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Avoiding Common Mistakes in Patent and
Technology Licensing (PowerPoint slides)

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**AVOIDING COMMON MISTAKES IN
PATENT AND TECHNOLOGY LICENSING**

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**AVOIDING COMMON MISTAKES IN
PATENT & TECHNOLOGY LICENSING**

1. **Joint Ownership (Usually Bad!)**
2. **Technology vs. Intellectual Property (They're Not the Same!)**
3. **A Promise to Grant is Not a Grant (When You Don't Own What You Paid For!)**
4. **Different Types of IP Grants (Ownership v. License v. Covenant Not to Sue)**
5. **Enforcement Rights vs. Grant Type (They're Not Arbitrary or Independent!)**
6. **Change of Control (Plan Ahead!)**
7. **Reps, Warranties & Indemnification (It's Not Just Boilerplate!)**
8. **Unintended Grants & Consequences**
9. **Royalty Provisions**
10. **Negotiations**

COMMON MISTAKE # 1 – JOINT OWNERSHIP

[TO BE DISCUSSED IN SEPARATE TALK TOMORROW]

**COMMON MISTAKE # 2 –
TECHNOLOGY VS. INTELLECTUAL PROPERTY**

- I. THEY'RE NOT THE SAME!
 - A. Technology
 - 1. Tangibles and Intangibles = Things
 - a. Processes, techniques, know-how, algorithms, software, content, data, databases, protocols, manufacturing processes, business or legal plans, etc.
 - B. Intellectual Property = Legal Rights
 - 1. Patents, copyrights, trade secrets, and trademarks
 - 2. Registrations of, applications to apply for, and priority rights based on, the foregoing

- C. Problems with Commingling Technology + IP: Example
 - 1. Define “Technology” = deliverables + patents
 - 2. Grant license to practice Technology
 - a. License to practice patents independent of the deliverables
 - 3. Give noninfringement guarantee for Technology
 - a. Protects licensee’s own implementations unrelated to the deliverables

- D. Technology Grant v. IP Grant?
1. Pure Technology Grant - appropriate for finished product (e.g., I license you to operate my car)
 - a. Carries an implied license to use all necessary IP of the licensor
 2. Pure IP Grant - appropriate if no technology transfer (e.g., I license you to make and sell products and processes covered by U.S. patent no x,xxx,xxx)
 3. Everything Else - Be very specific:
 - a. Transferability (personal v. transferable);
 - b. Ownership/exclusivity (assignment; exclusive v. nonexclusive license);
 - c. IP type (e.g., patent, copyright, trade secret, etc.);

- d. Right to Exploit
 - i. Patent: make, use, sell, offer for sale, import
 - ii. Copyright: copy, distribute, display, perform, create derivative works, etc.
 - iii. Trade Secret: use and/or ad hoc
 - iv. Trademark: use and/or ad hoc
 - e. Technology;
 - f. Licensed Field;
 - g. Territory; and
 - h. License Term (may not be same as term of Agreement).
- 4. Example: I grant you a personal nonexclusive license under U.S. patent 7,654,321 to make and use widgets in the automobile industry in the U.S. until 12/31/15.

**COMMON MISTAKE # 3 –
A PROMISE TO GRANT IS NOT A GRANT**

- I. WHEN YOU DON'T OWN WHAT YOU PAID FOR
- A. Agreement to assign is not an assignment! (e.g., “I will assign”; “You shall own”; “I agree to assign”)
1. Merely a promise
 2. Does not convey title. *IPVenture v. Prostar*, 503 F.3d 1324 (Fed. Cir. 2007) (Employee IP assignment agreement contained mere agreement to assign, not actual assignment). See also *Stanford v. Roche*, 583 F.3d 832 (Fed. Cir. 2009)
 3. Separate transaction will be required to convey title.
 4. Not enforceable against bona fide purchasers for value (e.g., subsequent assignees). *Film Tec*, 939 F.2d 1568 (Fed. Cir. 1991)

- B. Present assignment of future patents does convey (equitable) title. *FilmTec*, 939 F.2d 1568 (Fed. Cir. 1991)
 - 1. Legal title automatically transferred when invention created and application filed
 - C. Same issues arise for future licenses
 - D. Drafting tip: Always get a present grant of future rights! (e.g., “I hereby assign/grant...”)

