering *Christianson*, the California court held that neither of these potential patent issues supported federal patent jurisdiction because the patent owner was required to prove neither for his breach-of-contract claim.<sup>130</sup> According to the patent owner's complaint, the court reasoned, the breach might merely involve a "failure to pay royalties concurrently with the submission of a royalty report in which defendant acknowledges the sale of products covered by the license."<sup>131</sup> The court continued,

"[T]he well-pleaded complaint rule . . . focuses on claims, not theories, and just because an element that is essential to a particular theory might be governed by federal patent law does not mean that the entire . . . claim 'arises under' patent law." Although it is true patent law issues conceivably could still arise in such an action—the parties might disagree as to the categorization of certain products—relief would not necessarily depend on the resolution of such issues.<sup>132</sup>

Turning to the second potential patent issue, patent invalidity, the California court rightfully noted that a licensee could raise patent invalidity as an affirmative defense to an allegation of nonpayment of royalties, but the court also observed that a patent invalidity question cannot create federal jurisdiction in this context.<sup>133</sup> The particular agreement at issue required royalty payments for products covered by a "Valid Claim," defined as "the claim of a patent or pending patent application which has not been held invalid or otherwise unenforceable by a court from which no appeal has or can be taken, or has not otherwise finally been held unpatentable by the appropriate administrative agency."<sup>134</sup> According to the court, this contractual language provided only the opportunity for the licensee to "plead and prove patent invalidity as a defense."<sup>135</sup> The court reasoned that a patent's presumption of validity sets the bargaining table for the licensee and the patent owner alike; it read the Supreme Court's decision in *Lear, Inc. v. Adkins* to "endorse[] challenges to patent validity by licensees" but also concluded that state contract law "does not require a licensor to prove patent validity as an element of a claim for licensing royalties in the first instance."<sup>136</sup> In fact, the *Applera* court

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129. *Id.*

130. *Id.* at 191.

131. *Id.*

132. *Id.* at 191–92 (alterations in original) (emphasis in original) (citations omitted) (quoting *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 811 (1988)).

133. *Id.* at 192.

134. *Id.*

135. *Id.*

136. *Id.* (citing *Lear, Inc. v. Adkins*, 395 U.S. 653, 675–76 (1969)). Note, *Medtronic* calls into question the reasoning in *Applera* vis-à-vis the presumption of validity, but there the Court focuses on the specific terms of the license agreement. See *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 848 (2014) ("The patent licensing agreement specifies that, if Medtronic stops paying royalties, Mirowski can terminate the contract and bring an ordinary patent infringement action.").

explicitly rejected the reasoning of *U.S. Valves*.<sup>137</sup> These types of inconsistent decisions are troubling for litigants, because they invite forum shopping by the patent owner eager to remain in state court to protect the validity of his patent. The licensee may file a declaratory action in a federal court of his choosing, but this adds considerably to the expense of litigating the patent's validity and may result in inconsistent verdicts between the federal court hearing the patent case and the state court hearing the contract one.

### *B. Inefficiency for Litigants and Courts*

In addition to inconsistency among courts, the current framework also demonstrates procedural inefficiencies. *Christianson*, the most cited § 1338 case decided by the Supreme Court, provides an excellent example.<sup>138</sup> The case originated as a federal antitrust claim filed by a former employee of the patent owner in federal court under the general federal-question statute.<sup>139</sup> The patent owner appealed to the Federal Circuit,

which, after full briefing and argument, concluded that it lacked jurisdiction and issued an unpublished order transferring the appeal to the Court of Appeals for the Seventh Circuit. The Seventh Circuit, however, raising the jurisdictional issue *sua sponte*, concluded that the Federal Circuit was “clearly wrong” and transferred the case back. The Federal Circuit, for its part, adhered to its prior jurisdictional ruling, concluding that the Seventh Circuit exhibited “a monumental misunderstanding of the patent jurisdiction granted this court,” and was “clearly wrong.” Nevertheless, the Federal Circuit proceeded to address the merits in the “interest of justice,” and reversed the District Court. We granted certiorari, and now vacate the judgment of the Federal Circuit.<sup>140</sup>

Such transfers between appellate circuits can be common. For example, in *Jim Arnold Corp. v. Hydrotech Systems, Inc.*, the Federal Circuit concluded “albeit reluctantly, that neither the district court nor this court has jurisdiction over the [contract] causes of action pled by plaintiffs.”<sup>141</sup> *Jim Arnold* originated as a case filed by a patent assignee in state court for a number of contract-related claims and a claim of patent infringement based upon rescission of his assignment agreement to the defendants.<sup>142</sup> The defendants removed the case to federal court, where they received summary judgment on the merits, and the patent assignee appealed to the Fifth Circuit.<sup>143</sup> The Fifth Circuit transferred the appeal to the Federal Circuit, which held that jurisdiction was lacking under § 1338(a), but in so doing described its reluctance:

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137. See *Applera*, 93 Cal. Rptr. 3d at 190–92.

138. *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988).

139. *Id.* at 804.

140. *Id.* at 806–07 (emphasis in original) (citations omitted).

141. 109 F.3d 1567, 1569 (Fed. Cir. 1997).

142. *Id.* at 1569–70.

143. *Id.* at 1570–71.

