

# Antitrust Implications In Spotlight

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*Clinton Administration interest in intellectual property transfers increasing; best strategy is avoid challenge*

The Clinton Administration appears keen in leaving its mark on the treatment accorded intellectual property under the antitrust laws. In the two years since President Clinton took office, federal antitrust officials have issued draft "Antitrust Guidelines in the Licensing and Acquisition of Intellectual Property,"<sup>1</sup> investigated several proposed acquisitions involving technology and intellectual property rights and challenged a few of these transfers, and continue to investigate Microsoft's licensing practices, both in connection with its proposed purchase of Intuit and launch of Windows '95. One common thread in this enforcement activity is that the antitrust officials are concerned that companies, if left unchecked, will misuse the market power available under intellectual property laws to eliminate competition or extend market power beyond lawful limits.

## FEDERAL ANTITRUST AGENCIES ARMED WITH ENFORCEMENT TOOLS

Federal law empowers both the Federal Trade Commission (FTC) and Department of Justice (DOJ) with broad-reaching authority to investigate and challenge potentially damaging conduct. Both the FTC and DOJ can challenge the conduct through administrative or civil proceedings, while the DOJ can under certain limited circumstances additionally institute a criminal action.

Even when the parties prevail to establish the permissibility of the conduct, there is often a dear price to pay. A full investigation by either

agency can delay a proposed acquisition or licensing arrangement for several months and subject parties to hundreds of thousands of dollars in legal costs as well as the inconvenience of responding to extensive discovery requests. These costs escalate sharply when a foreign company is involved (directly or indirectly) in an acquisition, since as part of the investigation the company may be required to provide English translations of all relevant documents. In addition, the agencies can demand information and documents from competitors and customers of the targeted company.

Given the costs incident to litigation, parties sometimes abandon or modify deals or conduct rather than undergo the costs.

## RECENT INVESTIGATIONS ILLUSTRATE USE OF ENFORCEMENT TOOLS

The examples provided below demonstrate both the high degree of federal antitrust interest in intellectual property issues and the direct and indirect impact such enforcement activity can have on high-technology companies, such as computer and biotechnology companies.

### *Case Study Number One: DOJ Debugs Microsoft's Practices*

On July 15, 1994, Microsoft agreed to settle Antitrust Division charges that it had "used unfair contracts that choked off competition and preserved its monopoly position."<sup>2</sup> The DOJ's interest and investigation of Microsoft began in July 1993 when it announced its intention to investigate the business practices of Microsoft, the personal computer software giant. The DOJ decision followed both the widely publicized gridlock of the FTC Commission regarding whether to sue

Microsoft as recommended by the staff on the basis of evidence gathered during the course of the FTC's 37-month investigation, as well as letters from U.S. Senators Metzenbaum and Hatch urging the DOJ to take over the investigation.

The original FTC investigation, which began in 1990, involved complaints by the company's main rivals concerning Microsoft's using a variety of licensing provisions purportedly to dominate the software business. The disputed Microsoft conduct concerns Microsoft's principal product, MS-DOS<sup>®</sup>, which is the standard operating system software for almost all personal computers sold in the United States and is currently installed on approximately 90% of IBM-compatible personal computers worldwide.

Applications software competitors accused Microsoft of using the popularity of its MS-DOS software to force computer equipment manufacturers to purchase other Microsoft products. Furthermore, these competing programming companies allege that Microsoft has an unfair advantage when it develops new applications software because it knows in advance what changes will be made to Microsoft's MS-DOS and Windows.

Similarly, competing operations systems manufacturer Novell alleges that (1) Microsoft's blanket licensing practices coerce personal computer producers to load Microsoft's MS-DOS on all of their units rather than Novell's competing operating system, DR-DOS<sup>®</sup>; and (2) Microsoft intentionally designed its Windows products so that they could not be used with Novell's DR-DOS system. The Department broadened the investigation's scope to include non-

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disclosure agreements Microsoft required outsiders to sign when the received prerelease copies of its software.

