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IN THE STEWARDSHIP OF BUSINESS MODEL INNOVATION

*By Robert W. Gomulkiewicz**

Patent law scholars often criticize the Federal Circuit because they think it favors patentees.¹ The Supreme Court has reinforced this scholarly critique by taking an usually large number of patent cases in recent years, often reversing the Federal Circuit and admonishing it to avoid patent law exceptionalism.² The Federal Circuit's perceived patent law exceptionalism motivated Professor Xuan-Thao Nguyen to write her article *In the Name of Patent Stewardship: The Federal Circuit's Overreach into Commercial Law*³. Professor Nguyen's concerns about damage to commercial law are not trifles. When it comes to the stewardship of our information economy, the laws that support the commercialization of inventions are just as important as the laws that govern the creation of inventions. Thus, commercial law needs tending just as much as patent law.

In the Name of Patent Stewardship focusses on the Federal Circuit's "extensive overreach" into state contract, secured transactions, fraudulent conveyance, and trust laws.⁴ This Response takes a more optimistic—but still guarded—view of the Federal Circuit's application of state contract law. Professor Nguyen looked at purchase and sale agreements for intellectual property assets; my perspective comes from studying the Federal Circuit's cases related to the enforceability of mass market end user license agreements ("EULAs"). In these EULA cases, the Federal Circuit has proven to be a careful steward of state contract law *by avoiding* intellectual property exceptionalism.⁵

Intellectual property holders use EULAs as part of business model innovation—to create property products with various packages of rights at different price points and to distribute the products in a variety of useful ways. Despite their utility, scholars dislike EULAs for a variety of reasons.⁶ However, courts enforce EULAs just as they do other standard form

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1. See Paul M. Janicke & LiLan Ren, *Who Wins Patent Infringement Cases?*, 34 AIPLA Q. J. 1, 38 (2006). In recent years some scholars have backed away from this criticism. See *id.*; Rochelle Cooper Dreyfuss, *The Federal Circuit: A Continuing Experiment in Specialization*, 54 CASE W. RES. L. REV. 769, 770 (2004).

2. See, e.g., *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398, 415 (2007); *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006).

3. Xuan-Thao Nguyen, *In the Name of Patent Stewardship: The Federal Circuit's Overreach into Commercial Law*, 67 FLA. L. REV. 127 (2015).

4. *Id.*

5. See Robert W. Gomulkiewicz, *The Federal Circuit's Licensing Law Jurisprudence: Its Nature and Influence*, 84 WASH. L. REV. 199, 242–49 (2009).

6. See Robert W. Gomulkiewicz, *Getting Serious About User-Friendly Mass Market Licensing For Software*, 12 GEO. MASON L. REV. 687, 689–92 (2004) (summarizing criticisms).

contracts as long as the user had a meaningful opportunity to review the terms and manifest assent to them.⁷ The Federal Circuit's approach to EULAs follows suit. The court enforced, for example, a "single use" nebulizer license in *Mallinckrodt, Inc. v. Medipart, Inc.*,⁸ the attribution requirement in an open source software license in *Jacobsen v. Katzer*,⁹ and a "one growing season" seed bag license in *Monsanto Co. v. Bowman*¹⁰ (a decision unanimously affirmed by the Supreme Court¹¹). Interestingly, one of the most serious scholarly criticisms of EULAs involves intellectual property exceptionalism; namely, that EULAs should not be treated the same as normal standard form contracts because they involve federally granted intellectual property rights. Many scholars argue that federal intellectual property law should preempt a state-law-enforceable contract that grants fewer rights than a patent or copyright "first sale" or that prohibits reverse engineering, based on the application of either Section 301 of the Copyright Act or the Supremacy Clause of the U.S. Constitution. However, while acknowledging the importance of federal law preemption, the Federal Circuit has not adopted the sweeping version of intellectual property exceptionalism for EULAs advanced by many scholars, nor have other circuits. For example, the Federal Circuit rejected a preemption challenge to a no-reverse-engineering clause in *Bowers v. Baystate Techs., Inc.*,¹² citing freedom of contract as an important policy in its decision, just like the courts in *Blizzard Entm't v. Jung*¹³ and *ProCD, Inc. v. Zeidenberg*.¹⁴ And in cases from *Mallinckrodt* to *Bowman*, the Federal Circuit has enforced license contracts that grant fewer rights than a "first sale," just like the courts in *Jung*, *ProCD*, and *Vernor v. Autodesk, Inc.*¹⁵

One could argue that the Federal Circuit's rejection of EULA exceptionalism is simply another form of pro-patentee bias. However, the Federal Circuit's EULA cases routinely follow and have been followed by EULA cases in most other federal and state courts.¹⁶ Moreover, the Federal Circuit has shown its mainstream approach to EULAs by ruling that end

7. See *id.* (summarizing cases). See also Mark A. Lemley, *Terms of Use*, 91 MINN. L. REV. 459, 459–60 (2006).

8. 976 F.2d 700 (Fed. Cir. 1992).

9. 535 F.3d 1373 (Fed. Cir. 2008).

10. 657 F.3d 1341 (Fed. Cir. 2011).

11. *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1769 (2013), reh'g denied, 134 S. Ct. 24 (2013).

12. 320 F.3d 1317 (Fed. Cir. 2003). See generally Robert W. Gomulkiewicz, *Fostering the Business of Innovation: The Untold Story of Bowers v. Baystate Technologies*, 7 WASH. J.L. TECH. & ARTS 445 (2012).

13. 422 F.3d 630 (8th Cir. 2005).

14. 86 F.3d 1447 (7th Cir. 1996).

15. 621 F.3d 1102 (9th Cir. 2010).

16. See Gomulkiewicz, *supra* note 5, at 237–42.

user licenses exist for the benefit of both licensees and licensors,¹⁷ must be part of an enforceable contract,¹⁸ and cannot be anti-competitive.¹⁹ Taken as a whole, the Federal Circuit's licensing law jurisprudence reflects mainstream application of state contract law to intellectual property rights.

*In the Name of Patent Stewardship*²⁰ helpfully reminds us that the Federal Circuit decides issues of state commercial law more often and in more ways than we realize. But does my description of the Federal Circuit's faithful stewardship of intellectual property licensing mean that Professor Nguyen's criticisms are unfounded? Not at all. Sadly, the Federal Circuit's application of state contract law in intellectual property licensing may be the proverbial exception that proves the "overreach" rule articulated by Professor Nguyen; but happily, the Federal Circuit's licensing law jurisprudence gives the court some guiding principles that it can use in the future when it applies state commercial law of all kinds.

17. See, e.g., *McCoy v. Mitsuboshi Cutlery, Inc.*, 67 F.3d 917, 922 (Fed. Cir. 1995); *Storage Tech. Corp. v. Custom Hardware Eng'g & Consulting, Inc.*, 421 F.3d 1307 (Fed. Cir. 2005).

18. See *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp., Inc.*, 123 F.3d 1445 (Fed. Cir. 1997).

19. See *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed. Cir. 1997).

20. Nguyen, *supra* note 3.