[J]udicial economy would suggest that plaintiff has had his day in court with regard to an initial determination of his claims at the trial level, and that the correctness of that determination is now a matter of appellate review of its merits. . . . [T]hough the result of a trial in state court may replicate the result reached by the federal district court, considerations of judicial economy cannot trump a clear rule of law, particularly one that goes to the very power of the court to decide the case.<sup>144</sup>

Similarly, *U.S. Valves* originated as a state contract claim filed by the patent owner in federal court through diversity of the parties.<sup>145</sup> The licensee lost the contract case in an Indiana federal district court and appealed to the Seventh Circuit Court of Appeals. The Seventh Circuit transferred the case to the Federal Circuit after concluding that one element of the contract claim—whether the defendant breached the contract—could only be resolved by determining whether the patent claims covered the products sold by the licensee.<sup>146</sup> Because the Federal Circuit had to assure itself that jurisdiction was proper, it again assessed the case under the arising-under law and determined, again, that the case did arise under the patent laws because patent law was a necessary element of the patent owner’s contract claim.<sup>147</sup> Because subject-matter jurisdiction must be raised by a court (district or appellate) sua sponte if neither party raises the issue, these types of cases are disposed to create multiple hearings on the subject of jurisdiction in different courts.<sup>148</sup>

### C. Uncertainty After *Gunn v. Minton*

Separately from disagreements by other courts, the Federal Circuit’s own framework now seems uncertain in light of *Gunn v. Minton*.<sup>149</sup> In *Gunn*, the Supreme Court reviewed the Federal Circuit’s jurisprudence of patent arising-under jurisdiction in the context of a patent-attorney malpractice claim.<sup>150</sup> In the Federal Circuit’s patent-malpractice cases, including the oft-cited *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*<sup>151</sup> and *Immunocept*,

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144. *Id.* at 1572.

145. *U.S. Valves, Inc. v. Dray*, 190 F.3d 811, 812–13 (7th Cir. 1999), *appeal transferred*, 212 F.3d 1368 (Fed. Cir. 2000).

146. *Id.* at 812–15.

147. 212 F.3d at 1372.

148. *See, e.g.*, *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 818–19 (1988) (Not every case must result “in a perpetual game of jurisdictional ping-pong until this Court intervenes to resolve the underlying jurisdictional dispute, or (more likely) until one of the parties surrenders to futility. Such a state of affairs would undermine public confidence in our judiciary, squander private and public resources, and commit far too much of this Court’s calendar to the resolution of fact-specific jurisdictional disputes that lack national importance.”); *Portney v. CIBA Vision Corp.*, 401 Fed. App’x 526 (Fed. Cir. 2010) (finding its jurisdiction proper over a suit brought in federal court under the diversity statute after the Ninth Circuit transferred the appeal to the Federal Circuit).

149. 133 S. Ct. 1059 (2013).

150. *Id.* at 1063, 1066, 1068.

151. 504 F.3d 1262 (Fed. Cir. 2007).

*LLC v. Fulbright & Jaworski, LLP*,<sup>152</sup> the Federal Circuit held that the “case within a case” nature of a malpractice claim often dictates substantial underlying questions of patent law that confer jurisdiction under § 1338—namely, questions of infringement, inventorship, invalidity, or unenforceability.<sup>153</sup> The legal formalism of the Federal Circuit’s arising-under framework—focusing on the specific questions presented in the case, not on the surrounding context of a backward-looking analysis—was particularly apparent in these malpractice cases.<sup>154</sup>

The *Gunn* Court interpreted the Federal Circuit’s formalism as a departure from the more extensive *Grable* analysis and reversed. The *Gunn* Court explained,

[W]e are comfortable concluding that state legal malpractice claims based on underlying patent matters will rarely, if ever, arise under federal patent law for purposes of § 1338(a). Although such cases may necessarily raise disputed questions of patent law, those cases are by their nature unlikely to have the sort of significance for the federal system necessary to establish jurisdiction.<sup>155</sup>

Accordingly, the final determination of the *Grable* test requires that the patent question be significant to the federal system as a whole, not just to the “particular parties in the immediate suit.”<sup>156</sup> Such “‘fact-bound and situation-specific’ effects are not sufficient to establish arising under jurisdiction.”<sup>157</sup>

Following *Gunn*, at least one appellate court applied this stringent and limited view of arising-under patent jurisdiction to a license case. The Eleventh Circuit Court of Appeals in *MDS (Canada) Inc. v. Rad Source Technologies, Inc.* held that a contract case did not arise under the patent laws even when the plaintiff had to prove patent infringement to succeed on his breach-of-contract claim.<sup>158</sup> According to the court, the question of patent infringement was necessarily raised and actually disputed, but it was not substantial, and granting patent jurisdiction to the case would upset the “congressionally approved balance of federal and state judicial responsibilities.”<sup>159</sup> As discussed above in Part I, this approach represents a departure from pre-*Gunn* Federal Circuit law, and it remains to be seen whether other appellate or state courts will follow suit.

152. 504 F.3d 1281 (Fed. Cir. 2007).

153. *Landmark Screens, LLC v. Morgan, Lewis, & Bockius, LLP*, 676 F.3d 1354, 1360 (Fed. Cir. 2012); *see also Immunocept*, 504 F.3d at 1285 (malpractice claim required the court to define the scope of the patent claims, supporting jurisdiction under § 1338); *Air Measurement Techs.*, 504 F.3d at 1268–69 (malpractice claim required the court to decide hypothetical patent infringement “case within the case,” supporting jurisdiction under § 1338).

154. *See supra* note 153; *see also* John R. Thomas, *Formalism at the Federal Circuit*, 52 AM. U. L. REV. 771 (2003) (recounting a recent trend in the Federal Circuit towards formalism and discussing implications for several areas of patent policy).

155. 133 S. Ct. at 1065.

156. *Id.* at 1066.

157. *Id.* at 1068 (quoting *Empire Healthchoice Assurance, Inc. v. McVeigh*, 547 U.S. 677, 701 (2006)).

158. 720 F.3d 833, 841–42 (11th Cir. 2013).

159. *Id.* at 841 (quoting *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 314 (2005)).