The settlement agreement filed with the complaint on July 15, 1994 prohibits Microsoft from: (1) entering into per processor licenses; (2) obligating licensees (i.e. manufacturers of personal computers) to purchase any minimum number of Microsoft's operating systems; (3) entering into any licenses with terms longer than one year (although licensees may renew for another year on the same terms); (4) requiring licensees to pay Microsoft on a "lump-sum" basis; (5) requiring licensees to purchase any other Microsoft product as a condition for licensing a Microsoft operating system; and (6) requiring developers of applications software to sign unlawfully restrictive nondisclosure agreements. The settlement has a term of six and a half years.<sup>3</sup>

Microsoft's antitrust woes are not over, however. On October 13, 1994, Microsoft announced its proposed \$1.5 billion merger with Intuit, Inc. The proposed transaction received significant interest at the DOJ. In addition, the Department is reportedly investigating whether Microsoft has violated the wording, or at least the spirit, of the 1994 consent decree through its onerous demands in the licensing of its new Windows '95 operating system to OEMs.

#### *DOJ Debugs Johnson/Bayer License Agreement*

On August 4, 1994, the DOJ filed in the Northern District of Illinois a complaint and final judgment with S.C. Johnson and Son, Inc. ("Johnson") and Bayer A.G. ("Bayer")<sup>4</sup> modifying the terms of a 1988 Supply and License Agreement relating to Cyfluthrin<sup>®</sup>, a chemical used in household insecticides.<sup>5</sup> Under the terms of the original agreement, Bayer granted Johnson a nonexclusive license to use and exploit Cyfluthrin<sup>®</sup> and related technology in return for minimum royalties of \$52 million over the 10-year period. The agreement also provided Johnson the right of first refusal to any future active ingredients developed by Bayer for household

insecticides. Bayer is one of but a handful of companies in the world that researches and develops such active ingredients.

Johnson is the manufacturer of "Raid<sup>®</sup>" brand of household insecticide, which has been characterized as the leading brand in the United States, with reportedly a 40%-60% share of the U.S. household insecticide market. Johnson's two next-largest competitors had sales of no more than 12% of the market. Successful new entry into or expansion within the market is characterized as "difficult," with regulatory approvals alone purportedly often taking more than three years and costing over \$10 million to complete.

The DOJ questioned whether the agreement was, in practice, an exclusive licensing agreement by virtue of the understandings of the parties and the minimum royalty payments. In addition, the Department believed that as a result of the arrangements the parties may have entered into a *de facto* market allocation for household insecticide products, thereby restricting competition in the \$450 million U.S. market for household insecticides. The Department contended that Johnson entered into the license agreement to persuade Bayer not to enter the U.S. market. Bayer apparently had planned to enter with a new product line called "Laser," using the Cyfluthrin<sup>®</sup> active ingredient. The Department contends that by early 1988 Bayer had substantially completed its preparations to enter the U.S. household insecticides market and would have been successful in such entry.

The parties are prohibited from entering into, carrying out, or operating under any exclusive license to make, use, or sell Cyfluthrin<sup>®</sup> in the United States for 10 years. The consent decree enjoins and restrains Johnson and Bayer for a period of six years from entering into any exclusive license between them for any active ingredient (defined as "any chemical compound or substance used or contemplated for use in the United States as a knock-down, debilitating, or killing agent in a household insecticide) without first giving the DOJ at least

90 days' written notice, and if requested, additional time, to enable the DOJ to determine the competitive effect of the exclusive license, and to disapprove the license if it so decides.

#### *Case Study Number 2: Graphic Software Merger Draws FTC Consent Investigation*

On March 15, 1994, Adobe Systems Inc. and Aldus Corp. announced a proposed merger valued at approximately \$525 million. Adobe had developed the Postscript page description language, which has become the industry standard for communication between computers, graphical design software and printing devices. Aldus is perhaps best known for developing the concept of "desktop publishing" with introduction of its Pagemaker software for the Apple Macintosh computer platform. Adobe has recently developed the Acrobat software system to become a universal language for facilitating the distribution of electronic multimedia across computer networks and platforms.

On Wednesday July 27, 1994, the FTC announced that the parties had agreed to modify the transaction to address the agency's antitrust concerns.<sup>6</sup> The FTC indicated in its release that its action was "the first instance in which the FTC has challenged a merger between software firms." The proposed consent requires Aldus to relinquish its Freehand graphics software to Altsys within six months of the merger. The settlement would also require Adobe and Aldus to get FTC approval before acquiring any stock in any company involved in professional-illustration software for Apple Computers or acquiring any such software or software licenses if the price is \$2 million or more. The FTC's decision was 4-to-1, with Commissioner Owen dissenting on the basis that she did not think the merger would pose a competitive threat in what she called a "fly-speck" market.

