

# Recent U.S. Court Decisions And Developments Affecting Licensing

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## ***Already, LLC v. Nike, Inc.***

### **U.S. Supreme Court Finds Broad Covenant Not to Sue Moots Trademark-Invalidity Claim**

#### **Summary**

In *Already, LLC v. Nike, Inc.* the U.S. Supreme Court considered whether Nike's decision to drop its trademark infringement suit against Already and issue Already a covenant not to sue prevented Already from proceeding with its counterclaim of trademark invalidity. The Court was persuaded that Nike's covenant not to sue, which broadly covered all conceivable instances of potential trademark infringement, demonstrated that there was no reasonable risk that Nike would resume its enforcement efforts against Already. Thus, the Court found the case was moot and that Already lacked standing to challenge the validity of Nike's trademark.

#### **Introduction**

Article III of the U.S. Constitution requires an actual "case" or "controversy" before the judicial branch has authority to adjudicate a legal dispute. This requirement applies at all stages of litigation, and an ongoing dispute can become moot when there is no longer a live case or controversy. It is well settled, however, that a defendant cannot moot a case simply by ceasing its unlawful conduct once sued, leaving open the possibility that the defendant will resume its wrongful conduct after the case has been declared moot. Instead, a defendant claiming mootness by voluntary compliance "bears the formidable burden of showing that it is absolutely clear the allegedly wrongful behavior could not reasonably be expected to recur." *Friends of the Earth, Inc. v. Laidlaw Environmental Services (TOC), Inc.*, 528 U.S. 167 (2000).

In the intellectual property arena, the issue of whether and how a party can render a dispute "moot" can arise when an entity who accuses another of infringing its intellectual property seeks to avoid having a court determine the validity of its intellectual property by withdrawing that infringement assertion and promising not to sue the other party again in the future. In such instances, the entity accused of infringement may wish to proceed with its case to invalidate the intellectual property notwithstanding

a promise not to sue because of a perceived cloud created by the continued existence of the allegedly invalid intellectual property. At the same time, the intellectual property owner may be able to assert that with a covenant in place there is no dispute for the court to decide. In *Already, LLC v. Nike, Inc.*, the Supreme Court addressed this issue in the context of a trademark-infringement plaintiff who dropped its suit and tried to moot the defendant's invalidity counterclaim by issuing a covenant not to sue.

#### **Background**

In August 2009, Nike brought suit against Already, accusing Already's "Sugars" and "Soulja Boys" shoe lines of infringing Nike's trademark covering its popular "Air Force 1" shoe. Already denied infringement and filed a counterclaim alleging invalidity of the Air Force 1 mark. Eight months after filing its complaint, Nike issued a covenant not to sue, promising—quite broadly—not to raise any claim based on its Air Force 1 mark against Already's existing footwear designs or any future "colorable imitations":

[Nike] unconditionally and irrevocably covenants to refrain from making any claim(s) or demand(s)... against Already or any of its...related business entities...[including] distributors...and employees of such entities and all customers...on account of any possible cause of action based on or involving trademark infringement, unfair competition, or dilution, under state of federal law...relating to the NIKE Mark based on the appearance of any of Already's current and/or previous footwear product designs, and any colorable imitations thereof, regardless of whether that footwear is produced... or otherwise used in commerce before or after the Effective Date of this Covenant.

According to the covenant, Nike granted the covenant because "Already's actions...no longer infringe or dilute the NIKE Mark at a level sufficient to warrant the substantial time and expense of continued litigation."

Having issued the covenant, Nike moved to voluntarily dismiss its infringement claim with prejudice and to dismiss Already's invalidity counterclaim, arguing that the covenant had extinguished any case or controversy. Already opposed the dismissal of its

invalidity counterclaim, arguing that there was still a live case based on evidence of (1) Already's future plans to introduce new versions of its shoe into the market; (2) reluctance of potential investors to invest in Already in light of Nike's valid mark and previous infringement suit, and (3) intimidation by Nike against retailers carrying or considering carrying Already's shoes. The district court found no justiciable controversy and dismissed Already's counterclaim. The Second Circuit affirmed.

### The *Already* Decision

The Supreme Court first held that the voluntary-cessation doctrine, which had not been expressly considered by the lower courts, controlled this case. According to the Court, both parties' claims were initially supported by Article III standing, and the existence of a continuing case or controversy was not called into question until Nike dismissed its claims and issued the covenant. Thus, the Court reasoned, the voluntary-cessation doctrine applied and Nike had the burden of showing that the allegedly wrongful behavior—Nike's enforcement efforts—could not reasonably be expected to recur. The Court rejected Nike's argument that the judicial enforceability of the covenant precluded application of the voluntary-cessation doctrine. Such a contention, the Court reasoned, was Nike's attempt to avoid its "formidable burden" by assuming away the issue of whether its allegedly wrongful behavior reasonably could not be expected to recur.

After establishing the applicability of the voluntary-cessation doctrine, the Court went on to consider whether Nike had met its burden. The Court looked solely to the covenant, finding that the "breadth of [the] covenant suffices to meet the burden imposed by the voluntary cessation test." The Court highlighted the breadth of Nike's covenant:

The covenant is unconditional and irrevocable. Beyond simply prohibiting Nike from filing suit, it prohibits Nike from making any claim or demand. It reaches beyond Already to protect Already's distributors and customers. And it covers not just current or previous designs, but any colorable imitations.

