Recent Decisions In The United States

A recurring feature
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ASSIGNEE ESTOPPEL DOES NOT PREVENT ASSIGNEE FROM ASSERTING THAT A PATENT IT JOINTLY OWNS IS INVALID

Assignee estoppel will not prevent a patent owner from asserting that a patent it owns solely should be granted priority over a patent that it owns jointly. In *Slip Track Systems, Inc. v. Metal Lite, Inc.*, No 04-1070 (Fed. Cir. December 1, 2004), the United States Court of Appeals for the Federal Circuit held that a patent owner could challenge the validity of a patent it jointly owned by asserting that another patent it owned had priority over that jointly owned patent. The court also held that an accused infringer cannot be estopped from challenging infringement if it marks its products with the patent-in-suit if it did not deliberately mismark its products.

This case related to two patents covering wall assemblies: (1) U.S. Patent No. 5,127,760 ("the '760 patent") owned by Slip Track Systems, Inc. ("Slip Track") and U.S. Patent No. 5,127,203 ("the '203 patent") owned jointly by Slip Track and Metal Lite, Inc. ("Metal Lite.") Slip Track sued Metal Lite for infringement of the '760 patent. Metal Lite denied infringement and sought a declaration of invalidity arguing that the '203 patent covered the same subject matter as the '760 patent and had priority over the '760 patent. The District Court for the Central District of California ruled that the '760 patent had priority over the '203 patent. The court also entered a judgment of infringement against Metal Lite after granting Slip Track's motion in limine barring Metal Lite from contesting infringement based, in part, on the doctrine of marking estoppel, a doctrine which prevents a party who marks their product with a patent number of a patent from contesting that they infringed that patent.

On appeal, the Federal Circuit affirmed the holding regarding priority. On this issue, Metal Lite's only argument was that the doctrine of assignee estoppel barred Slip Track from asserting that the '760 patent had priority over the '203 patent (and thereby invalidating the '203 patent). The Federal Circuit stated that assignee estoppel is an equitable doctrine, which, under appropriate circumstances, bars the assignee from contesting the validity of the assigned patent. In this case, Slip Track was forced to choose between protecting the validity of a patent it owned 100% or a patent it owned only 50%. The court held that Slip Track made the "natural decision to protect its greater of two property interests" and that there was "nothing inequitable here." Therefore, the Federal Circuit rejected the assignee estoppel argument and affirmed the District Court's decision on priority.

The Federal Circuit, however, vacated the district court's ruling on infringement. The District Court had determined that Metal Lite's marking of its products with the '760 patent while in partnership with Slip Track justified estopping Metal Lite from denying infringement. In addition, Metal Lite's marking with the '203 patent after dissolution of the partnership also justified estopping Metal Lite from denying infringement of the '760 patent because of the similarity between the '760 patent and the '203 patent. The Federal Circuit stated that the doctrine of marking estoppel was designed to protect the public by cautioning manufacturers that care must be taken in avoiding misrepresentation to the public that goods are protected by a patent. The court held that there was no evidence that Metal Lite deliberately mismarked its products because it believed its products fell within the scope of those patents. In addition, the court also held that the similarities between the '203 and '760 patents fail to provide a sufficient basis for applying estoppel because the record did not indicate that marking with the '203 patent created a risk of misleading the public to believe the current product was also covered by the '760 patent. Therefore, the court vacated the finding of marking estoppel.

PATENT INFRINGEMENT PLAINTIFF'S LETTERS TO DEFENDANT'S CUSTOMERS WERE NOT A VIOLATION OF THE LANHAM ACT

A plaintiff's letters to defendant's customers regarding a pending litigation are not a violation of the Lanham Act absent a showing that the letters contained false or misleading statements and were sent in bad faith. In *Eastman Outdoors Inc. v. Blackhawk Arrow Co.*, No 03-73394 (E.D. Mich. August 11, 2004), the Eastern District of Michigan granted Summary Judgment for the Plaintiff on Defendant's counterclaim asserting that the Plaintiff's

engaged in unfair competition under Section 43(a) of the Lanham Act.

