
Lorelei Ritchie
RECONCILING CONTRACT DOCTRINE WITH INTELLECTUAL PROPERTY LAW: AN INTERDISCIPLINARY SOLUTION

Lorelei Ritchie

Abstract

Courts, commentators, and practitioners have for too long viewed intellectual property law as a discrete discipline, without putting it into the proper theoretical context of general jurisprudence. Intellectual property law cannot and must not exist on its own, outside the normative framework of overlapping legal institutions. Even within the rubric of intellectual property, courts have overlooked the potential for cross-applying relevant doctrines between patent, copyright, and trademark law. Certainly, when intellectual property disputes touch on other disciplines, such as civil procedure, contract, or tort law, courts have tended to overlook their synergies, focusing instead on only one of several important policies or principles. The result has gone beyond missed opportunities. It has led to judicial mistakes, including in the very recent, and broad-based, 2007 U.S. Supreme Court case of MedImmune v. Genentech. The Court’s errors have far-reaching implications for the future of the law and its practice.

Utilizing graphic illustrations in tables and diagrams, this article proposes a more appropriate interdisciplinary framework for resolving disputes that cross legal disciplines. In what this article refers to as “cross-over disputes,” courts, litigants, and license negotiators should employ this article’s proposed matrix in order to reach more rational and informed decisions.

† United States Federal Judge, Trademark Trial and Appeal Board; Former Assistant Professor, Florida State University School of Law; Former Intellectual Property Manager UCLA; J.D. Columbia University School of Law; B.A. Stanford University. Many thanks to Professors Mark A. Lemley, Scott Kieff, Lee Petherbridge, and Curtis Bridgeman for reviewing prior drafts and adding to the discussion. Thanks also to the scholars who provided helpful comment at the Works in Progress Intellectual Property Colloquium 2007 (American University School of Law).
I. INTRODUCTION

Courts, commentators, and practitioners have for too long viewed intellectual property law as a discrete discipline, without putting it into the proper theoretical context of general jurisprudence. Intellectual property law cannot and must not exist on its own, outside the normative framework of overlapping legal institutions. Even within the rubric of intellectual property, courts have overlooked the potential for cross-applying relevant doctrines between patent, copyright, and trademark law. Certainly, when intellectual property disputes touch on other disciplines, such as civil procedure, contract, or tort law, courts have tended to overlook their synergies, focusing instead on only one of several important policies or principles. The result has gone beyond missed opportunities. It has led to judicial mistakes, including in the very recent, and broad-based, 2007 U.S. Supreme Court case of MedImmune v. Genentech. The Court's errors have far-reaching implications for the future of the law and its practice.

This article examines the intersection of normative values between intellectual property and contract law. Utilizing graphic illustrations in tables and diagrams, the article proposes a more appropriate interdisciplinary framework for resolving cases that cross disciplines, such as those involving intellectual property licensing. The article refers to such cases as "cross-over disputes." Interestingly, in its 2008 term, the U.S. Supreme Court granted certiorari on a cross-over dispute involving intellectual property licensing. As discussed in Part V, infra, the Court disappointingly once again missed an opportunity to consider the intersection of patent law and contract doctrine, and instead presumed the primacy of patent doctrine with barely a footnote about contract law. With the current state of the law, still in future cross-over disputes, courts, litigants, and license negotiators may employ this article's proposed matrix in order to reach more rational and informed decisions.

The analysis begins by addressing parties' "right to license." What may appear to be a straightforward question of contractual

---

2. A prior article discussed the intersection of normative values between intellectual property and a particular area of civil procedure: declaratory judgment standards. See Lorelei Ritchie de Larena, Re-evaluating Declaratory Judgment Jurisdiction in Intellectual Property Disputes, 83 IND. L.J. 957 (2008) [hereinafter Re-evaluating Declaratory Judgment]. This article examines the intersection of normative values between intellectual property and contract law in the realm of intellectual property licensing.
authority has actually not been treated as a contractual matter at all. Part II of this article discusses the various issues that must be examined in order to determine the ability and authority of private parties to enter into a license agreement. First, Part II(A) examines the commonalities between patent, copyright, and trademark law. This section shows that while each of the three main branches of intellectual property has unique qualities to consider, their underlying normative values are substantially similar and may be addressed together. Next, Part II(B) provides a normative analysis of each of these three main branches of intellectual property, including a representation (Table I) of the competing interests of creators, their competitors, and the public, as these vary between patent, copyright, and trademark doctrine.

The article goes on to examine the normative values of contract law in Part II(C), presenting a graphic illustration of the competing interests between the private right to contract and the need for limitations (Table II). The article then draws on these illustrations to provide an interdisciplinary framework for properly viewing the convergence of contract and intellectual property law, showing that there is substantial overlap in their normative values. This analysis is set forth in Part II(D), with an illustrative diagram (Diagram A) that demonstrates the many areas where contract and intellectual property law converge. The article proceeds to discuss the perceived divergence between contract and intellectual property law, a red herring that has led courts to overlook the importance of weighing contract doctrine in the balance for cases involving intellectual property licensing. As this section suggests, and Diagram B illustrates, the perceived "divergence" between contract and intellectual property law is actually no more than a recasting of the actual convergence of contractual illegality—a particular area that fits within standard contract doctrine—and intellectual property law.

The article then utilizes the proposed framework from Part II to analyze the phenomenon of the "adverse contract." The discussion includes an examination of U.S. Supreme Court decisions from various points in time, up through the current term, and examines how the Court has repeatedly reached incorrect legal conclusions by overlooking the importance of taking an interdisciplinary approach to cases involving intellectual property licensing. Part III(A) discusses the legend of "licensee estoppel," wherein the Court actually cast aside relevant contract law entirely, thereby setting up a confusing and untenable framework for future licensing decisions. Part III(B) explains the importance of taking an interdisciplinary approach in
cases involving intellectual property licensing. This includes, where relevant, adding civil procedure to the balance of normative values, rather than casting aside an important area of law in favor of just one perhaps valuable, but not necessarily dominant, doctrine. Diagram C graphically illustrates, and Table III further analyzes, the convergence of values between contract doctrine, intellectual property law, and civil procedure.

By overlooking this important interdisciplinary approach, the Supreme Court has created utter confusion regarding the rights of licensing parties, as examined in Part III(C). The outstanding issues are analyzed in Table IV. The Supreme Court had an opportunity to correct its earlier mistake by providing a more comprehensive framework in the 2007 through MedImmune. Unfortunately, as discussed in Part IV, the Supreme Court again missed the mark, by casting aside the normative values of contract law instead of properly weighing them in the balance.

As a result, Part V draws on the matrix proposed in this article and accompanying tables to more accurately answer outstanding questions regarding intellectual property licensing, as well as to provide courts (notwithstanding the Supreme Court’s 2008 Quanta v. LG Electronics decision), litigants, and license negotiators with an appropriate interdisciplinary framework for addressing issues that are truly at the convergence of contract and intellectual property law. The results are summarized in Table V. This interdisciplinary solution may be applied to other cross-over disputes—to bring the analysis properly in line with the principles of general jurisprudence.

II. THE RIGHT TO LICENSE

A. Examination of Commonalities in Intellectual Property

The normative values of intellectual property law are subject to ongoing debate amongst Congress, courts, and commentators. Generally, intellectual property law must balance various incentives between creators, their competitors, and the public. The balance is

5. The U.S. Supreme Court has stated the competing objectives of patent law, which are similar to those of copyright and trademark:

First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public
calculated using slightly different indicia in each of the three major branches of intellectual property. On the whole, though, the underlying values are essentially equivalent for patent, copyright, and trademark law.

Indeed, patent and copyright law derive from common Constitutional origins. For this reason, courts are apt to apply useful doctrines—such as third party liability, misuse, licensee estoppel, and remedies—from one to the other. The U.S. Supreme Court has made the case for sharing doctrines several times, including in the landmark 1984 case of *Sony Corp. v. Universal City Studios*, and in the more recent 2006 case of *eBay Inc. v. MercExchange*. The *eBay* court domain remain there for the free use of the public.


6. Compare *Id.* (patents), and *Park ‘N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 198 (1985) ("The Lanham Act provides national protection of trademarks in order to secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers"), *with Sony Corp. of Am, v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (stating that the purpose of copyrights is "to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.").

7. Where relevant, this article also examines issues as they occur or differ in trade secret law.

8. U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have Power...[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.").

9. See Maureen A. O’Rourke, *Toward a Doctrine of Fair Use in Patent Law*, 100 COLUM. L. REV. 1177, 1192-93 (2000); see also Lorelei Ritchie de Larena, *What Copyright Teaches Patent Law About "Fair Use" and Why Universities Are Ignoring the Lesson*, 84 OR. L. REV. 779, 802-03 (2005); cf Peter S. Menell & David Nimmer; *Unwinding Sony*, 95 CAL. L. REV. 941 (2007) (cautioning against blankety applying patent law principles to copyright law. Professors Menell and Nimmer dispute the wisdom of the *Sony* Court’s famous application of patent law to a copyright case, since they argue that direct copyright principles and law should have been considered more relevant. The argument is interesting, but applies mainly to liability, and to issues where there is strong precedent within the direct law—as they state was the situation with copyright and vicarious infringement liability. In fact, though, there are various issues where it is entirely appropriate to cross-apply patent and copyright doctrines in order to standardize them appropriately. Meanwhile, Professor O’Rourke and other commentators have pointed out that beyond *Sony*, there is indeed other historic kinship between patent and copyright law.).

10. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984). The Court in *Sony* extended the doctrine of vicarious infringement from patent to copyright, stating: "The closest analogy is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law."

11. *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391-93 (2006) (considering the then-current presumption of injunctions in patent cases, and ultimately dismissing the presumption in favor of applying the standard 4-factor injunction test as applied in copyright cases. Interestingly, it appears that the Supreme Court did not realize that, while copyright holders may not enjoy a legal presumption of injunction, in practice, courts do routinely grant them.).
considered the viability of presumptive injunctions in patent law. The Court did not simply stop at an analysis of patent law however, but turned also to copyright law for persuasive analogy. The Court observed that although patent owners are given a presumption of injunctive relief, copyright owners are instead subject to the traditional 4-part inquiry used in general jurisprudence to determine whether an injunction should issue in a particular case. Reasoning that patent law has a similar development and grant of rights to copyright law, and that both use the same terminology regarding remedies, the Court determined that patent owners should be equally subject to the 4-part inquiry and should no longer be granted presumptive injunctions. In so stating, the Supreme Court neatly discarded a near century of patent precedent in favor of an apparently better standard articulated in copyright law.

Trademark law, which has different origins but some common issues, is frequently included in the cross-pollination of intellectual property law. Courts have, for example, applied the doctrine of first sale (rights exhaustion) equally to trademark law, as an analogue to patent and copyright. Furthermore, as a basic administrative setup, the U.S. government combines patent and trademark grants and administration into one agency, the U.S. Patent and Trademark

12. id. at 391-92.
13. id. at 392.
14. id.
15. id. (explaining that patents have similar grants of exclusivity as copyrights).
16. id. ("Like the Patent Act, the Copyright Act provides that courts 'may' grant injunctive relief . . .").
17. id. at 391.
19. It is generally accepted that trademark law derives from common law and that, on the federal level, Congress’ power to regulate trademarks stems from the Commerce clause. See United States v. Steffens, 100 U.S. 82, 94-98 (1879); Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 149 (1989).
Office. Finally, Congress has recently considered consolidating the Lanham Act, governing trademark rights and infringement, into Title 35 with patent law.\textsuperscript{21} It is therefore useful to consider trademark law alongside patent and copyright law when considering their normative values.

\textit{B. Normative Analysis of Intellectual Property Law}

In patent law, there is a precarious balance that easily topples with the addition of misguided legislation by Congress in addition to muddled interpretation by courts. Inventors—and more frequently their assignees—must be rewarded with patents for their protectable ideas, as an incentive to create and invest in technology development. The public must then be rewarded with full disclosure of the inventive steps, with, of course, the assurance that only truly patentable inventions will receive the exclusionary patent grant. Finally, competing inventors—and companies—must be rewarded with their own opportunities to obtain patents on improvements and work-around technology. Of course, that all begs the question of how these countervailing balances should be weighed.

"Economic efficiency demands the availability of patent protection as much as it requires that such protection be subject to legal challenge."\textsuperscript{22} On the one hand, patents are necessary to encourage investment in various industries that bring products and processes of great value to the consuming public.\textsuperscript{23} On the other hand, weak and invalid patents must not be permitted to overshadow the marketplace. To that end, the U.S. Supreme Court has mandated that

\begin{itemize}
\item \textsuperscript{21} Recently, Congress considered a bill to recodify the Lanham Act from Title 15 to Title 35. The bill was introduced to the House Judiciary Committee of the 2d Session of the 109th Congress in 2006 by Representatives Sensenbrenner and Conyers. The bill expresses "conformity with original intent" to consolidate patent and trademark law, and states an objective to "reflect the emergence of intellectual property law as a distinct field of law" and a "cohesive unit." \textsc{Staff of H. Comm. on the Judiciary, 109th Cong., To Enact Certain Laws Relating to Trademarks and Other Intellectual Property as Subtitles III and IV of Title 35, United States Code, and to Redesignate That Title as "Patents, Trademarks, and Other Intellectual Property"} (Comm. Print 2006), \url{available at http://U.S.C ode.house.gov/cod/t35/20060425exp.pdf}. See also \textsc{To Enact Certain Laws Relating to Trademarks and Other Intellectual Property as Subtitles III and IV of Title 35, United States Code, and to Redesignate that Title as "Patents, Trademarks, and Other Intellectual Property"}, H.R. XXXX, 109th Cong. (2006), \url{available at http://U.S.C ode.house.gov/cod/t35/20060425bill.pdf}.
\item \textsuperscript{22} \textit{Re-evaluating Declaratory Judgment}, supra note 2, at 974.
\item \textsuperscript{23} Patents are more likely to incentivize innovation in industries where research and development costs are highest.
\end{itemize}
while patents are given a presumption of validity, once invalidity is proven in court, the patent is rendered unenforceable against even third parties.