In finding the covenant sufficiently broad, the Court emphasized the difficulty of imagining a shoe that would both infringe Nike's trademark and fall outside the covenant. The Court also noted that Nike would be estopped from later taking the contrary legal position that such a shoe exists.

Since Nike met its burden by demonstrating that the covenant encompasses all its allegedly unlawful

conduct, the Court explained that it was incumbent on Already to show sufficiently concrete plans to engage in activities not covered by the covenant. In the view of the Court, Already, although given several opportunities, never alleged plans to market infringing shoes that would even arguably fall outside the covenant. Those shoes, the Court colorfully explained, sit "on a shelf between Dorothy's ruby slippers and Perseus's winged sandals."

After finding Already's invalidity counterclaim moot, the Court considered Already's additional arguments for standing. First, the Court considered Already's evidence of lingering reluctance among certain investors to invest in Already. Already had presented affidavits from a handful of investors stating they would consider investing in Already only if Nike's trademark were invalidated. But the Court rejected this approach, pointing to its finding that it was reasonable to expect that Nike's enforcement efforts would not recur. Thus, the "conjectural or hypothetical" speculation of a few individuals "does not give rise to the sort of 'concrete' and 'actual' injury necessary to establish Article III standing." Similarly, the Court found, because the covenant extended protection to Already's retailers and customers, evidence of intimidation by Nike against retailers was irrelevant since invalidating Nike's mark would do nothing to address such harassment.

Next, the Court considered Already's argument that because of Nike's decision to sue in the first place, Nike's trademarks now have a particularly acute dampening effect on Already's operations. As put by Already's counsel at oral argument, "once bitten, twice shy." The Court rejected this argument, explaining that since Nike had demonstrated that there was no reasonable risk that Already would be sued again, "there is no reason for Already to be so shy." Rather, because Already was the only competitor with a covenant protecting it from litigation based on the Air Force 1 trademark, "Already is Nike's least injured competitor."

Finally, the Court considered Already's "sweeping

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argument” that it inherently had standing to challenge Nike’s intellectual property as one of its competitors, and that by mootng the case, Nike subverted the role of the federal courts in the administration of the patent and trademark laws. The Court flatly rejected this argument, explaining that such a theory would allow standing to any market participant even in the absence of any threat of suit or possibility of infringement, and that the Court had “never accepted such a boundless theory of standing.”

In sum, the Court described *Already*’s fallback arguments as “a basic policy objection that dismissing this case allows Nike to bully small innovators lawfully operating in the public domain.” In rejecting this view, the Court noted that granting covenants not to sue may be a risky long-term strategy possibly leading to a loss of rights in the mark. And the Court pointed out that, while granting standing may benefit the small competitor in this case, such a standard may “lower the gates” for larger companies to challenge the intellectual property of smaller rivals simply because they are in the same market.

The Court declared *Already*’s case “clearly moot” and decided that a remand to consider the scope of the covenant and *Already*’s business practices was unnecessary. The Court explained that the scope was clear and “*Already*’s argument is not that the covenant could be drafted more broadly, but instead that no covenant would ever do.” Regarding *Already*’s business practices, the Court found that it had abundant opportunities to show plans to market a potentially infringing shoe that may fall outside the covenant.

### The Concurrence

Four justices joined a concurring opinion emphasizing the importance of the proper allocation of the burden on the party asserting mootness. They recognized the disruptive effects litigation can have on the business and supply network of an accused infringer. Thus, they reasoned that the burden of showing mootness should “require the trademark holder, at the outset, to make a substantial showing that the business of the competitor and its supply network will not be disrupted or weakened by satellite litigation over mootness or by any threat latent in the terms of the covenant.” The concurring justices also pointed out that this would serve to prevent a competitor from filing suit and then issuing a covenant as a way to force a competitor to expose its future business plans. “An insistence on the proper allocation of the formidable burden on the party asserting mootness,” the concurrence remarked, “is one way to ensure that covenants are not automatic mechanisms for trademark holders

to use courts to intimidate competitors without, at the same time, assuming the risk that their trademark will be found invalid and unenforceable.”

### Strategy and Conclusion

*Already* provides a blueprint for a trademark-infringement plaintiff to dismiss its infringement suit and avoid facing an invalidity counterclaim. The trade-off is the requirement to grant a broad covenant not to sue. The covenant in *Already* (1) was unconditional and irrevocable; (2) covered all types of claims and demands; (3) protected the defendant, related entities, suppliers, and customers; and (4) covered all conceivable instances of infringement. Now that it is clear that the “formidable burden” of the voluntary-cessation doctrine applies in these cases, a similarly broad covenant is likely necessary from parties trying to moot invalidity claims. As recognized by the Court, granting such broad covenants not to sue can be a risky long-term strategy. Adding to its significance, the framework of *Already* could apply to other kinds of intellectual-property suits.

### *Arkema Inc. v. Honeywell Int’l, Inc.*,

#### **Suppliers May Ask Courts to Rule that They Do Not Indirectly Infringe Patents when They Have Agreed to Supply an Allegedly Infringing Product Even Before Their Customers Have Had an Opportunity to Directly Infringe the Patents**

### Summary

In *Arkema Inc. v. Honeywell Int’l, Inc.*, the Federal Circuit determined that a supplier who contracted to provide a product to customers may ask a court to rule that it does not indirectly infringe patents covering methods of using that product even if it cannot specifically identify customers that may presently be directly infringing the method patent. After considering the availability of noninfringing methods for using the product and the immediacy and reality of the dispute, the Federal Circuit explained that establishing a justiciable controversy does not require acts of direct infringement, specific accusations, or direct accusations of potential indirect infringement.