The Federal Circuit has addressed the *Gunn* decision only in the context of a state tort claim. In *Forrester Environmental Services, Inc. v. Wheelabrator Technologies, Inc.*, the court evaluated its jurisdiction over a case involving claims of tortious false statements by the defendant as to whether the patents were infringed or invalid.<sup>160</sup> In pre-*Gunn* cases, the Federal Circuit entertained jurisdiction over tort claims involving questions of infringement or invalidity because “permitting state courts to adjudicate disparagement cases (involving alleged false statements about U.S. patent rights) could result in inconsistent judgments between state and federal courts.”<sup>161</sup> The *Forrester* case, however, presented a different set of facts. The allegedly false statements were made about activity that took place in Taiwan, activity that could not infringe U.S. patents.<sup>162</sup> Moreover, the court referred to the necessary construction of the claims of the patent (as a matter of law) as “‘fact-bound and situation-specific’ . . . [and] not sufficient to establish federal arising under jurisdiction.”<sup>163</sup> Thus, the Federal Circuit held that these questions were “not ‘substantial in the relevant sense,’” under *Gunn*’s formulation, to arise under the patent laws, even though claim construction—previously sufficient to establish jurisdiction under § 1338(a)—was required to resolve the contract claim.<sup>164</sup>

So far, this Part has focused on the state contract claim raised by the patent owner (either in a state court or in a federal court sitting in diversity), which may arise under § 1338 in its own right, per *Grable*’s second category for substantial patent questions. When a licensee pleads the question of patent invalidity as an affirmative defense, the well-pleaded complaint rule should prevent that federal defense from arising under *Grable*’s first category, thereby ensuring the plaintiff’s well-pleaded complaint dictates jurisdiction.<sup>165</sup> When a licensee pleads, instead, a counterclaim for a declaratory judgment of patent invalidity or noninfringement, the well-pleaded complaint rule shifts to an inquiry about the threatened action that the plaintiff could have brought.<sup>166</sup> Although the patent owner (acting as “master” of his suit)<sup>167</sup> chooses a state court as his forum to seek contract relief, declaratory counterclaims pleaded by a licensee in a state-court case should have the same result jurisdiction-wise as if the licensee filed the declaratory claim in federal court

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160. 715 F.3d 1329 (Fed. Cir. 2013).

161. *Id.* at 1334.

162. *Id.* at 1334–35. The patentee’s right to exclude others does not extend to activity conducted outside of the United States and its territories. *See* 35 U.S.C. § 271 (2012); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441 (2007).

163. *Forrester Envtl. Servs.*, 715 F.3d at 1335 (quoting *Gunn v. Minton*, 133 S. Ct. 1059, 1067–68 (2013)).

164. *Id.* at 1336 (quoting *Gunn*, 133 S. Ct. at 1066).

165. *See, e.g., Caterpillar Inc. v. Williams*, 482 U.S. 386, 393 (1987) (“[I]t is now settled law that a case may *not* be removed to federal court on the basis of a federal defense . . . even if the defense is anticipated in the plaintiff’s complaint, and even if both parties concede that the federal defense is the only question truly at issue.” (emphasis in original)).

166. *See Pub. Serv. Comm’n v. Wycoff Co.*, 344 U.S. 237, 248 (1952) (suggesting that district courts must look to the threatened coercive cause of action to determine whether federal-question jurisdiction exists over a declaratory plaintiff’s claim).

167. *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913); *see also supra* note 61.

in the first instance. In both scenarios, under the new statutory amendments and removal statute, the counterclaim itself would look to the relevant threatened coercive action, and the hypothetical patent-infringement action (however remote) would carry the day.<sup>168</sup> This should ensure that the patent owner cannot remain in state court; licensees likely will remove these cases by pleading declaratory-judgment counterclaims that would satisfy § 1454's well-pleaded complaint rule.<sup>169</sup> Because Congress added § 1454 in 2011, it remains to be seen whether this scintilla of certainty will hold true in patent-license cases.

### III. A WELL-LIGHTED PATH FOR FEDERAL LICENSING LAW

The preceding Parts of this Article describe the complex and confusing legal rules governing the questions of federal and appellate jurisdiction in cases that arise under the laws relating to patents. These Parts further suggest some problems with the current rules, including inconsistency, inefficiency, and uncertainty. In this final Part, I offer a broad suggestion for clarifying the existing law to achieve a number of goals, including to promote greater uniformity among licensing decisions in federal courts, to capitalize on the benefits of a specialized appellate court, and, importantly, to simplify unnecessarily complex rules.

#### *A. Federal Circuit Formalism Revisited*

As may be apparent, a patent-license case brought in state court balances the right of the patent owner (as the master of his suit) to choose his preferred forum and to litigate any contract claims separately, without exposing the patent to a validity challenge in federal court, against the oft-stated public-policy interest in encouraging patent challenges generally.<sup>170</sup> The balance should be struck in favor of the public interest in having these issues resolved in federal court and appealed to the Federal Circuit and in having them resolved at minimal cost.

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168. See *MedImmune*, 549 U.S. at 772 (describing the licensee's continued payment of royalties as making an imminent threat of an infringement suit "at least remote, if not non-existent.")

169. 28 U.S.C. § 1454 (2012) (allowing for removal of counterclaims with original federal jurisdiction).