This case related to Eastman Outdoors Inc. ("Eastman") claims for patent infringement relating to archery arrows sold by Blackhawk Arrow Co. ("Blackhawk.") During the pendency of the litigation, counsel for Eastman sent a letter to its own customers, who were also Blackhawk's customers, notifying them of the lawsuit and that Eastman was claiming that Blackhawk's products infringed its patents. The letter also stated:

We believe that honorable companies, such as yours, respect the patent laws of the United States and would not knowingly or willfully use or sell products that infringe the intellectual property rights of a third party. Consequently, this notice is being provided to you so you can review this matter for yourself and make an intelligent and informed decision in connection with your company's purchases and sales.

In response, Blackhawk amended its counterclaims and asserted that by sending these letters Eastman had violated § 43(a) of the Lanham Act. Eastman then moved for summary judgment on these claims.

The Eastern District of Michigan granted Eastman's Motion for Summary Judgment. In order to state a claim under § 43(a) of the Lanham Act, it is necessary to show that false or misleading statements were made. In addition, the court held that marketplace representations of patent infringement may only form the basis of a claim under § 43(a) if they are made in bad faith. In order to demonstrate bad faith, a defendant must demonstrate that a patentee's assertions of infringement were objectively baseless. Therefore, the court found that in addition to showing that false or misleading statements were made, Blackhawk needed to present affirmative evidence that Eastman acted in bad faith when it sent the letters at issue.

The Court found that Blackhawk failed to show that Eastman made false or misleading statements in its letters. The Court held that Eastman's letters did not make any statement regarding the validity of the patent or that customers who purchased products from Blackhawk would be infringers. Rather, the letters provided the details of the complaint and invited the customers to perform their own analysis. Therefore, the Court held that Blackhawk had failed to establish any issues of fact regarding the falsity of any statement contained in Plaintiffs' letters.

The Court also held that Blackhawk failed to provide any affirmative evidence of bad faith. Blackhawk argued that Eastman acted in bad faith in sending the letters when it possessed evidence invalidating the patent-in-suit. The court, however, held that this argument had no merit because it had recently denied Blackhawk's motion for summary judgment on the issue of validity. Therefore, the Court granted Eastman's motion for summary judgment on Blackhawk's Lanham Act claims.

SUPPLIER'S DISCLAIMER INSTRUCTING CUSTOMERS TO OBTAIN PROPER PATENT LICENSES MAY BE USED AS EVIDENCE TO SHOW SUPPLIER DID NOT INDUCE CUSTOMERS TO INFRINGE

A defendant's inclusion of a disclaimer in advertising and marketing materials may be used as evidence to prove lack of intent to induce infringement. In *Applera Corp. v. MJ Research Inc.*, No 3:98cv1201 (D. Conn. February 23, 2004), the District Court for the District of Connecticut denied a patent owner's motion *in limine* which sought to prevent an accused infringer from introducing evidence regarding such a disclaimer, because the Court found that such evidence was relevant to the issue of intent to induce infringement.

This case involved patents relating to polymerase chain reaction (PCR) owned by Applera Corp. ("Applera.") Applera sued MJ Research Inc. ("MJ") for inducing infringement of its PCR patents by selling thermal cyclers that practice PCR. MJ asserted that it was not liable for inducing infringement because it informed its customers that in order to legally practice PCR, the customer must first obtain an appropriate license from Applera.

Applera argued that disclaimers such as those used by Applera could not absolve a party of liability for induced infringement. According to Applera the intent required for induced infringement is the intent to cause the acts that constitute infringement, not the intent to cause a legal wrong. Therefore, in Applera's view, regardless of whether MJ intended to encourage customers to obtain a license from Applera, MJ would have the requisite intent to cause the acts, i.e., the performance of PCR, that constitute infringement and would be liable for any unauthorized performance of PCR by its customers.

MJ argued that under Federal Circuit precedent, disclaimers such as those used by MJ were relevant to a determination of intent to induce infringement and should be considered in making that determination. Moreover, MJ argued that the proper standard required proof that MJ knew or should have known that their actions would induce actual infringements. The court agreed with MJ and held that the proper standard was one requiring proof that MJ knew or should have known that it was inducing infringement. Therefore, the Court denied Applera's motion, concluding that MJ was entitled to introduce evidence of the disclaimers to prove that it lacked the intent required for liability for inducing infringement.