As a normative value, predictability is of prime importance both to the patentee and to potential infringers who must make business decisions based on the validity and enforceability of the patent. This is becoming difficult in the current political and legal climate where interestingly, each of the three branches of federal government is concurrently pursuing patent reform, and not all in the same direction. In a 2005 case, Merck KGaA v. Integra, the Supreme Court expanded the interpretation of statutory fair use in patent law in cases where the purported infringement may lead to drug discovery and development. Furthermore, in eBay in 2006, the Supreme Court modified the nearly century-old presumption of injunction in patent cases, thereby tipping the scales toward compulsory licensing. Congress, meanwhile, has been up in arms over the past couple of years with different congressmen endorsing half a dozen different patent reform bills, any of which might significantly affect the practice of patent law in the United States. Within the executive branch, the U.S. Patent and Trademark Office is pursuing various methods of increasing quality and timeliness of patent applications.

Everyone, from business owners to scholars, agrees that the current patent system faces significant hurdles, but even within the typical dividing lines, there is no clear agreement on solutions. In the January 2007 Supreme Court decision involving licensee estoppel, various law professors and industry experts filed briefs in support of

25. Id. at 349-50.
26. Re-evaluating Declaratory Judgment, supra note 2, at 975.
28. Id. at 202. 35 U.S.C. § 271(e) reads, in relevant part: “It shall not be an act of infringement to make, use, offer to sell, or import . . . solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs.”
petitioner (licensee) and others filed in support of respondents (licensors), demonstrating the differing interests in this debate. Following recent precedent, the Supreme Court again favored user rights by lowering the bar for validity challenges by active licensees. Later in 2007, the U.S. Supreme Court further tipped the balance toward user rights by broadening the standard by which inventions may be deemed "obvious" and therefore unpatentable.

In copyright law, the incentive structure is generally similar to that of patent law, although the balance of interests is somewhat differently aligned. In copyright law, the main interests less frequently include competitors who develop similar ideas, and more frequently substitute users, including technology companies charged with third-party liability. Since copyrights are obtained simply by registration rather than by a governmental review process, they are not given the same presumption of validity as are issued patents. This slight distinction has some repercussions in the equities considered for licensing. The lower bar to challenge copyright compared with patent validity would seem to favor users' rights. The relatively long duration of copyrights compared to patents, however, weighs in the other direction. On the whole, while the specifics are

---


34. MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118 (2007). As discussed in Part IV of this article, infra, the ruling in this particular case was misguided due to the Supreme Court's misunderstanding of patent law and licensing practice. Nevertheless, it evidences the trend toward user rights.


36. This is particularly less relevant in copyright law since, unlike patent law, there is an absolute defense of independent creation, as well as a full statutory doctrine of fair use, codified at 17 U.S.C. § 107 (2000).


38. The U.S. Copyright Office may deny a registration, but rarely does so. Due to the relatively less rigorous process, copyright registration is only prima facie evidence of copyright ownership. 17 U.S.C. § 410 (2000).

39. See Part II(E) of this article, infra, regarding applications of misuse doctrine in invalidity cases.

40. 35 U.S.C. § 154(a)(2) (2000) (stating that the patent term is 20 years from an effective filing date); 17 U.S.C. § 302 (2000) (stating that the copyright term is 70 years beyond the authors death; but the work for hire term is the earlier of 95 years from publication or 120 years from creation).
different (see Table I infra), the overall balancing factors are similar in patent and copyright law.

Trademark law, meanwhile, is more similar to patent law in some key aspects, and more similar to copyright in others. Regarding rights accrual, trademark more closely follows copyright's automatic grant upon creation (or in trademark law, use in commerce).41 In its more rigorous agency review before federal grant however, trademark law more closely resembles patent law. Meanwhile, trademark law is different from either patent or copyright in that it is not pre-empted by federal jurisdiction in the Lanham Act, but may also exist as a state cause of action.42

In practice, trade secret protection is generally viewed as an alternative to patenting a technology. Being based in the common law, trade secret misappropriation is a state, not federal, claim.43 Like most torts, trade secret liability can vary greatly by state, although most have eradicated that disparity by enacting the Uniform Trade Secrets Act, which serves to standardize the elements.44

The balance of normative values between the respective stake holders in patent, copyright, trademark, and trade secret law is illustrated graphically in Table I, infra, in Appendix (Tables).

C. Normative Analysis of Contract Law

Contracts are legally enforceable agreements.45 However, the basics of first year Contracts courses teach us that not all agreements are enforceable as contracts.46 The agreement may be overly

42. See Colonial Penn Group, Inc. v. Colonial Deposit Co., 834 F.2d 229, 234 n.3 (1st Cir. 1987) ("It cannot be argued that the Lanham Act has completely preempted state common law service mark protection.").
44. The Uniform Trade Secrets Act (UTSA) has been enacted in forty five states, plus two U.S. territories, including the District of Columbia, as of September 2008. NATIONAL CONFERENCE OF COMMISSIONERS ON UNIFORM STATE LAWS, A FEW FACTS ABOUT THE UNIFORM TRADE SECRETS ACT (2008), http://www.nccusl.org/Update/uniformact_factsheets/uniformacts-fs-utsa.asp.
45. See NEC Corp. v. Dep't of Commerce, 74 F. Supp. 2d 1302, 1308 (Ct. Int'l Trade 1999) ("[A] promise or set of promises for breach of which the law gives a remedy, or the performance of which the law in some way recognizes as a duty."); RESTATEMENT (SECOND) OF CONTRACTS § 1 (1981) (in some cases, contracts may be said to constitute legally recognizable rights). See also E. ALLAN FARNSWORTH, FARNSWORTH ON CONTRACTS § 1.1 (3rd ed. 2004).
46. Contracts courses discuss the many and varied ways that parties can avoid enforcement of their agreements.
ambiguous, illusory, lacking consideration, or disputed as to its very existence. Contracts may also be rescinded or have their provisions struck on the basis of illegality, including unconscionability, duress, or fraud.

Overall, contract law is geared toward implementing the reasonable expectations of parties. Another major goal of contract law is to ensure the right of private parties to design their future interests by assigning present value to probabilities of future outcomes based on the information and belief of the parties—or in some cases on the actual, sometimes even superior, knowledge of one or the other. In this way, contract law encourages the resolution and settlement of disputes that have arisen or that may arise.

These important normative values of contract law must be balanced with the countervailing duty of good faith and fair dealing. The resulting balance of normative factors in contract law is illustrated graphically in Table II, infra, in Appendix (Tables).

D. The Convergence of Contract and Intellectual Property Law

The intersection of contract and intellectual property law reveals substantial overlap in their normative values. They share the general value of satisfying the reasonable expectations of the parties involved, as well as a balancing of interests between the relevant stake holders, including the public. Moreover, intellectual property rights, like

47. Wood v. Lucy, Lady Duff-Gordon, 118 N.E. 214, 214 (N.Y. 1917) (relating that courts may impute intent by the parties if possible).
50. See Petterson v. Pattberg, 161 N.E. 428, 429 (N.Y. 1928), as well as the classic "Blackacre" case examples where acceptance is tendered too late.
55. See Tymshare, 727 F.2d at 1152-53; Austin Instrument, 272 N.E.2d at 535.
56. In intellectual property law, that presents a more fluid question as to identification of the relevant "parties." Accordingly, Part II(B), supra, and Table I, infra, lay out the major stake holders in the three main branches of intellectual property law (plus trade secret), including, where relevant, the rights holder, competitors, users, and the public (a multi-faceted group of taxpayers, consumers, and fellow citizens).
contract rights, are primarily commercial. For these reasons, intellectual property rights combine easily with contracts. Specifically, intellectual property rights may be contracted \textit{ex ante} (before creation) or \textit{ex post} (post-creation). The \textit{ex post} contract may be a full assignment or a license of varying degrees. Each of these contracts has separate yet corresponding issues.

Employers commonly require new employees to sign contracts agreeing in advance that the employee will assign rights in any invention or other creation made during the term of employment. Savvy employers use substantially similar forms for independent contractors, including those hired via purchase order, in order to ensure that they do not get stuck paying full value for creation and ending up with just a copy, rather than a copyright (or patent), particularly where the purchaser believes that the creator has already captured the full value in the initial sale. These contracts are often applied to trade secrets, and are especially well-utilized in states like California where covenants not to compete are unenforceable by law.

Where copyrights are involved, these \textit{ex ante} agreements to assign may be styled as an alternative to a "work for hire" arrangement. This is key to situations where the creation may not fit into one of the specified categories necessary for establishment of a

\begin{footnotes}
57. While many rationales may be posited for the protection of intellectual property rights, the government grant of rights in patent, copyright, and trademark law are all oriented toward commercial use by the rights holder. This is clear from the remedies, which are oriented toward damages, as per their tort origins (and sometimes injunctions, deriving from their oft characterization as property rights). See Mark A. Lemley & Philip J. Weiser, \textit{Should Property or Liability Rules Govern Information?}, 85 Tex. L. Rev. 783 (2007) [hereinafter \textit{Property or Liability Rules}]. Trade secret law is by its very definition commercial, since it governs only that which "derives independent economic value" from its secrecy. See NAT'L CONFERENCE OF COMM'R'S ON UNIF. STATE LAWS, UNIFORM TRADE SECRETS ACT § 1(4) (1985); see also CAL. CIV. CODE § 3426.1(d)(1) (West 1997).


59. Most sophisticated companies require such \textit{ex ante} agreements, and increasingly research universities do as well. E.g., UNIV. OF CAL., PATENT ACKNOWLEDGEMENT FORM, http://www.ucop.edu/ott/genresources/patentac.html (last visited Oct. 20, 2008) (form which all new U.C. employees are required to sign).

60. CAL. BUS. & PROF. CODE § 16600 (West 2008). The California Supreme Court recently decided on an interpretation of the statute, reaffirming that "covenants not to compete are void, subject to several exceptions." Edwards v. Arthur Andersen, L.L.P., 189 P.3d 285, 288 (Cal. 2008). This article's author signed onto an \textit{amicus} brief with law professors and scholars advocating the public policy behind prohibiting employee covenants not to compete.
\end{footnotes}
work for hire.\footnote{61} Although Title 17 limits what may be considered a "work for hire"—with corresponding repercussions on duration of copyright and of assignment—Title 17 does not limit the rights of parties to privately enter into \textit{ex ante} contracts that will govern the ownership of the future copyright creations.\footnote{62}

Overall, parties need to ensure that their intellectual property contracts—whether \textit{ex ante} or \textit{ex post}—match the normative values of contract as well as of intellectual property law, by fitting the requirements described in Part II(C) of this article, \textit{supra}, (consideration, legality, etc.). For example, agreements to assign in the future are sometimes deemed to lack present consideration.\footnote{63} Assignments of already-existing rights—or at least rights that are in good faith believed by the parties to exist—fall nicely into the intersection of normative values of contract and intellectual property law, and are generally not problematic as long as the proper requirements of contract law are followed.

Licensing presents the quintessential intersection of contract and intellectual property law. More so than with any other contract governing intellectual property rights, licensing pushes the normative values of each to the test, requiring a very careful balance of interests. The U.S. Supreme Court has recently recognized that need for balance in the realm of intellectual property licensing.\footnote{64} As will be examined further in Part IV however, the Court unfortunately veered off course and failed to carefully contemplate contract law in the balance.

The convergence of normative values between contract and intellectual property law is illustrated graphically in Diagram A:

\begin{itemize}
\item \footnote{61} 17 U.S.C. § 101 (2000 & Supp. II 2004). Often these are styled as either/or contracts, including language along the lines of:
\begin{quote}
The parties agree that this work is and will be deemed a work-for-hire under Title 17 of the United States Code. To the extent the work is not deemed a work-for-hire by a competent court of law, the parties agree that Creator will, and hereby does, assign all right, title, and interest in Work to Commissioning Party for good and valuable consideration.
\end{quote}
\item \footnote{62} Although if not a statutory work for hire, even an \textit{ex ante} contractual assignment will be limited in time by the terms of 17 U.S.C. § 203 (2000).
\item \footnote{63} Therefore, parties may opt for present tense language such as: "\textit{X agrees to assign, and hereby does assign}, any and all right and interest in such inventions as may be created . . . ."\footnote{64} MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118, 126-31 (2007). In other contexts, the Federal Circuit Court of Appeals has also recognized the need to reconcile principles of contract law with intellectual property in the realm of licensing. \textit{See} Gen. Mills, Inc. v. Kraft Foods Global, Inc., 487 F.3d 1368 (Fed. Cir. 2007) (upholding common law contract principles, and quoting Corbin on Contracts for support).
\end{itemize}
E. The Perceived Divergence of Contract and Intellectual Property Law

Despite their generally smooth intersection of normative values, contract and intellectual property law may appear to diverge in certain key respects. Specifically, while contract law typically allows parties to devise their own arrangements, there are certain overriding normative restrictions in intellectual property law primarily involving misuse, antitrust, estoppel, and consumer protection. These restrictions are driven by the exclusive nature of most intellectual property rights, including the exclusionary nature of patents, and the similarly expansive nature of copyright. Due to the strength of the intellectual property grant, together with the extraordinary right to injunction as a (generally presumed) remedy, and the fact that they

---

68. In the 2006 eBay case, the U.S. Supreme Court dismissed the automatic presumption of injunction in patent law, but it continues to be the norm in most cases. eBay Inc. v. MercExchange L.L.C., 547 U.S. 388, 394 (2006). For further examination on the proper rights and remedies that should accrue to intellectual property owners, including in a post-eBay system, see Property or Liability Rules, supra note 55.
are essentially government-conferred rights, such restrictions are necessary to maintain the precarious balance between the stakeholders, as illustrated in Table I of this article, infra, in Appendix: (Tables).

