The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation

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It is essential that we achieve a proper jurisdictional balance between the Federal and State court systems, assigning to each system those cases most appropriate in the light of the basic principles of federalism.

Earl Warren

This article reviews and reassesses some ancient doctrine about the subject matter jurisdiction of state and federal courts over patent matters. The catalyst for such an examination is *Koratron Company v. Deering Milliken, Inc.*, decided recently in the United States Court of Appeals for the Ninth Circuit. The case breaks only a minimum of new ground, and the result on the particular facts is not disturbing. But *Koratron* serves to emphasize a curious anomaly in the law of federal jurisdiction that has been recently aggravated by a development in the field of substantive patent law. The “anomaly” is that a federal forum may be unavailable to a party in a case involving important issues of federal patent law despite the express dictate of 28 U.S.C. § 1338(a) that the original jurisdiction of the United States District Courts over civil actions arising under the federal patent
laws shall be exclusive of the state courts. The aggravating patent law development is the Supreme Court's recent rejection of the doctrine that a patent licensee is estopped to challenge the validity of his licensor's patent.

After reviewing the history of the successive statutes granting jurisdiction over patent matters to the federal courts from the Patent Act of 1790 to the present 28 U.S.C. § 1338(a), I shall focus first on the general problem of the jurisdiction of the United States District Courts and the state courts over cases involving questions of federal law and then on the more specialized problem of their jurisdiction over cases involving questions of federal patent law. Thereafter, I will consider the Koratron case in the light of this background and conclude with an evaluation of the present division of jurisdiction over patent controversies between state and federal courts and the proposals to alter and rationalize that division.

I. STATUTORY DEVELOPMENT SINCE 1790

Article I of the Constitution gives Congress the power "[t]o promote the Progress of Science and useful Arts by securing for limited times to . . . Inventors the exclusive Right to their respective . . . Discoveries." Pursuant to this power, Congress passed the first Patent Act in 1790 authorizing the executive branch of the federal

4. 28 U.S.C. § 1338(a) (1964) provides:

The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.


8. Under the 1790 Act, an inventor was required to petition the Secretary of State, Secretary of War, and the Attorney General for a patent which could be issued by the assent of any two of those officers. Act of April 10, 1790, ch. 7, § 1, 1 Stat. 109; B. Bugbee, supra note 7, at 361-63.

9. Under the 1793 Act, patent petitions were to be directed only to the Secretary of State. Act of February 21, 1793, ch. 11, § 1, 1 Stat. 318; B. Bugbee, supra note 7, at 364. Secretary of State Madison created a separate Patent Office in 1802. Id. at 365. The Patent Office, headed by a Commissioner, was given statutory status in 1836. Act of July 4, 1836, ch. 357, § 1, 5 Stat. 117. In 1849, the Patent Office was transferred to the newly created Interior Department. Act of March 3, 1849, ch. 108, § 2, 9 Stat. 395. Finally, the Patent Office was transferred to the Department of Commerce in 1925 by executive order, Executive Order No. 4175 of March 17, 1925, where it remains to this day. 35 U.S.C. § 1 (1964).
government to issue United States letters patent to any person or persons for any useful invention or discovery of any "art, manufac-
ture, engine, machine, or device, or any improvement therein" if said invention or discovery was found to be "sufficiently useful and im-
portant." The letters patent granted to the petitioner (the "pat-
entee") for a period of years the "sole and exclusive right and liberty
of making, constructing, using and vending to others to be used the
said invention or discovery." This basic pattern for the issuance of
patents set in 1790 has been followed in all the subsequent enactments
of federal patent acts.

The basic pattern for patent litigation was also set by the 1790 Act. It
gave the patentee a judicial remedy for infringement, that is, the
use, manufacture, or sale of the invention or discovery covered by
letters patent by any person without the consent of the patentee. The
court remedy was in the form of an "action on the case," and the
patentee could collect "such damages as shall be assessed by a jury"
and also obtain a forfeiture of chattels made in violation of his
patent. Section 6 gave the defendant in an infringement action the
extremely important defense of the invalidity of the plaintiff's patent.
While the issuance of letters patent to the patentee was "prima facie
evidence" that the plaintiff's patent was valid, the defendant could
prove that in fact the plaintiff was not entitled to a patent because he
was not the first and true inventor or because he failed to make full
and accurate disclosure in applying for the letters patent.

The 1790 Act did not specify which courts—state, federal or both—
should have subject matter jurisdiction over infringement actions.
Since the Judiciary Act of 1789 did not give the lower federal courts
jurisdiction over actions arising under federal law, the natural
inference must have been that the state courts and only the state courts would have jurisdiction over infringement actions. This inference was quickly altered by the Patent Act of 1793 which provided that an “action on the case” for patent infringement could be brought “in the circuit court of United States, or any other court having competent jurisdiction.” This pattern of concurrent state and federal jurisdiction over infringement actions was destroyed by the Patent Act of 1800, which gave jurisdiction over actions on the case for infringement to “the circuit court of the United States, having jurisdiction thereof.” The Act did not expressly provide that such jurisdiction was to be exclusive of the state courts, but since the jurisdictional provision was incorporated into the very statute granting the right of action, and since the statute omitted the phrase “or any other court having competent jurisdiction,” Congress’ intent to make the jurisdiction of the federal circuit courts over infringement actions exclusive of the state courts was clear.

Why did the 1800 Congress choose to make federal jurisdiction over infringement actions exclusive? It is difficult to judge from afar. I seriously question whether Congress considered any of the reasons frequently tendered by modern commentators. One such reason tendered is that Congress intended to promote uniformity of decision on important issues of federal patent law by concentrating infringement actions in the federal judiciary rather than in the judiciaries of the several states. Another is that the concentration of infringement actions in the federal courts would allow them to develop the expertise necessary to decide the technical problems so frequently raised in patent cases. But the notions that state judges could not be relied upon to decide accurately questions of federal law, that federal judges were experts on federal law, and that greater uniformity in the decision of important issues of federal law could be achieved by concentrating litigation in the federal judiciary were not widely held in the early corpus petitions, federal crimes and seizures, admiralty and maritime cases, suits by the United States for an amount over $100, suits by aliens, and suits between citizens of different states for an amount over $500. The Judiciary Act of 1789, ch. 20, §§ 9, 11, 14, 1 Stat. 73.

19. Id. at 512.

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years of our Republic. Congress had not yet even given the lower federal courts *concurrent* jurisdiction over most cases involving federal law.\(^2\)

More likely the reasons for making federal jurisdiction exclusive were more prosaic, at least as viewed from modern times. One reason may have been simply a perceived impropriety in allowing a *state* court to annul the act of a high federal officer. If state courts could entertain an infringement action, they necessarily would also hear the statutory defense that a patent was invalid. A holding of invalidity impugned the action of the federal officer in granting the letters patent.\(^2\)

Another reason may have been connected with the Patent Act of 1800 provision that an unsuccessful defendant in an infringement action should "forfeit" to the patentee "a sum equal to three times the actual damage sustained."\(^2\)\(^2\) This treble damage provision could have been viewed as *penal*, and state jurisdiction thought improper because it resulted in the courts of one sovereign enforcing the criminal laws of another.

Whatever the original reasoning, it became the established rule in 1800, maintained to this day,\(^2\)\(^3\) that federal jurisdiction over infringement actions is exclusive of the state courts.

The Patent Act of 1819 was a milestone of sorts because for the first time a jurisdictional grant to the federal circuit courts was enacted separate from the express provision for an infringement remedy. While the 1800 Act continued to provide for an infringement remedy through an action on the case in the federal circuit courts, the 1819 Act also provided that "the circuit courts of the United States shall have original cognizance . . . of all actions . . . arising under any law

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22. Act of April 7, 1800, ch. 25, § 3, 2 Stat. 37. The 1793 Act had provided that an infringer could be assessed three times the patentee's usual royalty. Act of February 21, 1793, ch. 11, § 5, 1 Stat. 318. The provision for treble damages has been altered through time. The Patent Act of 1800 apparently made the recovery of treble damages automatic in infringement actions. Later acts made the increase of up to treble damages discretionary with the court. See, e.g., Act of July 4, 1836, ch. 357, § 14, 5 Stat. 117. The present statute provides simply that "the court may increase the damages up to three times the amount found [by the jury] or assessed [by the court]." 35 U.S.C. § 284 (1964). Increased damages are generally awarded only for willful or grossly careless infringement. See 72 *Harv. L. Rev.* 328, 348 (1958).
of the United States, granting or confirming to . . . investors the exclusive right to their respective . . . inventions and discoveries . . . .

Similar language was again used in 1836. Thus, the grant of patent jurisdiction incorporated the notorious "arising under" language of Article III of the Constitution and all the problems of interpretation that surround it. It also seemingly raised the question whether any action other than one for infringement could be an action "arising under" the federal patent laws. The last statutory milestone for patent jurisdiction came with the Revised Statutes of 1874 which made the jurisdiction of the federal courts over "all cases arising under the patent . . . laws of the United States" expressly exclusive of the state courts. However, the language of express exclusivity was thought to be declaratory of existing law. The jurisdictional statutes on patent cases have remained essentially the same up to the present.

II. "ARISING UNDER" JURISDICTION: THE GENERAL PROBLEM

The federal courts have had, since at least 1836, exclusive jurisdiction of all cases "arising under" the federal patent laws. The crucial question in determining both the scope of federal court jurisdiction over patent matters and the scope of the exclusion of state courts from jurisdiction over patent matters is, therefore, when does a case arise under the patent laws? That question immediately leads into

25. Act of July 4, 1836, ch. 357, § 17, 5 Stat. 117. An early state case suggested that federal jurisdiction over cases "arising under" the patent laws was not made exclusive by the 1819 Act but was made so by the 1836 Act. Gibson v. Woodworth, 8 Paige 132 (N.Y. 1840). Neither act used the word "exclusive," and the only difference between them is that the former gave the federal circuit courts "original cognizance" of cases arising under patent laws while the latter provided that all cases arising under the patent laws "shall be originally cognizable" in the federal circuit courts.
26. See the discussion in section III, infra.
27. Besides infringement actions, Congress clearly intended to include bills in equity to resolve patent interferences within the category of "actions arising under" the patent laws. Such bills were created in 1836. Act of July 4, 1836, ch. 357, § 16, 5 Stat. 117. I will direct little discussion toward patent litigation in the nature of judicial review of administrative decisions concerning the issuance of patents or resolutions of interfering applications for patents by different inventors. Such judicial review has always been concentrated in the federal courts only. E.g., Act of March 3, 1839, ch. 58, § 11, 5 Stat. 353; 35 U.S.C. §§ 145, 146 (1964).
29. As suggested later, contrary to common assumption, the two issues can and should
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one of the darkest corridors of the law of federal courts and federal jurisdiction.\textsuperscript{20}

Section 2 of Article III of the United States Constitution enumerates the categories of cases to which the "Judicial Power of the United States" shall extend. In other words, it specifies the kinds of original subject matter jurisdiction that Congress can confer by statute upon the lower federal courts. One of the major categories is "Cases . . . arising under this Constitution, the Laws of the United States, and Treaties made . . . under their Authority."\textsuperscript{32} Except for a brief one year span in the early nineteenth century,\textsuperscript{32} Congress has never seen fit to give the lower federal courts jurisdiction over all such cases "arising under" federal law within the meaning of Article III.\textsuperscript{33} Until 1875, jurisdiction was conferred only over cases arising under certain specified federal laws. Cases arising under other federal laws could be brought only in the state courts. The successive statutes giving the

be separately considered, admitting the possibility that federal court jurisdiction can be broader than state court exclusion. See text accompanying note 153, infra.