### Introduction

The Declaratory Judgment Act permits a court to rule on the rights and other legal relations of parties when there is an actual “case or controversy” between those parties. A party often seeks a declaratory judgment when facing the undesirable choice of either engaging in arguably illegal behavior, or abandoning an activity it believes it has a right to pursue.

### Background

Honeywell and Arkema compete in the manufacture and sale of automotive refrigerants. Honeywell owns

patents covering the composition of and methods of using an automotive refrigerant with low global-warming potential in automobile air-conditioning systems. Both Arkema and Honeywell seek to supply the industry with this refrigerant and have invested substantial resources in its production.

In 2009, as a result of Arkema's offers to sell the refrigerant in Germany, Honeywell sued Arkema for infringement of its European patent. Arkema responded by asking a U.S. district court to rule that two of Honeywell's U.S. patents to refrigerant compounds were invalid and not infringed by Arkema's plans to supply U.S. automobile manufacturers with refrigerant. Honeywell counterclaimed, alleging infringement of both patents. While that suit was in discovery, Honeywell obtained two patents covering methods of using the refrigerant. As a result, Arkema moved to supplement its complaint to ask the court to rule that it also would not infringe these patents. The district court refused to add these patents, finding that they presented no justiciable controversy.

### The Arkema Decision

On appeal, the Federal Circuit reversed and remanded, finding the case to be a “quintessential example” of when declaratory relief is warranted, relying on the Supreme Court's test from *MedImmune, Inc. v. Genentech, Inc.*—“whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”

First, the Federal Circuit addressed whether Arkema needed to allege or offer evidence that one of its customers committed an act of direct infringement of the method patents and concluded that, while accusations of direct infringement have supported standing for declaratory-judgment jurisdiction in a suit brought by suppliers, such accusations are not required to establish standing to seek a declaratory judgment regarding potential indirect-infringement liability. It further noted that specific accusations by Honeywell against either the potential direct infringers or Arkema were not necessary, explaining that there is no requirement that Arkema identify the particular manufacturers that will purchase its refrigerant, the particular automobile purchasers who will purchase the cars from the manufacturers, or the particular dates on which those purchases will occur.

The Federal Circuit further explained that Honeywell need not directly accuse Arkema of potential indirect infringement, relying on well-established Federal Circuit law that a sufficient controversy ex-

ists for declaratory-judgment jurisdiction where the patent owner had accused the declaratory-judgment plaintiff of misappropriating the same technology in related litigation. According to the Federal Circuit, Honeywell's claim that Arkema infringed some of Honeywell's other patents related to the refrigerant sufficed to create a basis for declaratory-judgment jurisdiction. Additionally, Honeywell refused to grant Arkema a covenant not to sue on the two method patents, further suggesting an active and substantial controversy between the parties.

The Federal Circuit then turned to the district court's conclusion that Arkema did not allege an adequate “specific planned activity” because of the availability of noninfringing methods for using the refrigerant in an automobile's air-conditioning system. The court noted that both Honeywell and Arkema conceded the absence of known methods of using the refrigerant in an automobile's air-conditioning system that did not at least arguably infringe Honeywell's patents. Because the parties did not dispute that the intended use would be at least arguably infringing and actively encouraged by Arkema, the controversy was “sufficiently real” for the purposes of declaratory-judgment jurisdiction.

Next, the Federal Circuit considered the immediacy of the dispute and rejected the district court's finding that any acts of direct infringement were not sufficiently immediate to create a justiciable controversy because the first predicted commercial launch of any product using the refrigerant was not for at least another year. Signing of long-term supply contracts put Arkema in the present situation of either committing to contracts that could expose it to indirect-infringement liability or abandoning its plans to supply the refrigerant to automobile manufacturers in the United States. This situation created a controversy sufficiently immediate to establish declaratory-judgment jurisdiction, the Federal Circuit found.

Finally, the Federal Circuit rejected the district court's conclusion that Arkema had not satisfied *MedImmune's* “reality requirement” because Arkema did not demonstrate that the design of its customers' products was sufficiently fixed. Because Arkema intended to offer the refrigerant for use in automobile air-conditioning systems, the Federal Circuit explained, any uncertainty about the precise parameters of doing so was irrelevant because Honeywell's patents were not limited to a particular set of parameters.

### Strategy and Conclusion

A declaratory judgment can be useful to businesses needing to choose whether to engage in arguably



infringing activities. The factors discussed in *Arkema* can help guide suppliers and other businesses in pursuing a declaratory judgment of noninfringement when they are accused of indirectly infringing a patent by supplying products to customers who will use the products in an arguably infringing manner.