Policy exceptions to free contracting in intellectual property law may be attributable to a common misconception that intellectual property owners have more leverage and hold greater bargaining power than their licensees. This mistaken generalization has led to some inconsistency in recent decisions by the U.S. Supreme Court, including in its January 2007 MedImmune decision, discussed in Part IV of this article, infra. Certainly sometimes misuse, antitrust, and other restrictions in intellectual property licensing must be invoked, but it is not necessary to cast aside contract doctrine in order to do so. Instead, these intellectual property policies fit well within standard contract doctrine, which limits illegal contracts.

Misuse occurs when a patentee tries to overreach the scope, term, or extent of its patent grant. In the licensing context, misuse

---

69. Patents, copyrights, and trademarks may be considered government-conferred rights due to their registration and enforcement procedures.

70. Some scholars have argued that federal law's preemption may act as an impediment to certain types of contracts, including intellectual property licenses. See Mark A. Lemley, Beyond Preemption: The Law and Policy of Intellectual Property Licensing, 87 CAL. L. REV. 111 passim (1999) [hereinafter Beyond Preemption]. However, Professor Lemley was primarily addressing an issue in the proposed U.C.C. Article 2B, which he argued would give undue advantage to licensors. This article does not delve into the intricacies of how standard contract law has been applied or abused, but merely suggests that it should not be viewed as diverging from intellectual property law. Instead, this article suggests viewing misuse, antitrust, and related issues as being at the convergence of contract illegality and intellectual property law. A similar view was espoused by Professor Samuelson regarding the proposed Uniform Computer Information Transactions Act (UCITA) as properly viewed at the intersection of contract and intellectual property law. See Pamela Samuelson & Kurt Opsahl, How Tensions Between Intellectual Property Policy and UCITA are Likely to be Resolved, 570 ECOMMERCE STRATEGIES FOR SUCCESS IN THE DIGITAL ECON. 741, 743-44 (Practicing Law Institute ed., 1999); accord Pamela Samuelson, Foreword, Intellectual Property and Contract Law in the Information Age: The Impact of Article 2B of the Uniform Commercial Code on the Future of Transactions in Information and Electronic Commerce, 13 BERKELEY TECH. L.J. 809 (1998) ("Intellectual property and contract laws have a long history of working in concert to regulate commercial transactions in information-rich works. Yet, as both bodies of law have expanded their horizons to respond to the considerable challenges posed by digital technologies, the relationship between these two laws has shifted."). See also David McGowan, Free Contracting, Fair Competition, and Article 2B: Some Reflections on Federal Competition Policy, Information Transactions, and "Aggressive Neutrality," 13 BERKELEY TECH. L.J. 1173 (1998).

71. The remedy for misuse does not result in a final and binding holding of invalidity. Instead, it constitutes an equitable remedy whereby the intellectual property right cannot be enforced until the misuse has been corrected. See 35 U.S.C. § 271(d)(4)-(5) (2000), which limited the liability for patent misuse. For an innovative argument to limit the remedies available
may be found where a patentee attempts to bind a licensee to contractual obligations beyond the legal term of the patent (or copyright). In that case, the normative values precluding misuse must override the contractual right of parties to voluntarily enter a willing bargain. On the other hand, accepting that parties to a license agreement may take a gamble on the ultimate enforceability of the subject patent claims, especially if the license agreement is completed in advance of the patent grant, the Supreme Court has also found it acceptable for parties to set a date certain for the term of the license agreement, regardless of whether a pending patent ultimately issues. Thus, a would-be patentee may bind a licensee to pay royalties on a patent that never issues, as long as the licensor does not also attempt to bind a licensee beyond the actual term of an issued patent.

The normative values of antitrust are also somewhat at odds with those of intellectual property law. This provides for a constant and ongoing normative debate amongst Congress, courts, and commentators. While antitrust law seeks to avoid barriers to competition, intellectual property rights are built on the premise of exclusivity. The Federal Trade Commission issued a report in October 2003 alleging, among other things, that patents provide a potential antitrust risk. This is of course true, but only when patents are misused, abused, or otherwise taken out of context.


72. See Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 493-94 (1942); Brulotte v. Thys Co., 379 U.S. 29, 32 (1964). This doctrine has been extended, by analogy, to copyright law. See also Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970 passim (4th Cir. 1990) (holding license provision barring licensee from developing competing software was misuse); DSC Commc'ns Corp. v. DGI Techs, Inc. 81 F.3d 597, 600-01 (5th Cir. 1996).

73. Aronson v. Quick Point Pencil Co., 440 U.S. 257, 261-63 (1979) (holding it is okay for the parties to contract for lower royalties in the event no patent issues).

74. LAWRENCE ANTHONY SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST 20 (1977) ("As legislative history and case law both disclose, the general objective of the antitrust laws is the maintenance of competition. Competition per se thus becomes a goal of the legal order. Yet, competition is not a concept which defines itself; notions about the desirability of competition may shape judgments about how the law should apply, at least at its indistinct edges."); Stewart v. Abend, 495 U.S. 207, 220 (1990) ("An author holds a bundle of exclusive rights in the copyrighted work . . . .").

75. U.S. FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003), http://www.ftc.gov/os/2003/10/innovationrpt.pdf. The report was met with great interest in the patent community, but some resentment as well, including by those who claimed that the report evidenced a lack of understanding of the necessity of monopoly power inherent in the patent grant. The FTC released a follow-up 210 page report, together with the Department of Justice, U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007),
There are several additional areas of tension between the private right of contract and the strictures of intellectual property ownership. Generally these arise in other contexts where, as with misuse or antitrust violations, the intellectual property owner attempts to engage in some improper or illegal activity. Consumer protection laws, for example, may limit the ability of intellectual property owners to lock unwitting buyers into adhesion contracts such as software “shrinkwrap” or “clickwrap” licenses. These laws do not present a normative conflict however, since they are typically aligned with general common law contract principles of good faith and fair dealing. Estoppel also, which would (and should) be governed by standard contractual principles, has instead been taken up by the U.S. Supreme Court as a matter of intellectual property policy. The resulting confusion is examined in Part III of this article, infra. Overall, it is unfortunate that courts have repeatedly latched onto the red herring of a perceived “divergence” between contract and intellectual property law, and as a result have based their decisions on somewhat false pretenses, when instead they should be looking at this

http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf. The 2007 report contains interesting commentary on various licensing practices and their potential antitrust impact. The FTC acknowledges that “IP Licensing is generally procompetitive.” Id. at 87.

76. A good example of this controversy is the recent case of In re Tamoxifen Citrate Antitrust Litigation, 466 F.3d 187 (2nd Cir. 2006), cert. denied, 127 S. Ct. 3001 (2007), challenging the practice of “reverse payments” whereby a pharmaceutical patentee pays a generic company with first rights to stay off the market. For more on reverse payment schemes and their legality, see Christopher M. Holman, Do Reverse Payment Settlements Violate the Antitrust Laws?, 23 SANTA CLARA COMPUTER & HIGH TECH. J. 489 (2007).

77. Software licenses present the common tension in the apparent “divergence” between contract and intellectual property law. Again, though, what appears to be a “divergence” is generally just application of contractual protections, such as common law principles of adhesion contract and overriding statutory consumer protections. Accordingly, although courts generally allow broad contractual leeway, even in “clickwrap” and “shrinkwrap” licenses, parties must, of course, abide by standard contractual requirements of “good faith and fair dealing.” See, e.g., ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1449 (7th Cir. 1996) (“Shrinkwrap licenses are enforceable unless their terms are objectionable on grounds applicable to contracts in general”); Hill v. Gateway 2000, Inc., 105 F.3d 1147, 1148-49 (7th Cir. 1997) (holding that an opportunity to read terms online is sufficient, even if terms not discussed by representative on phone purchase). Even cases that have taken a very negative view of clickwrap licensing have typically relied on common law contract principles to thwart the clickwrap provisions. See, e.g., Specht v. Netscape Commc'n Corp., 306 F.3d 17, 20, 26 (2d Cir. 2002) (holding arbitration provision not disclosed up front in a clickwrap license was not binding, based on common law principles of contract); Bragg v. Linden Research, Inc., 487 F. Supp. 2d 593, 611 (E.D. Pa. 2007) (denying enforcement of clickwrap license based on contractual theories of adhesion and unconscionability).

as just an overlap between intellectual property norms and the proscription against illegality in contract doctrine.

The normative values in the perceived "divergence" between contract and intellectual property law (that is to say, in the convergence of intellectual property and contractual illegality) are illustrated graphically in Diagram B, infra. Diagram B shows what is not enforceable under the principles of relevant contract and intellectual property doctrine.

**Diagram B**

**CONVERGENCE OF NORMATIVE VALUES BETWEEN CONTRACTUAL ILLEGALITY AND INTELLECTUAL PROPERTY LAW**

III. THE ADVERSE CONTRACT

A. The Legend of Licensee Estoppel

Once upon a time, it was decreed across the land that a licensee of a patent could not challenge its validity, now or evermore. The concept was referred to as "licensee estoppel," and the rationale was essentially that one cannot both benefit from a right and

simultaneously challenge it. In the much-cited case of Lear v. Adkins, however, the U.S. Supreme Court cleanly abolished the doctrine of licensee estoppel in patent law. While the effect of the Lear decision was sweeping, the Court's analysis in reaching its ultimate conclusion was even more revealing, both for its high points and for its flaws.

Interestingly, the Lear Court recognized licensee estoppel as being at the intersection of patent and contract law. The Court did not, however, see a possibility of balancing the laws' competing normative values, but instead came up with a disappointingly black and white analysis. The Court focused on patent law in a vacuum, and even within patent law, the Court failed to consider the complex and competing demands of patent doctrine, including the important incentives created by patents. Instead, the Court basically held fast to the singular principle that "all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent." While true, this is only one piece of a larger puzzle both within patent law and between patent and contract doctrine. Therefore, the Court missed an opportunity to find common ground at the intersection of contracts and intellectual property, instead opting to say, simply, that the importance of challenging weak patents overrides the importance of upholding general principles of contract law. This was an unfortunate and unnecessary conclusion. In fact, the Court could--and should--have reached the same holding,

80. Lear, 395 U.S. at 656.
82. Id. at 671, 674 n.19.
83. See Rochelle Cooper Dreyfuss, Dethroning Lear: Licensee Estoppel and the Incentive to Innovate, 72 VA. L. REV. 677, 678-81 (1986).
84. Lear, 395 U.S. at 668.
85. The Lear decision has been criticized for adding to a mismatched incentive system, whereby licensees have an unnaturally low bar to challenging patent validity, whereas non-licensees have an unnaturally high bar for such challenges. See, Dreyfuss, supra note 83, at 757-59. Indeed, since that article was published, these incentives have been thrown further afoul by the Federal Circuit, and then by the U.S. Supreme Court in the January 2007 in MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118 (2007).
86. For more on the complex and competing interests of intellectual property law, and the need to balance them, see Part IIA, supra.
87. Id.
88. Lear, 395 U.S. at 668.
89. Id. at 670-71, 673-74. The Court did at least profess to seek "an acceptable middle ground" between the "two different worlds of contract and patent." Id. at 668. However, the Court missed an important opportunity to do so, instead basing its conclusion on its expressed belief that patent law is simply more important.
abolishing the doctrine of licensee estoppel as an automatic bar to patent validity challenges, by examining the convergence—rather than the perceived divergence—of contract and patent law.

In particular, the Court glossed over a few important doctrines of contract law that could be used to address this very issue. Already, under standard principles of contract law, a licensee who seeks to challenge the validity of the licensed patent could rightfully rely on some of the contract doctrines discussed in this article at Part II(C), supra. The licensee could claim that the contract lacked consideration, that the licensor lacked the necessary “good faith and fair dealing,” or simply that the parties made a mistake.

Contract doctrine would supply a sufficient—and preferable—basis for abolishing the doctrine of licensee estoppel as an automatic bar to patent validity challenges. Recognizing that licensee estoppel may be managed within the standard confines, and convergence, of contract and patent law, would also leave open the possibility that, in some cases, the licensee would simply not be able to satisfy the necessary standard to challenge a licensed patent via the appropriate contractual vehicle. This result would present a true balance of interests both in the patent realm, and between patent and contract law.

B. Adding Civil Procedure to the Normative Balance

Certainly, allowing a licensee to sue at anytime for anything at all is an entirely illogical conclusion that does not at all flow from Lear. The Lear doctrine cannot be construed as per se conferring standing or ripeness where they would not otherwise lie. Indeed the Lear doctrine, while important in allowing more open access to challenging patents, does not and should not be interpreted to do anything more than remove one specific bar to patent litigation. Prior to Lear, some courts held that a licensee, just by virtue of taking a license, was forever estopped to deny the validity of the subject of

---

90. See id. at 669-70 (providing cursory—but generally dismissive—discussion on possible contractual defenses). Note that while only a properly constituted federal court may invalidate a patent grant, a state court may decide issues such as unclean hands under the contract (i.e., the license).