These are the other categories: (1) "all Cases affecting Ambassadors, other public Ministers and Consuls," (2) "all Cases of admiralty and maritime Jurisdiction," (3) "Controversies to which the United States shall be a Party," and (4) "Controversies between" (a) "two or more States," (b) "a State and Citizens of another State," (c) "Citizens of different States," (d) "Citizens of the same State claiming Lands under Grants of different States," and (e) "a State, or the Citizens thereof, and foreign States, Citizens or Subjects."

32. Plenary federal question jurisdiction was conferred on the lower federal courts in 1801 by the lame-duck Federalist Party. Act of February 13, 1801, ch. 4, § 11, 2 Stat. 89 and quickly repealed in 1802 by the Jeffersonians. Act of March 8, 1802, ch. 8, § 1, 2 Stat. 132. The 1801 statute, the "Midnight Judges" Act, has generally been considered as an attempt by the Federalists to maintain control over at least one branch of the federal government—the Judiciary. Modern commentators, however, have suggested that the "act was not a last-minute effort" and that "its primary purpose was the extension of federal jurisdiction to suits that could previously be tried only in state courts." R. RICHARDSON AND K. VINE, THE POLITICS OF FEDERAL COURTS 25 (1970) (emphasis supplied).

33. Justice Story argued that while Congress had discretion under Article III whether or not to create federal courts below the Supreme Court, once it had decided to do so those courts acquired the full scope of their Article III powers—including jurisdiction over all cases arising under federal law. See Martin v. Hunter's Lessee, 14 U.S. (1 Wheat.) 304, 327-30 (1816); Warren, New Light on the History of the Federal Judiciary Act of 1789, 37 HARV. L. REV. 49, 68 (1923). The Supreme Court early rejected this argument, holding that the lower federal courts have only such jurisdiction as Congress confers upon them by statute. Sheldon v. Sill, 49 U.S. (8 How.) 441 (1850).
federal courts jurisdiction over patent cases offer good examples. In 1875, Congress did give the federal courts jurisdiction over cases arising under any federal law, but the jurisdiction extended only to those cases in which the amount in controversy exceeded a specified sum.

The words "arising under" therefore present at least two separate questions of interpretation. First, what is the scope of "arising under" jurisdiction within the meaning of Article III? This is a constitutional question as to the power of Congress to confer subject matter jurisdiction on the federal courts. Second, what is the scope of "arising under" jurisdiction within the meaning of the various Congressional statutes conferring jurisdiction over cases "arising under" federal law, including the statute conferring exclusive jurisdiction over actions "arising under" the federal patent laws? This is a question of statutory interpretation as to the intent of Congress.

The question of the scope of Congress’ constitutional power has arisen very infrequently, principally because Congress has rarely even attempted to approach the limits of its Article III powers to confer subject matter jurisdiction on the lower federal courts. In Osborn v. Bank of the United States, an early and still leading case considering the scope of Article III "arising under" jurisdiction, Chief Justice Marshall defined it very broadly. He opined that a case arises under

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34. Other examples include the following: (1) Cases arising under the postal laws, Act of March 3, 1845, ch. 43, § 20, 5 Stat. 732; (2) Cases arising under the internal revenue laws, Act of July 13, 1866, ch. 184, §§ 9, 19, 14 Stat. 98; (3) Cases arising under copyright laws, Act of February 15, 1819, ch. 19, 3 Stat. 481.


36. In 1875, the amount was $500, Act of March 3, 1875, ch. 137, § 1, 18 Stat. (Part 3) 470 adopting the amount required in diversity cases. See note 15, supra. The amount in controversy requirement for both diversity and arising-under-federal-law cases has been periodically raised—to $2,000 in 1887 (Act of March 3, 1887, ch. 273, § 1, 24 Stat. 552), to $3,000 in 1911 (Act of March 3, 1911, ch. 231, § 24, 36 Stat. 1087), and to $10,000 in 1958 (Act of July 25, 1958, Pub L. No. 85-554, § 1, 72 Stat. 415). The amount in controversy requirement has always been used merely as a device to limit the caseload of the federal courts. The ALI proposes to eliminate the requirement for cases arising under federal law. ALI Study, supra note 30, at 24, 172-76, 489-92.

37. The problem was raised, though not necessarily decided, in the following cases: Textile Workers Union v. Lincoln Mills, 353 U.S. 448 (1957) (power of Congress to confer jurisdiction over labor contract disputes where the substantive law is state law); National Mutual Ins. Co. v. Tidewater Transfer Co., 337 U.S. 582 (1949) (power of Congress to confer jurisdiction over all cases between District of Columbia residents and state citizens); Osborn v. Bank of the United States, 22 U.S. (9 Wheat.) 738 (1819) (power of Congress to confer jurisdiction over all cases in which a federally chartered bank is a party); Hodgson v. Bowerbank, 9 U.S. (5 Cranch) 303 (1809) (power of Congress to confer jurisdiction over all cases in which an alien is a party).

38. 22 U.S. (9 Wheat.) 738 (1819).
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federal law whenever a question or issue of federal law "forms an ingredient of the original cause." There need be no actual dispute between the parties as to the federal ingredient; it does not matter that the federal ingredient is clearly settled one way or the other. In Osborn, Marshall interpreted a federal statute as conferring jurisdiction on the federal courts over all litigation to which the federally chartered Bank of the United States was a party, including litigation involving a simple contract or tort that would be governed by state law. Every action involving the Bank was a case arising under federal law because the Bank's capacity to sue, be sued, and to contract were all conferred by federal law and might be drawn into question in any case.

The second question—that concerning the scope of congressional grants of jurisdiction has arisen very frequently. The federal courts have repeatedly faced the problem of whether a given case before them is one "arising under" federal law within the meaning of the various jurisdictional statutes adopting the Article III language. However, despite this enormous inventory of judicial opinions considering the problem, no clear analytical test has ever been developed. As the American Law Institute notes:

In determining which cases are federal question cases, within the statutory grant of jurisdiction, there is a proliferation of theories, but the case law cannot be rationalized by any one of them.

The ALI reviews five theories, of which only the first two are important for present purposes. A case arises under federal law if:

1. federal law is an "ingredient" of the case;
2. federal law creates the claim.

The first theory, tendered by Marshall in Osborn v. Bank of the

40. ALI Study, supra note 30, at 482.
41. Id. 482-88. The other three theories would allow a case to arise under federal law:
1. construction of a federal law is involved;
2. an actual issue, legal or factual, as to the federal right is involved;
3. the federal question might be prejudiced in the state court.
"United States," is by far the broadest of the five. While Marshall's test is imprecise, most commentators agree that he was on the right track in giving a broad reading to "arising under" jurisdiction as a construction of Congress' Article III power to confer original jurisdiction on the federal courts. But as a construction of the jurisdictional statutes conferring "arising under" jurisdiction, Marshall's test is too broad, because it would provide a federal forum for too many cases, including those where the federal interest in providing such a forum is minimal.

Initially, one would assume that when Congress used the language of Article III in a jurisdictional statute, it intended that statute to have the same scope as Article III. There are, however, good reasons for giving the jurisdictional statutes a different and narrower construction than Article III. As one commentator has noted:

The situations in which a sympathetic forum may be required for the vindication of national rights cannot always be foreseen, and there must be power under the Constitution to provide for those eventualities. Yet some of these situations may fall into patterns abstractly identical with those of many other cases that do not in fact involve any present national interest. To hold that the federal trial courts are actually invested with virtually the full constitutional range of jurisdiction over federal questions might well flood the national courts, thereby deflecting them from their real functions.

Justice Holmes was the most vigorous advocate of the second theory that a case arises under federal law only when federal law creates the plaintiff's claim or cause of action. The theory meshed well with Holmes' philosophy of law. Law is not an abstract set of intellectual principles; rather it is the command of the sovereign. If a person has a right to sue, it is because the sovereign says so. To test whether a case "arises under" federal law, one should ask which sovereign authorized this plaintiff to sue? Which sovereign created the defendant’s duty to the plaintiff and the plaintiff’s remedy for a breach of that duty? If the answer is the federal sovereign, then the action

42. 22 U.S. (9 Wheat.) 738 (1819).
43. London, supra note 30, at 837-41; Mishkin, supra note 30, at 162-63.
44. Mishkin, supra note 30, at 162.
46. See Holmes, The Path of the Law, 10 Harv. L. Rev. 457 (1897).
arises under federal law. If the answer is a state sovereign, then the action arises under state law.47

Holmes' theory is supplemented by an important analytical test for determining whether a case arises under federal law. Under the Well-Pleaded Complaint Rule,48 the court looks only to the well pleaded portions of the plaintiff's complaint to determine whether an action arises under federal law. Two things about the Well-Pleaded Complaint Rule should be noted. First, the Rule is based on the notion that the federal court's jurisdiction must be determined from the outset on the basis of the plaintiff's complaint.49 Second, the Rule excludes the possibility that a plaintiff can mold his action to arise under federal law by anticipating and avoiding a potential federal defense that the defendant may have to plaintiff's cause of action under state law.50

The Holmes test, supplemented by the Well-Pleaded Complaint Rule, is as narrow in defining arising under jurisdiction as Marshall's Osborn test is broad. In many instances, it is undoubtedly too narrow. A case may require the resolution of a multitude of hotly contested federal questions, yet under the Holmes test it would not arise under federal law if the plaintiff is pursuing a state-created remedy that incorporates issues of federal law or if federal law merely creates a defense to the state law claim. Furthermore, not all of the cases decided within the "arising under" jurisdiction can be reconciled by the Holmes test. In some cases, an action has been held to arise under federal law even though the plaintiff was seeking a state created

47. Holmes' test was intended to be analytical and easy to apply. In fact, it has its own problems of application. For example, in Moore v. Chesapeake & O. Ry., 291 U.S. 205 (1934), the plaintiff sought to recover damages caused by violation of a federal safety statute under a state law making violation of a statute actionable negligence per se. The case was held to "arise under" state law on the theory that state remedial law was merely adopting by reference the federal law which established a standard of conduct. One could also argue, however, that the action arises under federal law on the theory that the federal law establishing the standard of conduct was adopting by reference the state remedial law. Cohen supra note 30, at 897-900.

