

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

By Brian Brunsvold and John C. Paul

### COURT DECLINES TO FIND DECLARATORY JUDGMENT JURISDICTION WHEN PLAINTIFF HAS SUFFERED NO ACTUAL OR IMMINENT HARM

Under the Declaratory Judgment Act, potential infringers can file lawsuits against patent owners to determine whether their *present* actions constitute infringement. Potential infringers thus have an opportunity to have a court rule on a matter when a patent owner threatens, but does not file, an infringement lawsuit. However, since federal courts may only issue declaratory judgments in cases involving “actual controversies,” potential infringers may not bring a declaratory judgment action regarding some speculative *future* activity. As noted by the Supreme Court in *MedImmune Inc. v. Genetech, Inc.*, the proper question for jurisdiction in declaratory judgment actions is whether the facts, as stated in the plaintiff’s complaint, show there is a “substantial controversy, between the parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”

In *Prasco v. Medicis Pharmaceutical Corp. et al.*, Medicis marketed a benzoyl peroxide cleansing product marked as being covered by four U.S. patents, and Prasco made a competing benzoyl peroxide product. In May 2006, Prasco requested a declaratory judgment that its product did not infringe Medicis’ four patents. At the time that Prasco filed its declaratory judgment action, it had devoted “substantial efforts” to developing its product, but not yet begun marketing the product. Indeed, Medicis only became aware of Prasco’s product when it was served with the complaint for the lawsuit. As a result, Medicis asked the district court to dismiss the case, citing the lack of “case or controversy” between the parties that deprived the district court of jurisdiction. After Medicis filed its motion to dismiss, Prasco sent a sample of its product to Medicis, and filed an amended complaint stating that it had begun to market its product. The district court found that under all the circumstances, there was no “case or controversy” between Medicis and Prasco, and even in light of *MedImmune*, there was “no definite and concrete dispute that touches the legal relations of these parties.” Thus, finding that it did not have

jurisdiction, the district court dismissed the case.

On appeal, the Federal Circuit considered whether the district court had jurisdiction to hear Prasco’s lawsuit. In making its decision, the Federal Circuit used the legal doctrine of standing to analyze the “immediacy and reality” element from *MedImmune*.

To have “standing,” the plaintiff must initially allege (1) a concrete and actual or imminent harm, (2) that is fairly traceable to the defendant’s conduct, and (3) that the court’s decision may remedy plaintiff’s harm. In this case, if there is no injury to Prasco that can be fairly traced back to the Medicis, then there can be no “immediacy and reality” to warrant

the court issuing a declaratory judgment. Prasco argued that it suffers from “paralyzing uncertainty” from fear that Medicis would file a patent infringement suit against its benzoyl peroxide product. As supporting evidence, Prasco argued that Medicis had sued Prasco in the past over other products.

Despite Prasco’s purported “paralyzing uncertainty,” the Federal Circuit noted that Prasco had, in fact, launched its product shortly after filing suit. More importantly, the Federal Circuit found that Prasco’s “paralyzing uncertainty” was, at best, future harm, which is not the type of injury or threat of injury that can be the basis of a “case or controversy.” Further, the Federal Circuit noted that the previous lawsuit between the parties involved different Prasco products covered by unrelated Medicis patents, which the Federal Circuit held was not the type of pattern of prior conduct that could equate to a “real and immediate” controversy.

Notably, the Federal Circuit reemphasized that jurisdiction generally will not arise merely on the basis that a party learned of the existence of a patent owned by another that *might* pose a risk of infringement. Rather, in most cases, jurisdiction will

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require some *affirmative act* by the patentee, such as demanding the right to royalty payments or creating a barrier to regulatory approval of a product that is necessary for marketing. The Federal Circuit noted that what was most important in this case was what had not happened. Prasco and Medicis had not taken adverse positions regarding infringement of Medicis's patents by Prasco's product. Medicis had not demanded a royalty for Prasco's product and Prasco had not refused. Thus, the Federal Circuit found that none of the facts suggested a defined, preexisting dispute between the parties concerning Prasco's benzoyl peroxide product.