#### *Case Study Number Three: GM Allison Division/ZF Transmission Transaction Dies In the Clutches of the DOJ*

On November 16, 1993, the Department of Justice filed a suit to

block the proposed \$525 million sale of the Allison Transmission Division of General Motors to ZF Freidrichshafen AG on antitrust grounds. The Allison division and ZF both produce medium and heavy automatic transmissions for the transportation industry. In addition, according to the Antitrust Division, these two companies were the only two rivals worldwide for technological innovation in the design and production of automatic transmissions.

At the time the suit was announced, Assistant Attorney General Bingaman indicated that "this case is an example that merger enforcement in the 1990s will increasingly focus on the protection of competition in technology . . . [this transaction] would eliminate one of the world's most significant rivals for innovation . . . The Division's challenge to this transaction is also designed to maintain competition in transmission technology, allowing consumers to reap the benefits of better products and new and more innovative products." Furthermore, according to the DOJ, the preservation of such innovation is important to all of ZF's and Allison's present and future customers in such areas as the development of new transmission products, improvement of existing products, and the development of more efficient production processes.

The parties responded to the initiation of the lawsuit by abandoning the transaction. According to some press accounts, GM had not envisioned that it would have "any real problems getting approval."<sup>7</sup> Furthermore, these reports attribute GM lawyers as stating that "GM did not know the Justice Department was concerned about innovation until Bingaman's complaint was on its way to the district court in Delaware."<sup>8</sup> Although ultimately GM might have prevailed in court, it was unwilling to expend the time and resource required to contest the government's challenge.

#### *Case Study Number Four: Parties Find DOJ Threat to Sue to Be Too Taxing*

In the Spring of 1993 DOJ in-

vestigated and announced its intentions to block the proposed acquisition of MECA Software Inc. by Chipsoft. ChipSoft, the leading publisher of consumer tax preparation software for personal computers in the United States, markets products under the brand names of TurboTax<sup>®</sup> and MacIntax<sup>®</sup>. MECA's TaxCut<sup>®</sup> software package is the second most popular program in the United States.

Following a three-month investigation, the DOJ mounted an attack to the proposed merger that proved to be too taxing for the parties to defend in court. First, the staff defined the market narrowly to exclude the dozens of producers of tax preparation software for professionals, such as accountants, and the noncomputer alternatives available to consumers, such as H&R Block.

Second, they found that entry barriers were high. At least one recent new entry provided the DOJ staff with evidence of consumer and purchaser resistance to switching vendors due to the strong need to be able to rely on the accuracy of the program and the complexity and short life (i.e. one tax season) of the software. At the conclusion of its investigation and rejection of a possible licensing of the MECA software to a competitor, newly-appointed DOJ Assistant Attorney General Anne Bingaman told the press that "[t]here was strong evidence that the merger would have substantially reduced competition and caused consumers to pay higher prices for popular and useful computer software." The parties promptly decided to abandon the transaction rather than face the costs of civil litigation.

#### CONCLUSION

It is apparent from these case studies above that (1) increased attention has been placed on intellectual property transfers by the federal enforcement agencies lately and (2) this trend is likely to continue. Given the increased scrutiny being accorded business practices and transactions involving high-

technology companies participating in computer-related activities, these companies are well-advised to consider the antitrust implications of their conduct and to adjust their conduct to minimize the risk of challenges.

Further, the time, cost, and inconvenience incident to a government investigation can be extremely burdensome. Given these "costs," a company investigated by the federal enforcement agencies may pay a dear price for such conduct even if it ultimately prevails on the merits. However, for competing companies adversely affected by the business practices or proposed transactions of stronger companies, such increased enforcement scrutiny may provide an opportunity for obtaining redress at significantly lower cost than private litigation.

#### FOOTNOTES

1. On August 11, 1994, the Department of Justice published for 60-day public comment the draft Guidelines. These Guidelines expressly supersede the portions of the 1988 Department of Justice International Guidelines concerning intellectual property. The new Guidelines cover all innovation-related issues relating to intellectual property, i.e. those raised by patents, copyrights, and trade secrets, rather than product differentiation issues that arise for trademarks. The Guidelines do not distinguish in their treatment among the various forms of intellectual property for innovation-related issues. Comments were filed by a variety of professional associations, including the American Bar Association and the Licensing Executives Society (see December 1994 issue of *les Nouvelles*). One of the most contentious aspects of the draft Guidelines is the delineation of a separate "innovation market" for analyzing the potential competitive effects from the transaction at issue.