91. In short, using the rationale promoted by this article, a former licensee or one in breach would be allowed to sue for patent invalidity in federal court if the necessary declaratory judgment standards (discussed in Part IV) are present. For an active licensee in good standing, the available remedy—if any—should be a contractual one, brought under state law, and not a right to federal subject matter jurisdiction in the first instance. Cf. MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118 (2007).
that license.\textsuperscript{92} Now, in post-\textit{Lear} jurisprudence, a former licensee, or one in breach of its obligations, may challenge the validity of the patent (or perhaps the copyright/trademark) \textit{if the party otherwise satisfies jurisdictional requirements}.\textsuperscript{93} Certainly, it would be as misguided to allow a licensee to sue just based on that status as it was to enjoin it for that reason.\textsuperscript{94}

This issue highlights the importance of adding civil procedure to the balance at the intersection of normative values between contract and intellectual property law, as discussed in Part II and illustrated in Diagrams A and B, \textit{supra}. At its core, civil procedure seeks to ensure that proper jurisdiction is established in order to afford parties fair access to courts without requiring parties to be hauled into court inappropriately.\textsuperscript{95} In general, \textit{in personam} jurisdiction is somewhat negotiable,\textsuperscript{96} and therefore tends to fit well with the principles of contract law and the private right of parties to willingly bargain away their rights. This is demonstrated by contractual clauses regarding choice of law and forum, which are generally permitted as a right of contractual negotiation.\textsuperscript{97} However, there are exceptions, including

\begin{itemize}
\item 94. Naturally, denial of jurisdiction frustrates licensees who want to challenge patent (or copyright/trademark) validity without risking infringement liability. It would be inappropriate, however, to allow a licensee–while shielded from infringement liability–to engage in the very \textit{danse macabre} that the Declaratory Judgment Act, 28 U.S.C. § 2201 (2000), is intended to avoid, asserting its right to challenge the patent’s validity, while the patentee is barred from bringing its own action. The term \textit{danse macabre} was first used to describe the plight of the alleged infringer prior to the Declaratory Judgment Act by Judge Markey in \textit{Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.}, 846 F.2d. 731, 734-35 (Fed. Cir. 1988). This reverse \textit{danse macabre} is exactly what the Supreme Court has unwittingly encouraged, however, in its January 2007 decision in \textit{MedImmune}. This article argues that, in doing so, the Court evidenced a misunderstanding of proper perspective on the intersection of contract and intellectual property law. See Part IV of this article, \textit{infra}.
\item 96. \textit{Burger King}, 471 U.S. at 478-79.
\item 97. \textit{Actual} negotiation is generally unnecessary since the \textit{ability} of the parties to negotiate is presumed, absent some illegality as described in Diagrams A and B, \textit{supra}, and Table II in
\end{itemize}
where intellectual property (or other) norms conflict. In California, there is a strict statutory policy against employee non-compete agreements. Therefore, at least one California court has invalidated a choice of law clause that would opt for another state, in favor of promoting California’s strong interest in enforcing its statute.

Subject matter jurisdiction, meanwhile, is a much more rigid value of civil procedure, and one that courts do not allow parties to privately contract. In particular, courts have observed that parties may not waive or confer subject matter, as they do in persona jurisdiction, since it is not within the right or ability of the parties to create jurisdiction by the court. In the realm of intellectual property, this is illustrated by the example that a patent claim brought under Title 35 presents a federal question, while claims brought under any given state’s codification of the Uniform Trade Secrets Act do not present federal questions. The rationale is that either a dispute fits


98. CAL. BUS. & PROF. CODE § 16600 (West 2000). The California Supreme Court recently decided on an interpretation of the statute, reaffirming that covenants not to compete are void, subject to several exceptions. Edwards v. Arthur Andersen, L.L.P., 189 P.3d 285 (Cal. 2008).


100. FED. R. CIV. P. 12(h)(3) requires a court to dismiss an action at any time where it appears that subject matter jurisdiction is lacking, since it cannot be waived by the parties. The defense may be raised by the parties or by the court at any time, even on appeal. Parties cannot contract to invoke subject matter jurisdiction before or during litigation, since it raises the very question of the court’s authority to hear their case. See Neirbo Co. v. Bethlehem Shipbuilding Corp., 308 U.S. 165 (1939).

101. Ins. Corp. of Ireland v. Compagnie des Bauxites de Guinee, 456 U.S. 694, 702 (1982) ("[N]o action of the parties can confer subject-matter jurisdiction upon a federal court."). See also Am. Fire & Cas. Co. v. Finn, 341 U.S. 6, 17-18 (1951) ("The jurisdiction of the federal courts is carefully guarded against expansion by judicial interpretation or by prior action or consent of the parties.").

102. 28 U.S.C. § 1338 (2007) (also conferring federal jurisdiction on copyright claims brought under Title 17 or trademark claims brought under Title 15). Of course intellectual property rights brought under state statutes or common law must be brought as state law claims.
the subject matter jurisdiction of a court or it does not—at least in principle.\textsuperscript{103}

In reality, there is a great deal that parties can do, whether by contract or unilaterally, to garner subject matter jurisdiction. Diversity and supplemental jurisdiction create statutory exceptions allowing federal courts to hear state claims.\textsuperscript{104} Similarly, declaratory judgment actions confer subject matter jurisdiction on federal courts where the putative plaintiff chooses not to initiate suit, but the dispute is otherwise ripe.\textsuperscript{105} Between these various exceptions, there is an emerging framework whereby parties may actually be able to create subject matter jurisdiction in apparent contrast to the stated values of civil procedure, yet entirely within the bounds of the law. This could occur even by contract in an intellectual property license agreement.\textsuperscript{106} For example, while federal courts will not allow parties to simply state by contract that disputes will be covered by federal law,\textsuperscript{107} the parties can arrange diversity jurisdiction. Similarly, while federal courts would not accept a contractual provision that creates a "case or controversy,"\textsuperscript{108} parties could agree upon factors that would be considered hostile to the license—and that thereby would likely create at least baseline declaratory judgment jurisdiction.\textsuperscript{109} That particular issue was not present before the Supreme Court in the 2007 \textit{MedImmune} case, and so it adds to the array of murky questions surrounding the intersection of contract and intellectual property law, and as on this issue, their convergence with the normative values of civil procedure, analyzed in Table III, infra, in Appendix: (Tables), and graphically illustrated in Diagram C.

\textsuperscript{103} Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 802 (1988) ("[J]urisdiction is determined by reference to the well-pleaded complaint, not the well-tried case . . . .").
\textsuperscript{105} 28 U.S.C. § 2201 (2000). The issue of declaratory judgment in the licensing context was examined by the U.S. Supreme Court in January 2007 in \textit{MedImmune, Inc. v. Genentech, Inc.}, 549 U.S. 118 (2007). The decision is examined further in Part IV of this article, infra.
\textsuperscript{106} \textit{MedImmune}, 549 U.S. at 118.
\textsuperscript{108} \textit{MedImmune}, 549 U.S. at 126.
\textsuperscript{109} On oral argument, Justice Stevens asked "whether the parties could agree to create a case or controversy." transcript of Oral Argument at 34, \textit{MedImmune}, 549 U.S. 118 (No. 05-608) [hereinafter \textit{MedImmune Oral Argument}]. This is an interesting question because even where baseline declaratory judgment jurisdiction is established, the courts have discretion whether to hear a case. Certainly jurisdiction must lie as a baseline matter, but of course it is the parties who create the controversy by their words or actions.
C. The Utter Confusion

Although the U.S. Supreme Court sought to create a simplified system with Lear, the decision instead created vast gaps in the ability of licensing parties to predict outcomes for varying behaviors. The confusion results from the Lear Court’s incorrect rationale. Instead of relying on contract law to reach its decision—as it could and should have done—the Court stated that its decision was actually based on what it deemed the preemption of federal patent law over common law contract principles. A proper decision based on contract doctrine would reasonably have allowed licensing parties to guide their future behaviors by the principles of contract law. Instead though, the misguided rationale of the Supreme Court in Lear


111. Brief of Licensing Executives Society (U.S.A. & Canada), Inc. as Amici Curiae Supporting Neither Party at 4-5, MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118 (2007) (No. 05-608), 2006 WL 1355599 [hereinafter LES Amicus Brief in MedImmune] (noting that while “the decision provided some certainty . . . it was unclear how broadly the decision would be applied,” and other issues “remain uncertain to this day”).

112. id. at 2 (asserting contract law “ensure[s] that each party to a license agreement . . . should understand from the outset their full rights and liabilities under the . . . agreement”).

113. LES Amicus Brief in MedImmune, supra note 111, at 2 (asserting contract law “ensure[s] that each party to a license agreement . . . should understand from the outset their full rights and liabilities under the . . . agreement”).
has left licensors and licensees alike uncertain of the proper boundaries of their transactions. The result has been utter confusion as to what exactly is acceptable behavior by the parties to a contract, if the contract happens to be a license for intellectual property. Circuit splits have ensued, leading to the creation of the Federal Circuit Court of Appeals in 1982. The Federal Circuit, which now hears virtually all patent appeals, should have been able to clarify the confusion, yet the court has unfortunately taken an overly-formalistic, and sometimes narrow tact, further adding to the disarray.

When the U.S. Supreme Court finally granted certiorari on a licensing case this past term, there was some hope that the Court would shed light on the undecided issues in licensing practice. This call for action is demonstrated by the amicus brief filed by the Licensing Executive Society (LES). The LES represents thousands of domestic and international company representatives, consisting of both licensors and licensees. Tellingly, the LES filed its brief “In Support of Neither Party,” simply seeking the certainty necessary to properly settle the economic expectations on all sides. In particular, the brief provides the following background in its plea to the Supreme Court for firm guidance:

Licensees and licensors now often do not know prior to entering into a license agreement whether, when, or how licensees will be permitted to challenge patent validity. Similarly, licensees and licensors often do not know to what extent licensors can prevent, hinder, or ameliorate the impact of such validity challenges.

This is important to the valuation of a business deal as well as to the expectations of parties after they have entered into the contract. Although the U.S. Supreme Court’s January 2007 MedImmune decision did not directly address any of the issues raised by LES, a careful reading—and a proper interpretation—of the Court’s decision may provide some guidance on how the issues can be resolved, as proposed in Part V of this article, infra.

114. Id. at 4-5.
115. Id.
116. Dreyfuss, supra note 83, at 750-51 (noting the Federal Circuit was “created with the avowed purpose of bringing greater uniformity and predictability to the patent law”).
117. LES Amicus Brief in MedImmune, supra note 111, at 2 (urging the Court to “issu[e] a ruling that clarifies and explains the continuing validity and scope of the Lear doctrine”).
118. Id.
119. Id. at 1.
120. Id. at 2.
121. Id.
The most salient issues causing confusion among licensing parties can generally be fit into the following five categories: 1) Does Lear's abrogation of licensee estoppel (at least for former licensees) apply to contractual covenants not to sue, if the covenant was reached by a consent decree or legal settlement? If so, does the timing of the agreement (pre-discovery for example) matter? 2) Can parties contract around the abrogation of licensee estoppel by providing for differential royalties based on the outcome—or even the filing—of a patent invalidity challenge? 3) Must a licensee continue to pay royalties during the pendency of a patent validity challenge? 4) Should the abrogation of licensee estoppel be applied also to copyright and trademark licenses? Finally, 5) can a licensee in good standing to an active license invoke the Lear doctrine to sue for patent invalidity without termination or breach?

1. Does Lear's abrogation of licensee estoppel (at least for former licensees) apply to contractual covenants not to sue if the covenant was reached by a consent decree or legal settlement? If so, does the timing of the agreement (pre-discovery for example) matter?

Appellate courts have differed in their opinions as to whether a consent decree acts as estoppel to challenging patent validity, or on the other hand, if such estoppel would be contrary to the Lear doctrine.\(^\text{122}\) During the decade following Lear, three different circuit courts considered the question and came to different conclusions. The Third and Sixth Circuit Courts of Appeal held that a consent decree acts as binding estoppel.\(^\text{123}\) The Seventh Circuit, however, found that it would be antithetical to the tenets of Lear if a licensee could be estopped from challenging patent validity, simply because the "license" was couched as a consent decree.\(^\text{124}\) The Federal Circuit has, since its creation in 1982 disagreed with the Seventh Circuit and repeatedly allowed consent decrees to act as estoppel.\(^\text{125}\) With no

---


\(^{123}\) Interdynamics, Inc. v. Firma Wolf, 653 F.2d 93, 96-97 (3d Cir. 1981); Schlegal Mfg. Co. v. USM Corp., 525 F.2d 775, 779-81 (6th Cir. 1975).


further Supreme Court guidance, there has been a lingering question for licensing parties as to whether the Federal Circuit would some day be overturned on this issue in favor of the Seventh Circuit's reasoning that Lear's policy is too strong to allow estoppel to flow from any type of agreement.\textsuperscript{126}

Similarly, there is a remaining question as to whether a settlement agreement can be used to estop a party from challenging patent validity. Post-Lear, at least one Ninth Circuit decision declined to invoke estoppel based on a settlement agreement signed in the absence of litigation.\textsuperscript{127} The rationale was, again, that it would be too easy for prowling patentees to disguise licensing agreements as pre-litigation settlement agreements and thereby to improperly skirt the Lear doctrine.\textsuperscript{128} Without directly disputing that holding, the Federal Circuit in a later case declined to extend it to post-litigation settlement agreements.\textsuperscript{129} Hence, there has been some concern that licensors have an incentive to file litigation first and invite a license later.