### ***Intel Corp. v. Negotiated Data Solutions, Inc.* Reissue Patents Are Treated as Licensed Patents Absent Explicit Exclusion**

#### **Summary**

In *Intel Corp. v. Negotiated Data Solutions, Inc.*, the Federal Circuit held that reissue patents should be treated as covered by a license agreement for the original patents from which the reissue patents were derived. The agreement at issue lacked any explicit language addressing reissue patents. In the case, the licensed patents were acquired by a third party who obtained the reissue patents in its name. When the third party asserted the reissue patents against the original licensee, the court held that the reissue patents—although distinct property rights from the original licensed patents—must be treated like licensed patents in order to maintain the intent of the original license agreement.

#### **Background**

An agreement between Intel and National Semiconductor granted Intel a broad license to all patents and patent applications owned or controlled by National before the agreement expired, referred to in the agreement as the “National Patents.” Stated otherwise, the agreement provided a license for the duration of any patent that was filed before expiration of the agreement.

In 1998, before the agreement expired, National assigned several patents covered by the agreement to a third party. That third party then filed broadening reissue applications for three of the original patents. A few years later, the third party assigned the original patents and the reissue applications to Negotiated Data Solutions (“N-Data”). The agreement expired in 2003, after which, the USPTO granted the applications for broadening reissue in 2005 and 2006.

N-Data, the owner of the reissue patents, sued Dell—an Intel customer—alleging infringement of the reissue patents. In response, Intel sought a declaratory judgment that Intel and its customers were licensed to practice the reissue patents as they had been for the original patents. According to N-Data, however, Intel’s rights to the original patents did not extend to the reissue patents because they covered unique property rights distinct from the rights covered by the original patents. For support,

N-Data argued that the reissue patents issued directly to N-Data after Intel’s agreement had expired and were therefore not covered by the agreement. Intel disagreed with N-Data, arguing that the agreement naturally extended past the original patents to reissue patents derived from those original patents.

The district court looked to the intent of the parties, which it viewed as avoiding future infringement suits between one another by granting broad rights to all patents owned or controlled by the other party for the life of the patents. N-Data’s interpretation of the agreement, the district court reasoned, would allow a licensor to remove a licensed patent from a license agreement by obtaining a reissue patent. Thus, the district court agreed with Intel that the reissue patents were licensed under the agreement.

#### **The Negotiated Data Solutions decision**

On appeal, both parties relied on 35 U.S.C. § 252—“Effect of reissue”—to support their positions. According to N-Data, § 252 defines a nuanced arrangement where only substantially identical reissue claims reach back to the date of the original patent, and only such claims fell within the scope of the agreement, which covered only patents owned or controlled by National during the term of the license.

Intel, on the other hand, read § 252 as establishing that the reissue patent takes the place of the original patent, as if the reissue patent had been issued at the time of, and instead of, the original. Therefore, in Intel’s view, the reissue patents should be treated as the original patents, and because the original patents were covered by the agreement, so too are the reissue patents.

The Federal Circuit held that the scheme set forth in § 252 does not support Intel’s proposition that a reissue patent universally replaces the original patent. But the real question, according to the court, was whether the agreement, as properly interpreted under California law according to the parties’ intent, covered only patents issued to National during the license term or instead covered the licensed invention such that the reissue patents should be treated as National patents under the license.

On this question, N-Data argued that the parties could have licensed National’s interest in any potential reissue patents, but did not. Thus, according to N-Data, the agreement showed the parties’ intent not to cover reissue patents. Intel argued that the parties intended to avoid future patent-infringement litigation and therefore broadly licensed all of National’s patent rights, rather than specific claims of any patent. Therefore, according to Intel, the district court

correctly interpreted the agreement as including any reissue patents derived from the original patents and directed to the inventions disclosed in the original patent.

The Federal Circuit agreed with Intel that the parties intended the agreement to extend to the full scope of reissue claims directed to the invention disclosed in the original patents. To maintain that intent, the agreement must be interpreted to *treat* reissue patents as “National Patents.” Although the agreement did not explicitly discuss reissue patents, it granted a license to the “National Patents” without limitation and without reference to any specific claims. As the court reasoned, to interpret the agreement otherwise would allow the unilateral act of the licensor to place the licensee in a position of being exposed to further risk relating to the precise inventions that were subject to the license.

### Strategy and Conclusion

This case illustrates that, absent language limiting license rights, a broad grant of a license to a patent may extend to the entire invention disclosed—not just to the issued claims. Licensors and licensees should consider potential reissue patents when negotiating and drafting license agreements. To the extent that parties to a license agreement do not intend for the agreement to extend to reissue patents or continuations, the licensor should include language to explicitly limit the extent of the license. Licensees should also consider and identify such limiting language as they evaluate potential license agreements.

### ***Kirtsaeng v. John Wiley & Sons, Inc.***

### **U.S. Supreme Court Holds that Books Printed and Sold Abroad May Be Freely Resold in the U.S. because the Copyrights Are Exhausted Under the First-Sale Doctrine**

#### Summary

On March 19, 2013, the Supreme Court issued the much-anticipated decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, holding—in a 6-3 split decision—that the first-sale doctrine applies to lawfully made works manufactured and sold abroad. The first-sale doctrine in copyright law limits a copyright owner’s ability to control the distribution of a work after an authorized sale. The *Kirtsaeng* decision is significant to copyright owners, and it may also have important ramifications for patent owners who make and sell goods abroad that practice a U.S. patent.

#### Introduction

The first-sale doctrine in copyright law allows the owner of legally purchased copyrighted material to

resell it without risk of infringement. This doctrine is codified in 17 U.S.C. § 109(a) and provides that “the owner of a particular copy...lawfully made under [the Copyright Act], or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy.”