**COMMON MISTAKE # 4 –
DIFFERENT IP GRANT TYPES**

- I. TYPES OF GRANT (USING PATENT LAW PRECEDENT)
 - A. Labels are not determinative
 - 1. Courts will correct inappropriate usage
 - 2. May not be what parties intended
 - B. Assignment
 - 1. Must be in writing. 35 USC 261.
 - 2. Forms:
 - a. Transfer of “entire right, title and interest”

- b. Undivided part of foregoing (e.g., joint ownership)

Rite-Hite, 56 F.3d 1538 (Fed. Cir. 1995); *Waterman*, 138 U.S. 252 (1890).

- c. NOT claim-by-claim (patent)
- d. NOT by field of use

Pope, 144 U.S. 248 (1892). Also see *Intl. Gamco*, 504 F.3d 1273 (Fed. Cir. 2007) and *Lucent v. Gateway*, *infra*.

3. How

- a. Formal transfer of title
- b. Informally, by transfer of “all substantial rights”

- i. YES, when:
 - Licensor retained right to obtain foreign patents;
 - Licensor had reversionary interest if Licensee went bankrupt or stopped production;
 - Licensor had right to receive infringement damages from 3Ps (b/c form of consideration for assignment);
 - Licensee was granted right to sue w/obligation to inform Licensor; and
 - Licensee could sublicense only with Licensor's consent [STRANGE]

(Result: Purported exclusive license really assignment)
Vaupel, 944 F.2d 870 (Fed. Cir. 1991)

- ii. NO, when:
 - Grantor retained right to M/U/S for self (for self and existing licensees) [OK];
 - Grant was subject to prior licenses [OK];
 - Grantee given right to sue, but grantor could sue if grantee did not sue [PROBLEM];
 - Grantee was obligated not to prejudice or impair patent rights via suit/settlement [PROBLEM];
 - Grantor could participate in suit by grantee [COULD BE PROBLEM]; and
 - Grantee couldn't assign, except to successor in business [PROBLEM].

(Result: Purported assignment really exclusive license)
Abbott, 47 F.3d 1128 (Fed. Cir. 1995)

- iii. Factors courts consider:
 - Nature and scope of grantor's v. grantee's right to sue [often the most important factor]
 - Grantee's right to sublicense
 - Reversion of rights to grantor upon breach
 - Grantor's right to portion of litigation recoveries by grantee
 - Duration of the grant
 - Grantor's ability to supervise/control grantee's activities
 - Limitations on grantee's ability to further assign its rights

Mann v. Cochlear, ___ F.3d ___ (Fed. Cir. 2010)

- C. Exclusive License
1. Must have beneficial ownership of right to prevent others from making/using/selling. *Ortho*, 52 F.3d 1026 (Fed. Cir. 1995).
 - a. Patentee's express or implied promise that others shall be excluded from exploitation within the exclusive area. *Rite-Hite*, 56 F.3d 1538 (Fed. Cir. 1995); *Waterman*, 138 U.S. 252 (1890)
 - b. Drafting tip: Make licensor explicitly promise not to license 3P
 2. Will have standing to sue regardless of standing to sue clause. *Ortho*, *supra*.
 3. Define exclusivity by field of use / time / geography

- 4. Exclusive even as to licensor?
 - a. Silence can be ambiguous (especially overseas)
 - b. Be explicit: “w/ reserv.” or “w/o reserv.”
 - c. Or better: “ ... exclusive (even as to licensor) ...”