In fact, none of these questions are truly novel to contract law. Although they have mistakenly been treated—including by the U.S. Supreme Court—as patent issues, all are actually contract issues, and can be dealt with by the basic principles of contract law, at its convergence with patent law, as described in Part II(D) and (E) and illustrated in Diagrams A and B of this article, supra. Employing the same rationale that the Court should have implemented in Lear, these persisting issues should simply be addressed using the standard contract doctrines of consideration (including the settlement of good faith disputes), mistake, and, where necessary, illegality.\textsuperscript{130} In most cases, a settlement agreement with proper consideration should act as

\begin{flushright}
\begin{itemize}
  \item \textsuperscript{126} \textit{But cf.} Kenyon, supra note 122, at 175 (arguing that the "Federal Circuit achieved a reasonable balance between the valid federal interest in preserving the finality of judgments and the patent policy of removing obstacles to suits challenging patent validity.").
  \item \textsuperscript{127} \textit{See} Massillon-Cleveland-Akron Sign Co. v. Golden State Adver. Co., 444 F.2d 425, 427 (9th Cir. 1971) (distinguishing a settlement agreement from a license is tricky since a license agreement could easily be couched as a pre-litigation settlement).
  \item \textsuperscript{128} \textit{Id.}
  \item \textsuperscript{129} Flex-Foot, Inc. v. CRP, Inc., 238 F.3d 1362, 1369-70 (Fed. Cir. 2001) (holding a settlement agreement that settles litigation acts as estoppel to a licensee's challenge of patent validity). \textit{See also} Warrior Lacrosse Inc. v. Brine, Inc., No. 04-71649, 2006 WL 763190, at *25 (E.D. Mich. Mar. 8, 2006) (applying contract doctrine to find preclusive effect of settlement that occurred early in litigation). Actually, there is no clear policy reason why consent decrees should be treated as less binding res judicata than settlement agreements, since the consent decree actually involves the court and is a "judicial act." United States v. Swift & Co., 286 U.S. 106, 115 (1932).
  \item \textsuperscript{130} \textit{See} discussion of Lear in Part III(A), supra, for more on how these standard contractual doctrines could be applied to bar licensee estoppel in most cases.
\end{itemize}
\end{flushright}
Of course there could be exceptions, obtained through contract challenge, including mistake where the patent is shown to have been obtained by inequitable conduct, or is proven invalid by a third party. As to the supposed incentives of licensors to file litigation first and invite a license later, that assumption overlooks the rational patentee’s distaste for multi-million dollar litigation likely to result in a final determination of patent invalidity.

2. Can parties contract around the abrogation of licensee estoppel by providing for differential royalties based on the outcome—or even the filing—of a patent invalidity challenge?

One way that parties might be able to skirt the abolition of licensee estoppel is to allow a licensee to sue for patent validity, but with contractually-specified consequences. So, the parties may agree upfront in the license itself that if the licensee brings an action for patent invalidity (or, for that matter, for noninfringement or unenforceability), then the terms of the license will change. The license may provide for an increase in royalties if licensee brings suit.

131. See Flex-Foot, 238 F.3d at 1369-70.
132. Id. On this point, the Federal Circuit has correctly stated: “Consent judgments [and here, it could have added, “settlement agreements”] are interpreted according to general principles of contract law.” Diversy Lever, Inc. v. Ecolab, Inc., 191 F.3d 1350, 1352 (Fed. Cir. 1999). As such, consent decrees should be given the presumptions of contract law—and, in turn, should be subject to the same challenges as other contracts, keeping in mind the strong principle of res judicata on judicial actions. In that regard, the Federal Circuit also has acknowledged the need to consider the preclusive effect of consent decrees “narrowly.” Foster v. Hallco Mfg. Co., 947 F.2d 469, 481 (Fed. Cir. 1991).
The license may even provide for resulting termination or event of default—i.e., termination at licensor’s option if licensee does not promptly “cure” the default by dismissing the litigation.

These issues, again, are neither entirely new nor entirely unanswerable if courts properly look to the intersection of contract and intellectual property law. Already, almost since the time of Lear, the U.S. Supreme Court has allowed parties to base the royalty rate for a pending patent on the ultimate disposition by the U.S. Patent and Trademark Office. In short, the Court allowed parties to contract for a lower royalty in the event no patent ultimately issues on the licensed technology.

Furthermore, it has been and continues to be common practice in intellectual property licensing for parties to provide for milestone payments, and in some cases increased royalties, contingent on the outcome of the technology in the patent office and in the marketplace. This is particularly common practice for university licenses, which typically involve early-stage discoveries that have not yet been proven either as legally patentable or as commercially viable. University licenses most often require the licensee to take the full financial risk of pursuing a patent application and of developing and marketing the technology. In exchange, the university offers the license at low cost, with royalties and milestone payments to kick in only if the patent is issued and the technology becomes lucrative for the licensee.

It is logical to extend this same reasoning to the reverse scenario. So, whereas many licenses already require a licensee to pay increased fees if a patent issues or becomes commercially lucrative, so should licenses also be (at least potentially) enforceable if they provide that a

---

135. Id. at 265-66. This willingness by the Court to enforce a gamble on whether a patent will or will not issue is not to be confused with the Supreme Court’s refusal to enforce a license provision extending royalties beyond the term of an issued patent. See discussion of Brulotte v. Thys Co., 379 U.S. 29, 32 (1964), supra note 70. While this may seem inconsistent with the notion that only valid patents should command exclusivity, it can generally be reconciled by referring to trade secret licensing, which validly allows a licensor to charge royalties for a process that is never disclosed and never expires yet is nonetheless subject to certain legal protections.
137. Id.
138. See id.
139. Id.
licensee pay decreased fees if a patent does not issue, or is not commercially viable. Certainly, there is nothing in standard contract doctrine to blankly prevent this (although the licensee may attempt contractual defenses such as failure of consideration). Nor is there really any overriding public policy reason in patent law to block it (although antitrust claims may be invoked if relevant).

3. Must a licensee continue to pay royalties during the pendency of a patent validity challenge?

In the landmark Lear decision, the U.S. Supreme Court discussed the question of whether (at least former) licensees, now permitted to challenge patent validity, must pay royalty payments owed prior to a final judicial determination of invalidity. As the Court stated: "The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts." Although the question might seem to be a literal one, the Court did not decide it that way. While decreeing that a final adjudication of invalidity should avoid royalty payments due after issuance, the Court did not say whether royalties must be paid—and if so, to whom—during the pendency of the suit. In fact, the Court made two slightly inconsistent remarks on the topic. First, the Court indicated that a licensee who stops paying royalties—and thereby repudiates the contract—should be absolved from further payment provided it obtains a final judgment of invalidity. Next, however, the Court stated specifically that "Lear must be permitted to avoid the payment of all royalties accruing after Adkins' 1960 patent issued if Lear can prove patent invalidity."

141. Additionally, courts should consider that, as with the trade secret scenario, the licensee may obtain information, or perhaps services, from the licensor that otherwise would not be accessible to the public. Courts should generally allow parties to make freely negotiated contracts for potential patent rights that may not materialize as much as they allow contracts for a price certain on oil futures, whose value could not yet be fully known to either party. Meanwhile, licensing parties can also justify ongoing royalties that are based on exchanges beyond just the patent right, by including trade secrets or other non-expiring services under the umbrella of the license agreement. This same reasoning may be applied to copyright and possibly trademark licenses, depending on the reason that registration is denied.
143. Id.
144. Id. at 674 (The Court left it for the state courts on remand to make a decision on royalties accrued pre-grant.).
145. Id.
146. Id.
This could be interpreted in two ways. First, it could mean that all royalties—perhaps even ones already paid—must be disgorged to the licensee once invalidity is proven. Or, it could refer back to the first remark, which in the Lear case would have the same effect since the licensee stopped paying royalties before, not after, the patent issued.

The right of the licensor to demand payment of royalties during a validity challenge has been discussed by various courts, with varying conclusions. In truth, a court properly employing contract principles would find that this needs to be decided on a case by case basis. It is rather specific to any particular contract as to whether royalties should continue to be paid, and whether payment to an escrow account constitutes breach. Under the schematic matrix proposed by this article and set forth in Table V, infra in Appendix (Tables), contract doctrine is the main determinant of outcome for licensing challenges. Therefore, this individual question should turn on the particular factors of a given challenge, such as whether the challenge is based on lack of consideration, mistake, or other contractual mechanism.

4. Should the abrogation of licensee estoppel be applied also to copyright and trademark licenses?

There remains a question as to just how far Lear's abrogation of licensee estoppel can—or should—be pushed. The Lear doctrine has

---

147. Warner Jenkinson Co. v. Allied Chem. Corp., 567 F.2d 184, 188 (2d Cir. 1977) (licensee may make royalty payments during validity challenge and then recoup them if successful); Atlas Chem. Indus., Inc. v. Moraine Prods., 509 F.2d 1, 7 (6th Cir. 1974) (licensee may make payments into escrow account during validity challenge); Cordis Corp. v. Medtronic, Inc., 780 F.2d 991, 995 (Fed. Cir. 1985) (licensor may terminate agreement where licensee is paying royalties to escrow instead of to licensor).

148. The final word to date comes from the Federal Circuit Court of Appeals in an October 2006 decision. In the case of Go Medical Industries Pty. Ltd. v. Inmed Corp., 471 F.3d 1264, 1273 (Fed. Cir. 2006), the Federal Circuit stated that while a licensee need not pay royalties during a patent invalidity challenge (but would still be liable for those past due if the challenge is unsuccessful), the licensee may not invoke this protection "until it (i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid." This decision is consistent with prior Federal Circuit jurisprudence on the issue, such as Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co., 112 F.3d 1561 (Fed. Cir. 1997). The Supreme Court in MedImmune noted its interpretation of Lear as stating that no royalties need be paid during challenge by a repudiating licensee. MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118, 124 (2007). In so stating, the MedImmune Court may have missed the nuances of Lear, as discussed in this section of this article. Furthermore, the MedImmune majority acknowledged that it did not directly face that issue, since the petitioner in MedImmune was a nonrepudiating licensee who was still paying royalties. Id.
been applied by analogy to copyright licenses, although not uniformly. In trademark cases, too, there have been varying judicial determinations. The confusion results from Lear itself. Specifically, the Lear court based its decision on the precarious presumption that patents dominate a market. That presumption is incorrect. Congress specifically repudiated the presumption of patents as automatic antitrust or misuse concerns, via the 1988 amendments in PL100-703. Furthermore, it is factually untrue that anyone who holds a patent automatically dominates a market. Rather, in many industries patent owners vie with one another simply to tread water in the marketplace.

Following the reasoning of Lear, there is some question as to whether copyrights fit the characterization of market dominance. Indeed, the decisions following Lear would indicate that a court's opinion on that issue is determinative of its decision on the respective rights of the parties. One court opined that copyrights simply do not enjoy the market dominance of patents, and therefore should not be subject to the same policies blankly encouraging validity challenge. A later court, however, criticized that statement, pointing out that in certain industries a limited number of copyright owners enjoy enormous market share. The later Twin Books Corp. v. Walk Disney Co. court therefore held true to Lear's abolition of licensee estoppel on the theory that copyright licensees do not have sufficient

149. Twin Books Corp. v. Walt Disney Co., 877 F. Supp. 496, 500 (N.D. Cal. 1995). As a further restriction, the Lear doctrine has not been extended to assignor estoppel, which rests on the distinguishable premise that one cannot both act in good faith to sell a right and then turn around and claim that the right sold was a useless one. See Diamond Scientific Co. v. Ambico, Inc., 848 F.2d 1220, 1222 (Fed. Cir. 1988); Mentor Graphics Corp. v. Quickturn Design Sys., Inc., 150 F.3d 1374, 1377-80 (Fed. Cir. 1998).

150. Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191, 1200-01 (7th Cir. 1987) (enforcing covenant not to sue in copyright license agreement).

151. The doctrine of licensee estoppel has been applied to trademark licensees, even post-Lear. See Seven-Up Bottling Co. v. Seven-Up Co., 561 F.2d 1275, 1279-80 (8th Cir. 1977). But other courts have refused to enforce express covenants not to sue in a trade certification license. See Idaho Potato Comm'n v. M&M Produce Farm & Sales, 335 F.3d 130, 139 (2d Cir. 2003).

152. See examination of Lear decision, supra Part III.A.


154. This added to the statutory list of nonobjectionable conduct for a patentee, codified in 35 U.S.C. § 271(d) (2000).

155. Saturday Evening Post Co., 816 F.2d at 1200.


leverage with the copyright owners/licensors to obtain a fair negotiating position.\textsuperscript{158}

In fact, it simply cannot be a generalized conclusion that patents command more market power than copyrights. There are fewer players, with much greater dominance, in the area of movie production (copyright), for example, than there are in biotechnology (patent), where typically each of many players holds a limited patent on an incremental innovation. Accordingly, if the \textit{Lear} court had relied on standard contract principles—as it should have—instead of on generalizations about patent owners, it would be easier to apply the doctrine to other scenarios both in patent law and in the related fields of copyright and trademark. Meanwhile, although the \textit{Lear} court did not base its decision on contract principles, certainly courts hearing current disputes on the topic would be perfectly correct in doing so. Courts should thoroughly review claims at the convergence of contract and intellectual property law, such as failure of consideration, mistake, and illegality. Where undue market dominance is a possible issue, courts may consider misuse or antitrust violations under the doctrine of contractual illegality. This can properly be done only on a case by case basis however, and not as a generalized presumption about a particular industry or branch of intellectual property law.

5. Can a licensee in good standing to an active license invoke the \textit{Lear} doctrine to sue for patent invalidity without termination or breach?

The issue has long been one of whether a licensee can be permanently barred from challenging patent validity, or if not,\textsuperscript{159} what steps a licensor may take to protect itself from such suit.\textsuperscript{160} Recently, the inquiry has expanded. In a trilogy of cases at the Federal Circuit over the past three years, licensees have challenged patent validity while still paying royalties, and otherwise remaining in good standing under the license agreement.\textsuperscript{161} The interesting question was thus

\textsuperscript{158} Id.

\textsuperscript{159} See discussion, supra Parts III(A), III(C)(4). As determined by \textit{Lear} for patents (see Part III(A), supra), and sometimes extended to copyright and trademark, as discussed in Part III(C)(iv) of this article, supra.

\textsuperscript{160} See discussion, supra Part III(C)1-3. These were the inquiries addressed in Part III(C)(i),(ii), and (iii) of this article, supra.

raised as to whether a licensee must somehow be either a former licensee, or at the very least, a licensee in breach, in order to invoke the Lear doctrine encouraging patent validity challenges. One of the three, MedImmune, was heard on certiorari by the U.S. Supreme Court.\textsuperscript{162} The Court rendered its decision in January 2007. Although the Court could—and probably should—have limited its holding to the viability of declaratory judgment jurisdiction,\textsuperscript{163} instead it opened up quite a can of worms in licensing with a broad and misguided decision that flouted the practice of intellectual property licensing, and unnecessarily disregarded relevant contract doctrine. Meanwhile, the Court did not shed light on the many open issues in licensing practice and law, which are analyzed in Table IV, infra, in Appendix (Tables).