REFUSAL TO SELL PATENTED REPAIR PARTS TO INDEPENDENT SERVICE ORGANIZATIONS IS NOT A VIOLATION OF THE ANTITRUST LAWS

A patent owner's refusal to sell patented repair parts to independent service organization ("ISO") was not a violation of the Sherman Act where the ISOs could purchase the patented repair parts on behalf of the patent owner's customers. In *Telecom Technical Services Inc. v. Rolm Co.*, No 02-14131 (11th Cir. October 21, 2004), the Court of Appeals for the Eleventh Circuit affirmed the

dismissal of the ISOs antitrust claims against a patent owner based on its refusal to sell the patented repair parts directly to ISOs.

This case related to private branch exchanges ("PBXs") produced by Siemens Rolm Communications ("Siemens.") The PBXs include hardware and software components for which Siemens possessed intellectual property. Siemens did not sell the copyrighted software to operate the PBXs, but rather licensed the use of it to its customers. Siemens also owned copyrighted reconfiguration software to modify or activate features in the operating system software, but Siemens did not license or sell its reconfiguration software to anyone. In addition, Siemens also sold PBX servicing for its products. Siemens had patents on many of its repair parts, and did not sell those parts to third parties for resale. A customer who needed to repair its PBX could hire Siemens to do the repair work, order the parts directly from Siemens and repair the machines itself, or hire an ISO to due the repair and furnish a letter of agency to the ISO authorizing the order of parts on its behalf.

In this case, a group of ISOs asserted that Siemens violated the antitrust laws by creating a monopoly in the market for servicing Siemens PBXs. They claimed that Siemens refusal to sell repair parts to third parties was designed to prevent competition in the service market. In addition, the ISOs claimed that Siemens refusal to sell or license the reconfiguration software for the PBXs also constituted an antitrust violation. Before the district court, Siemens moved for summary judgment on these antitrust claims. The district court granted Siemens Motion for Summary Judgment and the ISOs appealed.

The Eleventh Circuit held that Siemens did not violate the antitrust laws by refusing to sell PBX repair parts because there was no evidence of any harm to the owners of the PBX systems. Specifically, because the system owners could either purchase repair parts themselves or provide an ISO with a letter of agency authorizing the ISO to purchase the parts, there was no actionable harm to the consumers. Therefore, the ISOs had failed to establish that the refusal to sell PBX parts was a violation of the antitrust laws.

The Eleventh Circuit also held that Siemens did not violate the antitrust laws by refusing to license or sell its copyrighted reconfiguration software. The court stated that the reconfiguration software had no service functions but rather helps to make Siemens competitive in the product market for PBX products. Thus, the court held that the software did not give Siemens a competitive advantage in the service market. Therefore, the ISOs also failed to establish that the refusal to sell reconfiguration software constituted a violation of the antitrust laws.

AUTHORIZED SALE OF PRODUCT ABROAD WILL NOT EXHAUST U.S. PATENT RIGHTS

A patent owners' sale of a patented product outside of the United States will not exhaust the patent owners U.S. patent rights. In *Fuji Photo Film Co. Ltd v. Jazz Photo Corp.*, No 03-1324, 03-1331 (Fed Cir. January 14, 2005), the Court of Appeals for the Federal Circuit held that a patent owner could enforce its U.S. patent rights against a company that purchased the patented product from an authorized source abroad and sought to resell it in the United States.

This case involved several patents owned by Fuji Photo Film Co. Ltd. ("Fuji") relating to disposable cameras. Fuji sold patented disposable cameras both in the United States and abroad. Jazz Photo Corp. ("Jazz") purchased used disposable camera shells, refurbished those cameras, and then resold them in the United States. Fuji sued Jazz for patent infringement based on this conduct.

A major issue in this case involved the exhaustion doctrine. The exhaustion doctrine provides that the authorized sale of a patented product by the patent owner will typically "exhaust" the patent owners right to assert its patents against that product. Jazz argued that by selling the disposable cameras, Fuji had exhausted its patent rights in those cameras and thus Jazz was free to resell them. Fuji argued, however, that to the extent the cameras were sold outside of the United States, its U.S. patent rights would not be exhausted in those cameras. Therefore, the issue in this case was whether or not the authorized sale of a patented product outside of the United States would exhaust U.S. patent rights.