#### Background

Supap Kirtsaeng, a citizen of Thailand, came to the United States to study mathematics. During his studies, he asked friends and family members in Thailand to purchase, and send to him in the U.S., copies of English-language versions of the textbooks manufactured abroad. Kirtsaeng sold these imported textbooks in the U.S. at a profit. John Wiley & Sons, Inc. holds the U.S. and foreign copyrights on the textbooks sold by Kirtsaeng. Wiley intended for the international versions of the textbooks to be sold only in a particular country or region outside the United States.

Wiley sued Kirtsaeng, claiming that Kirtsaeng’s unauthorized importation and resale of the foreign-made and foreign-bought textbooks infringed Wiley’s exclusive rights to distribute the copyrighted works. The lower courts held that the first-sale doctrine does not apply to foreign-made works, meaning Kirtsaeng was liable for copyright infringement. Kirtsaeng appealed. In a split decision, the Supreme Court reversed, holding that the first-sale doctrine applies to copies of a copyrighted work lawfully made abroad.

#### The Kirtsaeng Decision

Writing for the Court, Justice Breyer recognized that this case lies at the intersection of a copyright owner’s exclusive rights to control the distribution of copyrighted works and a lawful purchaser’s ability to resell the purchased work. The Court acknowledged that the copyright owner holds certain exclusive rights, including the right “to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership.” But the copyright owner’s exclusive rights are subject to certain limitations, including the first-sale doctrine, codified in section 109(a) of the Copyright Act. In addition, the importation of copies of a copyrighted work, without the copyright owner’s authority, “violates the owner’s exclusive distribution right” under section 602(a)(1) of the Copyright Act, which is an importation prohibition. Relying on its decision in *Quality King*, the Court held that the first-sale doctrine applies to foreign-made works and that the authorized manufacture and sale of a copyrighted work abroad exhausts the copyright

owner's rights to control the distribution of the work in the United States.

In reaching its conclusion in *Kirtsaeng*, the Court first considered whether the language of the first-sale doctrine supports a geographic restriction that allows a copyright owner to control foreign-made goods sold abroad. According to the majority opinion, the conclusion turns on the meaning of the phrase "lawfully made under this title," which it determined means "made 'in accordance with' or 'in compliance with' the Copyright Act" and does not contain any geographical restrictions. This interpretation, according to the Court, is "simple" and promotes a "traditional copyright objective" of fighting piracy. Thus, the Court determined that the plain language of the first-sale doctrine weighs in favor of a nongeographical interpretation.

Second, the Court examined the context surrounding the enactment of section 109(a). Comparing the current statute to its predecessor, the Court concluded that the predecessor applied to works that were "lawfully obtained," whereas the current statute applies to "the owner of a particular copy" that is "lawfully made." It reasoned that this change in statutory language precludes nonowners (such as lessees, who, at the time of the predecessor statute, often leased films from the filmmakers) from taking advantage of the first-sale doctrine because they may have "lawfully obtained" a copy, but are not "owners," and that the language did not create a geographical limitation. The Court also explained that the predecessor statute was not geographically limited. The Court, therefore, rejected a geographical interpretation because it "would grant the holder of an American copyright (perhaps a foreign national) permanent control over the American distribution chain (sales, resales, gifts, and other distribution) in respect to copies printed abroad but not in respect to copies printed in America."

Third, the Court examined section 109(a) under statutory-construction principles and in light of the first-sale doctrine's "impeccable historic pedigree" and common-law roots. The Court reiterated the canon of construction that "when a statute covers an issue previously governed by the common law, [the Court] must presume that 'Congress intended to retain the substance of the common law.'" And because the common-law first-sale doctrine did not contain any geographical restrictions, this principle of construction weighed against adding one to section 109(a).

Fourth, the Court examined the arguments of several associations and their claims that a geographical interpretation of section 109(a) "would fail to further

basic constitutional copyright objectives, in particular 'promot[ing] the Progress of Science and useful Arts.'" The Court found these arguments persuasive and rejected Wiley's position that these "problems have not occurred." The Court proposed that the lack of occurrences could be due to the uncertainty in the law, or because a "reliance upon the 'first sale' doctrine is deeply embedded in the practices of [the associations]," which are not in the habit of seeking approval from the copyright owner. The Court acknowledged that a geographical interpretation could break this reliance but declined to provide that change in view of the "intolerable consequences" that would result.

Fifth, and finally, the Court addressed several of the dissent's arguments. It first rejected the dissent's position that the Court's *Quality King* decision "strongly supports" a geographical interpretation. The Court observed that *Quality King* "held that the importation provision did not prohibit sending products back into the United States (without the copyright owner's permission)" and that *Quality King* "noted that § 109(a)'s 'first sale doctrine' limits the scope of the § 106 exclusive distribution right." Rejecting the dissent's position that *Quality King* reduces the importation prohibition to "insignificance," the Court observed that *Quality King* still forbids importation of copies of a work without the copyright owner's permission in several situations, such as when the importer is a lessee. The Court also rejected the dissent's legislative-history argument, finding that the legislative history for section 109(a) was silent on any geographical restrictions. The Court did, however, concede the dissent's claim that a nongeographical interpretation of the first-sale doctrine "would make it difficult, perhaps impossible" for publishers to divide domestic and foreign markets. But neither the Constitution nor the Copyright Act suggests that the "limited exclusive right should include the right to divide markets." Rather, the first-sale doctrine "limits copyright holders' ability to divide domestic markets," which is "consistent with antitrust laws that ordinarily forbid market divisions." Last, the Court rejected the dissent's position that the Court's opinion creates an "unprecedented regime of 'international exhaustion'" and stated that, under *Quality King*, the dissent's proposed geographical interpretation was "already significantly eroded."