48. See ALI Study, supra note 30, at 169-72. The Rule has been much berated because what must be pleaded by the plaintiff depends mostly on the old procedural "forms of action" that have been abolished for most other purposes (see Fed. R. Civ. P. 2). Mishkin, supra note 30, at 176-77.

49. This rationale for the Rule has been criticized because jurisdiction could be established at the outset by requiring the plaintiff to include special jurisdictional allegations if the federal law element did not appear otherwise on the face of his complaint. Mishkin, supra note 30 at 164.

In other cases, an action has been held not to arise under federal law even though the plaintiff was seeking a remedy created by Congress. Nevertheless, the Holmes test probably explains more cases than any other theory.

III. ARISING UNDER JURISDICTION: THE PATENT CASES

If one were to accept the Marshall theory as the proper construction of the statute giving the federal courts exclusive jurisdiction over all cases "arising under" the patent laws, then literally every case involving a patent in any way would be within the exclusive jurisdiction of the federal courts. The patent would form an "ingredient" of the action, and some issue of patent law might be raised. Supplementing the Marshall test with the Well-Pleaded Complaint Rule would eliminate very few cases since the fact that a patent is in some way involved almost inevitably appears on the face of the plaintiff's well pleaded complaint.

The courts have uniformly rejected the broad Marshall theory. But they have found no solution other than to adopt the strict and overly narrow Holmes test. The result is at least a theoretical misallocation of jurisdiction between state and federal courts—the federal courts taking jurisdiction over cases turning solely or primarily on questions of state contract law and state courts taking jurisdiction over cases turning solely or primarily on questions of federal patent law.

A. The License and Assignment Modes

This is not the place to review the intricate differences between a patent license and an assignment of a patent. Technically, an assignment is a conveyance of title to a patent or some portion thereof. Patents are made assignable by federal statute which requires that an assignment be in writing and recorded in the Patent Office in order for it to be good in favor of the assignee as against any subsequent assignee for value without notice. A patentee can assign: (1) the whole patent, i.e., the exclusive right to make, use, and sell the inven-

52. E.g., Shoshone Min. Co. v. Rutter, 177 U.S. 505 (1900).
53. See generally 4 A. DELLER, WALKER ON PATENTS 376-80 (2d ed. 1965).
tion in the United States; or (2) an undivided part or share of that exclusive right; or (3) the exclusive right to make, use, and sell the invention in a "special part of the United States."  

A license, on the other hand, is a contract whereby the owner of the patent (the patentee or an assignee) allows the licensee to make, use, or sell the invention. The federal patent laws do not directly deal with licenses and impose no formal requirements on them. The principal difference between the status of a licensee and an assignee is that an assignee may sue a third party for infringement of the patent whereas a licensee may not. The name which the parties give an instrument is generally not conclusive, and a "license" may be considered an "assignment" if it fits within one of the three categories of assignments.

In practice, licenses and assignments tend to take similar forms. The licensor or assignor often obtains a covenant on the part of the licensee or assignee to pay compensation, generally in the form of a royalty, and protects that covenant by a condition subsequent for non-payment of the royalty. Upon the licensee/assignee's failure to pay royalties, the licensee/assignee can be held for breach of covenant and the contract can be terminated by the licensor in the case of a license, or the title may revert to the assignor in the case of an assignment. Covenants or conditions, other than those relating to consideration, may also be imposed by the licensor or assignor. However, certain covenants or conditions, such as those fixing the price which the licensee must charge in vending the patented product, may run afoul of the federal anti-trust laws.

Litigation over patent licenses or assignments normally arises when one party asserts that the other has breached the terms of the agreement. The courts were early faced with the question of whether such litigation "arises under" the federal patent laws, thereby being within

55. Id.
56. E.g., Rawlings v. National Molasses Co., 394 F.2d 645 (9th Cir. 1968); 4 A. DELLER, supra note 53, at 377. One exception is apparently that an exclusive licensee can sue the licensor for infringement where the licensor, in breach of the exclusive license, makes, uses, or sells the patented product or process or authorizes others to do so. Excelsior Wooden Pipe Co. v. Pacific Bridge Co., 185 U.S. 282 (1902); James C. Wilborn & Sons, Inc. v. Brandex Tilt Sash, Inc., 380 F.2d 44 (7th Cir. 1967).
57. 4 A. DELLER, supra note 53, at 378.
58. Id. at 373-74, 654-57.
the exclusive cognizance of the federal courts. The answer which they devised strictly conforms to the Holmes test of "arising under" jurisdiction and can be best described as "Pledger's Choice."60

Assume a licensor feels that his licensee is breaching the license agreement but his licensee disagrees. The licensor has a choice of forums. If he wishes to sue his licensee in state court, he need only allege a breach of covenant by the licensee. The action is then said to arise under state contract law, not federal patent law.61 The action is not within the exclusive jurisdiction of the federal courts and in fact can be brought in or removed to federal court only if there is diversity of citizenship between the licensor and licensee. If, on the other hand, the licensor wishes to sue his licensee in federal court, he need only allege that the licensee is infringing his (the licensor's) patent. In other words, he can waive the action for breach of covenant, declare a forfeiture for failure of a condition subsequent, and sue for the statutory tort of infringement.62 Since the action is for infringement, it lies within the exclusive jurisdiction of the federal courts.63

60. See generally L. AMEND, PATENT LITIGATION 1-12 (1933). The classic statement of the "Pledger's Choice" doctrine is by Justice Frankfurter in Pan American Petroleum Corp. v. Superior Court, 366 U.S. 656, 662 (1961):

But questions of exclusive federal jurisdiction and ouster of jurisdiction of state courts are, under existing jurisdictional legislation, not determined by ultimate substantive issues of federal law. The answers depend on the particular claims a suitor makes in a state court—on how he casts his action. Since "the party who brings a suit is master to decide what law he will rely upon" . . . the complaints in the Delaware Superior Court determine the nature of the suits before it.


62. The licensor may not have such Pledger's Choice if, through his (or his lawyer's) lack of foresight, he fails to make the desired licensee conduct both a covenant and a condition. If it is solely a condition, he can only declare a forfeiture and sue for infringement in federal court. If it is solely a covenant, he can only sue for breach of covenant in state court, See Baxter, Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis, 76 YALE L.J. 267, 278-79 (1966). However, even this dichotomy between conditions and covenants is not consistently adhered to. Decisions seem to allow a licensor to bring an action in state court for a judicial declaration of forfeiture. Wilson v. Sanford, 51 U.S. (10 How.) 99 (1850). The line between such an action and one for infringement is a fine one requiring careful pleading. Compare James C. Wilborn & Sons, Inc. v. Brandex Tilt Sash, Inc., 380 F.2d 44 (7th Cir. 1967), with Laning v. National Ribbon & Carbon Paper Mfg. Co., 125 F.2d 565 (7th Cir. 1942). Commentators have questioned whether the state court, after declaring a forfeiture, ought to be able to go on and enjoin future use of the invention. 36 CONN. B.J. 281, 287 (1962); 31 COLUM. L. REV. 461, 463-64 (1931); cf. M. Nimmer, supra note 2, at 568 n.10. Such relief seems indistinguishable, pragmatically and conceptually, from an injunction against infringement (which is supposed to be available only from a federal court). The decisions seem to allow such injunctions, however, primarily on a sort of "ancillary" jurisdiction theory E.g., H.J. Heinz Co. v. Superior Court, 42 Cal. 2d 227, 266 P.2d 5 (1954).

Whichever choice the licensor makes, the actual litigation will take the same shape. In either the state or the federal litigation the primary issue will be the licensee's breach. The licensee will assert the defense of license or consent to the licensor's infringement action (since infringement is only the unconsented use, sale, or manufacture of a patented invention). In turn, the licensor by way of replication will assert that the license is no defense because it has been properly terminated by the licensor because of the licensee's breach.

The pattern is duplicated with assignments. As noted above, an assignor frequently includes in the assignment of title to the patent or a portion thereof a reverter or condition subsequent. If the assignor and assignee disagree as to whether the reverter or condition subsequent has occurred, the assignor again has a choice of forums. If he wishes to sue in state court, he may bring the equivalent of an action to quiet his reverted title to the patent. The action is then said to arise under state law. Property rights in patents are governed generally by state law once they have been issued by the federal government. An action concerning only property rights in patents is not an action "arising under" the federal patent laws and is therefore not within the exclusive jurisdiction of the federal courts. If, on the other hand, the assignor wishes to sue in federal court, he need only allege that the assignee is infringing his (the assignor's) patent. In other words, the assignor can proceed on the theory that his title reverted automatically and without judicial declaration.

Again, whichever choice the assignor makes, the actual litigation will take the same shape. In both cases, the construction and application of the assignment will be the central issue. In the state litigation, the title question is put directly in issue by the assignor's complaint, in the
federal litigation, the title question will be put in issue by the defendant who will contest the assignor’s title and therefore his standing to sue for infringement.

B. The Tort Modes

Disputes over patents, of course, arise between parties who are not in privity of contract through an assignment or a license agreement. The most obvious instance is where one party is allegedly a "naked" infringer, i.e., he is making, using, or selling the invention or discovery without the permission of the owner of the patent.\(^{67}\) Another instance is where one party is allegedly a "contributory" infringer, i.e., he is selling a non-infringing component, material, or apparatus "especially made or adapted" for use by another in an infringement of a patent.\(^{68}\) Patent controversies also arise over disputed words as well as disputed deeds.\(^{69}\) A patent owner may make broad and possibly incorrect claims that certain acts by others will infringe his patent. Such "threats" may have a deterrent effect to the injury of other interested parties. On the other hand, a person may make broad and possibly incorrect claims that certain deeds by others will not infringe a patent or that the patent is invalid. Such claims may have an adverse effect on the patent owner’s ability to secure the full economic benefit of his patent.

The jurisdictional problem is, of course, whether litigation over these various kinds of controversies "arises under" the federal patent laws so as to be within the exclusive jurisdiction of the federal courts. To a surprisingly large extent, the answer may be "Pleeder’s Choice," as in license and assignment cases.