For these reasons, the Federal Circuit found that Prasco failed to show an immediate and real controversy and, thus agreed with the lower court's ruling that the case should be dismissed.

### **DEMONSTRATION OF PROTOTYPE AT TRADE SHOW IS NOT SUFFICIENT "USE" TO ESTABLISH PATENT INFRINGEMENT**

A court must have personal jurisdiction over a defendant before it can bind the defendant to an obligation, such as abiding by an injunction or paying monetary damages. The bounds of "personal jurisdiction" are determined by the laws of the state where the trial court is located and the due process clause in the U.S. Constitution.

In *Medical Solutions Inc. v. C Change Surgical, LLC*, the Court of Appeals for the Federal Circuit agreed with a lower court dismissal of the case for lack of personal jurisdiction, finding that demonstration of an accused device at a trade show did not constitute a potentially infringing "use" under patent law. In that case, the plaintiff, Medical Solutions, Inc. ("MSI") developed and patented medical technology for controlled heating and temperature maintenance of medical fluids and equipment, and C Change Surgical, LLC ("CCS"), a company from North Carolina, developed a product, IntraTemp, a mobile workspace that controls the temperature of surgical fluids.

In March 2006, at an industry trade show in Washington, D.C., CCS displayed a "large and visible" sign in its booth advertising the IntraTemp product. CCS representatives discussed the product with potential customers and showed how the parts of the device functioned. CCS is not registered to do business in the District of Columbia and has no employees or facilities there. It maintains a Web site that is accessible from the District of Columbia, but the Web site contains no interactive features. CCS stated that it made no sales or took any orders at the trade show.

MSI filed suit against CCS in the District of Colum-

bia alleging that CCS infringed MSI's patent rights when it "used" the IntraTemp product at the trade show. CCS asked the court to dismiss MSI's lawsuit arguing that the demonstration of the IntraTemp at the trade show did not constitute a potentially infringing "use," and was not therefore a wrongful injury. The district court agreed, and dismissed the case for lack of personal jurisdiction over CCS.

On appeal, the Federal Circuit noted that many lower courts had held that mere demonstration or display of an accused product, even in an obviously commercial atmosphere, was not an act of infringement under the U.S. patent laws. Rather, the ordinary meaning of "use" is "to put into action or service." In reviewing the record, the Federal Circuit found that CCS displayed a prototype of the IntraTemp at the trade show, staffed its booth with representatives, and made available brochures about the product. However, it concluded that none of these activities was "putting" the IntraTemp device into service since there was no evidence that the IntraTemp device was used to heat medical items at the trade show.

The Federal Circuit declined to make a rule about whether the demonstration of a product at a trade show could ever be sufficient to establish an infringing use, but determined that in this case that the lower court properly dismissed the case for lack of personal jurisdiction.

### **WHEN A PATENT IS JOINTLY OWNED, ALL OWNERS MUST JOIN TOGETHER TO SUE FOR PATENT INFRINGEMENT**

In the United States, when patents are jointly owned, all owners must sue together to maintain a patent infringement suit. Otherwise, the court must dismiss the case for lack of standing. In *Lucent Technologies, Inc. et al. v. Gateway, et al.*, the Court of Appeals for the Federal Circuit agreed with a lower court dismissal of the case for lack of standing because all joint owners were not in the litigation.

The case involved technology related to compressing digital audio files to reduce storage space without compromising the quality of the sound produced from those files. In 1988, AT&T (later Lucent Technologies) entered into a Joint Development Agreement ("JDA") with a German company, Fraunhofer Gesellschaft, which was also working on digital compression technology. The JDA defined "Existing Technology" as "the results of work relating to Digital Audio Coding . . . done by [AT&T and Fraunhofer] . . . before the beginning of" April 1989, as described in a set of attachments to the JDA. Further, the JDA defined "New Work" as technology developed after April

1989. The JDA specified that “New Work” would be jointly owned. Under the JDA, each company had the nonexclusive right to make use of the “New Work” technology and to grant nonexclusive licenses to others. Under the JDA, a scientist from Fraunhofer went to work with the named inventor of the patent-in-suit who was employed by AT&T. In 1994, Lucent applied for the patent-in-suit. The Fraunhofer inventor was not listed on the patent.