- D. Nonexclusive License
 - 1. Freedom from suit
 - 2. Personal to licensee (default=nontransferable)
 - 3. Encumbrance on (runs with) IP asset

- E. Covenant Not to Sue
 - 1. Similar to nonexclusive license, except
 - 2. Personal from grantor (does not run with IP asset)

**COMMON MISTAKE # 5 –
ENFORCEMENT RIGHTS VS. GRANT TYPE**

- I. THEY'RE NOT ARBITRARY OR INDEPENDENT!
 - A. Degree of “standing to sue” follows grant type
 - B. Generally (using patent law precedent)
 - 1. Only by:
 - a. Patentee. 35 USC 281.
 - b. Successors in title. 35 USC 100(d).
 - c. Exclusive licensees. *Ortho*, 52 F.3d 1026 (Fed. Cir. 1995).

- 2. Infringement suit = legal remedy; plaintiff must hold legal title at time of infringement. *Arachnid*, 939 F.2d 1574 (Fed. Cir. 1991).
 - a. Cannot sue for past damages unless assignor also expressly conveys such right. *Minco*, 95 F.3d 1109 (Fed. Cir. 1996).
 - i. “Entire right, title & interest” not enough
 - b. *Nunc pro tunc* (“now for then”) agreement made post-suit, but purportedly effective pre-suit, is ineffective. *GAIA*, 93 F.3d 774 (Fed. Cir. 1996) ; *Abraxis Bioscience v. Navinta*, 625 F.3d 1359 (Fed. Cir. 2010).
 - c. Drafting tip: Assignee should get “right to sue for past infringements (if any)”
- C. Assignee (a successor in title)
 - 1. Can sue in own name

- D. Exclusive Licensee
1. Standing to sue
 - a. Cannot divest true exclusive licensee of right to sue
 2. Suit in patentee's name (with patentee)
 3. Must join the patentee

Ortho, 52 F.3d 1026 (Fed. Cir. 1995); *Arachnid*, 939 F.2d 1574 (Fed. Cir. 1991).

4. Limited Exception: A patent holding company subsidiary was formed and assigned patents by the (original) patentee, then exclusively licensed patents back to the parent. During litigation (e.g., a DJ defense) by the exclusive licensee, the holding company was not indispensable, and need not be joined, since its interests were fully represented by its parent.

Dainippon v. CFMT, 142 F.3d 1266, 1269 (Fed. Cir. 1998)

- E. Nonexclusive License
 - 1. No standing to sue
 - a. Drafting tip: Cannot give nonexclusive licensee right to sue

- F. Watch for Inconsistent Enforcement Clauses
 - 1. Retaining control (by assignor)
 - 2. Inhibiting control (by assignee or exclusive licensee)
 - 3. Improperly granting control (to nonexclusive licensee)
 - 4. Court will reinterpret grant type and/or enforcement right to be consistent with each other!

II. JOINDER ISSUES

- A. Normally required of all parties having standing to sue (e.g., owners and exclusive licensees)
- B. Are the necessary parties bound by a contractual covenant to join (e.g., voluntarily)?
- C. Do large companies really prefer to be involuntarily joined?
- D. Is involuntary joinder always feasible?
 - 1. On the one hand, recent case law (*dicta*) says exclusive licensors stand in a position of trust to their exclusive licensees, and cannot refuse involuntary joinder. *STV.UNM v. Intel* (Fed. Cir. 2014)
 - 2. Even so, there are personal *ix*. Issues: Rule 19 v. *Independent Wireless* (1928).
- E. Drafting tip for licensee: Get owner to agree to join suit, and also to jurisdiction
- F. Drafting tip for licensor: Get exclusive licensee to agree to join suit, and also to jurisdiction

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**COMMON MISTAKE # 6 –
CHANGE OF CONTROL**