Take the problem of the patent owner who is making broad claims about the scope and application of his patent. He may claim, for example, that the products of a competitor infringe his patent and so notify both the competitor and potential customers of the competitor. As a result of the overt or covert threats of infringement suits, the customers may be deterred from dealing with the competitor for fear of being liable for infringement. The aggrieved competitor has a choice of remedies and a choice of forums. He can sue for damages in state

\(^{68}\) 35 U.S.C. § 271(c) (1964).
\(^{69}\) Federal Tel. & Radio Corp. v. Associated Tel. & Tel. Co., 169 F.2d 1012, 1015 (3d Cir. 1948).
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court for trade libel and unfair competition. The leading case, *American Well Works Co. v. Layne & Bowler Co.*,\(^7\) clearly holds that such an action arises under state law and is cognizable only in the state courts absent diversity of citizenship. Alternatively, the aggrieved competitor can seek a declaratory judgment that his products do not infringe the defendant's patents or that the defendant's patents are invalid.\(^7\) Such an action "arises under" the patent laws and is exclusively cognizable in the federal courts.\(^7\)

However, neither the remedies nor the issues in the alternative state and federal litigations will be entirely the same. In the former the plaintiff can seek damages; in the latter, declaratory relief and perhaps an injunction.\(^7\) In the federal declaratory judgment action, the validity and infringement of the defendant's patents are the primary issues. In the unfair competition action, validity and infringement are not directly in issue at all. The patent owner can claim a qualified privilege in the state trade libel action and thereby not be held liable for damages if his claims of infringement were made in a reasonable manner and from a good faith (though erroneous) belief that his patent was valid and that plaintiff's products did infringe that patent.\(^7\) The ultimate issues are thus the defendant's good faith and the reasonableness of his methods.

The more difficult problem arises when a person is making broad and possibly incorrect claims that certain products or processes do not infringe a patent and the patent owner seeks judicial relief. The patent owner generally will have a remedy in federal court. He can sue on the theory that the defendant is actively inducing infringement of his patent and is therefore liable as an infringer.\(^7\) The action is clearly

70. 241 U.S. 257 (1916).
72. See Mishkin, *supra* note 30, at 179 n.102.
73. The plaintiff may, however, be able to join a state unfair competition claim for damages to his federal declaratory claim under the pendent jurisdiction doctrine. *Id.*
74. Dynamic Instrument Corp. v. Fedtro, Inc., 153 U.S.P.Q. 441 (E.D.N.Y. 1967); Kemart Corp. v. Printing Arts Research Laboratories, Inc., 146 F. Supp. 21 (S.D. Cal. 1956); 2 R. CAILLMANN, *UNFAIR COMPETITION TRADEMARKS AND MONOPOLIES* 253-68 (1968); 72 HARV. L. REV. 328, 353-54 (1958). The privilege is always said to be a matter of state law. However, federal patent policy should be the basis of an equal defense under federal law should some state law fail to recognize such a privilege.
one "arising under" the federal patent laws and within the exclusive jurisdiction of the federal courts. It is also possible that the patent owner can seek a federal declaratory judgment that the actions which the defendant advocates do in fact constitute an infringement of his valid patent.\textsuperscript{76} Can, however, the patent owner exercise "Pledger's Choice" and sue in state court under state law? This is the question that \textit{Koratron Company v. Deering Milliken, Inc.} seems to answer in the affirmative.

IV. THE KORATRON CASE\textsuperscript{77}

The Koratron Company filed a complaint in the United States District Court for the Northern District of California, naming Deering Milliken, Inc. as defendant. The controversy between the parties centered on Koratron's process patents on the manufacture of permanent press garments. Koratron had licensed 200 garment makers to use its patents upon the payment of royalties. Milliken manufactures various fabrics. In its complaint, Koratron alleged that Milliken was representing to Koratron's licensees and to other garment makers that they could use Milliken's fabrics to make permanent press garments without infringing Koratron's process patents. Koratron alleged that such representations were false and sought declaratory, injunctive, and monetary relief, including $5 million in punitive damages.

One day after Koratron filed its complaint, Milliken filed a complaint in the United States District Court for the Southern District of New York, naming Koratron as the defendant. Milliken sought a declaratory judgment that Koratron's patents were invalid or, alternatively, not infringed by the use of Milliken fabrics to make permanent press garments. Meanwhile, Milliken appeared in the California action and moved alternatively that it be (1) dismissed for improper venue, (2) stayed pending the resolution of the action in New York, or (3) transferred to New York for consolidation. The District Court in

\textsuperscript{76} All the reported attempts by patent owners to seek declaratory judgments have been subject to discretionary dismissals. Carbide & Carbon Corp. v. United States Chem., 140 F.2d 47 (4th Cir. 1944); Proler Street Corp. v. Luria Bros. & Co., 225 F. Supp. 412 (S.D. Texas 1964). No case has categorically denied the availability of the remedy, however. \textit{Cf.} Electronized Chem. Corp. v. Rad-Mat, Inc., 288 F. Supp. 781, 785 n.1 (D. Md. 1968).

\textsuperscript{77} \textit{Koratron Co. v. Deering Milliken, Inc.}, 418 F.2d 1314 (9th Cir. 1969).
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California denied Milliken’s motion, and an interlocutory appeal was taken by Milliken to the United States Court of Appeals for the Ninth Circuit. The New York action was stayed pending the appeal.

The issue presented to the appeals court was thus one of venue, not the subject matter jurisdiction of state and federal courts over patent matters. Venue in patent infringement actions is governed by 28 U.S.C. § 1400(b), which provides that infringement actions can only be brought (1) in the district where the defendant resides, or (2) in a district where the defendant has committed acts of infringement and has a regular and established place of business.

By contrast, the general venue statute, 28 U.S.C. § 1391(a), provides that a federal court action against a corporation can be maintained “in any judicial district in which it is incorporated or licensed to do business or is doing business.” Milliken argued that Koratron’s action was for infringement and governed by § 1400(b) and that Milliken neither “resided” in California nor had it committed any act of infringement in California. It argued that the action should be dismissed for improper venue or transferred to New York where venue allegedly was proper. Koratron argued that its action was not for patent infringement and indeed did not “arise under” the federal patent laws at all. Rather it maintained that it had pleaded its action as arising under the California law of unfair competition, to wit, the torts of interference with contract (as to Milliken’s representations to Koratron’s licensees) and interference with prospective economic advantage (as to Milliken’s representations to garment makers who were not but might otherwise become licensees of Koratron). Koratron argued that federal jurisdiction was founded solely upon the diversity of citizenship between the parties and that venue was proper under 28 U.S.C. § 1391(a) in the Northern District of California since Milliken had a sales office there.

Although the immediate issue before the Ninth Circuit was one of venue, the manner in which it was resolved is directly relevant to the question of the division of jurisdiction between state and federal courts over patent controversies because the court accepted Koratron’s broad

argument that the action did not arise under the federal patent laws. It therefore held that *a fortiori* the action was not an infringement action governed by 28 U.S.C. § 1400(b). The clear implication is that Koratron could have brought its action, as it was pleaded, in the California state courts, and, absent diversity of citizenship, *only* in the California state courts.

The dismissal by the district court of Milliken's motion alternatively to dismiss, stay or transfer presented the circuit court with a wide spectrum of alternative dispositions. It could have:

(1) held that Koratron's action was in substance one for infringement, and

(a) reversed and ordered the action dismissed or transferred for improper venue under § 1400(b); or

(b) affirmed because venue was still proper under § 1400(b); or

(2) held that Koratron's action was one arising under the patent laws but not one for infringement and therefore affirmed the denial of Milliken's motions on the basis of § 1400(b); or

(3) held that Koratron's action did not arise under federal law and

(a) reversed and ordered the action stayed pending disposition of Milliken's federal declaratory judgment action in New York; or

(b) affirmed.

The parties urged primarily the extremes—Milliken arguing that Koratron's action was for infringement and should therefore be dismissed or transferred for improper venue [(1)(a)], and Koratron arguing that its action did not arise under federal law so that Milliken's motion was rightly denied [(3)(b)].

The better view of the plaintiff's action in *Koratron* is that it is in fact one arising under the federal patent statutes and within the exclusive cognizance of the federal courts. It is interesting to note, however, that the court could have gone either way on the venue question regardless of how it resolved the "arising under" problem. For example, there was ample room for adopting alternative (1)(b) (that

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79. *Koratron* did urge alternatives (1)(b) and (2) as alternative grounds for affirming. Brief for Appellee at 20-21, 17-18, *Koratron Co. v. Deering Milliken, Inc.*, 418 F.2d 1314 (9th Cir. 1969).
Koratron’s action was for infringement and that venue was proper. Koratron was attempting to rely on the law of California which certainly indicates that it thought that Milliken’s alleged tortious acts had some contact with California. That, together with Milliken’s sales office in the Northern District of California, may have fulfilled the requirements of the second part of § 1400(b). At least, the court could have remanded the case for a finding on the issue since no such finding was made by the court below.

The court could also have adopted alternative (2) (that the action arose under the federal patent laws but was not an infringement action governed by the special venue provision, § 1400(b)). If Koratron’s action had been viewed as one for a declaratory judgment, venue in California could have been upheld by the consistent line of authority that a declaratory judgment action as to patent matters is not an infringement action governed by § 1400(b). Venue in such a declaratory judgment action is governed by the general statute, § 1391(a). The problem with this alternative, however, is that the cases holding § 1400(b) inapplicable to declaratory judgments have involved actions by third parties against patent owners seeking a declaration of noninfringement or invalidity of the patent. Since the restrictive venue provision of § 1400(b) is presumably for the benefit of an alleged infringer, it makes sense not to apply it where the infringer is seeking relief. The same cannot be said when the patent owner seeks a declaratory judgment as an alternative to a coercive infringement action.

Alternatives (1)(b) and (2) are attractive because the court could have resolved the venue question the way it did without traversing the delicate area of the division of jurisdiction between state and federal courts. The court could have reasoned that even if the action arose under federal law (without actually deciding that question), venue was still proper in the Northern District of California. Koratron was essentially a jousting match, between corporate litigants and their blue ribbon counsel, to decide which federal court, California or New York, would try an important patent litigation that clearly belonged in a federal court. The court openly sanctions subversion of the narrow

80. E.g., General Tire & Rubber Co. v. Watkins, 326 F.2d 926 (4th Cir. 1964).
81. See generally cases cited in Krieger, supra note 71.
82. See cases cited in note 76, supra.
venue requirements of § 1400(b),83 perhaps because the policy behind that statute is questionable.84 But the court should not have also decided an important issue of state and federal court relations in the process unless it was clearly necessary to do so.

