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INTELLECTUAL PROPERTY LITIGATION

BY LEWIS R. CLAYTON

Plaintiff Needs Proof of Defendant's Market Power in Tying Product

In 1947, the U.S. Supreme Court upheld an antitrust claim brought by the United States challenging contracts under which International Salt Co. required that lessees of patented machines designed for producing brine and adding salt to canned foods use only salt sold by the company. *Int'l Salt Co. v. United States*, 332 US 392 (1947).

The Court held that such "tying" arrangements—linking use of the patented machines to the purchase of unpatented supplies—were per se violations of the antitrust laws. Where a per se violation is shown, an antitrust plaintiff is usually not required to prove that the challenged practice has actually had a substantial effect on competition.

International Salt has been read to establish that tying arrangements involving patented items are per se illegal, because the owner of a patent is presumed to have "market power"—the ability to affect prices in the market. Whether a practice is considered a per se violation is often a decisive issue in antitrust litigation.

Over the years, economists, law professors, administrative agencies and the lower courts have criticized the market power presumption applied in *International Salt* as a relic of a bygone era in antitrust enforcement, which failed to take into account the reality that many— and perhaps nearly all—patents do not confer market power. Last month, in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 126 SCt 1281 (2006), the Supreme Court agreed with that assessment, overruling the *International Salt* presumption.

In *Independent Ink*, Illinois Tool Works marketed patented printheads and ink containers used for printing barcodes on packaging materials. It required that users of the patented products buy ink exclusively

from the company. The trial court dismissed on summary judgment an antitrust claim brought by Independent Ink, a competitive ink producer. The court found that Independent Ink had failed to produce evidence that Illinois Tool Works had market power and therefore had unreasonably restrained competition.

The U.S. Court of Appeals for the Federal Circuit reversed and remanded, finding that Independent Ink could rely on a presumption of market power to support a claim under §1 of the Sherman Act. Acknowledging that *International Salt* had come under attack, the Court of Appeals held it was nevertheless bound to follow it.

A unanimous Supreme Court held that the time had come to lay to rest the presumption that possession of a patent confers market power. It unequivocally held that in "all cases involving a tying arrangement"—whether or not a patent covers the tying product—plaintiff "must prove that the defendant has market power in the tying product."

In reaching that result, the Court was most influenced by the 1988 amendment of §271(d)(5) of the Patent Act, which provides that mere ownership of a patent will not support a presumption of market power in tying cases brought under the doctrine of patent misuse. That doctrine provides that a patent is unenforceable while it is "misused" by the patent owner. It would be "absurd," the Court found, to assume that Congress had abolished the presumption for misuse, but wanted to preserve it as a basis for antitrust liability.

Also persuasive was the "virtual consensus" against the presumption among economists, reflected in the fact that "the vast majority of academic literature recognizes that a patent does not necessarily confer market power." The 1995 Antitrust Guidelines for the Licensing of Intellectual Property issued by the Department of Justice and the Federal Trade Commission reached the same conclusion. And the Court acknowledged that its own attitude towards tying arrangements had changed radically over the years. The presumption, it concluded, was no more than a "vestige of the Court's historical distrust of tying arrangements…."

Independent Ink can hardly be considered a surprise —any other decision would have turned back the clock in antitrust jurisprudence, and been inconsistent with the Court's modern views on tying and other restraints of trade. *Independent Ink* will remove the uncertainty that lingered as long as *International Salt* and similar cases were on the books, and may further a more careful and rational analysis of business arrangements involving patents and other intellectual property rights.

Patents

Bicon, Inc. v. The Straumann Co., 2006 WL 688797 (Fed. Cir. March 20, 2006), emphasizes one of the doctrines the Federal Circuit has developed to limit the otherwise broad reach of the doctrine of equivalents. Bicon held a patent on an apparatus used with dental implants. Bicon argued that a portion of Straumann's device was equivalent to an element of its invention, notwithstanding differences in shape. The Federal Circuit noted, however, that the patent contained a "detailed recitation" of the shape of the element at issue. In such cases, a patent claim is "properly accorded correspondingly limited recourse to the doctrine of equivalents." That principle, the Court found, has "special application" where the claim recites a particular shape that "clearly excludes distinctly different" shapes. Where a claim is so specific, it operates as an implicit disclaimer of exclud-

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ed subject matter, so that the patentee is "barred" from asserting infringement by equivalents. On that basis, summary judgment of noninfringement was affirmed.

SmithKline Beecham Corp. v. Apotex Corp., 439 F3d 1312 (Fed. Cir. 2006), held SmithKline's "product-by-process" claim concerning its blockbuster drug Paxil invalid, as anticipated by an earlier SmithKline patent that claimed the product itself. A "product-by-process" claim is "one in which the product is defined at least in part in terms of the method or process by which it is made." Such claims originally were made in cases where inventors could not define a novel product without referring to the process used to make it.