2. DOJ Press Release, July 16, 1994, p. 1.

3. *United States v. Microsoft Corporation*, (D.D.C. Civ. No. 94-1564, complaint filed July 15, 1994).

4. *United States v. S.C. Johnson & Son, Inc.* (N.D. Ill. Civ. No. 94 C 50249, complaint filed Aug. 4, 1994).

5. Sniffen, "Justice Breaks Up Exclusive Licensing of Insecticide," AP Washington Dateline, Aug. 4, 1994.

6. "Adobe/Aldus To Divest 'Freehand' Software Business Under Settlement with FTC," *FTC News*, July 27, 1994.

7. "U.S. Antitrust Law Gets Energizing Tune-Up," *The Christian Science Monitor*, February 8, 1994 p. 8.

8. *Id.*

# Recent Developments in the Law Relating to Licensing

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UNDER THE 1988 PATENT MISUSE REFORM ACT, BOTH TIE-OUTS AND TIE-INS ARE PERMISSIBLE UNLESS THE PATENT OWNER HAS MARKET POWER IN THE RELEVANT MARKET

In the past, courts automatically found patents misused and unenforceable when the patent holders used "tying arrangements" to condition a licensee's right to use the patent on the licensee's agreeing to purchase use or sell, or not purchase use or sell, another article of commerce not within the scope of the patent.

Subsequently, Congress enacted the 1988 Patent Misuse Reform Act to prohibit courts from automatically holding that a patent was misused when they found a tying arrangement to exist, and to require courts to consider the extent of the patent holder's market power in the relevant market for the patent on which the license is conditioned.

The language of the Act makes it unclear, however, whether the Act applies only to tying arrangements conditioning the license upon the licensee's purchase or use of another product ("tie-in"), or whether it similarly applies to arrangements where the patent holder conditioned the license upon the licensee's promise not to purchase or use another product ("tie-out"). This issue was resolved in *In re Recombinant DNA Technology Patent & Contract Litig.*, 850 F. Supp. 769 (S.D. Ind. 1994).

The underlying dispute arose out of several license agreements and research arrangements among the Regents of the University of California, Genetech, and Lilly which included a provision allowing Genetech to terminate Lilly's rights under the agreements if Lilly sold Recombinant Insulin derived from any product other than one sold to it by Genetech. Thus, if Lilly used material or services of others or developed its own materials for the production of insulin, Genetech could terminate the agreement. Lilly contended that this tie-out provision automatically constituted patent misuse, while Genetech urged that the 1988 Patent Misuse Reform Act applied, requiring the court to consider Genetech's market power in determining whether Genetech misused its patents.

## Per Se Illegal

The court found that the tie-out provision would have been per se illegal prior to the

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Act because the agreement foreclosed Lilly from using products and technology of competitors. The fact that the agreement contained a right to terminate rather than an outright prohibition on the use of others' materials and technology created no barrier to a per se finding.

However, the Act changed the law of patent misuse and the court needed to interpret the language of the Act, which declares illegal an agreement that conditions the license of any rights to the patent on the purchase of a separate product where the patentee has market power in the relevant market.

Lilly argued that the new requirement of market power was applicable only to tie-ins. The court, however, considered this language ambiguous and turned to the legislative history for guidance.

Certain legislative history supported Lilly's position that the revised requirements of the Act did not apply to tie-outs. An earlier House version of the Act contained explicit language that covered tie-outs. The House, in the final version of the bill, omitted this language, suggesting Congressional intent not to cover tie-outs under the Act.

However, the court focused on other legislative history which suggested Congressional intent to cover all forms of tying. Certain bill sponsors testified in broad terms that the Act was intended to address tying arrangements and truly anti-competitive conduct. Despite Lilly's assertions, the court felt that, historically, courts had drawn no distinction between the two forms of tying and thus reasoned that Congress would not have intended the Act to apply to only one form of tying. Therefore, the court concluded that it was precluded from automatically finding the patent misused and unenforceable without first considering Genetech's market power and could not summarily resolve the dispute over patent misuse before doing so.