Eventually, the underlying technology became the standard for MP3 coding techniques which were later incorporated into many different computer products. As a result, Lucent filed separate suits against Gateway, Microsoft Inc., and Dell, Inc., contending that their products infringed Lucent’s patent. The cases were eventually consolidated into a single case. Following a jury trial, the district court decided to overrule the jury’s verdict of infringement and dismiss the case after determining that some claims of the patent encompassed “New Work,” that the patent was jointly owned by Lucent and Fraunhofer, and that Lucent lacked standing to sue without Fraunhofer.

On appeal, the Federal Circuit considered whether the district court had properly dismissed the suit for lack of standing. First, Lucent argued the claims of the patent-in-suit constituted “Existing Work” under the JDA because the claims were “the results of” work completed before April 1989. The Federal Circuit disagreed with Lucent’s argument because it found that the “Existing Work” was specifically described in the attachments to the JDA. The Federal Circuit noted that Lucent did not show in the attachments where the subject matter described in the disputed claims was listed. Further, the Federal Circuit found that Lucent offered no other evidence to support a date of invention prior to April 1989.

Alternatively, Lucent argued that, even if the claims were “New Work” that Fraunhofer is not a co-owner of the patent-in-suit. The Federal Circuit again disagreed, finding that some claims of the patent-in-suit were invented during the period covered by the JDA and thus constitute “New Work” and thus were co-owned by Fraunhofer. Since ownership of a patent cannot be divided, Lucent lacked standing to sue without Fraunhofer. Thus, the Federal Circuit agreed with the lower court’s ruling that the case should be dismissed.

### **FEDERAL CIRCUIT ADOPTS “ORDINARY OBSERVER TEST” TO DETERMINE INFRINGEMENT OF DESIGN PATENTS**

In the United States, a design patent covers the ornamental design for an object having practical utility. Design patents are a type of industrial design

right. For example, design patents cover ornamental designs of automobiles, office supplies, furniture, and beverage containers. In *Egyptian Goddess, Inc. et al. v. Swisa, Inc. et al.*, the Court of Appeals for the Federal Circuit adopted a new standard for determining when a U.S. design patent is infringed.

Traditionally, courts have used a two-part test to determine infringement of a design patent: (1) the ordinary observer test and (2) the point of novelty test. Under the ordinary observer test, “if in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.” Conversely, the point of novelty test focuses on those features that distinguish the patented design from the prior art. Once the point or points of novelty have been determined, then the accused device must appropriate that point of novelty to be found to be infringing. In the past, these two distinct tests together must have been met for the accused device to be found to infringe a design patent. Sometimes it has been difficult to apply the point of novelty test when the patented design has numerous features that could be considered points of novelty or when there are multiple prior art references that must be considered.

The case involved Egyptian Goddess’ patent claiming a design for a nail buffer. Egyptian Goddess’ nail buffer is a rectangular, hollow tube with a generally square cross-section, featuring a buffer surface on *three of the four* sides of the rectangle. Swisa made a rectangular, hollow tube nail buffer having a square cross-section, but featuring buffer surfaces on *all four* sides. Applying the two-part test for infringement, the district court found no infringement because, in the district court’s view, the “point of novelty” of Egyptian Goddess’ patent was a “fourth, bare side to the buffer” and since Swisa’s product did not incorporate this fourth, bare side, there was no infringement.