170. This tension and consequential balancing of interests is not unlike the balancing of interests considered by the Supreme Court in *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969). See also *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 344–45 (1971) (abrogating the mutuality of obligation principle to encourage patent challenges because of the patent grant's tie to the public interest). This tension manifests itself in the recent circuit split over the enforceability of no-challenge clauses in patent licenses (clauses whereby the licensee agrees to not challenge the validity of the licensed patent). See Dylan Pittman, *Allowing Patent Validity Challenges Despite No-Challenge Clauses: Fulfilling the Will of King Lear*, 48 Ind. L. Rev. 339, 362 (2014) (proposing that the split be resolved in favor of unenforceability on the same public policy grounds announced in *Lear*). Compare *Rates Tech., Inc. v. Speakeasy, Inc.*, 685 F.3d 163, 174 (2d Cir. 2012) (finding such clauses unenforceable) to *Massillon-Cleveland-Akron Sign Co. v. Golden State Adver. Co.*, 444 F.2d 425, 427 (9th Cir. 1971).

As Justice Clarence Thomas has stated, “Jurisdictional rules should be clear.”<sup>171</sup> To that end, the Federal Circuit’s long-suffering formalism,<sup>172</sup> with a small adjustment, works here. Specifically, one way to solve these jurisdictional problems in patent-license cases would be to have all of them arise under the patent laws—a clear, bright-line rule that removes the inconsistency, inefficiency, and uncertainty inherent in the present set of rules. When a patent owner files a state contract action against a licensee, alleging breach of the license or raising other contract claims, instead of conducting the extensive and expensive analysis under § 1338(a) and § 1295, the state court should dismiss the case for lack of jurisdiction if the patent owner’s contract claim involves any patent-law question, including patent infringement (and questions involving the scope of the patent’s claims or any field-of-use restrictions therein), invalidity, unenforceability, and inventorship. If a party attempts to remove the case under § 1454, the federal court to which it is removed should accept jurisdiction, again without the extensive and expensive analysis described throughout this Article as being required by Supreme Court precedent and § 1338(a). Finally, if a state contract case involving any of these same embedded patent questions is brought to federal court by diverse parties, the case should be appealed to the Federal Circuit as a case arising under the patent laws. This would leave in state court only those claims involving a patent license that are truly contractual—cases disputing patent ownership (not related to inventorship) and cases in which infringement, invalidity, and unenforceability questions have been conceded or otherwise previously resolved by the parties.

How does this neoformalist proposal fit within the current jurisprudence relating to patent law arising-under jurisdiction? Courts simply need to recognize that patent licenses are engines for innovation; patent licenses create value from patents in ways that patent owners cannot without the ability to grant permission to others in exchange for rents.<sup>173</sup> If courts recognize a patent license as a special kind of contract that not only involves contractual rights and obligations but also involves an exchange related to the property interest of the patent (the right to exclude others from practicing the claimed invention), the difficulty our current system encounters trying to unravel what is and what is not a contract claim falls away. If the case includes any embedded patent questions, the case is a patent one. Federal courts and the Federal Circuit are perfectly well suited to resolve contractual issues accompanying the property concerns associated with the patent or patents-in-suit, more so than state courts are suited to resolve patent issues accompanying state contract claims. If courts value certainty, efficiency, and consistency in jurisdictional rules, the optimal solution for patent-license cases must be to have them all arise under the patent laws, to have them heard in federal courts, and to have them appealed to the Federal Circuit.

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171. *Grable & Sons Metal Prods., Inc. v. Darue Eng’g & Mfg.*, 545 U.S. 308, 321 (2005) (Thomas, J., concurring).

172. *See* Thomas, *supra* note 154.

173. *See* NGUYEN ET AL., *supra* note 2, at 10–14.

The Federal Circuit's pre-*Gunn* cases suggest that this proposal is consistent with § 1338's arising-under language.<sup>174</sup> The questions of infringement and claim construction that arise in almost all license cases should elevate these cases to federal status on those grounds alone, even if the court adheres to the limited analysis of *Grable*.<sup>175</sup> Cases like *U.S. Valves*, in doubt after *Gunn*, represent the high watermark of patent jurisdiction to which courts should return. The Federal Circuit should confer its own appellate jurisdiction over those cases in which the scope of the patent is relevant to the contractual case for interpreting the license and determining the relief to be granted.

Even in cases like *MDS (Canada)*, where the only patent question involves claim construction of the licensed patent,<sup>176</sup> courts should confer federal patent jurisdiction. The question of claim construction, and its role in patent litigation, has been heavily debated for many years.<sup>177</sup> The Federal Circuit has concluded that claim construction is a question of law to be reviewed de novo.<sup>178</sup> As a result, district-court claim constructions undergo frequent reversals, a fact that has led to empirical and theoretical work suggesting optimal approaches to solving the inherent problem of the indeterminacy of language.<sup>179</sup> Ascertaining the correct approach to claim construction, as a question of law or otherwise, is beyond the scope of this Article. However, the debate about claim construction and its role within all patent litigations indicates that when interpretation of a license requires claim construction, that dispute involves a necessary, actually disputed, substantial, and relevant question of patent law, which arises under § 1338(a) and travels on appeal to the Federal Circuit under § 1295. Because claim construction is part of an

174. See, e.g., *Arlaine & Gina Rockey, Inc. v. Cordis Corp.*, 175 F. App'x 329, 331 (Fed. Cir. 2006); *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000); *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 478 (Fed. Cir. 1993).

175. *Grable*, 545 U.S. at 313–14.

176. *MDS (Canada) Inc. v. Rad Source Techs., Inc.*, 720 F.3d 833 (11th Cir. 2013).

177. For a recent summary of the debate, see Tun-Jen Chiang & Lawrence B. Solum, *The Interpretation-Construction Distinction in Patent Law*, 123 YALE L.J. 530 (2013). Chiang and Solum thoughtfully argue that the problem lies not with linguistic indeterminacy, as others have suggested, but with judges' beliefs regarding the policy goals of claim construction itself. *Id.* at 534.