In conclusion, *Kirtsaeng* extended *Quality King* to apply to foreign-manufactured copies that are sold abroad and later imported into the United States, and holds that the first-sale doctrine applies to limit the copyright owner's right to control the distribution of those copies.

### Justice Kagan's Concurrence

Justice Kagan, joined by Justice Alito, concurred with the Court's opinion but wrote separately to discuss "the combination of [the Court's] decision and [*Quality King*]," which constricts the scope of the ban on unauthorized importation. In Justice Kagan's view, "any problems" with this combination stem from *Quality King*, not the *Kirtsaeng* opinion, because applying *Quality King* "unavoidably diminish[es]" the importation ban to "a fairly esoteric set of applications." Justice Kagan acknowledged that this result gives her "pause about *Quality King*'s holding that the first-sale doctrine limits the importation ban's scope," but she concluded that the Court "correctly declines the invitation to save [the importation ban] from *Quality King* by destroying the first-sale protection that § 109(a) gives every owner of a copy manufactured work abroad."

### Justice Ginsburg's Dissent

Justice Ginsburg, joined by Justice Kennedy, dissented from the Court's opinion, with Justice Scalia joining in part. In the dissent's view, the Court's opinion is "at odds with Congress' aim to protect copyright owners against unauthorized importations" and "places the United States at the vanguard of the movement for 'international exhaustion' of copyrights." Like the majority, the dissent recognized that the resolution of this case turns on the three statutory provisions relating to the "'exclusive rights' of a copyright owner," the "first sale doctrine," and the "importation ban." The dissent also acknowledged that *Quality King* held that "the importation of copies made in the United States but sold abroad did not rank as copyright infringement under [the importation ban]." However, the dissent relied on dictum in *Quality King* suggesting that the first-sale doctrine may not apply to foreign-made copies to conclude that the importation ban "authorize[s] a copyright owner to bar the importation of a copy manufactured for sale abroad."

The dissent, like the majority, focused on the phrase "lawfully made under this title" in section 109(a) but concluded that it means "referring to instances in which a copy's creation is governed by, and conducted in compliance with," the Copyright Act. Because copyright law "does not apply extraterritorially," foreign-manufactured copies are "not governed by [the Act]." According to the dissent, the majority's interpretation reduces the importation prohibition to "insignificance" and fails to give the ban Congress's intended scope. Rather, the majority view "overwhelms" the statutory exceptions to the importation

ban, which would otherwise permit importation of copies without the copyright owner's authorization. To avoid these results, the dissent would read the first-sale doctrine to "apply to copies made in the United States, not to copies manufactured and sold abroad."

### Strategy and Conclusion

The *Kirtsaeng* decision extends the reach of the first-sale doctrine in copyright law to encompass foreign-made copies that were first sold abroad and then imported into the United States by third parties to be resold. This result affects the strategies available to licensors who want to geographically limit the distribution of goods or divide foreign and domestic markets for goods.

Importantly, the *Kirtsaeng* decision, although focused on copyright law, may also ultimately impact patent owners who make and sell products covered by U.S. patents abroad. Although the Federal Circuit has previously held that patent rights are only exhausted by a sale in the United States, this ruling from the Supreme Court courts may cause courts to consider whether to extend the reasoning of *Kirtsaeng* to the first-sale doctrine in patent law. If courts follow this approach, it may become more difficult for a patent owner to restrict the flow of foreign-made articles into the United States. Furthermore, unlike the statutory first-sale doctrine in the Copyright Act, the patent law first-sale doctrine remains a common-law doctrine, which may affect how *Kirtsaeng* would apply in the patent context.

### ***Presidio Components, Inc. v. American Technical Ceramics Corp.***

#### **A Lost-Profits Award and Permanent Injunction May Be Available When an Infringing Product Directly Competes with the Patent Owner's Non-Patented Products**

#### **Summary**

In a ruling on damages, *Presidio Components, Inc. v. American Technical Ceramics Corp.*, the Federal Circuit upheld the award of lost profits to a patent owner even though the patent at issue did not cover the patent owner's own products. The court reasoned that lost profits could still be awarded because the patent owner's products directly competed with the infringing products—both were an improvement over prior products and the two were sufficiently similar to create direct competition. The Federal Circuit also rejected the district court's denial of a permanent injunction, reasoning that direct competition in the marketplace showed irreparable harm to the patent owner. Once acknowledging competition for the patent owner's products for the lost-profits analysis, the



district court had no choice but to also acknowledge competition for a permanent-injunction analysis. The decision highlights that, while the Supreme Court's *eBay v. MercExchange* decision did make permanent injunctions more difficult to obtain against patent infringement, it did not eliminate them altogether.