On appeal, a three-judge panel of the Federal Circuit affirmed the district court’s finding. As a result, Egyptian Goddess asked all the judges of the Federal Circuit to reconsider the ruling of the three-judge panel. The Federal Circuit agreed to rehear the case, considering the issue of whether the “point of novelty” test should continue to be used as a test for infringement of a design patent. Egyptian Goddess argued that the Federal Court should no longer recognize the point of novelty test, as an application of the ordinary observer test that is performed from the perspective of an ordinary observer who is familiar

with the prior art would serve the same purpose. In other words, Egyptian Goddess advocated for an approach that involved a three-way visual comparison between the patented design, the accused design, and the closest prior art. Swisa countered that the Supreme Court of the United States had adopted the point of novelty test and that the Federal Circuit could not abandon it.

After a careful consideration of the prior cases on this point, the Federal Circuit disagreed with Swisa. Instead, the Federal Circuit admitted some of the shortcomings of the point of novelty test and determined that it should no longer be used in the determination of design patent infringement. And it held that the ordinary observer test should be the sole test for determining whether a design patent has been infringed. The Federal Circuit noted that in simple cases where it is clear that the patented design and the accused design are sufficiently distinct to the ordinary observer, then the inquiry may end without consideration of the prior art. But, when the two designs are not plainly dissimilar, then the proper question is whether the ordinary observer would consider the two designs to be substantially the same in the light of the prior art.

The Federal Circuit upheld the new test to the case, noting that the difference between the two designs was the additional raised buffing pad on Swisa's product. After considering the expert testimony about the two closest prior art nail buffers, the Federal Circuit determined that an ordinary observer familiar with the closest prior art would not believe Swisa's product to be the same as the patented design. Therefore, the Federal Circuit found, in using the new test, that it agreed with the lower court's ruling that Swisa's product did not infringe Egyptian Goddess' design patent.

### **FOR FEDERAL COURT TO HAVE JURISDICTION IN PATENT CASES, FEDERAL PATENT LAW MUST CREATE PLAINTIFF'S CAUSE OF ACTION OR PLAINTIFF'S RIGHT TO RELIEF MUST DEPEND ON RESOLUTION OF A SUBSTANTIAL QUESTION OF PATENT LAW**

Federal courts are courts of limited subject matter jurisdiction, only allowed to hear certain types of cases defined by the law. If the federal court determines that a case does not fall into one of these defined categories, then the court must dismiss the case, usually leaving litigants to file their cases in state court.

Lawsuits that arise "under any Act of Congress relating to patents" fall under the jurisdiction of

federal courts. In *Christianson v. Colt Industries*, the United States Supreme Court set forth a two-part test for determining if a lawsuit arises under the patent laws: (1) the plaintiff's complaint illustrates that a federal patent law creates the cause of action; or (2) the plaintiff's right to relief necessarily depends on the resolution of a substantial question of federal patent law. If a patent lawsuit falls into either category, then a federal court has jurisdiction to hear the lawsuit. Notably, a federal court does not have jurisdiction to hear a lawsuit based solely on any defenses asserted by the defendant in response to the plaintiff's complaint.

In *ExcelStor Technology Inc. v. Papst Licensing GMBH & Co.*, the Court of Appeals for the Federal Circuit affirmed a lower court finding that it did not have jurisdiction to hear a case brought by a plaintiff who merely invoked defenses to federal patent law. The ExcelStor case involved a license to manufacture computer products. In 2004, ExcelStor Technology entered into a license agreement with Papst Licensing GMBH in which Papst granted ExcelStor a non-exclusive license to manufacture patented hard disk drives in exchange for royalty payments. As part of the agreement, Papst, on a quarterly basis, was to notify ExcelStor of any other royalty-bearing licenses for the patented hard disk drives. For the next three years, Papst sent numerous notice letters to ExcelStor indicating that no royalties were being paid to Papst, other than those paid by ExcelStor. At some point in 2006 or 2007, ExcelStor became aware of a license agreement between Papst and the Hitachi Corporation. When ExcelStor asks Papst about this agreement, Papst assured ExcelStor that Hitachi was not paying royalties and Papst continued to send notice letters to ExcelStor reporting no royalty payments from third parties on the hard disk drives.