IV. The MedImmune Conundrum

A. The Federal Circuit’s Misguided Standard

In the past three years, the Federal Circuit Court of Appeals has decided a trilogy of cases involving the right of a licensee to sue for patent invalidity without first breaching or terminating the license agreement.\textsuperscript{164} In each case, the Federal Circuit applied its self-styled declaratory judgment (DJ) standard requiring that a DJ plaintiff have “reasonable apprehension” of a lawsuit by the patentee before a DJ suit can be ripe.\textsuperscript{165} In doing so, the Federal Circuit rendered its own—although perhaps not deliberate—version of the intersection of the normative values of contracts, civil procedure, and intellectual property law.\textsuperscript{166} The Federal Circuit was incorrect in its rendition, though, and therefore applied an improper DJ standard, far outside the bounds of general jurisprudence.\textsuperscript{167}

The U.S. Supreme Court granted certiorari on one of the cases this past term, MedImmune v. Genentech.\textsuperscript{168} In its decision rendered

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{162} MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118 (2007).
\item \textsuperscript{163} The proper standard for invoking declaratory judgment jurisdiction in patent disputes is discussed more fully in Re-evaluating Declaratory Judgment, supra note 2, at 963-64.
\item \textsuperscript{164} Gen-probe, 359 F.3d at 1381-82 (no breach, no standing); accord MedImmune v. Centocor, 409 F.3d at 1379, 1381, vacated sub nom., Medimmune v. Genentech, 427 F.3d 958 (Fed. Cir. 2005), rev’d, 549 U.S. 118 (2007).
\item \textsuperscript{165} See MedImmune, Inc. v. Genentech, Inc., 427 F.3d 958 (Fed. Cir. 2005).
\item \textsuperscript{166} Although it appears that the court did not consider it in such terms or it would more likely have reached the correct conclusion in the first place.
\item \textsuperscript{167} See Re-evaluating Declaratory Judgment, supra note 2, at 19-30, 36.
\item \textsuperscript{168} MedImmune, Inc. v. Genentech, Inc. 549 U.S. 118 (2007). Due to the similar (indeed nearly identical) facts and issues of MedImmune v. Centocor, one week after issuing its decision
\end{itemize}
\end{footnotesize}
on January 9, 2007, the Court unsurprisingly—and correctly—scolded the Federal Circuit for using a misguided DJ standard.\textsuperscript{169} The DJ point should have been sufficient, since it was the basis for \textit{certiorari}.\textsuperscript{170} The Supreme Court need not—and, it turns out, should not—have gone further. The DJ standard was a mere footnote for the Supreme Court (literally, footnote 11),\textsuperscript{171} which went on to give its own interpretation of intellectual property licensing. Instead of considering and balancing the normative values of contracts, civil procedure, and intellectual property law, the Court dove into a confused discussion of the perils of weak patents,\textsuperscript{172} and the coercion supposedly pressed upon unwitting licensees by abusive patent owners.\textsuperscript{173}

\textbf{B. The Underlying Issue}

MedImmune licensed technology from Genentech via an agreement executed in 1997.\textsuperscript{174} The license agreement defined the licensed technology as including both an issued patent (known as “Cabilly I”), and one pending before the U.S. Patent and Trademark Office (known as “Cabilly II”).\textsuperscript{175} In 2001, after fighting various lengthy legal battles, Genentech finally obtained a patent grant from the U.S. Patent and Trademark Office on Cabilly II.\textsuperscript{176} Genentech advised MedImmune of the “good news”—and of Cabilly II’s purported application to MedImmune’s main product, \textit{Synagis}\textsuperscript{®}.\textsuperscript{177}

MedImmune did not react by terminating its license agreement with Genentech. MedImmune did not stop paying royalties. MedImmune did not breach the license agreement. But neither did MedImmune wish to be obligated to Genentech for the full patent term of Cabilly II. Instead, MedImmune decided to test its luck with

---

\textsuperscript{169} MedImmune, 549 U.S. at 137.
\textsuperscript{170} Id. at 122.
\textsuperscript{171} Id. at 132-33 n.11.
\textsuperscript{172} See id. 134-35.
\textsuperscript{173} See id. at 132.
\textsuperscript{175} Id.
\textsuperscript{177} These were the facts as considered by the U.S. Supreme Court on \textit{certiorari}, for purposes of determining the appropriateness of declaratory judgment jurisdiction on Genentech’s motion to dismiss for lack of subject matter jurisdiction. MedImmune, 549 U.S. at 121-22.
the courts. While still a licensee in good standing, MedImmune initiated a declaratory judgment suit to invalidate Cabilly II.\textsuperscript{178} Genentech opposed with a Fed. R. Civ. P. 12(b)(1) motion to dismiss for lack of subject matter jurisdiction. The district court granted the motion based on Federal Circuit precedent.\textsuperscript{179} The Federal Circuit affirmed.\textsuperscript{180}

MedImmune declared that it must be allowed to bring suit since, after all, licensee estoppel had been abolished by \textit{Lear}.\textsuperscript{181} Genentech countered—and the Federal Circuit agreed—that \textit{Lear} merely allowed a former licensee to sue after breaching or terminating a license agreement.\textsuperscript{182} A current licensee in good standing simply has no case or controversy under Article III.\textsuperscript{183} The Supreme Court granted \textit{certiorari}.\textsuperscript{184}

C. The Supreme Court Decision

The Supreme Court rendered its decision in \textit{MedImmune} on January 9, 2007. The decision made some progress in the area of declaratory judgment standards for intellectual property disputes by disapproving the Federal Circuit’s favored “reasonable apprehension” test.\textsuperscript{185} On the issue of licensee estoppel, however, the 8-member majority (and to some extent the Thomas dissent) evidenced a fundamental misunderstanding of the interdisciplinary approach necessary for resolving cross-over disputes such as those involving

\begin{flushright}
179. \textit{Id.} at *6. In particular, the court granted the motion based on the earliest case of the trilogy which was decided by the Federal Circuit while this case was at the district court level. See Gen-probe, Inc. v. Vysis, Inc., 359 F.3d 1376, 1377, 1382 (Fed. Cir. 2004). \\
181. \textit{Id.} at 963-64. \\
182. \textit{Id.} at 963. \\
183. \textit{Id.} at 964-65. \\
184. The Supreme Court stated the question in its January 2007 decision: \\
We must decide whether Article III’s limitation of federal courts’ jurisdiction to “Cases” and “Controversies,” reflected in the “actual controversy” requirement of the Declaratory Judgment Act, 28 U.S.C. § 2201(a), requires a patent licensee to terminate or be in breach of its license agreement before it can seek a declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed. \\
\textit{MedImmune}, Inc. v. Genentech, Inc., 549 U.S. 118, 120-21 (2007). Although framing the proper question, unfortunately, the Supreme Court confused the issues and gave the wrong answer. \\
185. \textit{Id.} at 132-33.
\end{flushright}
intellectual property licensing. That mistake led to a misguided and incorrect holding.

Despite probing questions during oral argument, the Court's decision did not properly frame the nature of the dispute. Disappointingly, the Court failed to appropriately characterize the issue as being at the intersection of contracts, civil procedure, and intellectual property law. Accordingly, the Court did not consider the apposite normative values of each of these legal doctrines in order to correctly balance them. Instead, the Court looked only briefly at contract law. Then, eerily like its predecessor Court in Lear, the Court cast aside the contracts analysis altogether, and instead clung to a specious understanding of patent law and licensing practice. Unfortunately but unsurprisingly, the Court's misguided analysis led to an incorrect decision.

As with the Lear Court, the MedImmune majority first properly inquired as to whether the petitioner had alleged a contractual dispute. As with the Lear Court, the MedImmune majority then went on to ignore its own question. In doing so, as with the Lear Court, the MedImmune majority committed two fundamental errors.

First, the Court overlooked the importance of balancing the normative values of contract law in its analysis, thereby relying exclusively on patent law as the basis of its decision. The Court simply did not take into account the importance of contract doctrine in determining licensing obligations. This is unfortunate, since the

186. See id. passim.
187. On oral argument, the justices properly placed a heavy focus on the terms of the contract at issue and how far a contract could go in restricting conduct by the patentee or by the licensee. However, the interesting questions raised by the justices seem unfortunately to have fallen by the wayside in their ultimate decision. MedImmune Oral Argument, supra note 109, passim.
188. MedImmune, 549 U.S. at 123-25.
189. The majority simply inquired as to whether a contractual question had been presented, briefly concluded that it had been mentioned in the briefs, and then went on to say, "Having determined that petitioner has raised and preserved a contract claim, we turn to the jurisdictional question." Id. at 125.
190. The dissent did not even perceive a contract dispute. "As a threshold matter, I disagree with the Court's characterization of this case as including a 'contractual dispute.'" Id. at 140 (Thomas, J., dissenting).
191. Some possible causes of action are discussed in Part II(C) of this article, and are illustrated in Table II, supra, including failure of consideration, mistake, and illegality. These might be brought as a state law cause of action during the term of the license. Patent validity could also be brought as a federal cause of action in a DJ suit by the licensee after termination or breach. Despite the Supreme Court's misguided ruling to the contrary in MedImmune, an active licensee in good standing does not satisfy the federal DJ standard of "actual case." See Re-evaluating Declaratory Judgment, supra note 2.
Court missed the opportunity to implement an interdisciplinary approach that could be used not only in intellectual property licensing, but effectively in any cross-over dispute, where legal doctrines cross disciplines.

Second, the Court went further awry by failing to properly analyze the balance of interests within patent law. As a result, the Court's rationale rested on a misguided understanding of patent law and of licensing practice. The Court mistakenly characterized a licensing situation as inherently "coercive," and akin to government regulatory action.\textsuperscript{192} This is incorrect. No one really believes that licensors on aggregate hold more power in licensing negotiations than do licensees who bring their products to market. Perhaps the Court was mistaking the "troll" phenomenon for one where all patentees are wildly outpacing technology users,\textsuperscript{193} but that is simply not the case, and certainly in many situations licensees have more power than their licensors.\textsuperscript{194}

\textsuperscript{192} Id. at 128-31. This really misses the mark, and demonstrates how the Court overlooked contract law in its analysis. The Court should have recognized that a license to use or practice intellectual property—like any other contract—is generally assumed to be a voluntary agreement, freely negotiated, between informed parties. If MedImmune believed it had been coerced into this particular licensing contract under duress, fraud, or some other illegality, it should invoke these contractual defenses to rescind the contract as a matter of state law. The MedImmune Court was mistaken in believing that such coercion should be assumed simply because the licensor holds a patent that is being used (voluntarily) by the licensee. Furthermore, in a correct conclusion, the Court acknowledged that the Declaratory Judgment standard previously used by the Federal Circuit for patent cases was overly restrictive and should be aligned with that of general jurisprudence. Id. at 132-33 n.11. Hence, the licensee could sue for patent invalidity under federal law but—as would be clear if the Court had taken the proper view of contract law—that should be allowed only after the licensee has somehow repudiated the contract. Ultimately, the licensee has many valid legal choices on how to proceed without the Court providing a false one by its failure to contemplate contract principles in its discussion of intellectual property licensing. The Court mistakenly relied on the earlier case of \textit{Altvater v. Freeman}, 319 U.S. 359, 364-65 (1943), for its conclusion, which allowed licensees to challenge a patent while still paying royalties. \textit{Altvater} was based on a different premise though, since the royalties were compelled by an earlier court injunction, and not by a voluntary license agreement.


\textsuperscript{194} Although inaccurate in this case, the U.S. Supreme Court's characterization of licensing as coercive follows its recent spate of rulings favoring user rights in technology, and encouraging challenges to weak patents. See Merck KGaA v. Integra Lifesciences, Ltd., 545 U.S. 193, 202 (2005); eBay Inc. v. MercExchange, 547 U.S. 388, 392-94 (2006); MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118, 134-37 (2007); KSR Int'l Co. v. Teleflex, Inc., 127 S. Ct. 1727 (2007).
Perhaps also, the Court was misled by one characterization of the facts of this case. In particular, the Court acknowledged that Petitioner had been confronted by its licensor with a letter expressing the licensor's belief that Petitioner's activities were covered by licensor's newly issued continuation patent. The Court could have viewed the letter as simple correspondence between two business partners, or as a friendly update. Instead, the Court's decision referred to this letter as a "clear threat." That characterization may well have tipped the scale in favor of the majority's view of licensing as a "coercive" action, but the Court was wrong to make that leap.

There is nothing inherently coercive about licensing negotiations, and if the Court had properly considered contract doctrine in the balance, it would have observed that licensing is a form of contract like any other, that simply happens to be at the convergence of contracts and intellectual property law, and should be subject to the standard tenets of contract law, including, where relevant, duress, unconscionability, or other illegality, as examined in Part II(D) and (E) and illustrated in Diagrams A and B of this article, supra.