### Background

Both Presidio and ATC manufacture electrical components, including capacitors. Presidio owns a patent on a one-piece design for a capacitor—an improvement over the previous, and less reliable, two-piece designs. During prosecution of Presidio's patent, ATC also applied for a patent on its one-piece capacitors; however, the PTO rejected ATC's patent application, citing Presidio's patent as prior art. Nevertheless, ACT started selling its one-piece capacitor—the 545L capacitor—and eventually overcame the PTO's rejection by arguing that Presidio's patent did not disclose “orientation sensitivity.”

Presidio sued ACT for infringement based on the sale of ACT's 545L capacitors. While Presidio's inventors believed their patent covered Presidio's one-piece capacitor—the BB capacitor—Presidio conceded during litigation that its patent did not cover the BB capacitors. Yet, Presidio still argued it was entitled to lost profits based on sales of the BB capacitor that it allegedly lost to ACT's 545L capacitors. After the jury awarded Presidio over \$1 million in lost profits, which the district court left untouched, ATC challenged the lost-profits award on appeal, claiming that because Presidio's BB capacitors were neither covered by Presidio's patent nor in competition with ATC's allegedly infringing 545L capacitors, the award of lost profits was in error.

### The Presidio Decision

On appeal, ATC challenged two of the four factors required to show entitlement to lost profits: (1) demand for the patented product; and (2) absence of acceptable noninfringing substitutes. Regarding the first factor, the Federal Circuit initially found that demand need not be limited to a “patented” product; rather, demand for the patent owner's product can arise merely from a product that directly competes with a product that does, in fact, infringe. Thus, the Federal Circuit explained, Presidio could recover lost profits if its BB capacitors directly competed with ATC's 545L capacitors.

ATC argued that any market demand for the BB capacitors was not linked to one of the patent's claim limitations. The Federal Circuit rejected this argument, explaining that demand did not need to be established for one claim limitation over another;

instead, establishing demand alone suffices.

Next, ATC argued that Presidio's BB capacitors and ATC's 545L capacitors were not sufficiently similar to support competition in the market because ATC's capacitors were designed for a higher-performance market. The Federal Circuit again disagreed, pointing out a number of similarities between the designs, and statements by Presidio's expert that the products competed “head-to-head” in the one-piece-capacitor market, vying for the same customers in the same applications. And the evidence showed that customer demand had begun moving from a two-piece design to a one-piece design (like the BB and 545L) due to increased reliability. Finally, ATC admitted that some of its 545L customers also purchased BB capacitors. The Federal Circuit viewed these factors as showing that demand existed for Presidio's BB capacitors in direct competition with the ATC's 545L capacitors.

The second lost-profits factor required Presidio to prove that no acceptable noninfringing substitutes for the accused capacitors were available on the market during the relevant period. The requirement is not absolute, however: Presidio needed only prove a reasonable probability that customers would have purchased its capacitors if ATA's infringing product had not entered the market.

ATC sought to show noninfringing substitutes with two other products available at that time—ATC's prior-generation 540L capacitors and non-party DLI's capacitors. As the court explained, however, the mere existence of a competitor's product does not establish the adequacy of that substitute, as some products lack the competitive advantages of the patented invention. The Federal Circuit thus found that neither of these products were adequate substitutes in the same market because both were two-piece designs (and therefore less reliable) and the evidence showed that customers did not in fact treat either as an acceptable substitute for the accused product. Accordingly, the Federal Circuit found that Presidio was entitled to recover lost profits.

Presidio separately appealed the district court's denial of a permanent injunction against ATC's 545L capacitors. Despite agreeing that demand existed for the BB capacitors, and that they do compete with the 545L capacitors, the district court found that ATC was not a direct competitor for purposes of granting a permanent injunction. The Federal Circuit highlighted the tension that would result from acknowledging competition for one purpose (damages) but not another (injunction). And as a result, the court held that, in light of the evidence establishing direct competition, the district court placed too much weight

on the failure of Presidio’s BB capacitors to actually practice Presidio’s patent. In the court’s words, “[e]ven without practicing the claimed invention, the patent owner can suffer irreparable injury.” Such injury cuts in favor of a permanent injunction.

Here, the direct competition suggested that Presidio would suffer from irreparable harm without an injunction. In addition, Presidio presented evidence that ATC considered and analyzed Presidio’s patent while developing its 545L capacitor and before filing its own patent application. And the PTO’s use of Presidio’s patent as prior art against ATC’s application indicated that the BB and 545L capacitors embody similar technology. Consequently, the Federal Circuit found that the district court abused its discretion in denying Presidio a permanent injunction and therefore remanded the case to the district court to reweigh the permanent-injunction factors in light of the Federal Circuit’s opinion.

As a final note, the Federal circuit addressed ATA’s claim based on alleged false marking by Presidio. The district court had granted summary judgment of liability for false marking for the period after Presidio admitted that its patent did not cover its BB capacitors. The Federal Circuit noted that Congress had changed the false-marking statute during the pendency of the appeal, and that the modified statute has retroactive application—contrary to the default statutory interpretation—because the statute stated that it “shall apply to all cases, without exception.” The court therefore remanded the issue for the district court to determine if ATA had a claim under the amended statute.

### Strategy and Conclusion

The *Presidio* case illustrates that a company can recover lost profits—and possibly a permanent injunction—even if its products do not embody every element of the claimed invention. The required demand for the patent owner’s product may be established by showing direct competition with the accused products. Here, that was achieved through evidence of an increase in profits, consumer preference, and better performance over the technology previously available on the market.

