



Pro-competition Trends in IP Licensing 2018

By Lauren J. Arnold and Sean Kim

Recent case law reflects an environment that favors healthy competition and innovation. A recent decision from the U.S. Court of Appeals for the Second Circuit¹ ruled that the common law restrictions on non-compete agreements are applicable to intellectual property licenses. In *Crye*, the appellants licensed patented camouflage patterns to petitioners Duro Textiles, a printer company, for products sold to private customers and to the U.S. Army. After the license had expired, Duro contracted to supply the Army with a new-patterned camouflage fabric. The appellants in *Crye* alleged that Duro Textiles violated the non-compete provision in their contract with Crye Precision. While the court of appeals acknowledged that the appellants had a legitimate interest in protecting their intellectual property, they stated that the non-compete provision was too expansive. The prohibition from making “any products that are similar” to the camouflage pattern design with respect to “color palette, pattern, arrangement or placement of any elements incorporated” in the original product was ruled unreasonable in scope and thus unenforceable.² The court explained that enforcement of such a provision would be contrary to public policy.³ As such, it seems that the public policy discussed by the court aligns with the “procompetitive intellectual property licensing” supported by the updated Antitrust Guidelines for IP Licensing issued by the DOJ and FTC.

The *Crye* case is particularly interesting in that it seems that the non-compete provision at issue was effectively a warranty from Duro that it would **never** infringe Crye’s intellectual property rights. The language of the License Agreement with Duro Textiles is as follows:

Intellectual Property. [Duro] acknowledges and agrees that it will not disassemble, decompile[] or reverse engineer MULTICAM or any other intellectual property right of CRYE, including patent, trademark[] and copyrights, licensed from CRYE or, *during or after the term or expiration of this Agreement*, make any products that are similar to MULTICAM through color palette, pattern or arrangement or placement of any elements incorporated in MULTICAM. Furthermore, [Duro] agrees that it shall not make any additions to, new

¹ *Crye Precision v. Duro Textiles*, 689 Fed. Appx. 104 (2d Cir. 2017).

² *Id.* at 106.

³ *Id.*

renderings of, or modifications, embellishments, *derivative works*[] or other changes of or to MULTICAM or any other intellectual property rights of CRYE without CRYE's prior written consent and [Duro] agrees that all such additions, renderings, modifications, embellishments, derivative works or otherwise shall be and remain the sole property of CRYE. (Emphasis added).⁴

In some ways, this is a particularly innovative strategy by *Crye* because not only does it prevent competition by this licensee; it also survives the term of the actual Agreement and essentially gives Crye lifelong assurances that even a long-expired licensee could not infringe without fear of both infringement action and breach of contract action. But in line with the 2017 IP Licensing Guidelines, such a provision that seemingly has no ability to be terminated even with the expiration of the license would be unduly burdensome on the licensee and would appear to contravene the 2017 IP Licensing Guidelines' policy of promoting competition.

Additionally, in *Illinois Tool Works Inc. v. Independent Ink, Inc.*,⁵ the court subscribed to federal agencies' view that a patent does not necessarily confer market power on the patentee⁶ in all cases, and that a related "tying arrangement" remains supportive of a competitive market.

In *Illinois Tool Works*, a patent holder, Illinois Tool Works, manufactured and printed systems that included a patented impulse ink jet printhead, a patented ink container and a specially designed but unpatented ink. The patent holder's customers agreed that they would purchase their ink exclusively from the patent holder and that neither they nor their customers would refill the patented containers with any other kind of ink. However, Independent Ink, the ink manufacturer at issue, developed an ink with the same chemical composition as the unpatented ink sold by the patent holder. The facts of this case included a tying arrangement, which is defined as, "when a seller conditions its sale of a patented product (the 'tying' product) on the purchase of a second product (the 'tied' product)."⁷ Independent Ink attempted to assert in a counterclaim that this tying arrangement was anti-competitive and a violation of anti-trust law, on the basis that Illinois Tool Works necessarily has market power in the tying product by the mere grant of its patent. The court found that no such automatic presumption is warranted, and in all cases involving this type of tying arrangement, the plaintiff must **prove** that the defendant has market power in the tying product.⁸

In the past, the Supreme Court has strongly disapproved of tying arrangements as anti-competitive. However, it has now moved away from that sentiment, and finds in this case that "many tying

⁴ *Crye Precision LLC v. Duro Textiles, LLC*, No. 15cv1681 (DLC), 2016 U.S. Dist. LEXIS 54201, at *4 (S.D.N.Y. Apr. 22, 2016).

⁵ *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006)

⁶ Department of Justice, Office of Public Affairs, "DOJ and FTC Seek Views on Proposed Update of the Antitrust Guidelines for Licensing of Intellectual Property." Issued on Aug. 12, 2016, <https://www.justice.gov/opa/pr/doj-and-ftc-seek-views-proposed-update-antitrust-guidelines-licensing-intellectual-property>.

⁷ *Ill. Tool Works*, 547 U.S. at 28.

⁸ *Id* at 46.

arrangements, even those involving patents and requirement ties, are fully consistent with a free, competitive market.”⁹

Clients entering into a license agreement as either licensor or licensee should take into account recent case law when finalizing the terms of the agreement. For licensors of a patent, it is important to take into account any exclusive licensing arrangements to be made with licensees to ensure that licensees would be bound to abide by use and purchase of the licensed patented goods. For licensees, when encountering an overly expansive non-compete or IP warranty, it is worth analyzing its enforceability before entering into a license agreement or before considering terminating an existing license agreement.

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⁹ *Id* at 45.