PATENTED ARTICLES MANUFACTURED OR SOLD BY AN IMPLIED LICENSEE OR THE PATENT OWNER MUST BE MARKED TO NOTIFY THE PUBLIC THAT THE ARTICLE IS PATENTED AND PERMIT RECOVERY OF DAMAGES ACCRUING BEFORE ACTUAL NOTICE IS GIVEN TO AN INFRINGER

In the past, courts have held that patented articles manufactured or sold by an express licensee must be marked to notify the public that the article is patented and permit recovery of damages accruing

before actual notice is given to an infringer. Until recently, however, it was not clear whether it was necessary to mark patented articles manufactured or sold by an implied licensee of the patent owner. The Federal Circuit settled this issue in *Amsted Industries, Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 30 U.S.P.Q.2d 1462 (Fed. Cir. 1994).

In *Amsted*, the patent claimed a center plate that was used in combination with several other components to form a railroad car underframe structure. The center plate was just one component of the patented assembly. Amsted, the patent owner, made and sold this center plate to railroad car builders for use in the patented assembly. Buckeye, a competitor of Amsted, had tried unsuccessfully to design around the patent and then to license the center plate component. Frustrated in its failures, Buckeye copied the patented design, hoping that the patent was invalid.

When Amsted learned of Buckeye's infringement of its patent, it sent a cease and desist letter to Buckeye, and then sued for infringement. At a jury trial, the jury returned a verdict that Buckeye infringed Amsted's patent, that the infringement was willful, and that the patent was not invalid. However, the jury limited the damages for which Buckeye was liable to the period after Amsted sent the cease and desist letter. The jury placed this limitation on damages because the component was not marked with the patent number. Amsted appealed this ruling.

Before the Federal Circuit, Amsted argued that the damages should not be limited because it never made the entire patented assembly, and that its customers, who assembled the complete assembly, were not required by law to mark the component. Therefore, Amsted argued, recovery of damages should not have been limited by the patent marking statute.

The patent marking statute, 35 U.S.C. § 287, requires that "persons making or selling any patented article for or under" the patent owner must give notice in order for the patent owner to recover damages. Amsted argued that its "customers" did not sell the patented article "for or under" the patent owner and therefore were not required to mark the component.

## 'For or Under'

The Federal Circuit, in interpreting the meaning of "for or under" language of the statute, first held that a licensee that makes or sells a patented article does so "for or

under" the patent owner. This doctrine had been applied to express licensees previously, but not to implied licensees, which Amsted's customers were. But in looking at the policy behind section 287, the court held that the purpose of the notice statute was to encourage the patent owner to notify the public of the patent, and there was no reason to distinguish between express and implied licensees.

Amsted also argued that marking an unpatented component of a larger patented assembly would have violated the portion of the patent statute prohibiting the marking of an unpatented article.

The Federal Circuit rejected this argument as well, and stated that Amsted could have indicated on the component that it was "for use under U.S. Patent No. X,XXX,XXX," or required that its purchaser-licensees mark the product "licensed under U.S. Patent No. X,XXX,XXX."

Therefore, the damages were limited to the period after receipt of actual notice of infringement.

#### AN IMPLIED LICENSE TO USE AN UNPATENTED ELEMENT OBTAINED FROM A THIRD PARTY MAY BE CREATED WHEN A MANUFACTURER SELLS A PATENTED COMBINATION AND IS SILENT AS TO ANY RESTRICTIONS ON THE USE OF THE PATENTED COMBINATION

When a manufacturer sells a patented system, such as a television which can be operated by a remote control, it grants the buyer a license to use the manufacturer's patented method to operate the system. But when the buyer wants to replace a component of that system, such as the remote control transmitter, with a component manufactured by another, the manufacturer of the original system may object, arguing that such replacement may constitute infringement by the buyer if the use of a replacement component to carry out the patented method is not authorized by the system manufacturer.

However, if there is evidence of an implied license between the buyer and seller permitting the use of such replacements, this use will not constitute infringement. One recent case addressed this scenario and, after examining the circumstances surrounding the sale of the original system, concluded that an such implied license existed. *Universal Electronics, Inc. v. Zenith Electronics Corp.*, 846 F. Supp. 641, 30 U.S.P.Q.2d 1853 (1994).

Zenith, an electronics manufacturer, owned a patent claiming a system and a method of remote control of electrical devices such as TVs and VCRs. Zenith's invention comprised a transmitter, i.e. a remote control unit, that forms a code and transmits that code to a receiver, such as

a TV or VCR, that acts in accordance with the coded functions, for example, changing channels. However, the claims of Zenith's patent required both the transmitter and the receiver. No claims covered the remote control by itself.