- I. PLAN FOR MERGERS, ACQUISITIONS, ETC.
 - A. IP licenses are by default non-transferable by the licensee
 - 1. Federal common law
 - 2. Contrast free alienability of non-IP agreements
 - 3. California exception? *SuperBrace v. Tidwell*,
2004 WL 2668306 (Cal. App.4th 2004)
(patent license = assignable)
 - B. Silence (or express prohibition on transfer) will bar transfer in situations where the original licensee no longer holds the contract
 - 1. Forward Merger (target into acquirer)
 - 2. Forward Subsidiary Merger (target into acquirer sub.)
(aka Forward Triangular Merger)
 - 3. Asset Sale

- C. Prohibition on transfer (or silence) will generally not trigger anti-transfer clause where original licensee still holds the contract
1. Stock Sale
 2. Reverse Subsidiary Merger (aka RTM)
 - a. *MesoScale v. Roche* (Del. Ch. Feb. 22, 2013) (RTM does not trigger anti-"assignment" clause; follow-on to the court's 2011 decision in the same case denying MTD to study if RTM was assignment by operation of law)
 - b. (?) Except, possibly, in California. *SQL Solutions*, 1991 WL 626458 (N.D. Cal. 1991) (unreported case) (transfer of patent or copyright license, to a competitor of licensor) [probably bad law]

- D. Drafting prohibitions on transfer
1. “Licensee may not assign any right or delegate any obligation under, or transfer in its entirety, this Agreement, to any 3P”
 2. “and any such attempted assignment, delegation or transfer shall be void.”
 - a. Rest. 2d Contracts 322(2)(b) – damages for breach, but assignment not ineffective
 3. Include a broad “deemed transfer” clause (e.g., any operation of law, merger, change of control)
 - a. In RTM/stock purchase, target company would still hold agreement anyway (transfer or not)
 - b. Purpose is to make acquisition a breach, giving non-transferring party ability to terminate for breach

II. BANKRUPTCY

A. BASIC CONCEPTS: *Ipso facto* clause unenforceable because trustee/DIP can reject/assume any executory contract.

11 U.S.C. 363(1), 365(e)(1), 365(f)(1), 365(f)(3) & 541(c)(1)(B).

1. Reject ==> abandon license (*usually against wish of licensee*) to increase value of licensed IP asset prior to sale (*usually where licensor bankrupt*)
2. Assume ==> keep or assign (*to other than licensee*) (*usually where licensee bankrupt*)
3. Most IP licenses are executory
 - a. Licensee obligation to make reports
 - b. Licensee obligation to mark and not to sue
Lubrizol, 756 F.2d 1043 (4th Cir. 1985); cert. denied, 475 U.S. 1057 (1986).

B. EXCEPTION PROTECTING PATENT LICENSOR:

Trustee/DIP may not assume or [and?] assign when non-bankruptcy law excuses accepting another's performance. 11 USC 365(c)

1. or – “hypothetical test” – 3rd, 4th, 5th, 9th, 11th circuits
2. and – “actual test” – 1st circuit
3. Federal IP licenses are personal and licensor need not accept performance from other than original licensee (e.g., fully paid up blanket license)
4. Unless parties clearly intended to allow assignment
 - a. Licensor should draft to emphasize personal
 - b. Licensee should draft as assignable

C. EXCEPTION PROTECTING PATENT LICENSEE:

If trustee/DIP rejects, licensee has choice of:

1. Treating license as terminated & seeking remedy for breach; or
2. Electing to retain rights (IP only), but must continue to pay royalties

11 USC 365(n)

**COMMON MISTAKE # 7 –
REPRESENTATIONS, WARRANTIES & INDEMNIFICATION**

- I. RISK ALLOCATION MECHANISM
 - A. Breach of contract
 - B. Remedies
 - 1. Repair
 - 2. Replace
 - 3. Modify
 - 4. Get license
 - 5. Refund & terminate
 - 6. Liquidated damages (but not penalty)