In Koratron the question of whether the action arose under the federal patent laws can be approached on several levels. First, at the pleading level, it can be argued that even if Koratron had complete pleader's choice of state or federal remedies it did not succeed in pleading a state remedy. The court in Koratron stated:85

Koratron intended to plead its case as a common law action. It strained out all patent infringement language from its pleading. It did not seek treble damages and attorney's fees available in a patent infringement suit; it sought compensatory and lump sum punitive damages appropriate to a common law claim.

But the court overlooked Koratron's first prayer for relief which was that the court "make and enter a judgment declaring the rights and obligations of plaintiff Koratron and defendant Milliken."86 Specifically, Koratron sought a declaration as to the scope of its patent, i.e., whether the making of garments with Milliken's fabrics infringed Koratron's patents. Koratron appended to its complaint a copy of its patents as an exhibit. Did the court in Koratron really mean to suggest that a state court has jurisdiction to entertain such a declaratory action as to patent rights? At best, it would seem that Koratron succeeded in pleading a federal action for declaratory relief (which clearly does "arise under" federal law) along with a state action for unfair competition.

Second, at the state law level, it is not at all clear that state unfair competition law does or even can provide the kind of remedy which

     But the gravamen of the present complaint is patent infringement; unfair competition, if a separate cause of action at all, being a subsidiary issue dependent on the prior determination of the action for patent infringement. . . . Since unfair competition can almost always be charged in a patent infringement action, if plaintiff were to prevail in its argument, it would be a simple matter of pleading for a party to evade the venue limitation imposed by § 1400. This Court will not be a party to such an obvious subversion. . . .

84. See note 78, supra.
85. 418 F.2d at 1317.
86. Original complaint filed June 19, 1967, reproduced in Brief for Appellant at 4a-8a, Koratron Co. v. Deering Milliken, Inc., 418 F.2d 1314 (9th Cir. 1969).
Koratron sought as an alternative to a contributory infringement action. Thus, arguably, there was no state remedy that Koratron, as the pleader, could elect. Koratron’s complaint contained two different allegations. On the one hand, there were charges of bad faith and oppressive tactics by Milliken toward Koratron. State unfair competition law clearly can and does provide a remedy for such conduct. That the oppressive conduct is directed toward the plaintiff’s federal patent rights and related contracts is immaterial. On the other hand, Koratron’s complaint also charged that Milliken had been verbally claiming that a certain product or process did not fall within the scope of any valid patent owned by Koratron and that that claim was false and caused economic injury to Koratron. It is difficult to see what role state law and policy can play in the resolution of such a charge. If Milliken’s words were sufficient to constitute contributory infringement, federal law provides the remedy. If those words did not constitute actionable infringement, e.g., because they did not constitute “active inducement” of infringement under the circumstances, could state law still provide a remedy? One would think not. Milliken should be privileged to make assertions about its federal rights (in this case, the rights to be free from the claims of an invalid patent or from the making of garments in the manner defined by the claims of the patent from . . . [Milliken’s] fabrics falls without the scope of the patent and threatens that unless Koratron make such acknowledgment Milliken will publicly advise Koratron’s licenses that they may use . . . [Milliken’s] fabrics . . . without incurring any obligation to Koratron . . .

In committing the conduct alleged above, Milliken is guilty of oppression. Id. at 5a-7a (emphasis supplied).

Competition by means of intimidation, violence, defamation or misrepresentation has long been actionable at common law. See RESTATEMENT (SECOND) OF TORTS, Explanatory Notes § 766A, comment e at 53-54 (Tent. Draft No. 14, 1969).

Milliken claims . . . that the scope of the patent is such that by using said fabrics . . . Koratron’s patent licensees will escape the obligation to Koratron . . . . Koratron . . . claims that the scope of the patent is such that the use of said fabrics . . . does not immunize its patent licensees . . .

Thus, in federal actions where the plaintiff joins a claim for patent infringement with a claim for unfair competition, the courts routinely dismiss the unfair competition claim if it alleges no facts (such as fraud or breach of confidence) beyond those that show simple infringement. 1 R. Callmann, supra note 74, at 511-22 (and cases cited therein). On the other hand, where the plaintiff complains of conduct beyond infringement—such as breach of a confidential relationship—state law clearly does have an independent role. See Kamin v. Kuhnau, 232 Ore. 139, 374 P.2d 912, 922 (1962). State law protects the confidential relationship, not the plaintiff’s right to derive economic benefits from the exclusive right to make, use or sell a certain idea.
overly broad claims of a patent owner) so long as they are made in good faith and not accompanied by oppressive conduct.\textsuperscript{91}

The court in \textit{Koratron} rejected the argument that any unfair competition remedy that Koratron, as a patent owner, might assert had been preempted by the substantive federal patent law.\textsuperscript{92} Its reasoning was that the state remedies for interference with contractual and prospective advantage are \textit{not inconsistent} with substantive federal patent law. However, this argument completely ignores the policy of federal court exclusively behind the patent jurisdictional statute.\textsuperscript{93} Even allowing a state remedy, enforceable in state court, that is consistent with federal substantive patent law offends the policy of jurisdictional exclusivity insofar as the state remedy merely duplicates a federal patent remedy.

The answer to this objection may be that the lack of a state remedy is not a jurisdictional problem but one on the merits. If Koratron maintains its state law theory after the venue fight (which is doubtful) and cannot find a state remedy, it simply may lose. However, the lack of a state remedy should still be considered in interpreting the complaint to determine under what law, state or federal, the plaintiff's action arises.

In short the court erred in failing to hold that Koratron had pleaded a claim for contributory infringement or at least a claim for declaratory relief plus a state unfair competition claim. The court candidly recognized the contributory infringement claim: \textsuperscript{94}

Because Koratron would have to prove the basic elements of a contributory infringement claim in order to succeed in its tort claim, it must realistically be admitted that the gravamen of the complaint is contributory negligence.

The court should have acted upon its realistic admission and held that the action arose under federal law, thereby recognizing that state law has no role in providing a remedy for Milliken's alleged conduct other than that relating to alleged bad faith or oppressive conduct for which there is no specialized federal patent remedy. State law at best merely

\textsuperscript{91} Such a privilege is correlative to the patent owner's privilege to make good faith (though in fact erroneous) claims about the scope of his federal patent rights. \textit{See} note \textsuperscript{74} and accompanying text, \textit{supra}.

\textsuperscript{92} \textit{418} F.2d at 1318.

\textsuperscript{93} 28 U.S.C. § 1338(a) (1964).

\textsuperscript{94} \textit{418} F.2d at 1316.
duplicates the federal remedy that Congress has decreed to be available only from the federal courts.95

Given the Koratron holding, it is interesting to speculate about what sort of action is left within the exclusive patent jurisdiction of the federal courts. Every act of contributory infringement can presumably be pleaded as an interference with prospective advantage. What then is the status of pure, unadulterated, unilateral and nonverbal infringement? Can it be pleaded under a theory of bad faith refusal to deal with the patent owner on a royalty basis?96 Who knows?

If the Koratron court was right, or at least compelled by precedent to hold that Koratron's action arose under state law, its view underscores a curious and disturbing anomaly in the law of federal jurisdiction. In the face of an apparently decisive declaration of Congressional policy dating back at least to 1836 that patent cases, especially those involving the validity of a patent, should be litigated only in federal court, the courts have consistently recognized artful pleading and lawyerlike ingenuity and allowed all manner of cases concerning patents to be brought in state courts. Once brought in state court, they cannot be removed by the defendant to a federal court absent diversity of citizenship. A defendant can remove only if the action is within the original jurisdiction of a federal court.97 Such will not be the case if the action is not deemed to "arise under" the federal patent laws and the parties are both citizens of the same state. It is time to face that anomaly squarely and assess the damage done.

V. THE STATE COURTS AND PATENT QUESTIONS: AN ASSESSMENT

Courts and commentators alike reiterate the point that the federal courts have exclusive jurisdiction only over cases "arising under" the

95. Professors Hart and Wechsler poignantly query: "The decisions obviously permit a patent owner in many situations to exercise a choice whether to resort to a federal or a state court. Do they permit him to do this without any variation in substance of the claim made or relief secured?" H. HART & H. WECHSLER, THE FEDERAL COURTS AND THE FEDERAL SYSTEM 757 (1953). In the same vein, Professor Currie asks: "What is the point of an 'exclusive' jurisdiction that the plaintiff can avoid by artful pleading?" D. CURRIE, FEDERAL COURTS CASES AND MATERIALS 360 (1968).

96. The rhetorical question is somewhat misleading, since state tort law has not (yet) recognized any tort of unilateral refusal to deal. 1 F. HARPER & F. JAMES, THE LAW OF TORTS 521 (1956).

federal patent laws and not over patent questions.\textsuperscript{98} The state courts are said to be fully competent to adjudicate patent questions that come before them in contract, property and tort cases so long as the case itself does not arise under the patent laws. While this may be a correct statement of the law, it is not a fully accurate characterization of actual practice, at least, not until very recently.

\textbf{A. Infringement Issues}

Since 1790 two basic federal patent law issues, infringement and validity of patents, have regularly arisen in litigation. The resolution of both issues involves federal interests of enormous importance. A patent is a legalized monopoly. As such, it is the principal legal exception to our national policy of free economic competition.\textsuperscript{99} Infringement issues are of great importance because they concern the scope of federally sanctioned monopolies. The resolution of an infringement issue involves the construction of the claims of the patent itself and an application of those claims to the alleged infringer’s conduct.\textsuperscript{100} The judge resolving an infringement issue must necessarily delve into technical matters, but he must also be sensitive to underlying policies in choosing between broad and narrow constructions of patent claims. For these reasons, Congress has found it desirable to channel infringement litigation into the federal judiciary which presumably possesses some technical expertise in the construction of patent claims and also a heightened sensitivity to federal patent policy.

However, it is clear that state courts do in fact regularly pass upon questions of infringement in contract cases.\textsuperscript{101} In the typical case a patent owner authorizes a licensee to make, use, or sell the invention upon payment of royalty. Later the licensee makes, uses or sells a process or product without paying royalty. If the patent owner opts to sue in state court for breach of contract instead of in federal court for infringement,\textsuperscript{102} the state courts treat the issue of whether the


\textsuperscript{99} See generally P. Areeda, \textit{Antitrust Analysis} 318-24 (1967).

\textsuperscript{100} See generally 3 A. Deller, \textit{supra} note 98, at 1680-775.