The Federal Circuit held that the authorized sale of a product abroad cannot exhaust a U.S. patent right. The court further held that the patent rights would not be exhausted even if the patentee itself sold the product abroad. Therefore, even though Fuji and its licensees sold the disposable cameras abroad, it could still maintain an action for infringement against Jazz for reselling those cameras in the United States.

INVENTOR MAY HAVE HAD BINDING ORAL CONTRACT UNDER CALIFORNIA LAW

In *Lamle v. Mattel, Inc.*, No 04-1151 (Fed Cir. January 7, 2005), the Court of Appeals for the Federal Circuit held that there were genuine issues of fact as to whether an inventor had an oral contract with Mattel and therefore vacated a summary judgment decision in favor of Mattel. This case involved a board game invented by Stewart Lamle ("Lamle") for which he held two patents.

For several years, Mattel and Lamle were in negotiations regarding the licensing of Lamle's board game. During the initial stages of the negotiations, Lamle signed a disclosure form that provided that Mattel had assumed no obligations relating to the game until a formal written contract was entered into, and that Mattel's only obligation would be those expressed in the written contract. Subsequently, Mattel entered into an agreement with Lamle whereby it paid $25,000 for Lamle's promise not to license the game to anyone else for several months. This agreement also provided that the $25,000 would count as an advance on royalties should an agreement be entered into.

Several months later, Mattel and Lamle held a meeting at which they agreed on many terms of a license including the term, geographic scope, payment schedule, and

percentage royalty. Mattel asked Lamle to draft a formal agreement memorializing the deal and promised to sign it before the end of the year. Several weeks after this meeting, a Mattel employee repeated the terms in an e-mail to Lamle and stated that those terms had been agreed to in principle by Mattel subject to contract. Lamle subsequently forwarded Mattel two drafts of an agreement to Mattel. At around this same time, Mattel presented Lamle's product at a toy fair and determined that it no longer was interested in licensing it. Therefore, Mattel never signed the written agreement and later notified Lamle of its decision.

Lamle subsequently sued Mattel for among other things, breach of contract in the Central District of California. Lamle alleged that at the meeting the parties agreed that no material terms were left to be negotiated and had shaken hands on the deal thereby forming a binding contract. Mattel, on the other hand, asserted that the purpose of the meeting was only to discuss licensing terms and that Mattel had repeatedly informed Lamle that it was only beginning the negotiations. The district court granted summary judgment for Mattel on the breach of contract claims and Lamle appealed.

Applying California law, the Federal Circuit held, with one judge dissenting, that there were genuine issues of material fact as to whether the parties had agreed to a contract during their meeting and therefore, vacated the district court's holding. The Federal Circuit found that a jury could conclude that an agreement was reached at the meeting between the parties if the jury chose to believe Lamle's testimony.

The Federal Circuit also held that neither the disclosure form nor the subsequent e-mails were conclusive as to the parties' intent. The court held that while the disclosure form appeared to require a written agreement, under California law, parties could abrogate an earlier written agreement with a later one. While it was not clear whether that was the case here, the court held that a trial was necessary to determine if that was the parties' intent.

Finally, the Federal Circuit held that summary judgment was not appropriate on the basis of the California Statute of Frauds. The Statute of Frauds requires that any agreement that cannot be performed within one year will not be enforced absent some writing to evidence the agreement. Lamle argued that the e-mail sent after the meeting by Mattel served this purpose. Under California law, the writing need not have every term of the agreement, only the material terms. The Federal Circuit held that while some of the terms were absent from the e-mail, there was a genuine issue of fact as to whether those absent terms were material to the agreement. Therefore, the Court found that the statute of frauds was not a sufficient basis to grant summary judgment in favor of Mattel.

However, the Court did conclude that on remand to the District Court Lamle faces a difficult burden persuading the jury that, despite Mattel's stating that it would sign a formal contract later, the objective intention of both parties was to be immediately bound by the oral contract, and to abrogate a prior written agreement to the contrary. And the dissenting judge similarly concluded that an enforceable contract can not be found to have been entered into between Mr. Lamle and Mattel, for the parties agreed (twice) in writing that any obligation would be contained in a "formal written contract."