V. RECONCILING CONTRACT AND INTELLECTUAL PROPERTY LAW, POST-MEDIMMUNE V. GENENTECH

News of the MedImmune decision spread rapidly through the business community; however, the community's reactions are not yet clear. In reality, the greatest shock on all sides was simply that the U.S. Supreme Court focused its attention on an obscure aspect of the case (licensing negotiation), and based its decision on an incorrect assumption (that licensees are coerced into unfair agreements). Certainly, the Court has caused confusion, and there is a need for

---

195. The newly issued continuation, known as "Cabilly II," had apparently been contemplated by the parties and included in the definition of "Licensed Products" that would be subject to royalty payments. MedImmune, 549 U.S. at 121-22.
196. Id. at 122.
197. The characterization of the letter as a "clear threat" harkens back to the facts of a somewhat analogous copyright case. Hal Roach Studios, Inc. v. Richard Feiner & Co., 896 F.2d 1542, 1556 & n. 23 (9th Cir. 1990). There, DJ jurisdiction was found appropriate by the Ninth Circuit, even though, as in MedImmune, the license was still active. Incidentally, although the MedImmune Court did not cite Hal Roach for this point, the case had been cited by Petitioner in its brief, so it may well have affected the Court's reasoning. It is worth noting that the Thomas dissent correctly disagreed with this characterization of licensing, referring to licensing instead as "a voluntary choice to enter an agreement." MedImmune, 549 U.S. at 146 (Thomas, J., dissenting). Indeed there is no contractual—or other legal—bar against a "threat" of asserting a lawful right brought in good faith. See Hackley v. Headley, 8 N.W. 511, 513 (Mich. 1881); Alaska Packers' Assoc. v. Domenico, 117 F. 99, 102-03 (9th Cir. 1902).
legal damage control. That said, the decision may—and should—be kept in proper perspective by courts, litigants, and license negotiators.

The cloud left by *MedImmune* derives from the Court's failure to openly characterize (and perhaps failure to even recognize) intellectual property licensing as being at the intersection of contract and intellectual property law. In that omission, the Court missed a great opportunity to reconcile their convergence, as well as their apparently diverging doctrines (that is, the convergence between contractual illegality and intellectual property law). If the Court had properly cast the issues, the proper doctrine would have naturally followed. In the *MedImmune* case, that would have meant a denial of even baseline DJ jurisdiction at this stage, and silence on the question of whether the licensee has a contractual claim under state law that may be invoked either now or later.

The silver lining, though, is the reawakening to licensing as not solely a creature of intellectual property. While the Court somewhat muddied the waters, it is consistent with the *MedImmune* decision to characterize contract law as properly governing intellectual property licensing disputes. Although the Court did not ultimately make that point clear, it did at least give some support for that proper conclusion, which can be carried forth by lower courts in future intellectual property disputes, or indeed in the final resolution of this one on remand.

Meanwhile, licensing parties remain largely unaware of the desirability, or the possibility, of simply following standard contract doctrine in their negotiations. Instead, they are struggling to

---

198. See supra Part II(C) and Diagram A.
199. See supra Part II(D) and Diagram B.
200. There was no federal question presented in a "concrete dispute" as to patent validity where the licensee and licensor were actively engaged in a license agreement in good standing. Although the Supreme Court misunderstood this and granted baseline DJ jurisdiction, it at least left it the district court on remand to consider a denial of DJ jurisdiction on discretionary grounds. *MedImmune*, Inc. v. Genentech, Inc., 549 U.S. 118, 136-37 (2007).
201. State law contract claims might include, for example, a possible claim of lack of consideration; a possible claim of non-breach based on the scope of license as not including licensee's present activities; and possible claims of illegality, including duress, as the Supreme Court presumed in this case, but which should have to be brought as a contract claim for rescission.
202. See *MedImmune*, 549 U.S. at 123 n.2.
203. See id.
understand the post-MedImmune landscape without clear context. This has lead to some unnecessary apprehensions. The LES presents a good barometer of the sentiment in the business community post-MedImmune since the group represents both licensors and licensees, and therefore does not take a position favoring either side. Just a few weeks after the January MedImmune decision was announced, LES released results of a post-MedImmune survey, revealing that 79% of respondents (again, representing both licensors and licensees) believed that licensees would now be "more likely" to challenge patents after signing a license agreement. Survey respondents also apparently expect licensors to insert many barriers into post-MedImmune license agreements in order to avoid patent validity challenges, or at least to avoid being locked into a license while a challenge is litigated.

There are several reasons why this is a premature, and furthermore unnecessary, scare. First, the Supreme Court did not say that MedImmune will win its patent validity challenge. The Court did not even say that the substance of the claim will ever be litigated. In fact, on oral argument, the justices suggested that while the suit might survive a Fed. R. Civ. P. 12(b)(1) challenge to dismiss on subject matter jurisdiction, it might not survive a Rule 8 challenge (or any other number of possible procedural challenges). Second, even if MedImmune's suit proceeds to verdict, it may be dismissed on substantive grounds under contract doctrine, such as estoppel.

---

205. Id.
206. The LES brief in MedImmune, which presented unresolved licensing issues (still unresolved today, but mostly put on the back burner since the Supreme Court raised new, more pressing issues), was filed, interestingly, "In Support of Neither Party." See LES Amicus Brief in MedImmune, supra note 111.
207. See Press Release, Licensing Executives Society (U.S.A. & Canada), Inc., Survey Shows Supreme Court Ruling May Hinder IP Licensing (Feb. 22, 2007), available at http://www.usa-canada.les.org/press/archives/3.15.07.asp (last visited June 6, 2007) [hereinafter Survey]. The 79% includes those who say licensees would be "somewhat more likely" or "much more likely" to challenge patents after signing a license agreement. It is unclear from the press report how many of those responding were frightened licensors rather than prowling licensees.
208. Id.
210. This issue was raised by Justice Ginsburg on oral argument in the Oct. 4 hearings on MedImmune as to whether the licensee estoppel issue was really better addressed as a 12(b)(6) motion, or even an 8(c) defense. See MedImmune Oral Argument, supra note 109, at 8, 40.
211. Contractual estoppel might be found on the ground that a licensee cannot both enjoy the benefit of a license and litigate its validity simultaneously. This is distinguishable from licensee estoppel (abolished by Lear), which would bar MedImmune from ever pursuing a patent validity claim against its licensors. If a licensee were contractually bound by a license not
Finally, there are simply the realities of licensing negotiations that will face both frightened licensors and newly "empowered" licensees. Certainly licensors will seek to include lots of litigation barriers in their post-\textit{MedImmune} license agreements.\footnote{See Survey, supra note 207.} Of course licensors already, pre-\textit{MedImmune}, would include as many favorable clauses for themselves as they could skillfully negotiate into a license. That is simply the nature of negotiation. Licensors will try to include covenants not to sue in their new license agreements.\footnote{On oral argument, Justice Scalia alluded that a licensee's contractual covenant not to sue might be enforceable, see \textit{MedImmune Oral Argument}, supra note 109, at 4, although Justice Kennedy did not seem convinced. \textit{Id.} at 5.} Licensors will seek to include provisions where royalties rise if patent (or copyright/trademark) validity is challenged.\footnote{Another possibility raised by Justice Roberts is a provision raising the royalty rate upon determination of validity. \textit{Id.} at 7.} Licensors will try to get more money upfront.\footnote{See Survey, supra note 207.} Most already did that pre-\textit{MedImmune}. After all, even pre-\textit{MedImmune}, a bird in the hand was worth many more in that unpruned bush of patent litigation, where validity could be challenged by even a third party, thereby ending the nice stream of royalty income in any given license.\footnote{See \textit{Allison \\& Lemley}, supra note 133, at 205 (finding that about 46\% of litigated patents are held invalid in final judicial action).}

Licensees, meanwhile, will tend to fight for the diametrically opposing provisions that favor them instead. Licensees will do as they did pre-\textit{MedImmune}, negotiating for whatever provisions work in their interest. Licensees will negotiate against covenants not to sue, and indeed will instead try to negotiate covenants \textit{to sue}, and perhaps royalties that go down—or are owed in reverse by the licensor to the licensee—if a suit is brought, and/or won by the licensee.\footnote{Justices Ginsburg and Stevens bandied about a few variations on this theme at oral argument. Justice Ginsburg suggested the possibility of raising the royalty rate if a licensee sues with a validity challenge. \textit{See MedImmune Oral Argument}, supra note 109, at 10. Justice Stevens brought up the possibility of a provision allowing the licensee to sue and withhold royalty payments if it prevails. \textit{Id.} at 33. Both are interesting possibilities.} Some licensees will actually bring suit, but probably not too many more

\footnote{See \textit{Survey}, supra note 207.}
\footnote{On oral argument, Justice Scalia alluded that a licensee's contractual covenant not to sue might be enforceable, see \textit{MedImmune Oral Argument}, supra note 109, at 4, although Justice Kennedy did not seem convinced. \textit{Id.} at 5.}
\footnote{Another possibility raised by Justice Roberts is a provision raising the royalty rate upon determination of validity. \textit{Id.} at 7.}
\footnote{See \textit{Survey}, supra note 207.}
\footnote{See \textit{Allison \\& Lemley}, supra note 133, at 205 (finding that about 46\% of litigated patents are held invalid in final judicial action).}
\footnote{Justices Ginsburg and Stevens bandied about a few variations on this theme at oral argument. Justice Ginsburg suggested the possibility of raising the royalty rate if a licensee sues with a validity challenge. \textit{See MedImmune Oral Argument}, supra note 109, at 10. Justice Stevens brought up the possibility of a provision allowing the licensee to sue and withhold royalty payments if it prevails. \textit{Id.} at 33. Both are interesting possibilities.}
than they did pre-*MedImmune* since the Supreme Court did nothing to lower the costs, or to increase the certainties, of patent litigation.\(^{218}\)

Ultimately, the Supreme Court did not really change the balance of power in licensing negotiations. None of the potentially available devices (covenant not to sue, etc.) was squarely addressed by the Court in *MedImmune*. Therefore, all are of unclear legal status. In fact, they should all be allowed as a general rule under contractual law, and in any given case may be disputed if necessary under such contractual defenses as unconscionability, duress, misuse, or other illegality.\(^{219}\) These should be addressed on a case by case basis though, and not as a generality in licensing law, since indeed every individual license and negotiation will vary in its power balance as well as its terms.

Interestingly, just after deciding the *MedImmune* case, the Supreme Court granted *certiorari* on another intellectual property licensing case, *Quanta v. LG Electronics*.\(^{220}\) The Supreme Court heard arguments in *Quanta* on January 16, 2008, and issued a decision on June 9.\(^{221}\) The issue raised in the *Quanta* case is whether a sale of a product may be made conditionally, or whether that violates the well-established “first sale doctrine,” also known as “patent exhaustion.”\(^{222}\)

---

218. *See Valuable Patents, supra* note 133 (finding that “[t]otal direct litigation costs for the median patent case with between $1 million and $25 million at stake were $2 million per side in 2003.”). While some licensees might now choose to both license and litigate, the undertaking is expensive and risky. The Supreme Court’s *MedImmune* decision will more likely impact troll licenses—also impacted by *eBay* already. So, the confluence of *MedImmune* plus *eBay* probably will mean more licensing instead of injunctions by troll licensors, and then more declaratory actions brought by the licensee. Meanwhile, the Federal Circuit’s precedent that fees are still owed if challenge is dismissed is probably still the reigning law. *See supra* note 148.

219. *See supra* Part II.C and Table III.


221. *Quanta Computer*, 128 S.Ct. at 2109.

222. *Id.* at 2113. The “first sale doctrine” or “patent exhaustion” refers to the right of a purchaser to use, resell, or otherwise transfer an item otherwise protected by patent. *See Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917); *United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942); *cf. Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703 (Fed. Cir. 1992) (holding that private parties maintain the freedom to contract regarding conditions of sale). Copyright has a similar doctrine, codified at 17 U.S.C. § 109 (2000), as does trademark, by analogy. *Allison v. Vintage Sports Plaques*, 136 F.3d. 1443, 1448 (11th Cir. 1998). A recently published article on the topic of licensing restrictions and the “first sale doctrine” notes four ways that intellectual property is brought to the market: “Owners of intellectual property can choose to sell the intellectual property, license the intellectual property, sell products that embody the intellectual property, or license products that embody the intellectual property.” Elizabeth I. Winston, *Why sell what you can license? Contracting around
Unfortunately, as frankly disclosed by the Lear majority on the issue of licensee estoppel, the lack of clarity on patent exhaustion has similarly been plagued by years of inconsistent Supreme Court and appellate rulings. Fortunately, there was a solution available to the Supreme Court in the Quanta case—and better yet, one that could be useful in resolving the remaining open issues in intellectual property licensing. Specifically, the Supreme Court had the ability to use the Quanta case to fill in the gaps it left open after MedImmune. While the Court naturally lacked the authority to rule on issues not present in the case at hand, the Court could simply state the overriding doctrine that it should have recognized in the MedImmune case—that is, that intellectual property licensing sits at the intersection of contract and intellectual property law, which can—and should—be resolved by applying the standard principles of contract doctrine, for an interdisciplinary solution. Disappointingly, the Court missed that opportunity again, simply presuming the primacy of patent doctrine. Interestingly though, the Court did make brief mention of contract law in footnote 7 of the opinion, quoting an 1895 case for the principle that, to the extent a contract action may be brought, "it is... obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws."

Thus, although the Quanta Court missed the important opportunity to consider a cross-over dispute at the intersection of contract and patent doctrine, at least the Court left open the possibility of considering contract claims (presumably under state law), as they arise. Characterizing these—and other licensing matters—as contract disputes would still allow courts to take into account intellectual

---


223. This is demonstrated by the confusion caused between the cases cited in note 147, supra, with different reactions by different courts purporting to apply the same doctrine of patent exhaustion.

224. See supra Part III.B and infra Table III regarding open issues in licensing.


226. The suggestion to use contract doctrine to resolve the issues in the Quanta case was made by a group of law professors (of which this author was one) in an amicus brief to the Supreme Court. Brief of Various Law Professors as Amici Curiae Supporting Respondent, Quanta Computer, Inc. v. LG Electronics, Inc., 128 S. Ct. 2109 (2008) (No. 06-937), 2007 WL 4340884. The Federal Circuit did acknowledge the relevance of contract law. LG Electronics, Inc. v. Bizcom Electronics, Inc., 453 F.3d 1364, 1371 (Fed. Cir. 2006).