\textsuperscript{101} E.g., Osgood Panel & Veneer Co. v. Osgood, 166 Wash. 315, 6 P.2d 661 (1932).

\textsuperscript{102} See text accompanying notes 58-63, \textit{supra}.
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licensee has breached the contract as identical to the issue of whether the licensee would have been infringing the licensor's patent had no contract been in the picture. Thus, they cite and rely upon federal infringement precedents. In turn, the federal courts give res judicata effect to a state court's resolution of the breach-of-contract issue should a patent owner, unsuccessful in a state action, sue in federal court for infringement.

Allowing state courts to adjudicate infringement issues in contract actions is surely inconsistent with the congressional policy of confining infringement actions to federal courts. The state court presumably lacks the expertise of a federal court, and hence its decision may be less "reliable" in an absolute sense. A less reliable decision may be considered unfair to a defendant who is deprived of a federal forum. But the effect of a wrong decision by a state court is minimized because the decision primarily affects only the parties before the court. The decision will usually have only marginal relevance to the question of whether other persons are infringing the contested patent.

B. Validity Issues

While the resolution of infringement issues is of great importance to federal patent and economic policies, the resolution of validity issues is of even greater importance. A validity question is a direct confrontation with the legality of the federally-granted patent monopoly. Letters patent are issued for an invention only if the applicant is the first inventor and his invention meets the statutorily and judicially defined standards of novelty, usefulness, and non-obviousness. Once letters patent have been issued by the Patent Office, the patent is deemed by statute to be prima facie valid. A defendant in an infringement action can, however, escape liability by proving

110. 35 U.S.C. § 282 (1964); see text accompanying note 14, supra.
that in fact the plaintiff's patent is invalid because it does not meet the standards of novelty, usefulness, or non-obviousness.

Adjudication of patent validity involves not only a comprehension of extremely technical matters in diverse scientific and engineering fields but also an acute sensitivity to the prevailing social, economic and political attitudes of the country. Empirical studies have shown that judicial attitudes toward validity questions have varied sharply in different periods of our history. One commentator has concluded:¹¹¹

[¹¹¹]n periods of high satisfaction with the performance of industry there has been no popular reluctance to reward innovating activity in appropriate ways, including assurance of reasonable patent protection. Conversely, in periods of dissatisfaction with the functioning of business as a supplier of reasonably priced goods, popular sentiment has tended to demand curtailment of its special franchises, rewards and prerequisites. Sensitivity of judges to these tides of general opinion has been reflected in variances in the severity of their attitude toward patent claimants.

Although this conclusion is meant to be factual, a normative judgment can be added to it. In deciding validity issues, the judiciary should be sensitive to prevailing attitudes toward inventive activity and its proper reward. Jurisdictional rules should channel validity adjudications to the federal judiciary, since it is most apt to be in full empathy with national policy on patents and economic competition.

Unlike infringement questions, it is not clear that state courts have ever adjudicated any significant number of patent validity questions. Courts and commentators broadly proclaim that state courts are competent to adjudicate validity questions so long as the case itself does not "arise under" the federal patent laws.¹¹² But it is a frustrating and fruitless task to search for reported appellate opinions in which a state court actually has passed upon the validity of a patent.¹¹³ There are very, very few.¹¹⁴

¹¹². See note 98, supra.
¹¹³. "The ratio [of federal court validity adjudications to state court validity adjudications] has been estimated at 100 to 1. Interview with patent lawyer, Boston, Mass., Feb. 29, 1956. The Fifth Decennial Digest notes only two cases in the state courts in which the issue of invalidity was adjudicated." 70 HARV. L. REV. 509, 514 n.37 (1957).
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One reason for the dearth of actual state court adjudications of validity questions is that many cases involving patent questions, but not deemed to "arise under" the patent laws, are still brought in or removed to federal court on the basis of the diversity of citizenship of the parties. Such was the case in *Koratron*. However, diversity of citizenship should be a neutral factor, since it bears no relation to the need for a federal forum for the adjudication of questions of federal patent law. Another important reason is the fact that, until recently, validity questions rarely came up in any litigation except infringement actions which have been brought in federal court.

Consider the tort cases. In the common situations where a person brings a trade libel or unfair competition action in a state court against a patent owner who is making broad and allegedly erroneous claims that the plaintiff's activities constitute infringement, the patent's validity should not be directly in issue. Once the defendant demonstrates his good faith and the reasonableness of the means he has used in making his claims, that should be the end of the action.\(^{115}\) A patent owner is privileged to make good faith claims about his rights under federal law. He cannot be held liable for damages under state law simply because his patent is in fact invalid. *American Well Works Co. v. Layne & Bowler Co.*,\(^ {116}\) the leading case allowing this kind of suit to be brought in a state court as an unfair competition action, assumes that the issue of the patent's validity might arise. However, the above analysis indicates that assumption is wrong.

*Koratron* perhaps unwittingly forces the issue of a patent's validity upon the court in the converse situation where a patent owner brings an unfair competition action against a defendant for allegedly false claims that a certain product or process does not infringe the owner's patent. *Koratron*'s action did not purport merely to challenge Milliken's good faith in making the statement. It sought to establish the categorical falsity of those statements. The issues of infringement and validity will inevitably be put directly in issue just as they would be in an action for infringement.

In the area of assignment and license cases, the general rule, prior to 1969, was that a party privy to a patent license or assignment was

\(^ {115}\) See text accompanying note 69, *supra*.

\(^ {116}\) 241 U.S. 257 (1916).
estopped by an express or implied covenant from contesting the validity of the underlying patent in any litigation arising out of the assignment or license. Thus, when actions on patent licenses or assignments were brought in state court, the issue of the validity of the patent could not generally be raised.

This rule was decisively broken in 1969 by the Supreme Court’s decision in Lear, Inc. v. Adkins, the aggravating development mentioned at the beginning of this article. In Lear, a patentee brought an action in the Superior Court of California against his licensee for an alleged breach of a patent licensing agreement. The licensee defended partly on the ground that the patent was invalid for lack of novelty and also that the patentee had obtained his patent by committing a fraud on the Patent Office. The California Supreme Court unanimously held that the licensee was estopped to contest the validity of the patent. The United States Supreme Court reversed. Noting that the estoppel rule had already been eroded by exceptions, the Court decided to jettison the rule itself. Its reasoning is persuasive. It is common knowledge that many patents are issued by the Patent Office that are subsequently determined to be invalid. Until ruled invalid, however, an issued patent continues to restrain free competition in the economic exploitation of ideas. Business entities, unable or unwilling to undertake costly litigation challenging the validity of a patent, refrain from engaging in infringing activity. Licensees are apt to be the class of persons with the greatest economic incentive to engage in the costly litigation necessary to have a patent adjudicated invalid, and the estoppel doctrine effectively eliminated licensees

121. The percentage of patents held invalid has varied over time. See Mayers, supra note 111.
122. The deterrent effect of litigation expenses is mitigated somewhat by the provision of the patent laws that a victorious defendant in an infringement action can recover reasonable attorney fees. 35 U.S.C. § 285 (1964). Such fees are allowable only in “exceptional cases” however, and generally the defendant must show some form of bad faith or gross neglect on the part of the patent owner is bringing the groundless action. E.g., Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp., 407 F.2d 288 (9th Cir. 1969).
from serving as "private attorney generals" by securing a judicial declaration that an apparently legal monopoly is in fact illegal.123

The Court's decision in Lear has caused a decisive shift in the division of jurisdiction over patent questions between state and federal courts. The question of a patent's validity is now a potential issue in literally every action brought in state court for breach of a patent license or assignment.124

State court jurisdiction over patent validity questions is much less acceptable than state court jurisdiction over infringement questions, because the former does greater damage to the congressional policy of confining patent cases to the federal courts. Validity adjudications require a greater sensitivity to national policy—a sensitivity that only the national judiciary can be assumed to possess.125 Also, validity

123. As may be expected, those who favor greater patent protection are less than happy with the results of the Lear case, since it undoubtedly will increase the already large number of judicial invalidations of patents. This unhappiness has led to proposals for legislative correction. Senator Scott introduced an amendment to Senate Bill 2756 that would have partially overruled Lear. Amdt. 578, S. 2756, 91st Cong., 2d Sess. (1970). The amendment provided in part:

(e) No assignor of a patent shall contest, directly or indirectly, the validity of the patent, when asserted against him by his assignee or any owner of the patent deriving title through the assignee, unless (1) the consideration involved has been restored to, or for the benefit of, the first assignee, and (2) such assignor asserts a ground for invalidity not reasonably available to him when the assignment was made.

(f) No party to a license, immunity, or other express waiver under a patent shall, unless consented to by all other parties thereto, contest the validity of the patent, provided that any party who gives written notice that he unconditionally renounces all future benefit from the license, immunity, or other waiver may then and thereafter contest the validity regardless of any contract to the contrary, but such renunciation shall not operate to relieve the renouncing party from any performance due prior to the renunciation.

124. It is possible, of course, that fewer plaintiffs will exercise Pleader's Choice in favor of a state court. One of the advantages of a contract action over a federal court infringement action is that invalidity can only be asserted in the latter. With that advantage eliminated by Lear, there is less incentive for a plaintiff to base his action on the contract rather than the tort of infringement.

125. The greater importance of validity issues in relation to infringement issues is reflected in judicial pronouncements that when faced with the alternative defenses to an infringement action of invalidity or noninfringement, the court should pass first on the validity issue. Beckman Instruments, Inc. v. Chemtronics, Inc., 428 F.2d 555 (5th Cir. 1970). Such pronouncements are not universally assented to, however. See Fraser v. City of San Antonio, 430 F.2d 1218, 1221-22 (5th Cir. 1970); Harries v. Air King Prods. Co., 183 F.2d 158, 163 (2d Cir. 1950): "[I]t is open to a court to proceed as is most convenient, subject to the exception that, though the defendant has not infringed, claims may be so evidently invalid that the court should so declare."

The importance of the validity question was also reflected in the holding of a recent decision that such questions are "inappropriate for arbitration proceedings and should be decided by a court of law." Beckman Instruments, Inc. v. Technical Dev. Corp.,
adjudications, unlike infringement adjudications, have a direct impact beyond the rights of parties involved. While a decision upholding a patent is res judicata only as to the particular defendant,\textsuperscript{126} that decision will significantly deter others from challenging the patent monopoly. Furthermore, in \textit{Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation},\textsuperscript{127} the Supreme Court held that a decision holding a patent invalid is binding in rem, that is, in favor of all whom the patentee might sue for infringement.\textsuperscript{128}

\section*{C. Proposed Solutions}

There are good reasons for channeling the adjudications of important issues of federal patent law into the federal courts or at least for providing a federal forum for such adjudications if either party desires such a forum. Congress has apparently consistently recognized these reasons by making federal jurisdiction over cases arising under the patent laws exclusive of the state courts. Yet cases such as \textit{Lear} and \textit{Koratron} necessarily imply that defendants may regularly be forced to litigate important issues of federal patent law, including crucial validity issues, in state courts if plaintiffs so choose and diversity of citizenship is not present.

