

Recent Decisions In The United States

A recurring feature
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PATENT CREATES A REBUTTABLE PRESUMPTION OF MARKET POWER IN A PATENT TYING CASE

In an antitrust action based on allegations that a patentee tied the sale of an unpatented product to a patented product, the Federal Circuit will presume that a patent owner has market power over the patented product by virtue of its patent. In *Independent Ink, Inc. v. Illinois Tool Works, Inc. et al.*, No 04-1196 (Fed. Cir. January 25, 2005), the United States Court of Appeals for the Federal Circuit reaffirmed the continuing validity of older Supreme Court precedent in holding that a rebuttable presumption of market power arises from possession of a patent in an antitrust action.

This case related to a patent owned by Trident, Inc. directed to printheads for ink jet devices. Printer manufacturers used Trident's patented technology to manufacture printers. In addition to developing printhead technology, Trident also manufactured ink for use with those printers. When Trident licensed printer manufacturers to use its patented technology, it required those manufacturers to purchase ink from it as well.

Independent Ink was a competing ink manufacturer who sued Trident for a declaratory judgment of noninfringement and invalidity of Trident's patent and also brought claims for an antitrust violation based on Trident's licensing policy. The District Court held that for Trident's licensing policy to constitute a violation of the antitrust laws, Independent Ink would need to affirmatively prove that Trident had market power. In so doing, the District Court dismissed several older Supreme Court cases holding that market power may be presumed from a patent, stating that those cases were "vintage."

On appeal, the Federal Circuit held that Trident's licensing policy constituted an explicit tying agreement conditioning the sale of a patented product (the printhead) on the sale of an unpatented one (the ink). The issue, therefore, was whether such patent tying was illegal per se or whether a plaintiff would have to prove that the patent confers market power in the relevant market for the tying product (in the case the patented printhead).

In deciding this issue, the Federal Circuit reviewed the Supreme Court cases in this area, and came to the con-

clusion that those cases "squarely establish" that patent tying does not require the plaintiff to affirmatively demonstrate that the patent in question had market power. In their view, the Supreme Court had consistently held in the past that the monopoly provided by a patent is sufficient to prove market power. The Court noted that while many commentators and courts had criticized this rule as outdated, it was their duty to follow the precedents of the Supreme Court until the Court itself chose to expressly overrule them. While upholding the continuing validity of this precedent, the Federal Circuit appeared to be inviting the Supreme Court to revisit this area of the law. However, because it continued to be bound by this precedent, the Court held that market power will be presumed from the ownership of a patent and further that Trident's licensing policy constituted an antitrust violation.

ASSIGNEE OF RIGHT TO SUE UNDER A COPYRIGHT HAS NO STANDING TO SUE ABSENT AN OWNERSHIP INTEREST IN THE COPYRIGHT

An assignee who receives an accrued claim for copyright infringement, but who has no legal or beneficial interest in the copyright itself cannot institute an action for copyright infringement. In *Silvers v. Sony Pictures Entertainment, Inc.*, No. 01-56069 (9th Cir. March 25, 2005), the Court of Appeals for the Ninth Circuit held that the copyright laws prevent such an assignee from bringing an action for copyright infringement even if the assignee is the creator of the work.

In this case, Silvers wrote the script for a made-for-television movie called "The Other Woman," but did not own the copyright because "The Other Woman" was a work-for-hire created as part of her employment for Frank & Bob Films. Three years later, Sony released the motion picture "Stepmom," which Silvers believed infringed the copyright for "The Other Woman." After the release of "The Other Woman," Frank & Bob Films assigned all rights in and to any claims against Sony for copyright infringement based on the movie "Stepmom" to Silvers. Shortly thereafter, Silvers filed suit against Sony for copyright infringement.

In the district court, Sony moved to dismiss on the

ground that Silvers did not have standing to bring a copyright action in the absence of some legal or beneficial interest in the copyright. The district court denied this motion and certified it for appeal. A panel of the Ninth Circuit affirmed the district court's decision, however, the court then voted to hear the case en banc and withdrew that opinion.