- II. REPS AND WARRANTIES
 - A. [Tech. Lic.] Conform with specs (beware computer and foreign)
 - B. [Tech./Pat. Lic.] Noninfringement (patents – no way to know)
 - 1. Sufficiency (noninfringement in disguise)
 - C. [Sale/Pat. Lic.] Validity (patents – no way to know)
 - D. [Sale/Excl. Pat. Lic.] No encumbrances (licenses, security interests)
 - E. [Sale/Excl. Pat. Lic.] Timely prosecution (abandonment)

- III. Indemnification
 - A. Sometimes tied to breach of R&W (2-step)
 - B. Often independent provisions (1-step)
 - 1. Not a basis for exiting the agreement
- IV. Exclusions where would not have occurred but for:
 - A. Use outside scope of license
 - B. Modification of technology by licensee
 - C. Combination with subject matter not provided by licensor
 - D. Use with subject matter not approved by licensor
 - E. Use of other than latest version (if avail.)

- F. Consider excluding certain uses
 - 1. Nuclear, aircraft (~ strict liability)
 - 2. Service bureau, outsourcing (multiplier effect)

- V. Noninfringement of 3P IP
 - A. Specify the Operative Date
 - 1. Grantor - “as of effective date”
 - 2. Grantee - “does not and will not”

 - B. Be wary of R&W of patent noninfringement or indemnification against patent infringement
 - 1. Patent = right to exclude, not to practice
 - 2. Never know what patents are out there

3. Grantor - Avoid giving
 - a. Get cap
 - b. Limit via knowledge
 - i. Req'd for patents only
 - ii. Lack of limitation usually not a problem re TS & © because independent development is a complete defense

**COMMON MISTAKE # 8 –
UNINTENDED GRANTS OR CONSEQUENCES**

- I. IMPLIED LICENSES
- II. ESTOPPEL
 - A. Equitable Estoppel
 - 1. Misleading conduct by plaintiff
 - 2. Reliance by defendant
 - 3. Material prejudice to defendant
Aukerman, 960 F.2d 1020 (Fed. Cir. 1992) (en banc)
 - 4. Can happen in very short time. *Aspex v. Clariti*, 605 F.3d 1305 (Fed. Cir. 2010) (aggressive notice letters followed by 3-year silence)
 - B. Legal Estoppel
 - 1. Licensor grants license; and
 - 2. Later tries to interfere (e.g., by asserting after-acquired patent)
Spindelfabrik, 829 F.2d 1075 (Fed. Cir. 1987),
Transcore v. Electr. Trans. Cons., 563 F.3d 1271 (Fed. Cir. 2009)
(even with short form disclaimer of rights not expressly granted)

III. IN RECENT YEARS, COURTS HAVE REPEATEDLY FOUND NEW RIGHTS FOR LICENSEES BEYOND THOSE EXPRESSLY GRANTED

A. Continuation Patents

1. Subject to legal estoppel, and also impliedly licensed, absent a clear intent to the contrary.

General Protecht v. Leviton, ___ F.3d ___ (Fed. Cir. 2011)

B. Reissue Patents

1. “Licensed Patents” = All patents which licensor owns, controls or has right to license on effective date or during term
2. Did not mention reissues of the foregoing
3. Reissues issued after agreement expired were not included in grant, but “should be treated” as such because of parties’ “intent”

- a. Intent was inferred from nothing more than existence of the patent reissue statute!