How can this anomaly be mitigated or eliminated? Two major


\textsuperscript{128} ALI \textit{Stud.}, supra note 30, at 183. The ALI uses the public interest factor as a justification for retaining exclusive federal jurisdiction over patent cases. Professor Currie disagrees: “The ALI’s notion that in patent . . . cases there is a federal interest transcending that of the parties is unconvincing; since nonparties would not be bound by a state decision, it is hard to see how the monopoly could be undermined or extended by state litigation.” Currie, \textit{The Federal Courts and the American Law Institute—Part II}, 36 U. Cinn. L. Rev. 268, 280 (1969). The \textit{Blonder-Tongue} decision expands the scope of res judicata and strengthens the ALI position vis-à-vis Professor Currie. However, I would adopt a middle ground between the two—using the public interest factor as a justification for making federal court an available \textit{option} to either party in all cases in which a validity issue arises. That option is already available to the plaintiff under the Pleader’s Choice Rule. It should be made available to the defendant also.
proposals have been suggested. The first is to broaden the scope of the statutory grant of federal jurisdiction over patent litigation. For example, it has been suggested that federal jurisdiction could be extended by statute to all cases involving the licensing or assignment of patent rights. To cover cases such as American Well Works and Koratron, this should include all unfair competition actions concerning the scope or validity of patent rights. This solution has much to commend it. Litigation involving patent licenses or assignments often turns on questions of federal law, antitrust as well as patent law. The caseload burden on the federal courts is unlikely to be significantly increased. Even if patent licenses and assignments continue to be governed in general by state contract law, there is no evidence that the federal courts do not at present adequately determine and apply that law. The plaintiff in a patent license or assignment case can under present law opt for federal court by exercising "Pledger's Choice." This proposal would do no more than extend that same choice of forum to the defendant by removal since cases

130. Such an extension would clearly be within Congress' Article III powers to confer original jurisdiction on the lower federal courts. It is generally conceded that the scope of Article III arising-under-federal-law-jurisdiction is much broader than current interpretation of the various statutory grants of arising under jurisdiction. See text accompanying notes 37-38, supra.  
131. See Brulotte v. Thys Co., 374 U.S. 29 (1964) (patent license allowing the collection of royalties beyond the expiration of a patent violates the federal antitrust laws).  
132. Licensing is one of the principal means by which a patent owner can exploit his patent monopoly. How a patent owner exploits his monopoly is of vital concern to both federal patent and federal antitrust policy. See Baxter, Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis, 76 YALE L.J. 267 (1966). Given the federal concern in patent licenses, it can be argued that Congress ought to authorize the federal courts to develop a uniform federal contract law governing such licenses. See § 301(a), Labor Management Relations Act of 1947, 29 U.S.C. § 185 (1964), Textile Workers Union v. Lincoln Mills, 353 U.S. 448 (1957) (federal courts authorized to develop a uniform federal law of labor contracts). For example, a licensee and licensor may wish to include a certain term of marginal legality under the federal antitrust laws (such as a term allowing the licensor to control the licensee's prices) in their agreement. Yet they may be deterred from including it in the writing for fear of incurring legal sanctions should it later be determined to be in fact illegal. See Royal Indus. v. St. Regis Paper Co., 420 F.2d 449 (9th Cir. 1969). Arguably, federal policy should dictate that such a parol term be unenforceable even if the state parol evidence rule would allow it to be proved. Allowing parol agreements of marginal legality hinders enforcement of the antitrust laws.  
133. See, e.g., Eastern Elec. Inc. v. Seeburg Corp., 427 F.2d 23 (2d Cir. 1970) (under state contract law, assignee who promised to pay royalties upon use of the patent is under no implied obligation to use the patent).  
134. See text accompanying notes 60-66, supra.
within the original jurisdiction of the federal courts are generally removable to federal court by the defendant if originally brought in state court.

It would seem to be of minor importance whether the expanded federal jurisdiction over contract and tort cases involving patents were made exclusive or concurrent. If the latter were chosen, a patent case would stay in state court only if the plaintiff chose to bring it there and the defendant chose not to remove. If both parties are content with the state court, perhaps the state court ought to be an available forum.135

A more narrow solution would be to provide by statute that either plaintiff or defendant could remove a state court action to federal court if “a substantive issue of validity or infringement is presented at any stage of the pleadings.”136 Thus, in the license and assignment cases, if the licensor were to sue for breach of contract in state court and the licensee to defend on the ground that the patent which is the subject of the license is invalid,137 either party could remove the cause to a federal court. A patent license or assignment case would remain in state court if no actual issue of patent law were raised and there were no diversity of citizenship.

Both solutions have merit and would insure that important issues of patent law would be channelled to the federal courts if either party desired a federal forum. Both, however, are legislative solutions, and legislative reform, especially in the area of federal jurisdiction, is often slow in coming. Are there any fruitful avenues for judicial innovation? One possibility is the discriminating use of the Federal Declaratory Judgment Act.138 It is interesting to note that both in Lear, a patent license action in state court, and in Koratron, a diversity action in federal court, the defendant filed a separate declaratory judgment action in an appropriate federal court to have the plaintiff's patent

135. See note 128, supra.

136. 72 Harv. L. Rev. 328 at 331 (1958). The ALI proposes to alter the Well-Pleaded Complaint Rule and allow removal of a state action to federal court by either party on the basis of a federal defense raised in the action. ALI Study, supra note 30, at 25-27, 188-94.

137. The licensee will not inevitably assert the defense of invalidity. The licensee may have as great an interest in maintaining the patent monopoly as the licensor, especially if the license is an exclusive one.

declared invalid or at least not infringed by the defendant.\textsuperscript{139} If the federal courts were receptive to such actions, it might assure the availability to the defendant, in an action begun in state court, of a federal forum for the adjudication of important patent issues. Under present law, the plaintiff can always opt for a federal forum. But if he does not and sues in state court for unfair competition or for breach of a license or assignment contract, the defendant could bring a federal declaratory judgment action. The state action could be stayed\textsuperscript{140} or, if necessary, the federal court could enjoin the original plaintiff from proceeding with the state action.\textsuperscript{141} The federal patent issues would then be decided by a federal court. Unfortunately, the case authority in lower federal courts does not support this procedure.\textsuperscript{142} Such actions are typically dismissed on the ground that the federal issues may be resolved in the state court action for coercive relief.\textsuperscript{143} These decisions should be reconsidered in the light of the

\textsuperscript{139} See Lear Siegler, Inc. v. Adkins, 330 F.2d 595 (9th Cir. 1964) and Koratron, 418 F.2d 1314.

\textsuperscript{140} Cf. Quaker State Oil Ref. Co. v. Talbot, 322 Pa. 155, 185 A. 586 (1936) (state court action to enforce an assignment stayed pending resolution of a federal court action for infringement).

\textsuperscript{141} One obstacle to such an injunction is 28 U.S.C. § 2283 (1964) which provides: "A court of the United States may not grant an injunction to stay proceedings in a State court except as expressly authorized by Act of Congress, or where necessary in aid of its jurisdiction, or to protect or effectuate its judgment" (emphasis supplied). The problem is whether the injunction can properly be viewed as "in aid of" the federal court's declaratory judgment jurisdiction. Arguably, it cannot because to do so would sanction a bootstrap subversion of § 2283. However, where there are strong reasons for providing a party with a federal forum, § 2283 should not constitute an inflexible barrier. Cf. Machesky v. Bizzell, 414 F.2d 283 (5th Cir. 1969). But see Atlantic Coast Line R.R. v. Brotherhood of Locomotive Eng'rs, 398 U.S. 281 (1970).


\textsuperscript{143} An odd but commendable exception to this line of authority occurred in the Lear-Adkins litigation. After the Supreme Court reversed and held that the defendant-licensee could contest the validity of the patent in the state action for breach of contract, the defendant moved to vacate the stay entered in his previous federal court action to have the patent declared invalid. The federal district court vacated the stay after the state court agreed that it would stay the action before it to allow a trial de novo on validity in the federal court. The United States Court of Appeals reluctantly approved the procedure. Adkins v. United States District Court, 431 F.2d 859 (9th Cir. 1970). This procedure is to be commended since it afforded the defendant a federal forum that he well deserved. The agreement of the state court should not be required however.
manifest policy of providing a federal forum for the adjudication of validity questions to defendants who desire such a forum.\textsuperscript{144}

Another possibility, one called for by judges and commentators alike, is a more flexible approach to the question of when a given action “arises under” the federal patent laws. No simple analytical test, such as that of Justice Holmes, is sufficiently related to the reasons for providing a federal forum in any given lawsuit.\textsuperscript{145} As one commentator has noted.\textsuperscript{146}

What is surprising is the continuing belief that there is, or should be, a single, all-purpose, neutral analytical concept which marks out federal question jurisdiction. A frank recognition of the pragmatic nature of the decision-making process would help throw light on the factors which actually induce decision. It would, moreover, reduce the danger that a judge would be beguiled by one of the numerous analytical tests into reaching an indefensible result.

Some of the suggested pragmatic criteria are:\textsuperscript{147}

1. the extent of the caseload increase for federal trial courts if jurisdiction is recognized;
2. the extent to which cases of this class will, in practice, turn on issues of state or federal law;

144. Professors Hart and Wechsler ask, “Would it be practicable to establish a procedure for reference of patent questions by the state courts to a federal court? Wise? Constitutional?” H. HART & H. WECHSLER, supra note 95, at 757. Such a procedure for reference of state law questions by the federal courts to a state court presently exists in a number of states. E.g., WASH. REV. CODE §§ 2.60.010–900 (1967). Its constitutionality (under state law) seems established though its wisdom has been questioned. See Comment, Inter-Jurisdictional Certification and Full Faith and Credit in Federal Courts, 45 WASH. L. REV. 167 (1970). Whether or not a federal court can constitutionally accept a reference of a patent question from a state court (the main constitutional obstacle being the “case or controversy” requirement of Article III), the procedure is unwise. In a reference, the court finds the facts and then certifies the question of the law and its application to the facts to the referee court. The expertise and policy sensitivity of a federal court toward patent questions such as the validity of a patent is most needed in the fact-finding process. The declaratory judgment procedure described in the text preserves the role of the federal court as fact-finder.
145. See T.B. Harms Co. v. Eliscu, 339 F.2d 823, 827 (2d Cir. 1964), where Judge Friendly comments:
It has come to be realized that Mr. Justice Holmes’ formula is more useful for inclusion than for the exclusion for which it was intended. Even though the claim is created by state law, a case may ‘arise under’ a law of the United States if the complaint discloses a need for determining the meaning or application of such a law.
147. Id. at 916.
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3. the extent of the necessity for an expert federal tribunal to handle issues of federal law that do arise;
4. the extent of the necessity for a sympathetic federal tribunal in cases of this class.