The Ninth Circuit began its analysis by looking to the language of the copyright act. The Court noted that the statute provides that the legal or beneficial owner of an exclusive right under a copyright is entitled to bring a copyright infringement suit. The statute goes on to list a series of exclusive rights, none of which were the right to sue. The Court noted that under traditional principles of statutory interpretation, when a statute designates certain things, those that are omitted should be understood as excluded. Therefore, in the Court's view, a party can only institute a copyright action when it is a legal or beneficial owner of one of the exclusive rights explicitly listed. Therefore, since Silvers did not own one of these exclusive rights, she did not have standing to sue.

In support of its position, the Court looked at both the legislative history and the related area of patent law and determined that both supported its interpretation. Finally, the court examined several cases from other circuits and determined that the more recent cases decided under the most recent copyright act were in accord with their decision. Therefore, the Court held that Silvers could not institute a cause of action against Sony.

Two dissenting opinions were filed in this case as well. Circuit Judges Berson and Reinhardt argued that Silvers, given her status as the original creator, should be allowed to pursue the claims against Sony. However, in their view, a complete stranger should not be allowed to maintain such a suit. Circuit Judges Bea and Kleinfeld, on the other hand, felt that any party, stranger or otherwise, should be entitled to bring a suit for copyright infringement when assigned a cause of action.

TRADEMARK LICENSE AGREEMENT WAS FOUND NOT TERMINABLE AT WILL EVEN THOUGH IT WAS FOR AN INDEFINITE PERIOD

A trademark license agreement directed to the Wurlitzer trademark, and running for an indefinite period, was found to be non-terminable by the licensor after 18 years. In *Baldwin Piano, Inc. v. Deutsche Wurlitzer GmbH*, No. 204-1617 (7th Cir. 2004), the Court of Appeals for the Seventh Circuit found that a trademark licensor could not terminate a license agreement without cause based on the language of the termination provisions in the agreement.

This case related to the "Wurlitzer" trademark. The Wurlitzer Company, a worldwide producer of pianos, organs, jukeboxes, and other musical equipment was split up in 1985. Wurlitzer's direct descendant was Baldwin Piano, which continued in the piano and organ busi-

ness. One of Wurlitzer's former subsidiaries, Deutsche Wurlitzer GmbH was spun off from Wurlitzer at this time and continued to sell jukeboxes under the Wurlitzer name. As the direct descendant, Baldwin Piano retained ownership of the Wurlitzer trademark. In turn, Deutsche Wurlitzer received a license to use the mark in connection with jukeboxes from Baldwin Piano.

In 2003, Baldwin Piano told Deutsche Wurlitzer that the license was canceled, effective immediately, and same day filed suit against Deutsche Wurlitzer seeking an injunction against Deutsche Wurlitzer's use of the mark. Baldwin Piano did not give any reason for taking these steps. The district court granted summary judgment in favor of Baldwin Piano and entered an injunction from which Deutsche Wurlitzer appealed.

On appeal, Deutsche Wurlitzer argued that the license agreement was terminable only for cause. In support of this position, Deutsche Wurlitzer relied on two provisions of the agreement. The first stated "except as herein provided ... this Agreement shall continue in force without limit of period but may be cancelled by Licensor for material breach..." The second provided that the Licensor could terminate the agreement if the licensee assigned all of its assets or filed for bankruptcy. Deutsche Wurlitzer argued that these provisions were express in requiring a breach or one of the events of the second clause to cancel the agreement. Baldwin Piano, however, argued that under Illinois law (which applied to the agreement), contracts for an indefinite period may be terminated at will. They further argued that the provisions cited by Deutsche Wurlitzer were insufficient to overcome this rule of Illinois law.

The Seventh Circuit agreed with Deutsche Wurlitzer and vacated the judgment of the district court. The Court held that Baldwin Piano's view made the second clause discussed above "pointless" and left one "wondering" what role the first clause played. There would be no need to specify that "except as herein provided" the license continues until canceled for "material breach" unless such a breach is indispensable to cancellation. Moreover, the Court found that the transaction as a whole was difficult to understand unless Deutsche Wurlitzer received an enduring interest in the Wurlitzer mark. The Court noted that when "there is a choice among plausible interpretations, it is best to choose a reading that makes commercial sense, rather than a reading that makes the deal one-sided."

In addition the Court held that Illinois law did not require a contrary result. The Seventh Circuit found that Illinois law only required a contract to be terminable at will when the contract was for an indefinite term and the list of instances of material breach was in the context of a permissive and nonexclusive termination provision. In this case, the Court held that the termination clauses of the agreement were exclusive and therefore, did not necessitate a different result.