178. *Lighting Ballast Control LLC v. Philips Elecs. N. Am. Corp.*, 744 F.3d 1272, 1292 (Fed. Cir. 2014) (en banc) (“[W]e are not persuaded that discarding *de novo* review would produce a better or more reliable or more accurate or more just determination of patent claim scope.” (emphasis in original)), *petition for cert. filed*, No. 13-1536 (U.S. June 20, 2014). The Supreme Court recently granted a petition for certiorari to consider whether claim construction should be reviewed de novo by the Federal Circuit. See *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 723 F.3d 1363 (Fed. Cir. 2013), *cert. granted*, 134 S. Ct. 1761 (2014) (No. 13-854). When a court defines a patent's claims in a claim-construction order, it sets the legal boundary of the patent itself, which, in turn, determines questions of infringement and invalidity. See *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 419 (1908) (“[T]he claims measure the invention.”).

179. See Kimberly A. Moore, *Are District Court Judges Equipped To Resolve Patent Cases?*, 15 HARV. J.L. & TECH. 1, 38 (2001) (empirically evaluating the question of claim construction within the district courts and the Federal Circuit and concluding that “the present system of adjudication is flawed”).

infringement analysis, determining whether any given licensed good or service falls within the claims of the patent should likewise give rise to jurisdiction in both federal courts and the Federal Circuit. To hold otherwise, as the Eleventh Circuit did in *MDS (Canada)*,<sup>180</sup> implies that claim construction is a pure question of fact, which the Supreme Court has explicitly rejected.<sup>181</sup> It would further uniformity of claim construction methods to allow patent-license cases into federal court and to have the claims construed as a matter of law.

For questions of invalidity, the obstacle to federal jurisdiction has been whether the plaintiff's cause of action required determination of the validity of the patent-in-suit's claims, in light of the fact that patents are presumed valid by statute.<sup>182</sup> Challengers overcome this presumption by proving with clear-and-convincing evidence that the patent is invalid or unenforceable, in either a contract case or a patent one.<sup>183</sup> The California Court of Appeals assumed in *Applera Corp. v. MP Biomedicals, LLC*, that the presumption of validity adhering to patents for evidentiary reasons should preclude federal patent jurisdiction solely because a patent owner or licensor need not prove, as part of his contract case, that the patent is valid.<sup>184</sup> It would follow from this reasoning that only licenses with terms defining the patent privilege of the license relative to the validity of the claims should proceed in federal court. However, this view of invalidity as only occasionally elevating a license case to one arising under the patent laws leaves much to be desired with respect to consistency, efficiency, and certainty.<sup>185</sup>

Further, the modern Supreme Court has steadfastly encouraged challenges to patents by licensees. In *Lear, Inc. v. Atkins*, the Court explicitly promoted federal patent policy over state contract policies that prevented licensees from raising the invalidity of a patent as a defense to a state contract claim.<sup>186</sup> In *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, the Court recognized the importance of having final judgments made by federal courts to invalidate patent claims by holding that these judgments carry preclusive effect forward in rem.<sup>187</sup> Thirty years later, *MedImmune, Inc. v. Genentech, Inc.* opened a door to federal court that had previously been closed to those post-*Lear* licensees who lacked constitutional justiciability over their declaratory suits in the Federal Circuit when challenging patents without terminating, repudiating, or breaching their licenses.<sup>188</sup> Finally, this past Term, the Court in *Medtronic, Inc. v. Mirowski Family Ventures, LLC* addressed the remaining question of statutory jurisdiction for licensees in good standing in the affirmative, approving of arising-under federal patent jurisdiction

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180. *MDS (Canada)*, 720 F.3d at 841–42.

181. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 378 (1996) (describing claim construction as a “mongrel practice”); see also *Teva Pharm.*, 723 F.3d at 1373 (reaffirming that claim construction is a matter of law).

182. 35 U.S.C. § 282(a) (2012).

183. *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2252 (2011).

184. 93 Cal. Rptr. 3d. 178, 191–92 (Ct. App. 2009).

185. See *Lear, Inc. v. Adkins*, 395 U.S. 653, 673 (1969).

186. See *id.* at 670–71.

187. See 402 U.S. 313, 350 (1971).

188. 549 U.S. 118, 136 (2007).

for those cases by imagining a hypothetical threatened coercive action for patent infringement, even when the licensee remains privileged by the license.<sup>189</sup>

These developments suggest that the Court approves of having these cases in federal court, not for the traditionally proffered reasons—uniformity of patent law, the expertise of federal courts compared to state ones, and the like<sup>190</sup>—but because federal patent jurisdiction rewards licensees who put the patent’s validity in issue with resolution in rem. The Court’s different take on patent legal-malpractice cases—where it emphasizes the important state interests at play and the role of federalism in navigating this divide<sup>191</sup>—provides a stark contrast to its preference for jurisdiction in patent-license cases.<sup>192</sup> When the Federal Circuit assumed jurisdiction in patent legal-malpractice cases, the “case within the case” involved questions of infringement, invalidity, unenforceability, and inventorship, the same four questions it identified as critical in any analysis under § 1338(a).<sup>193</sup> The Supreme Court, however, corrected the Federal Circuit, choosing state law over such backward-looking patent questions.<sup>194</sup> Importantly, patent-license cases do not implicate the case within the case, and they may be treated differently. For pragmatic reasons, it is sound to confer jurisdiction over any patent-license claim when the claim, contract or otherwise, inherently implicates questions of claim scope and patent invalidity, even if the license does not explicitly tie its rights and duties to these questions.