4. Comment: How can parties’ intent be shown by statute?

Intel v. Negotiated Data Solutions, 703 F.3d 1360 (Fed. Cir. 2012)

C. Have Made Right

1. Grant to make, use and sell inherently includes right to “have made”
2. A contractual disclaimer of rights not expressly granted does not negate the have made right without clear/specific evidence of an intent to negate

Corebrace v. Star Seismic, 566 F.3d 1069 (Fed. Cir. 2009)

D. Wiping Out “No Challenge” Obligations After M&A

1. Party gave “no challenge” covenant as part of litigation settlement
2. The covenantor was later acquired
3. The covenant does not apply to the part of the acquiror’s business not arising from the acquired company, even when the acquiror generally agreed to accept all of the obligations of the acquired company

4. Comment: This effectively wiped out the covenant

Epistar v. ITC and Philips Lumileds, 566 F.3d 1321 (Fed. Cir. 2009)

E. Grants to Unintended Subsidiaries

1. Facts: “Subsidiary” was defined as including any entity that the licensee “now or hereafter” controlled. The agreement had a fixed expiration date, but the patent licenses survived for the life of the patent.
2. Held: Subsidiaries of the licensee, acquired after the expiration date, were also licensed.

Imation v. Philips, 586 F.3d 980 (Fed. Cir. 2009)

F. The recent trend at the courts is clearly anti-patentee (pro-licensee)

1. But see *Endo v. Actavis* (Fed. Cir. 2014)
 - a. Patentee asserted later (non-continuation) patents against a licensee of the original patents
 - b. Agreement had a short form disclaimer
 - c. Fed. Cir.: “You get what you bargain for. And we will not use the implied license doctrine to insert ourselves into that bargain and rewrite the contact”
 - d. Comment: This case bucks the recent trend. Is the momentum slowing?

IV. PATENT EXHAUSTION / FIRST SALE DOCTRINE

- A. Authorized (unconditional) sale of product made under patent license exhausts the patent rights against downstream users
- B. Applies to both device and method claims
- C. If product made/sold under license to patent A also “substantially embodies” patent B, then B exhausted too
 - 1. “substantially embodies” = practicing “essential features” of a claim?
- D. Many open issues remained after *Quanta*

LG Electronics v. Quanta, 553 U.S. 617 (2008)

- E. Some new law after *Quanta*
 - 1. Unrestricted covenant not to sue also exhausts.
Transcore v. Electr. Trans. Cons., 563 F.3d 1271 (Fed. Cir. 2009)

2. Exhaustion = defense, but not basis for DJ.
ExcelStor v. Papst (Fed. Cir. 2008)

3. Licensee's failure to pay royalties does not retroactively convert an authorized sale into an unauthorized one
 - a. Even where the license was "subject to the terms and conditions" of the contract, and another provision deemed to be unlicensed products for which royalties were not paid.
Tessera v. ITC, ___ F.3d ___ (Fed. Cir. 2011)
 - b. But see *Jacobsen v. Katzer*, 535 F.3d 1373 (Fed. Cir. 2008) (open source © license contingent upon terms and conditions; breach led to loss of license, and © infringement suit)

4. Patentee's sale of machine "substantially embodying" a method claim exhausts the patentee's rights against unauthorized sales of (unpatented) copycat consumables used in the machine/method.
- a. *Keurig v. Sturm*, ___ F.3d ___ (Fed. Cir. 2013)
 - i. Method claim covered brewing coffee by poking inlet/outlet holes in a coffee cartridge, adding water, and extracting coffee.
 - ii. Holding: Patentee's machine sales (covered by device claims) exhausted rights v. cartridge sellers
 - iii. Fed. Cir. characterized/distinguished *Quanta* as applicable to exhaustion by sales of unpatented components (different scenario)
 - iv. A conditional sale restricting the brewer purchaser's use could have avoided exhaustion
 - v. Patent exhaustion applies to patents in their entirety, not claim-by-claim

- b. *Lifescan v. Shasta*, ___ F.3d ___ (Fed. Cir. 2013)
- i. Method claim covered improved glucose testing using a meter comparing blood measurements over two sensors on a disposable test strip, and indicating an error if difference > threshold
 - ii. Fed. Cir. stated that a sold product “substantially embodies” the patent if additional steps needed to complete the invention are “non-inventive”
 - aa. Here, strip claims had been rejected due to prior art, plus the spec. & pros. history emphasized inventiveness of the meter
 - bb. “[I]f a patent had actually issued on the strips, the patentability of the strips could be relevant to exhaustion.”
 - iii. Holding: If one item in a patented combination is unpatented and the inventive concept resides in a second item, then selling the second item exhausts a patent on the combination.