SOFTWARE CODE CONSTITUTES A COMPONENT OF AN INFRINGING PRODUCT AND SUPPLYING SOFTWARE CODE IS INFRINGEMENT UNDER 271(f)

The US Patent Statute Section 271(f) makes it an act of infringement to supply in or from the United States all or a substantial portion of the components of a patented invention in such a manner as to induce the combination of those components outside the United States. In *Eolas Technologies Inc. v. Microsoft Corp.*, the Court of Appeals for the Federal Circuit held that the term “components” as used in section 271(f) includes software code.

This case related to an Eolas patent directed to a computer running a software program that allows a user to use a web browser in fully interactive environment. Eolas sued Microsoft arguing that certain aspects of Microsoft’s Internet Explorer product infringed its patent.

In addition to several other issues in this case, one issue related to Microsoft’s export of golden master discs containing the accused software code to Original Equipment Manufacturers abroad. These OEMs used that disc to replicate the code onto computer hard drives for sale outside of the U.S. Once placed on a computer hard drive, the computer drive, in Eolas’s view would become an infringing product. The golden master disk itself, however, did not end up in an infringing product. The issue, therefore, was whether the exported software was a component of a patented invention under section 271(f).

On appeal, the Federal Circuit looked to the language of the statute and noted that section 271(f) referred to “components of a patented invention.” The Court found that a patented invention clearly included a computer program product, such as the patent invention in this case. The next step in the Court’s analysis was to determine whether the software code on the golden master disk is a “component” of the computer program invention. The court held that because a computer program product is a patented invention, the program code was a part or component of that invention. Finally, the Court also looked to the legislative history and determined that it was consistent with its interpretation of the statute. Therefore, the Federal Circuit held that computer software could constitute a “component of a patented invention” within the meaning of the statute.

PAYMENTS IN PHARMACEUTICAL SETTLEMENT AGREEMENTS FOR DELAYED MARKET ENTRY DID NOT VIOLATE THE ANTITRUST LAWS

A patent holder’s payment to a competitor in settlement of a patent litigation cannot be the sole basis for an antitrust violation. In *Schering-Plough Corp. v. FTC*, No. 04-10688 (11th Cir. 2005), the 11th Circuit held that the payment by a brand-name drug company to a generic drug company as part of a patent infringement settlement agreement that also provided that the generic drug company would delay entry into the market did not constitute an antitrust violation.

This case involved a patent owned by Schering-Plough directed to a potassium chloride tablet with an extended release coating called K-Dur 20, which expired in 2006. In late 1995, Upsher-Smith laboratories sought FDA approval to market a generic version of K-Dur 20. In response, Schering sued Upsher for patent infringement. The case was eventually settled by Upsher agreeing to stay off the market until 2001 and further agreeing to grant Schering a license to sell one of its drugs, Niacor. In return, Schering paid \$60 million in initial royalties, \$10 million in milestone royalty payments, and a 10%-15% royalty on the sales of Niacor. After entering into the agreement, Schering determined that Niacor would not be successful after similar products had failed to generate large sales. Therefore, Schering did not bring Niacor to market.

In addition to Upsher, ESI Lederle also sought FDA approval to market a generic version of K-Dur 20. Schering also sued ESI, and eventually settled. The settlement resulted in an agreement by ESI to stay off the market until 2004. In return, Schering agreed to pay \$5 million to ESI for legal fees and an additional \$10 million should ESI receive FDA approval within a specified period of time.

Several years after the execution of these agreements, the FTC filed an administrative complaint against Schering, Upsher and ESI related to these agreements. The complaint was initially dismissed by the Administrative Law Judge after trial. On appeal, however, the FTC reversed the ALJ’s decisions and ruled that the settlements violated the antitrust laws. Schering then appealed this decision to the 11th Circuit.

On appeal, the 11th Circuit held that the traditional per se or rule of reason antitrust analyses were inappropriate to determine whether these agreements were in violation of the antitrust laws. In their opinion, these approaches are ill-suited because they seek to determine whether the challenged conduct had an anticompetitive effect, when by their nature patents create an environment of exclusion. In their view it would be more appropriate to analyze the extent to which the patent laws prevent antitrust liability for such exclusionary effects. Therefore, they determined that the proper analysis requires examination of (1) the scope of the exclusionary potential of the patent; (2) the extent to which the agreements exceed that scope; and (3) the resulting anticompetitive effects.