A myopic focus on explicit license terms (ostensibly taken from *Christianson* and revisited in *MedImmune* and *Medtronic*) would approve of federal patent jurisdiction through § 1338(a) only over those state contract cases in which the contract includes a term tying the rights and duties under the agreement to only valid patent claims or those patent claims that have not been invalidated by a court.<sup>195</sup> It follows that the best drafting practices (or worst ones) will dictate jurisdictional questions under this rubric. Although the Court in *Lear* held that patent invalidity comprised not a failure of consideration for the contract itself but a complete defense to any obligations under the contract (including an obligation to pay royalties),<sup>196</sup> the validity of the patent always will be relevant to whether the licensee has breached his obligations. The licensee will carry the burden of proving

189. 134 S. Ct. 843, 848–49 (2014) (supporting federal jurisdiction over a purely hypothetical, threatened coercive action for infringement).

190. See Gugliuzza, *supra* note 5, at 17–27. Gugliuzza discusses the general assumption underlying exclusive federal jurisdiction in patent cases—that federal courts, unlike state courts, provide uniformity and expertise in patent law—and concludes that the uniformity-expertise rationale is overstated. See *id.* at 55.

191. *Gunn v. Minton*, 133 S. Ct. 1059, 1064–65 (2013).

192. *MedImmune*, 549 U.S. at 130–31.

193. See, e.g., *Immunocept, LLC v. Fulbright & Jaworski, LLP*, 504 F.3d 1281 (Fed. Cir. 2007); *Air Measurement Techs., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007).

194. *Gunn*, 133 S. Ct. at 1064–65.

195. The license agreement at issue in *MedImmune*, for example, featured both types of contract terms. 549 U.S. at 122–24.

196. *Beckman Instruments, Inc. v. Technical Dev. Corp.*, 433 F.2d 55, 59–60 (7th Cir. 1970) (citing *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969)).

invalidity by clear-and-convincing evidence, but courts could assume, for jurisdictional purposes, that patent-license cases implicate the question of invalidity as though it were an element of the plaintiff's claim. This would mean that all license claims would carry this important question of patent law. The ability to invalidate a patent in rem in a federal court after it has issued plays an important role in the federal patent system.<sup>197</sup> Perhaps the time has come to stop referring to invalidity as a defense to infringement or breach of license and nothing more.<sup>198</sup>

Congressional intent also supports federal patent jurisdiction over all patent-license cases implicitly or explicitly raising patent questions of infringement, inventorship, invalidity, and unenforceability. As discussed in Part I, Congress amended 28 U.S.C. § 1338(a) and § 1295 specifically to abrogate by statute the ruling in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, which held that the well-pleaded complaint rule prevented a counterclaim of patent infringement from conferring federal patent jurisdiction.<sup>199</sup> The change to § 1338(a) was not subtle—"No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents"<sup>200</sup>—arguably demonstrating a clear intent to bring all of these cases to federal court, leaving no state court with jurisdiction over patent questions.<sup>201</sup> The amendment also suggests that an otherwise removable state contract case could not stay in state court for resolution of the state contract claim with its embedded patent issues.<sup>202</sup> To avoid this thorny situation of a case without a home in any court, federal courts should assume jurisdiction over license cases that raise any patent issues, in order to realize the clear congressional intent to have all patent-related cases in federal courts and appealable to the Federal Circuit.<sup>204</sup>

Building on Congress' intent to treat patent cases differently (for better or worse), a more radical proposal would uncouple 28 U.S.C. § 1338(a) from § 1331

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197. See *Blonder-Tongue Labs.*, 402 U.S. at 350 (holding that a patentee cannot assert validity of a patent that previously has been found invalid in a federal court against a different defendant).

198. 35 U.S.C. § 282(b)(2)–(3) (2012); *MedImmune*, 549 U.S. at 142 (Thomas, J., dissenting) ("Patent invalidity is an affirmative defense to patent infringement, not a freestanding cause of action.").

199. See *supra* note 19.

200. 28 U.S.C. § 1338(a) (2012).

201. See Paul M. Schoenhard, *Gaps, Conflicts and Ambiguities in the Federal Courts' Post-AIA Patent Jurisdiction*, INTELL. PROP. & TECH. L.J., July 2013, at 20 (describing the amendment to § 1338 as "leav[ing] a glaring jurisdictional gap").

<sup>202</sup> The "jurisdictional gap" created by § 1338, in combination with the new removal statute in § 1454, suggests that such cases, i.e. license cases brought in state court on contract claims with embedded patent issues, must be removed by either party or dismissed for lack of jurisdiction.

204. By superseding *Holmes Group* to expand removal jurisdiction and arising-under jurisdiction to encompass counterclaims (like those requesting a declaratory judgment of invalidity), Congress most recently expressed its intent to further "the uniformity or coherence in patent law that has been steadily building since the [Federal] Circuit's creation in 1982." *Matal*, *supra* note 60, at 540 (quoting H.R. REP. NO. 109-407, at 5 (2006)).

such that arising-under jurisdiction for patent cases would no longer be bound to the *Grable* line of cases. The general federal-question statute in § 1331 was designed to create a category of federal cases that is neither too big nor too small and, as *Grable* teaches, that does not disrupt the important balance between federal and state interests.<sup>205</sup> *Grable*, then, attempts to solve a different problem than the one presented by patent-license cases. For patent cases, Congress chose a specialty appeals court and granted exclusive and original jurisdiction in the federal district courts.<sup>206</sup> Section 1331, in contrast, grants original, not exclusive, jurisdiction to general federal questions, and these cases are appealable to regional, generalist courts of appeals. The decision of whether to hear the case in federal court or in state court involves a delicate balancing of state and federal interests of a classic federalist vein. Patent cases, on the other hand, with exclusivity in federal courts, have always tipped the scales in favor of federal courts, especially given Congress's recent statutory amendments allowing for removal of counterclaims despite the well-pleaded complaint rule.<sup>207</sup> Additionally, uncoupling § 1338(a) from § 1331 and its analysis would allow for abandoning the well-pleaded complaint rule in its entirety in patent cases. Indeed, when it recognized a purely hypothetical coercive claim of patent infringement—even when the license continued to protect the licensee from such an action—the Court in *Medtronic* implicitly looked away from the rigor of the well-pleaded complaint rule (or possibly considered it a merits issue, rather than a jurisdictional one), ignoring the theories distinction from *Christianson* and the detailed *Grable* analysis in favor of assuming jurisdiction over the case.<sup>208</sup> This lesson should not go unheeded in future patent-license cases.