Decisions in the area of patent jurisdiction show a conspicuous insensitivity to these kinds of pragmatic factors. In \textit{Koratron}, for example, a decision that the action did arise under federal law would not significantly increase the caseload of the federal courts. That case, and any other like it, clearly will turn on the federal law of patent validity and infringement. Congress has long recognized the necessity of an expert and sympathetic federal tribunal in cases raising validity and infringement issues. Likewise, in many ostensibly contract actions brought by a licensor or assignor, it will be clear from the face of the pleadings that the real dispute between the parties is over the validity or scope of the underlying patent.

148. \textit{See} Professor Cohen's criticism on this ground of American Well Works v. Lane & Bowler Co., 241 U.S. 257 (1916). Cohen, \textit{supra} note 146, at 907-08. I do not fully agree with Professor Cohen's criticism, however. He assumes erroneously that in the \textit{American Well Works}-type tort action the validity and scope of the patent are directly in issue. That is not so. \textit{See} notes 114-115 and accompanying text, \textit{supra}.

149. A recent decision of interest is Imperial Appliance Corp. v. Hamilton Mfg. Co., 430 F.2d 185 (7th Cir. 1970). A patent owner and an exclusive licensee agreed to sublicense the patent. Included in the agreement was a "grant-back" clause, \textit{i.e.}, a covenant by the sublicensee that all improvement patents developed upon the original patent should be the property of the patent owner. Thereafter, a second patent was issued to the sublicensee. The patent owner and the exclusive licensee sued the sublicensee for infringement of the second patent (the first patent having expired) in a federal district court. Diversity of citizenship was not present. The Court upheld jurisdiction on the ground that the action was one arising under the patent laws, over the defendant's contention that the action was merely one of state contract law, \textit{i.e.}, whether the second patent was an "improvement" on the first within the meaning of the agreement.

On the one hand, \textit{Imperial Appliance} can be read as an enlightened decision applying pragmatic criteria to determine the need for a federal forum. Thus the court reasons that the "improvement" question is:

only nominally one of contract interpretation since the parties undoubtedly included improvement as a term of art under the patent laws. Thus the determination of whether a device is an improvement is a question of law resting upon matters such as the validity of the patent on the alleged improvement and the extent of its dependence upon existing patents. To require this question to be decided by state courts when further questions of contract interpretation are not involved would defeat the policies of uniformity and expertise which prompted Congress to grant exclusive patent jurisdiction to the federal courts.

430 F.2d at 188 (citation omitted).

On the other hand, the decision does no more than recognize Pleadier's Choice. The plaintiff chose to plead his action as infringement; his title is challenged by the defendant as a matter of defense. The more decisive problem would come if plaintiff had pleaded his action as one for breach of contract and brought it in state court. Would the policy considerations relied on by the federal court have convinced a state court that it had no jurisdiction?
Why have the federal courts been so reticent in this area? Why have they adhered so consistently to a narrow and inflexible test for “arising under” jurisdiction? In part, it may be a hesitancy to gainsay the venerable Justice Holmes, who most forcefully articulated his test for “arising under” jurisdiction in a *patent* case—*American Well Works Co. v. Lane & Bowler Co.*

More importantly, there may be a judicial aversion to the consequences of deciding that a given case “arises under” the federal patent laws. Since federal jurisdiction over cases arising under the patent laws is *exclusive*, a decision that a given case so arises not only affirms the availability of a federal forum but automatically eliminates state court jurisdiction. This may be considered undesirable for two reasons. First, while Congress has long provided for exclusive federal jurisdiction in patent cases, the federal judiciary has viewed such exclusivity with disfavor, principally because it forces a federal forum on parties even if both are content to litigate in state court. Although federal courts presumably possess a technical expertise and heightened policy sensitivity in patent matters, state courts are generally considered competent to adjudicate cases arising under federal law. Thus, while a federal court might be disposed to provide a forum to one party in a case who so desires it, it may hesitate to hold that the action is within the federal court’s jurisdiction if the consequence is to require all future litigants in similar cases to sue exclusively in federal court.

Second, adoption of a flexible, pragmatic approach admittedly multiplies the chance of initial trial court error on the question of jurisdiction. If the case is brought in federal court and is determined on appeal not to arise under the federal patent laws, there is a wasteful dismissal. This risk is a common one in the field of federal jurisdiction and perhaps can be tolerated. Where federal jurisdiction is *exclusive*, however, the same risk is carried over to cases filed in state court. Hence, there may be a greater hesitancy to apply a flexible approach to the interpretation of an *exclusive* jurisdictional grant.

Furthermore, an action filed in state court cannot be removed to

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151. *Cf.* Charles Dowd Box Co. v. Courtney, 368 U.S. 502, 507-08 (1962): “Concurrent jurisdiction has been a common phenomenon in our judicial history, and exclusive federal court jurisdiction over cases arising under federal law has been the exception rather than the rule.”
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federal court by the defendant if it is determined to be one arising under the federal patent laws.¹⁵² The only remedy is dismissal of the action and commencement of a new one in federal court. Thus, flexibility in deciding when an action arises under the patent laws leads to undue rigidity in deciding permissible forums and the increased risk of wasteful jurisdictional dismissals.

Judge Friendly in dictum in T.B. Harms Co. v. Eliscu¹⁵³ makes a very provocative suggestion as to how this reticence about exclusivity could be avoided. The suggestion is that while some actions concerning patents may arise under federal law and hence be within the original and removal jurisdiction of the federal courts by virtue of 28 U.S.C. §§ 1331 and 1441, they do not arise under the federal patent laws within the meaning of 28 U.S.C. § 1338.¹⁵⁴ This suggestion has the marvelous effect of putting certain traditional and well-established forms of action within the exclusive jurisdiction of the federal courts. These include infringement actions, interferences and the like, and actions for declaratory judgments of noninfringement or invalidity. Other actions involving patents, where the need for a federal forum is demonstrated on pragmatic grounds, would be left within the original jurisdiction of both the state courts and the federal courts if the amount in controversy requirement is met.¹⁵⁵ Such an action commenced in state court could be removed to federal court by the defendant.

The big problem is whether the suggestion can be squared with the language of sections 1331 and 1338. If an action involving a patent arises under federal law, what federal law can it be said to arise under

¹⁵². This rather bizarre result follows from the conception of removal jurisdiction as derivative only. The federal court has jurisdiction of a removed action only if the state court had jurisdiction. The ALI would change this indefensible rule by providing that a civil action within the exclusive jurisdiction of the federal courts but erroneously filed in state court may properly be removed to federal court. ALI Study, supra note 30, at 27, 206-07.


¹⁵⁴. Thus, Judge Friendly suggests an affirmative answer to Professors Hart and Wechsler's question: "Does the fact that the jurisdiction is exclusive under § 1338(a) warrant any difference in the interpretation of the phrase 'arising under' in that section as compared with § 1331?" H. Hart & H. Wechsler, supra note 95, at 754 (1953).

¹⁵⁵. 28 U.S.C. § 1338(a) has no amount in controversy requirement while 28 U.S.C. § 1331 requires that there be $10,000 in controversy. See note 36, supra.
other than the federal patent laws? The linguistic obstacle should not be viewed as insurmountable, however. Section 1338 can be viewed as a very narrow jurisdictional grant governed by the strict Holmes test of "arising under" jurisdiction. Section 1331 can be viewed as broader and more flexible. Such liberty with the language of jurisdictional statutes is not unknown in other areas, and the distinction can be supported by the differing histories of the two statutes. Section 1338, granting federal jurisdiction in patent cases, long antedates the general grant of federal question jurisdiction to the lower federal courts and probably was intended to cover little other than infringement actions and bills in equity to settle patent interferences, which were initially the only sorts of action in which the issue of a patent's validity was thought to arise.

CONCLUSION

The present division of jurisdiction between state and federal courts over patent controversies is not based on rational factors. By giving the plaintiff almost unfettered choice to plead his patent-related action as arising either under state contract or tort law or under federal patent law, a long line of decisions allows law suits to be litigated in state court though they involve such critical issues of federal patent law as the validity of a patent and the scope of its claims. This Pleadere's Choice Rule has significantly undermined the force of the Congressional declaration, dating back to at least 1836, that patent litigation should be concentrated in the federal courts.

The recent decision in Koratron Company v. Deering Milliken, Inc. exemplifies the dominance of Pleadere's Choice by allowing a plaintiff whose grievance was one of contributory infringement alternatively to plead his case as a state law claim for interference with prospective advantage. Lear, Inc. v. Adkins, by potentially introducing the defense of patent invalidity into every action for breach of a patent

156. E.g., Boys Markets, Inc. v. Retail Clerk's Union, Local 770, 398 U.S. 235 (1970) (statute providing that "no court of the United States shall have jurisdiction to issue any ... injunction in any case involving ... any labor dispute" does not mean what it says); Romero v. International Terminal Operating Co., 358 U.S. 354 (1959) (statute giving jurisdiction over cases arising under federal law does not include cases arising under federal maritime law).
157. See section V, B, supra.
license, multiplies the frequency with which such validity issues will be litigated in state court.

There are good reasons for making a federal court at least an available forum to either party, and not just to the plaintiff, in all cases raising issues of federal patent law. Federal judges possess greater expertise in handling patent matters. More importantly, with their secure tenure and national perspective, they possess a higher sensitivity to the delicate balance between the policies of encouraging inventiveness on the one hand and of fostering free economic competition on the other.

Consequently, the courts should move away from a narrow and analytic test of federal jurisdiction over patent cases that sanctions pleader's choice and toward a more flexible and pragmatic test based on the need for a federal forum in the particular case. This pragmatic approach can best be achieved by an expanded reading of the general statutory grant of federal question jurisdiction—28 U.S.C. § 1331—rather than of the specific patent grant—28 U.S.C. § 1338(a). In turn, Congress should by statute provide either for federal jurisdiction over all contract or tort cases involving patents or for the removal of state actions by either party whenever a substantial issue of federal patent law is raised.