The Court first looked at the exclusionary potential of the patent and determined that the patent gave Schering the lawful right to exclude Upsher and ESI from the market until 2006. The Court noted that no allegation had been made that Schering’s patent was invalid and therefore, there was no reason to presume that Upsher or ESI could have gotten on the market before this time.

Next, the Court analyzed the scope of these agreements to determine if they exceeded the scope of the patent. The FTC argued that Schering’s payments to Upsher were really to stay off the market and not for the rights to Niacor. The Eleventh Circuit disagreed, finding that at the time

the agreement was entered into, Schering believed that the rights to Niacor were valuable and therefore, one could not infer that the payments were made solely for delay. Similarly, the 11th Circuit also found that Schering's agreement with ESI was also reasonable given the potential for lengthy and expensive litigation. Therefore, the Court held that neither agreement exceeded the scope of the patent.

Finally, the Court looked at whether there were any anticompetitive effects from this conduct. The Court determined that, in fact, the public was benefited by the settlement of infringement disputes, in part because these settlements actually resulted in products reaching the market before they otherwise might have in view of the patent. Therefore, the Court concluded that there were no anticompetitive effects to this arrangement.

Based on its examination of these three factors, the 11th Circuit reversed the holding of the FTC and found that no antitrust violation had been committed. In concluding its opinion, the 11th Circuit stated that “[s]imply because a brand-name pharmaceutical company holding a patent paid its generic competitor money cannot be the sole basis for a violation of antitrust law” and cautioned the FTC against filing complaints to the contrary.

CONSENT JUDGMENT FAILING TO MENTION RIGHTS OF POSSIBLE ASSIGNEES OF IP RIGHTS CANNOT BE ENFORCED BY SUCH ASSIGNEES

The assignee of a package of patent, copyright, and trade dress rights was found to have no standing to enforce a consent judgment against an infringer of those rights because the consent judgment was silent as to assignability. In *Thatcher et al. v. Kohl's Department Stores et al.*, No. 04-1397 (Fed. Cir. 2005), the Court of Appeals for the Federal Circuit held that the assignee was unable to enforce the consent judgment entered into by the assignor of those rights because the consent judgment did not provide for enforcement by anyone other than the assignor.

This case related to Teva® sandals developed by Mark Thatcher, and for which he owned patent, copyright, and

trade dress rights. In 1997, Thatcher brought suit against Kohl's for violation of these rights. This case was settled by entry of a consent judgment by which Kohl's agreed to cease its violation of Thatcher's intellectual property rights. The consent judgment explicitly stated that it was binding on any successors-in-interest of Kohl's, but made no similar reference with respect to Thatcher.

In 2002, Deckers acquired all the intellectual property rights to the Teva® sandals from Thatcher. Deckers also purchased the right to all contracts, claims, rights, causes of action, and judgments related to those rights. In 2003, Deckers discovered an alleged violation of the 1997 consent judgment by Kohl's. As the alleged successor-in-interest to Thatcher, Deckers filed a motion to show cause, seeking to (1) impose sanctions for civil contempt, (2) force Kohl's to comply with the consent judgment; and (3) compensate Deckers for its losses. The district court, however, found that Deckers lacked standing to enforce the judgment, and Deckers appealed.

On appeal, the Federal Circuit first noted that a consent judgment is a form of contract to which standard rules of contract interpretation apply. Further, under Illinois contract law (which applied to the agreement), if the language of a contract is clear, the court need not look to extrinsic evidence to determine the meaning of the contract.

With this background, the Federal Circuit held that the language of the consent judgment was unambiguous. In their view, the absence of any provision providing Thatcher the right to assign his rights under the consent judgment meant that it was clearly unassignable. In particular, the Court found it significant that the agreement specifically mentioned that the agreement was enforceable against Kohl's successors-in-interest. In the Federal Circuit's view, the inclusion of this provision when contrasted with the absence of any such provision relating to Thatcher rendered that absence “profound.” Therefore, the Court held that the consent judgment could not be assigned to Deckers, and, therefore, Deckers had no standing to sue to enforce the terms of that consent judgment.