227. See Quanta, 128 S. Ct. at 2117.

228. Id. at 2122 n.7.

229. Id.
property doctrine, including antitrust and misuse issues that may arise when a patentee abuses its position in order to control the end market for its product or method. Such characterization would have the benefit, meanwhile, of leading courts to correct holdings using contract doctrine, instead of inconsistently trying to apply patent (or copyright/trademark) law in a vacuum.\textsuperscript{230} Table V, in Appendix (Tables), presents a compilation table, with an interdisciplinary approach to resolving issues in intellectual property licensing disputes.

\section*{VI. CONCLUSION}

The U.S. Supreme Court has several times been remiss in its treatment of intellectual property as a separate and discrete discipline.\textsuperscript{231} In fact, intellectual property cannot and should not be siphoned off from the normative framework of general jurisprudence. In particular, the Court has misjudged cases involving intellectual property licensing.\textsuperscript{232}

Several times the Court has mistakenly viewed these cases as involving pure intellectual property issues. This mischaracterization overlooks the importance of viewing licensing cases as being at the intersection of contract and intellectual property law, neither one to the exclusion of the other. By missing this important opportunity, and indeed need, for interdisciplinary analysis, the Court has failed to provide the proper legal framework for courts, litigants, and license negotiators.

This article attempts to fill that gap by probing the legal doctrine, undertaking a normative analysis of the issues, and, finally, proposing a comprehensive, interdisciplinary framework for examining what the article terms "cross-over disputes," such as those involving intellectual property licensing. By recasting the issues, and properly viewing the need for an interdisciplinary approach, courts, litigants, and license negotiators may use the tools provided by this article and accompanying tables to reach a proper balance for more rational and informed decisions.

\textsuperscript{230} Violations of such agreements, therefore, should properly be prosecuted by intellectual property owners as contract, and not patent (or copyright/trademark) infringement, actions.

\textsuperscript{231} See supra Part II.D.

\textsuperscript{232} See MedImmune, Inc., v. Genentech, Inc., 549 U.S. 118; see also Quanta, 128 S. Ct. at 2115-17.
APPENDIX: (TABLES)

**TABLE I—Balance of Normative Values Between Patent, Copyright, Trademark, and Trade Secret.**

<table>
<thead>
<tr>
<th>IP RIGHT</th>
<th>GRANT</th>
<th>VALIDITY PRESUMPTION</th>
<th>DURATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>PATENT</td>
<td>Rigorous, lengthy application process.(^{233}) Favors competition.</td>
<td>Presumption of validity upon grant.(^{234}) Favors rights holder.</td>
<td>20 years from Effective Filing Date.(^{235}) Somewhat favors competition.(^{236})</td>
</tr>
<tr>
<td>COPYRIGHT</td>
<td>Simple, inexpensive registration.</td>
<td>Registration is prima facie evidence.(^{237}) Also independent creation as defense.(^{238}) Favors competition/user.</td>
<td>Life + 70/Publication +95/120.(^{239}) Favors rights holder.</td>
</tr>
<tr>
<td>TRADEMARK</td>
<td>Combination.(^{240})</td>
<td>Registration is prima facie evidence; “conclusive evidence” once</td>
<td>10 years; renewable.(^{242})</td>
</tr>
</tbody>
</table>

---

236. Although, a patentee is not required to use or license a technology in order to maintain the U.S. patent grant.
238. See 17 U.S.C. § 501 (2000) (A person who independently creates can claim this defense because he has not copied any of the author’s work and therefore has not violated the rights of the author).
239. 17 U.S.C. § 302 (2000) (a copyright term is 70 years beyond authors death; but work for hire is earlier, for a term of 95 years from publication or 120 years from creation).
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TRADE SECRET</td>
<td>Automatic, as long as proper restrictions followed (secrecy).</td>
<td>No grant; no presumption of validity. Independent creation and reverse engineering as defense.</td>
</tr>
<tr>
<td>Favors rights holder.</td>
<td>Favors competition/user.</td>
<td>Favors rights holder.</td>
</tr>
</tbody>
</table>


245. See id. § 3426.1(d)(2).

246. See id. § 3426.1(a).

247. ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 4.02(1)[d][vi][C] (2008).
### Table II—Balance of Normative Values in Contract Law

<table>
<thead>
<tr>
<th>Normative Value</th>
<th>Private Right to Design Contract</th>
<th>Countervailing Policy Obligations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement the reasonable expectations of parties.(^{248})</td>
<td>Favors private right to contract.</td>
<td></td>
</tr>
<tr>
<td>Allow parties to set present values on probabilities of future outcome.(^{249})</td>
<td>Favors private right to contract.</td>
<td></td>
</tr>
<tr>
<td>Encourage settlement of past and future disputes.(^{250})</td>
<td>Favors private right to contract.</td>
<td></td>
</tr>
<tr>
<td>Avoid enforcement of illegal or otherwise unenforceable agreements.(^{251})</td>
<td></td>
<td>Disfavors free-reign on private right to set terms.</td>
</tr>
<tr>
<td>Require duty of good faith and fair dealing.(^{252})</td>
<td></td>
<td>Disfavors free-reign on private right to set terms.</td>
</tr>
</tbody>
</table>

\(^{248}\) See Tymshare Inc. v. Covell, 727 F.2d 1145, 1152 & n.6 (D.C. Cir. 1984).


\(^{252}\) See Tymshare, 727 F.2d at 1152.

<table>
<thead>
<tr>
<th>Normative Value</th>
<th>Intellectual Property</th>
<th>Contract</th>
<th>Civil Procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfy Reasonable Expectations of Parties/Stakeholders</td>
<td>Fairly clear requirements for registration/litigation.(^{253})</td>
<td>Courts will enforce parties' private contractual agreements.(^{254})</td>
<td>Parties generally allowed to contract choice of law/forum.(^{255})</td>
</tr>
<tr>
<td>Allow Parties to Predict Outcomes</td>
<td>Both (ex \ ante) (e.g., agreements to assign) and (ex \ post) agreements (e.g., assignments and licenses) are encouraged.(^{256})</td>
<td>Parties may bet on future costs, likelihoods, etc.(^{257})</td>
<td>Parties may contract or waive IPJ.(^{258})</td>
</tr>
<tr>
<td>Encourage Settlement of Disputes</td>
<td>Parties are encouraged to work out licenses with reasonable royalty.(^{259})</td>
<td>Parties are encouraged to work out settlements of past and future disputes.(^{260})</td>
<td>Parties may create a case or controversy.(^{261})</td>
</tr>
<tr>
<td>Avoid Illegality</td>
<td>Prohibition on misuse, antitrust, etc.(^{262})</td>
<td>Prohibition on unconscionability, duress, etc.(^{263})</td>
<td>Parties cannot bind court to SMJ without case or controversy.(^{264})</td>
</tr>
<tr>
<td>Balance Interests</td>
<td>Laws balance interests between creator,</td>
<td>Common law and UCC provide</td>
<td>Title 28 provides statutory exceptions</td>
</tr>
</tbody>
</table>

\(^{253}\) See supra Table I.

\(^{254}\) See Tymshare, 727 F.2d at 1150, 1153.

\(^{255}\) See Medtronic Inc. v. Janss, 729 F.3d 1395 (11th Cir. 1984); Finch v. Hughes Aircraft Co., 469 A.2d. 867, 887 (Md. 1984).

\(^{256}\) See supra Part II.D.

\(^{257}\) See supra Part III.B.

\(^{258}\) See supra note 255.

\(^{259}\) Parties are especially incentivized to work out their differences post-eBay, since the U.S. Supreme Court removed the presumption of injunctive relief. Parties are also more incentivized to work out a realistic and reasonable royalty post-MedImmune since there is now a lower bar to initiation of declaratory actions. Licensees may not actually be more likely to sue (see analysis in Part V, infra, but at least they are more likely to be able to invoke the option if they are unhappy with their licensing terms).


\(^{261}\) See supra Part II.E.

\(^{262}\) See supra note 251.

\(^{263}\) See supra note 261.
| BETWEEN COMPETITORS/STAKEHOLDERS/PUBLIC | missing or preferred construction; State laws provide consumer and other protections.266 | on SMJ (e.g., diversity, supplemental jurisdiction), and declaratory judgment.267 |

265. See supra Table I.
266. See supra Part II.E.
267. See supra note 261.
### Table IV—“The Adverse Contract”—Open Issues in Licensing

<table>
<thead>
<tr>
<th>IP RIGHT</th>
<th>LICENSEE’S RIGHT TO CHALLENGE VALIDITY</th>
<th>LICENSOR’S RIGHT TO COLLECT ROYALTIES DURING CHALLENGE</th>
<th>LICensor’s Right to Other Protections</th>
<th>LICENSEE’S RIGHT TO CONTINUE LICENSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patent</td>
<td>Established by Lear’s abrogation of licensee estoppels. 268</td>
<td>Some dispute as to whether escrow is sufficient, but licensee must pay until abrogates license. 269</td>
<td>1. Not okay to extend royalties beyond term; 2. May be okay to bind licensee without grant; 3. Raise royalty upon challenge 272</td>
<td>Licensee’s right to continue license during validity challenge was established by U.S. Supreme Court in MedImmune. 273</td>
</tr>
<tr>
<td>Copyright</td>
<td>Disputed—may depend on licensor’s market dominance. 274</td>
<td>Probably same as patent.</td>
<td>Probably same as patent.</td>
<td>Will likely follow MedImmune. 275</td>
</tr>
<tr>
<td>Trademark</td>
<td>Disputed—may depend on licensor’s market dominance. 276</td>
<td>Probably same as patent.</td>
<td>Probably same as patent.</td>
<td>Will likely follow MedImmune. 277</td>
</tr>
<tr>
<td>Trade Secret</td>
<td>Likely.</td>
<td>Likely, especially if stipulated by contract.</td>
<td>Term may be indeterminate or infinite. 278</td>
<td>Will likely follow MedImmune. 279</td>
</tr>
</tbody>
</table>

272. This was discussed by the U.S. Supreme Court justices on oral argument of the MedImmune case. Justice Roberts discussed the possible legality of raising the royalty rate upon determination of validity. See MedImmune Oral Argument, supra note 109, at 7.
275. See infra note 287.
277. See infra note 287.
279. See infra note 287.
<table>
<thead>
<tr>
<th>LICENSING ISSUE IN LITIGATION</th>
<th>INTELLECTUAL PROPERTY LAW INPUT</th>
<th>CONTRACT LAW INPUT</th>
<th>CONVERGENCE OF NORMATIVE VALUES</th>
<th>LITIGATION RESULT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patent/copyright/trade mark/trade secret is invalid/not infringed and/or unenforceable. <em>(action by licensee)</em></td>
<td>Federal question established only if &quot;actual case or controversy.&quot; 280</td>
<td>Possible bases for contract action: 1. Lack of considerati on; 2. Fraud (if inequitable conduct); 3. Lack of &quot;good faith and fair dealing&quot; (if should have known); 4. Mistake.</td>
<td>Contractual illegality as reason to rescind. 281</td>
<td>State law contract action. No federal question, unless &quot;actual case or controversy.&quot; 282</td>
</tr>
<tr>
<td>Breach for nonpayment. <em>(action by licensor)</em></td>
<td>Not a federal question. 283</td>
<td>Standard state law contract action. Implement reasonable expectations of the parties. 284</td>
<td>State law contract action.</td>
<td></td>
</tr>
</tbody>
</table>


282. In the recent MedImmune v. Genentech opinion, the Supreme Court determined that baseline jurisdiction existed for a federal DJ action, even though the license was active and unbreached. Nevertheless, the Court acknowledged that the action might not proceed either due to discretionary DJ dismissal, or due to other procedural or substantive obstacles. MedImmune, 549 U.S. at 126-127. See *supra* Part V of this article for a discussion on how to interpret the ruling. Meanwhile, the decision may be distinguishable anyway since the Court saw a "clear threat" by licensor to sue licensee if the contract were breached. So, it is possible to view the decision as being based on that narrow ground. The decision would probably be the same for a federally enforceable copyright or trademark. A trade secret claim, or a common law trademark claim, again, would be determined under applicable state law. Meanwhile, in the 2008 *Quanta* case, the Supreme Court quoted a decision from 1895, observing that a contract question would, naturally, have to be treated as a contract question and not a patent question, even if arising under the same intellectual property license. Quanta Computer, Inc. v. LG Electronics, Inc., 128 S. Ct. 2109, 2122 (2008) (citing Keeler v. Standard Folding Bed Co., 157 U.S. 659, 666 (1895)).

283. See *infra* note 284 for comment on Lear v. Adkins. Moreover, despite the Lear Court's apparent belief that patent law trumps contract law in licensing cases, this issue should properly be viewed as being at the intersection of contract and patent law, and generally standard contract rules, including the convergence of contractual *illegality* and intellectual property law (see *supra* Diagram B), should guide the Court's response.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Coercion to enter or renew license agreement (action by licensee)</td>
<td>Misuse/ Antitrust.</td>
<td>Duress.</td>
<td>Contractual illegality as reason to rescind. 288</td>
<td>State law contract action. No federal question, unless &quot;actual case or controversy.&quot; 289</td>
</tr>
</tbody>
</table>

285. See infra comments in note 286.

286. See Brian Constr. & Dev. Co. v. Brighenti, 405 A.2d 72, 75-76 (Conn. 1978) (holding that when the party seeking greater consideration accepts a greater burden without a corresponding increase in consideration, such an agreement is valid); Marton Remodeling v. Jensen, 706 P.2d 607, 609-08 (Utah 1985) (recognizing that courts "[f]avor compromise in order to limit litigation").

287. See Drennan v. Star Paving Co., 333 P.2d 757, 759-60 (Cal. 1958) (acknowledging that promises reasonably expected to induce future actions are generally enforceable, even where consideration is lacking); Batsakis v. Demotsis, 226 S.W.2d 673, 675 (Tex. Civ. App. 1949) (holding that mere inadequacy of consideration alone is insufficient to invalidate a contract).


289. See supra note 282.