Believing that Papst's representations and notice letters were fraudulent, ExcelStor sued Papst in federal district court in Illinois in 2008, making three claims against Papst: (1) a declaratory judgment that Papst had violated the "Patent Exhaustion/First Sale doctrine;" (2) Papst had committed fraud by failing to disclose its violation of the "Patent Exhaustion/First Sale doctrine;" and (3) Papst had breached its agreement with ExcelStor by failing to notify ExcelStor of its violation of the "Patent Exhaustion/First Sale doctrine." Papst asked the federal district court to dismiss the action arguing that the court did not have subject matter jurisdiction to hear the case. Agreeing with Papst, the federal district court dismissed the case for lack of subject matter jurisdiction.

On appeal, the Federal Circuit considered whether

the district court had jurisdiction to hear ExcelStor's lawsuit. ExcelStor argued that its three causes of action arise under the patent exhaustion doctrine of patent law and therefore within the jurisdiction of the federal courts. Applying the *Christianson* test from the Supreme Court outlined above, the Federal Circuit first looked at ExcelStor's complaint, finding that patent law did not create the cause of action in the complaint and that in arguing that it did, ExcelStor had misunderstood the nature of the patent exhaustion doctrine. The exhaustion doctrine prohibits patent holders from selling a patented article and then invoking patent law to control post-sale use of the article; it is a defense to patent infringement, not a cause of action. Therefore, ExcelStor's claims merely invoked defenses to hypothetical claims of patent infringement and thus did not "arise under" patent laws as required by the first prong of the *Christianson* test.

In addition, the Federal Circuit found that ExcelStor's claims failed the second prong of the test, requiring resolution of a substantial question of federal patent law, because ExcelStor did not allege that Papst invoked the patent laws to control the post-sale use of the hard disk drives. ExcelStor's complaint merely alleged that Papst violated the patent exhaustion doctrine by collecting two different royalties from the same patented product. While this scheme may have been in violation of the individual patent license agreements or may prove to be fraudulent, the Federal Circuit found that patent law was not a necessary element of either determination and affirmed that the case should be dismissed, noting that ExcelStor should bring its case to a state court under state law of contract and fraud.

### **OPINIONS OF COUNSEL ARE A FACTOR IN ANALYZING INTENT FOR INDUCED INFRINGEMENT**

Patents can be infringed directly or indirectly. Direct infringement occurs by the making, using, offering to sell, selling, or importing into the United States any patented invention, without authority, during the term of the patent. Knowledge of the patent or an intent to infringe is not required for a finding of direct infringement. In contrast, indirect infringement can only arise when the accused indirect infringer has at least some knowledge and intent regarding the patent and the infringement, and can occur only if there has been direct infringement.

Indirect infringement can be induced or contributory. Induced infringement occurs when one knowingly ("knew or should have known") induces

infringement and possesses "specific intent" to encourage the direct infringement. Contributory infringement occurs when a seller provides a part or component that, while not itself infringing of any patent, has a particular use as part of some other machine or composition that is covered by a patent.

In *Broadcom Corp. v. Qualcomm Corp.*, the Court of Appeals for the Federal Circuit analyzed whether Qualcomm infringed Broadcom's patents. The case involves wireless voice and data communications on cellular telephone networks, specifically third-generation (3G) baseband processor chips that enable a cell phone's basic communication functions, along with other features such as graphics, multimedia, and data transfer. Broadcom and Qualcomm compete in the market for these processor chips. Broadcom owns certain patents related to this technology and notified Qualcomm that it was infringing Broadcom's patents. In response, Qualcomm asked its attorneys for a written opinion on the validity of Broadcom's patents, but did not ask for a written opinion on whether Qualcomm's products infringed Broadcom's patents.

Broadcom subsequently sued Qualcomm for patent infringement, and following a trial, the jury found that Qualcomm directly infringed and induced infringement of multiple claims of Broadcom's patents, and that Qualcomm's infringement was "willful," entitling Broadcom to punitive damages tripling the compensatory damages. The jury's determination came after the judge provided the jury with instructions on the law of willful infringement, and during post-trial motions, the judge denied Qualcomm's motion to overturn the jury verdict.