The direct competition necessary for lost profits also supports the issuance of a permanent injunction. Additionally, when a successful patent owner seeks an injunction, the infringer’s knowledge and assessment of the asserted patent in developing its own technology may tip the scales towards a finding of irreparable harm, further favoring a permanent injunction.

### ***Tech. Licensing Corp. v. JVC Americas Corp.*** **Licensee’s Former Subsidiary Retains a License Because the License Extends To Entities Who Were Subsidiaries as of the Effective Date of the Agreement**

#### Summary

In *Tech. Licensing Corp. v. JVC Americas Corp.*, a district court held that a licensee’s former subsidiary continued to benefit from a patent license grant that explicitly included the licensee’s subsidiaries even after it was no longer a subsidiary. As a result, that former subsidiary was able to successfully defend against a claim of patent infringement. The court held that the original license grant, which included subsidiaries, irrevocably granted the accused infringer (as a former subsidiary) a license to practice the patents.

#### Background

Technology Licensing Corp. (“TLC”) previously sued Matsushita Electric Industrial Company Ltd. (and others) for infringing its patents. The lawsuit ended in 2005 with a Patent License and Settlement Agreement granting patent rights to “Matsushita . . . and its Subsidiaries.” The agreement defined “subsidiary” as follows:

“Subsidiary(ies)” shall mean...any corporation... in which a Party...now or hereafter, directly and/or indirectly, owns or controls...fifty percent (50%) or greater...of the stock...entitled to vote for the election of directors.

At the time of the agreement, JVC Americas was a wholly owned subsidiary of JVC Japan, and Matsushita directly controlled more than 50% of JVC Japan, making JVC Americas a subsidiary of Matsushita under the agreement. Later, in mid-2007, Matsushita ceased to control a majority of JVC America’s stock.

In a new case, *Tech. Licensing Corp. v. JVC Americas Corp.*, TLC sued JVC Americas for infringement of six of TLC’s patents, which had been previously asserted against Matsushita in the earlier litigation and were included in the settlement agreement. The agreement granted a license to four of the six patents and a covenant not to sue for the other two patents (collectively, the “license rights”).

#### The Technology Licensing Decision

JVC Americas moved for summary judgment, arguing that it had a license or non-assertion covenant for each of the six asserted patents. There was no dispute that JVC Americas was a “subsidiary” of Matsushita when the agreement was signed, but TLC argued that, at the time of the lawsuit, JVC Americas was no longer a “subsidiary” under the agreement because,

as noted above, Matsushita had ceased to control a majority of JVC America's stock.

According to TLC, the term "now" in the definition of "subsidiary" should be interpreted to mean at the time when the agreement is invoked, i.e., at the time of JVC America's alleged infringement. In TLC's view, only Matsushita's current subsidiaries hold the license rights, and JVC America's license rights ended when it ceased to be a Matsushita subsidiary. In rejecting TLC's argument, the court stated that "it is impossible to credit the proposition . . . that the term 'now' in a contract executed in December 2005 means not the day of execution in December 2005, but any given day in the future on which the Agreement is invoked."

The court determined that the agreement unambiguously granted JVC America the license rights and that the grant was "irrevocable" and/or "perpetual"—terms interpreted under controlling New York law to mean that a license cannot be terminated, even in the case of breach. The court further noted that nothing in the agreement suggested that a subsidiary could lose its rights under the agreement. Because the court found the disputed terms unambiguous, it also rejected TLC's assertion that a letter from Matsushita to TLC showed that Matsushita agreed with TLC's understanding of the terms. Thus, for the four patents covered by the license granted in the agreement, the court granted JVC's motion for summary judgment.

Turning to the covenant not to sue, which related to two of the six patents-in-suit, the court noted that the covenant did not extend to all products made by JVC Americas. Rather, the agreement made clear that the covenant not to sue applied only to products made before December 15, 2006, and "substantially similar" products made after that date. JVC Americas argued that the accused products were indisputably "substantially similar" to products made before December 15, 2006. But because this question presented a genuine issue of fact, the court found that JVC Americas was not entitled to summary judgment on the two patents covered by the covenant not to sue.

Finally, because the Agreement had an arbitration clause applying to the covenant not to sue, JVC argued in a footnote that the court should stay or dismiss the case in favor of arbitration. The court recognized this clause of the Agreement and invited JVC to file a formal motion to compel arbitration, which, under Seventh Circuit law, would result in a stay of the case under Section 3 of the Federal Arbitration Act.

## Strategy and Conclusion

This case illustrates the importance of carefully reviewing seemingly "boiler plate" provisions such as definitions of affiliates and subsidiaries, and carefully using absolute terms like "irrevocable" and "perpetually" to avoid unintended future consequences. ■



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#### ► How Innovation is Driving Improvements in Healthcare

Ger Brophy, Ph.D., *General Manager, New Product Development, GE Healthcare Medical Diagnostics*

### FEATURED PLENARY PANEL

#### ► To Troll or Not to Troll? Legislative, Judicial and Market-Based Solutions

##### MODERATOR:



Joff Wild, *Editor, IAM Magazine*

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Yoav Roth, *Senior Managing Director/Portfolio Manager, Hudson Bay Capital*



Erich Spangenberg, *Chief Executive Officer, IP Navigation Group*



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