Universal manufactured multiple-function remote control transmitters that could operate TVs and VCRs sold by Zenith and other manufacturers. Owners of TVs and VCRs purchased Universal's remote control devices for a variety of reasons. Often these owners broke or lost the original remote control which came with the TV or VCR. Other times the owners wanted to "reduce clutter" by operating both their TV and VCR with the one Universal remote control. Zenith was not pleased that owners of Zenith electronic equipment were purchasing Universal's remote control as a replacement instead of purchasing one sold by Zenith. Zenith sued to stop Universal's remote control sales, claiming that Universal was helping Zenith's customers infringe Zenith's patented method, and arguing that because Zenith did not authorize the use of non-Zenith remote controls, the Universal customers were infringing Zenith's patent by using the Universal remote control.

#### Implied License

Universal contended that its customers' use of Universal's remote control was not prohibited and, therefore, Universal could not have induced them to infringe or be a contributory infringer. Specifically, Universal claimed that Zenith had granted its customers an implied license to practice its patented method by making an unrestricted sale of its non-patented remote control transmitter together with the remote control device in its television. Such an implied license, Universal argued, would allow owners of Zenith electronics to use Universal's remote control.

In order to establish the existence of an implied license between Zenith and its customers, Universal had to establish two elements. First, Universal had to prove that Zenith's receivers in its TVs and VCRs had no noninfringing use. Zenith did not dispute this fact. However, Universal was also legally required to establish that the circumstances surrounding Zenith's sale of its electronics plainly indicate that the grant of a license should be inferred.

The court had to decide whether, as urged by Universal, it should create a bright line rule to determine the existence of an implied license. Universal asked the court to hold, based on an earlier Federal Circuit opinion, that a manufacturer's silence when it sells one or more elements of patented combination is sufficient to demonstrate a prima facie case for an implied license to use the patent with an otherwise unauthor-

ized part. In contrast, Zenith urged that the court limit the earlier opinion to cases where the manufacturer sold an incomplete element of a patented combination, requiring the purchaser to obtain other elements of the combination from other sources. For example, Zenith's proposed rule would apply only if Zenith sold a TV without a remote control. The court rejected both proposals and held that it should consider all of the facts and circumstances surrounding the sale of the patented system to determine whether Zenith granted an implied license to its customers.

Using this analysis, the court considered Zenith's silence to be crucial. Zenith first sold its receivers and transmitters employing the patented method before multiple function remote controls like Universal's were on the market. Once such technology became available, Zenith failed to inform its customers that they were not authorized to use such remote controls.

The court noted the competitive disadvantage Zenith would have suffered if it had prohibited its customers from using multiple function remote controls since other electronics manufacturers allowed the use of these remote controls. The court found that, due to Zenith's silence, its sales were unrestricted.

Therefore, Zenith's customers were not infringing Zenith's patent by using Universal's remote control. Although this holding disposed of the issue of Universal's infringement, the court considered another defense raised by Universal.

Universal also contended that the customers' use of Universal's remote control constituted a permissible repair of the entire remote control system. Under the permissible repair doctrine, a customer may replace or repair worn or broken unpatented parts of a patented combination.

Zenith argued that the customers' use instead constituted impermissible replacement, which does not fall under this doctrine. To decide whether the doctrine applied, the court considered each of different situations in which Zenith TV and VCR owners purchased Universal transmitters.

The court held that where customers broke their original Zenith remote control, the replacement with a Universal remote control merely constituted a permissible repair. It reached this conclusion by determining that the replacement of broken remote controls does not involve a "second creation" of the patented combination or method.

With respect to those customers that purchased Universal's remote control to reduce clutter, the court reached a contrary conclusion. It rejected Universal's argument that permissible repair includes improving on unpatented component parts. Therefore, had the court not found an implied license between Zenith and its

customers, those customers that purchased the Universal remote control solely to reduce clutter would have been infringing Zenith's patented method.

Finally, the court noted that while the per-

missible repair doctrine did not extend to situations where customers lost their original Zenith remote control, customers had an implied license with Zenith to replace lost Zenith remote controls.

In this case, Universal was not liable for inducing its customers to infringe, or contributing to their infringement, because the customers' use was authorized and not infringing.