Ten days later, the Federal Circuit released its decision in *In Re Seagate Technology*, holding that willful infringement treble damages now requires "at least a showing of objective recklessness." Accordingly, to establish willful infringement, a patentee must now show that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, eliminating the "affirmative duty of due care" that has historically been created by notice of infringement. Thus, the willfulness standard in *Seagate* differed from the pre-*Seagate* jury instruction given at trial. As a result, the district court set aside the willfulness part of the jury's verdict and Broadcom elected to accept the jury's verdict without willfulness rather than proceed to a complete new trial.

On appeal, Qualcomm argued that the Federal Circuit should overturn the induced infringement verdicts because the pre-*Seagate* jury instructions,

which prompted the district court to set aside the willfulness verdict, also required the Federal Circuit to overturn the induced infringement verdicts predicated on specific intent necessary to find inducement. Qualcomm contended that the willfulness verdict was based essentially on Qualcomm's having not obtained the non-infringement opinion from its attorneys. Consequently, Qualcomm argued that the Federal Circuit should also overturn the jury's finding of induced infringement.

In response, Broadcom contended that the district court used the same specific intent standard advocated by Qualcomm and that the pre-*Seagate* instructions at issue properly identified opinions of counsel as one factor to consider within the totality of circumstances regarding the inquiry into specific intent for indirect infringement. Broadcom argued that opinion of counsel letters remain relevant to this intent inquiry and that the *Seagate* case did not change this inquiry.

Initially, the Federal Circuit outlined its precedent for establishing the intent element of a claim for induced infringement. For a claim of induced infringement, the defendant must have (1) intended to cause the acts that constitute the direct infringement and (2) known or should have known that its action would cause the direct infringement. Inducement requires evidence of culpable conduct, directed to encouraging another's infringement, not merely that the inducer had knowledge of the direct infringer's activities.

Then, in comparing the district court's jury instructions on induced infringement with precedent, the Federal Circuit found the instructions given by the district court were consistent with precedent. Qualcomm, however, objected to the instruction given by the district court that in determining whether Qualcomm "knew or should have known" its induced actions would constitute infringement, the jury may consider all of the circumstances, including whether or not Qualcomm obtained and followed the advice of a competent lawyer. Qualcomm argued in light of *Seagate* that opinions of counsel are no longer relevant in determining the intent of an alleged infringer in the context of induced infringement.

The Federal Circuit disagreed, holding that *Seagate* did not alter the specific intent requirement for inducement, reiterating that inducement requires that the alleged infringer knowingly induced infringement and possessed specific intent to encourage another's infringement, and noting that this intent may be inferred from all the circumstances. Because opinion of counsel evidence, along with other factors,

may reflect whether the accused infringer "knew or should have known" that its actions would cause another to directly infringe, the Federal Circuit held that such evidence remains relevant to the second prong of the intent analysis. The Federal Circuit disagreed with Qualcomm's assertion that the failure to procure an opinion of counsel may be probative of intent in the context of induced infringement and determined that a new trial on induced infringement was not warranted.

### **WHETHER BREACH OF LICENSE IS SUBJECT TO INJUNCTIVE RELIEF TURNS ON WHETHER BREACHED PROVISION IS A CONDITION OF THE LICENSE OR A MERE COVENANT**

If a license has conditions that limit its scope and the licensee acts outside that scope, then the licensor can bring a tort action for copyright infringement and obtain statutory damages and injunctive relief. However, if the terms that are violated are merely covenants, the violation is governed by contract law and such relief is not available.

In *Robert Jacobsen v. Matthew Katzer et al.*, the Court of Appeals for the Federal Circuit found that terms of an open source license agreement were conditions and violation of those conditions was infringement under copyright law, subject to injunctive relief. The case involved commercial software products used to control model trains. Robert Jacobsen holds copyright to certain model train computer programming code and makes this code available for public download without a fee pursuant to an Artistic License, which is an "open source" or public license. This license allows a user to copy Jacobsen's files free of charge and may modify the material in any way, including using the code as part of a larger, possibility commercial software. The license also requires the user to insert a prominent notice of attribution to Jacobsen. Specifically, the Artistic License grants users the right to copy, modify, and distribute the software provided that the user insert the prominent notice in each changed file stating how and when the user changed the file, among other things.