Finally, a bright-line jurisdictional rule governing patent-license cases will promote efficiency in patent cases and uniformity in federal licensing law. The Court in *MedImmune* described the licensee's claim that its license "[did] not require the payment of royalties because the patents do not cover its products and are invalid" as a merits issue, not a jurisdictional one; the contract dispute, with its embedded questions of patent law, did not disappear just because the license was still in effect.<sup>209</sup> Likewise, the patent questions that percolate in state-action cases

205. *Grable & Sons Metal Prods., Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308, 314 (2005) (“[T]here must always be an assessment of any disruptive portent in exercising federal jurisdiction.”).

206. For a description of the Federal Circuit's origins, see Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1 (1989). In this early work, however, Dreyfuss noted that lingering jurisdictional questions undermined some of the benefits of the specialized court. *Id.* at 30–37. Dreyfuss later revisited the Federal Circuit's legacy upon its twentieth anniversary as a court. Rochelle Cooper Dreyfuss, *The Federal Circuit: A Continuing Experiment in Specialization*, 54 CASE W. RES. L. REV. 769, 787 (2004) (lamenting the *Holmes Group* decision as “a pity” for “undermining opportunities for percolation and cross-pollination”).

207. See *supra* Part I.C.

208. See *supra* note 189 and accompanying text.

209. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 135–36 (2007). Justice Thomas appeared to disagree in his dissent, describing the invalidity claim as a defense that should only prevent jurisdiction under the well-pleaded complaint rule. *Id.* at 142 (Thomas, J., dissenting).

really are merits questions: Is the patent invalid? Would the licensee be infringing but for the license? Courts are expending resources to address the jurisdictional questions before turning to the merits in a way that does not improve the tension between state and federal courts but only adds to confusion over how to apply the vague *Grable* standard.<sup>210</sup> As discussed above, Congress clearly has expressed its intent to keep these cases in federal courts with rights to appeal to the Federal Circuit, suggesting that a streamlined approach to jurisdiction would be welcome.<sup>211</sup>

Importantly, the Federal Circuit, by having jurisdiction over these state contract cases with embedded patent questions, could further develop its own licensing law jurisprudence. The Federal Circuit has been described as a “specialized contracts court,” in the sense that the court handles many contract cases, including many patent-license cases.<sup>212</sup> In these cases, the Federal Circuit has developed a fair amount of its own law of contracts, stating that such law is necessary to promote uniformity within the patent system.<sup>213</sup> For example, in *Group One, Ltd. v. Hallmark Cards, Inc.*,<sup>214</sup> the court stated,

[T]he question of whether an invention is the subject of a commercial offer for sale [as required by 35 U.S.C. § 102] is a matter of Federal Circuit law, to be analyzed under the law of contracts as generally understood. To hold otherwise would potentially mean that a patent could be invalid in one state . . . and valid in a second state, when the same actions did not amount to an offer under the laws of that second state. Such a result is clearly incompatible with a uniform national patent system.<sup>215</sup>

In fact, one of the main reasons for the formation of the Federal Circuit was to promote certainty and to “reduce, if not eliminate, the forum-shopping” by parties to patent litigations.<sup>216</sup> Reducing the jurisdictional burden by streamlining the rule will push the court forward on this goal.

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210. See, e.g., Andrew D. Bradt, *Grable on the Ground: Mitigating Unchecked Jurisdictional Discretion*, 44 U.C. DAVIS L. REV. 1153, 1156 (2011); Kristen Lovin, *One Size Does Not Fit All: Hypothetical Patents and Difficulties with Applying the § 1331 “Substantial Question” Formula to § 1338*, 14 COLUM. SCI. & TECH. L. REV. 254, 278–79 (2012); Gil Seinfeld, *The Federal Courts as a Franchise: Rethinking the Justifications for Federal Question Jurisdiction*, 97 CALIF. L. REV. 95, 122 n.85 (2009).

211. See, e.g., H.R. REP. NO. 109-407, at 5 (2006).

212. Shubha Ghosh, *Short-Circuiting Contract Law: The Federal Circuit’s Contract Law Jurisprudence and IP Federalism* 13 (Univ. of Wis. Legal Studies Research Paper Series, Paper No. 1247, 2014), available at <http://ssrn.com/abstract=2390214>.

213. See *id.* at 20–44.

214. 254 F.3d 1041 (Fed. Cir. 2001).

215. *Id.* at 1047.