Several district courts have complained that Federal Circuit law concerning proper construction of such claims is in disarray. The majority of the SmithKline panel held that an earlier disclosure of a product anticipates a later product-by-process claim. "[O]ne cannot avoid anticipation by an earlier product disclosure by claiming the same product more narrowly, that is, by claiming the product as produced by a particular process." Judge Pauline Newman, in dissent, criticized the majority's "extraordinarily mischievous" decision, concluding that, in the case of the patent at issue, the process steps had to be construed as limitations, so that an earlier patent not disclosing that process could not anticipate. Ironically, the earlier patent that was held to anticipate the product-by-process claim was held invalid by the Federal Circuit last year.

In *Andrew Corp. v. Beverly Mfg. Co.*, 415 FSupp2d 919 (N.D. Ill. 2006), the court barred a defendant accused of willful patent infringement from relying upon three opinion letters of counsel, where the law firm issuing the letters had an ethical conflict. Unknown to the defendant and the lawyers who signed the letters, other lawyers at the firm were then representing the plaintiff in different patent matters. There was no evidence that the attorneys who signed the letters had ever worked for the plaintiff, or that any confidential information of the plaintiff had been communicated to them. Rejecting defendant's argument that it should not be penalized for the failings of its counsel, the district court held that defendant's "affirmative obligation to seek and obtain competent legal advice from counsel included the obligation to obtain legal advice from a counsel who was free from ethical conflicts." The court observed that defendant "may seek recourse from [the firm] elsewhere if it desires." As the issue of willful infringement focuses upon the infringer's state of mind, it can be argued that an ethical conflict unknown to the defendant should be dealt with as a matter of professional discipline, rather than through an exclusion order.

Trademarks

Congress appears poised to pass legislation overruling a Supreme Court opinion that created a significant impediment to claims under the federal Trademark Dilution Act. H.R. 683, 109th Cong. (2005), would amend the act to allow owners of famous trademarks to seek an injunction against uses of a mark that are "likely" to cause dilution of the famous mark. That language overrules *Moseley v. V. Secret Catalogue, Inc.*, 537 US 418 (2003), which required a "showing of actual dilution, rather than [merely] a likelihood of dilution." The bill also provides that relief may be sought by an owner of a famous mark that is "distinctive, inherently or through acquired distinctiveness." It thereby would overrule decisions such as *Nabisco, Inc. v. P.F. Brands, Inc.*, 191 F3d 208 (2nd Cir. 1999), which limited dilution to marks that are inherently distinctive, not those that acquire "secondary meaning" through widespread use. The bill passed the House by a wide margin and, with amendments regarding other issues, was approved by the Senate by unanimous consent. Trademark lawyers who regarded the holdings of *Moseley* and *Nabisco* as inconsistent with the purposes of the Dilution Act will be happy to see a final version of the bill enacted.

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Under 19 USC §1337, the International Trade Commission (ITC) can prevent the importation of goods that infringe a registered U.S. trademark, including "grey goods"—products produced by, or with the consent of, the trademark owner, but not authorized for sale in the United States.

In *Bourdeau Bros. Inc. v. Int. Trade Comm.*, 2006 WL 799192 (Fed. Cir. March 30, 2006), the Federal Circuit held that excludable grey goods include products manufactured in the United States exclusively for export. The Court of Appeals reasoned that the statute is designed to prevent the importation of trademarked goods that are materially different from products authorized for sale in the United States—where the products are made is irrelevant. The court went on to hold, however, that a trademark owner asserting a claim under the statute bears the burden to show that "all or substantially all" of the products it sells in the United States are materially different from the grey goods it seeks to exclude. In order to discharge that burden, moreover, the trademark owner must overcome a "presumption" that any sales made in the United States by authorized dealers are in fact authorized by the trademark owner.

In *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 2006 WL 800756 (SDNY March 30, 2006), defendants, who sell prescription drugs over the Internet, contracted with Internet search engines to have their Web sites prominently displayed as sponsored links when Merck's ZOCOR trademark is used in an Internet search. Following the rationale of *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F3d 400 (2d Cir. 2005), which concerned the use of trademarks to trigger Internet pop-up ads, the district court dismissed trademark infringement claims challenging the contracts. It held that, in the contracts, defendants do not employ the mark "in any way to indicate source or sponsorship," and therefore do not use the mark "in a trademark sense."

Copyright

In the words of Judge Charles S. Haight Jr. in *Roberts v. Keith*, 2006 WL 547252 (SDNY March 7, 2006), §507(b) of the Copyright Act "states with deceptive simplicity" that a civil copyright infringement claim must be brought within three years after the claim "accrued." But whether a claim accrues at the time of injury, or instead when the plaintiff discovers, or should have discovered, the violation is still an unsettled question. Endorsing the reasoning of *Auscape Int'l v. Nat'l Geographic Soc'y*, 409 FSupp2d 235 (SDNY 2004), the *Roberts* court held that, based on the statutory structure and legislative history of the act—and particularly the legislative goal of certainty—accrual occurs at the time of injury. The court also rejected the "continuous wrong" doctrine, which allows recovery for all infringements as long as suit is brought within three years of the last act of infringement. Instead, it found that a plaintiff may recover only for those acts of infringement occurring within three years of filing suit. The court went on to hold, however, that plaintiff had adequately alleged that defendant had fraudulently concealed the existence of a cause of action, thus tolling the statute for the entire period during which "the fraud is effective."