Matthew Katzer and Kamind Associates, the defendants, develop similar model train software. Jacobsen accused Katzer/Kamind of copying certain parts of his software code and incorporating them into the Katzer/Kamind software without following the terms of the license, specifically failing to include the attribution notice.

As a result in 2007, Jacobsen filed suit for copyright infringement in United States District Court

for the Northern District of California. The district court found that the Artistic License created an “intentionally broad” nonexclusive license that was unlimited in scope and thus did not create liability for copyright infringement. Implicitly, the district court treated the limitations in the Artistic License as contractual covenants rather than conditions of the copyright license.

On appeal, Jacobsen argued that he should have a cause of action for copyright infringement based on the terms of his open source license that defined the scope of the license. Katzer/Kamind argued that these terms do not limit the scope of the license and are merely covenants, providing contractual terms for the use of the materials.

Initially, the Federal Circuit stated that several types of public licenses have been designed to provide creators of copyrighted materials a means to protect and control their copyrights. Such open source licensing has allowed creative collaboration to advance the arts and sciences and are used by Massachusetts Institute of Technology’s OpenCourseWare project, the GNU/Linux operating system, the Perl programming language, the Apache Web server, and Wikipedia, to name a few. Open Source software projects allows computer programmers from around the world to write and debug software programs at a faster rate and lower cost than if they worked independently. In exchange for and in consideration for this collaborative work, the copyright holder permits users to copy, modify, and distribute software code subject to conditions, such as an attribution notice, that serve to protect downstream users and to keep the code accessible. The Federal Circuit noted that while traditionally copyright owners sold their material in exchange for money, the lack of money changing hands in open source licensing does not mean that there is no economic consideration between the parties. The open source license may allow the copyright holder to generate market share, increase its reputation by incubating open source projects, or improve its product rapidly and free of charge through the assistance of others.

Turning to this case, the Federal Circuit noted that the parties did not dispute that Jacobsen is the holder of the copyright for the software and that Katzer/Kamind copied, modified, and distributed por-

tions of Jacobsen’s software. Accordingly, Jacobsen could make out a case for copyright infringement, but for the Artistic License to Katzer/Kamind. Thus, Federal Circuit needed to evaluate whether Katzer/Kamind’s use of the software was outside the scope of the license. The heart of the argument on appeal concerned whether the terms of the Artistic License are a condition of, or merely covenants to, the copyright license. The Federal Circuit found that Katzer/Kamind’s argument was premised upon the assumption that Jacobsen’s copyright gave him no economic rights because he made the code available to the public at no charge. Katzer/Kamind further argued that copyright law does not recognize a cause of action for non-economic rights.

In examining the Artistic License, the Federal Circuit noted that the license stated on its face that the document created conditions and the license used the traditional language, “provided that,” which, under California law, the applicable law in this case, typically denotes a condition. Further, the Federal Circuit found that the attribution conditions in the Artistic License are vital to enable the copyright holder to retain the ability to benefit from the work of downstream users. Contrary to the district court, the Federal Circuit found that these terms were both clear and necessary to accomplish the objectives of the open source licensing collaboration, including economic benefit.

Finally, the Federal Circuit held that copyright licenses are designed to support the right to exclude; money damages alone do not support or enforce that right. Thus, these types of license restrictions might well be rendered meaningless absent the ability to enforce through injunctive relief.

For these reasons, the Federal Circuit found that it is outside the scope of the Artistic License to modify and distribute the copyrighted software without the notice and other terms as specified in the Artistic License, holding that the language of the Artistic License creates conditions to protect the economic rights at issue in granting a public license. Accordingly, the Federal Circuit remanded the case for further proceedings consistent with its finding that the terms of the Artistic License copyright conditions enforceable through injunctive relief. ■