216. H.R. REP. NO. 97-312, at 22 (1981).

*B. Disadvantages Considered*

A proposal of the nature described in this Article cannot be fully explored without identifying and managing any inherent disadvantages. One significant disadvantage to such a rule involves the tension revealed between the parties' expectation interests in the contract and the strong public policy interest in encouraging patent challenges as described in *Lear*.<sup>217</sup> The Federal Circuit implicitly selects the patent policy interests over any state contractual law and private contractual expectations when it accepts jurisdiction over not only those cases brought by licensees in good standing post-*MedImmune* and as approved in *Medtronic* but also those cases brought by a patent owner in state court on contract claims with embedded patent questions. However, this outcome preserves the Federal Circuit's power to create a body of federal licensing law separate from state contract law and dictated by the Federal Circuit's specialized view of patent law. At the same time, the patent owner loses his right to shield a presumptively valid patent from challenges by entering into licenses and pursuing any available contractual remedies without resorting to infringement litigation, where any invalidity claim would carry preclusive effect. Perhaps the interests of the patent owner to choose his forum should carry more weight than they have so far in the Supreme Court. However, the *Lear*, *Blonder-Tongue*, and *MedImmune* cases may be read to strongly favor patent challenges over the patent owner's choice of state forum and, in fact, over state contract law in general.

One wonders whether a licensee might prefer to litigate the questions of validity as a defense to a license but without the in rem finality of the determination, as that helps all licensees, not just the licensee litigating in state court. Again, the choice of clear rules to encourage patent challenges may outweigh any costs related to removing the patent owner's ability to bring a state-court action without exposing the weaknesses of his patent. A licensee could bring his own declaratory judgment action for invalidity or noninfringement, even without repudiating the license. It does not follow that the jurisdictional rules should work to prevent him from removing such a state action if he does not bring a counterclaim but instead pleads invalidity as an affirmative defense or if the contract does not explicitly tie its obligations to valid patent claims. Some common sense would go a long way in this area of the law.

Importantly, this proposal also raises significant questions about the proper balance between state and federal courts in hearing cases.<sup>218</sup> The Constitution gives Congress the power to enact legislation to award exclusive rights to inventors for limited times,<sup>219</sup> and Congress does so in the patent laws. This Article only intends to describe the complexity of jurisdictional questions that arise out of state contract actions with embedded patent questions, and it offers that such cases should follow

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217. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (recognizing that “the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain”).

218. By suggesting that patent-license cases should always be brought in federal courts, I do not mean to minimize the importance of federalism.

219. U.S. CONST. art. I, § 8, cl. 8.

other patent cases into federal courts through § 1338. Decoupling § 1338 from § 1331 would go further to emphasize the special nature of patent-license cases, and patent cases in general, in a manner that leaves intact the important federalism issues raised in other types of federal-question cases—and indeed, in other patent-question cases, like the malpractice complaint at issue in *Gunn*.<sup>220</sup>

Further, a blanket rule like the one proposed will not reduce the “preeminence of the states’ laws” because the Federal Circuit and the district courts hearing these patent cases, under *Erie Railroad Co. v. Tompkins*, must apply state laws to the contractual issues that they end up hearing in conjunction with these patent cases.<sup>221</sup> As such, even though these license cases will be litigated in federal courts and appealed to the Federal Circuit, parties will still have the ability to select—via contract—the state laws they prefer to govern their transactions. Nevertheless, in some areas important to patent law, funneling these cases to the Federal Circuit and not leaving the occasional case behind in state court may invite the Federal Circuit to develop a federal common law of contracts when necessary to provide the uniformity and consistency that its mission requires.

Along those lines, one recent critic of the Federal Circuit has charged the court with ignoring the *Erie* doctrine while developing a federal common law of contract in certain areas of patent law, resulting in a power grab by the Federal Circuit that limits innovation and competition.<sup>222</sup> Empirically, it may be that innovation and competition are reduced by Federal Circuit developments in contract law, but such assessments must also take into account the benefits of uniformity and certainty that may derive from a common law of contracts developed by the Federal Circuit. In fact, the Federal Circuit may be accustomed to developing such a federal common law in the context of government contracts for just this reason.<sup>223</sup>

Yet one need not be convinced that all patent-license issues at the Federal Circuit should be the subject of a separately derived federal common law of contract to accept the fairly uncontroversial position that the Federal Circuit, in many of these cases, could simply apply state contract law to all of the patent-license claims that it hears.<sup>224</sup> The contribution of this Article is not to provide an extensive solution to the concerns of federalism, jurisdictional power grabbing, or the necessity of uniformity in patent law, but to begin a conversation about dismantling these complex rules and expensive jurisdictional inquiries in favor of merits-based determinations in federal courts on the licensing issues at stake.<sup>225</sup>

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220. *Gunn v. Minton*, 133 S. Ct. 1059, 1062 (2013).

221. *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1337 (Fed. Cir. 1998) (citing *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938)), *overruled on other grounds* by *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999).

222. *See Ghosh, supra* note 212.

223. *Prudential Ins. Co. of Am. v. United States*, 801 F.2d 1295, 1298 (Fed. Cir. 1986) (“It is well settled that contracts to which the government is a party . . . are normally governed by federal law, not by the law of the state where they are made or performed.”).

224. *See DDB Techs., L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008) (applying Texas state contract law to an employment agreement generally, and federal law to patent-assignment provisions within the agreement).

225. In fact, Professor Mark Patterson suggests that patent licenses should be the subject of a body of law separate from contracts, in order to better reflect intellectual-property

## CONCLUSION

The jurisdictional rules that determine whether a license case arises under the patent laws are cumbersome and expensive for courts and litigants alike. *Gunn v. Minton*, a recent patent-malpractice case raising very different concerns than the ones raised in license cases, will only add to the inconsistency, inefficiency, and uncertainty that surround this “dark corridor” of federal-question jurisdiction. The time has come for a new assessment of arising-under jurisdiction in patent cases that reduces these burdens, promotes uniformity, encourages patent challenges, and reflects Congress’s intent to carry federal patent questions into federal courts.

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policies at play when combining contractual rights and duties and the privileges granted by a license. Mark R. Patterson, *Must Licenses Be Contracts? Consent and Notice in Intellectual Property*, 40 FLA. ST. U. L. REV. 105 (2012).