- iv. Meters given away for free (or below cost) also cause exhaustion
- aa. Because of the “authorized and unconditional transfer of title”
 - bb. A label notice was not enough to make the sale conditional. There should be an “express contractual undertaking.” Citing *Jazz*, 264 F.3d 1094 (Fed. Cir. 2001)
 - cc. “To be sure, the amount of compensation received by the patentee may in some instances be relevant to ... whether a ... transaction is ... an unconditional transfer or sale as opposed to a conditional sale or license.” Citing *Princo*, 616 F.3d 1318, 1328 (Fed. Cir. 2010) (en banc)
 - dd. A patentee’s “transfer of the right to use the machines ‘exhausted his rights as to those machines’” Citing *Univis*, 316 U.S. 241, 250 (1942).

- vi. What about contributory infringement by the strip seller?
 - aa. “The parties have not argued, and therefore we do not decide, whether there would be any impact on exhaustion principles if a strip were ‘especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial ‘noninfringing use’ within the meaning of 35 USC 271(c).”
- 5. “Conditional sales” can be implemented by post-sale restrictions on the rights granted to the licensee. *Lexmark v. Impression Prods.*, ___ F.3d ___ (2016) (en banc); cert. granted

- F. Practice Tips – Avoiding Exhaustion
 1. Use a conditional sale structure
 2. License, don't sell
 3. If license to make/sell, require licensee's customer be licensed (else unauthorized sale)
 4. Void license *ab initio* if exhaustion is found
 5. State "no exhaustion" = essential term of license critical to meeting of minds; basis for rescission if not true
 6. Grant standstill instead of license or CNTS

- V. LACHES
 - A. Patentee delays filing suit for an unreasonable and inexcusable length of time after it knew (or should have known) of its claim against the infringer; and
 - B. The delay prejudices the infringer
 1. >6 year delay presumed to be prejudicial.
 2. Burden shifts to patentee to show delay was reasonable, or there was no prejudice

3. Prejudice can be either economic or evidentiary.
 - a. Evidentiary Prejudice: Loss of records, evidence, etc. that prevents the infringer from proving another defense separate from laches
 - b. Economic Prejudice: Requires at least some increased expenditures in reliance on the delay
 - i. Owing damages for a longer period because of the delay is not economic prejudice

Hearing Components v. Shure, 600 F.3d 1357 (Fed. Cir. 2010)

VI. GRANTS TO SUBSIDIARY THROUGH PARENT

- A. Absent a piercing of the corporate veil, a parent company is not liable for the acts of its subsidiary
- B. If license agreement with parent also includes subsidiary, parent is not liable if subsidiary breaches
- C. Practice Tip: Expressly require the parent to be responsible for breach by the subsidiary

Dow Jones v. Abblaise, 606 F.3d 1338 (Fed. Cir. 2010)

VII. GRANTS LIMITED TO EXISTING SUBJECT MATTER ONLY?

- A. Licensed patents = those which licensor “owns or controls”
 - 1. Use of present tense means as of effective date under NY law
- B. Affiliates = only those as of effective date, absent an intent to bind future affiliates

Ellington v. EMI Music (N.Y. 2015)

VIII. SUBLICENSE

- A. No broader than licensee's (sublicensor's) rights
- B. Terminates upon expiration of license, unless stated otherwise
- C. Drafting tip for licensee: Plan for survival of end user sublicensees, if necessary
- D. Drafting tips for licensor:
 - 1. Notification of sublicense grants
 - 2. Inform sublicensees to render obligations, \$ to licensor
 - 3. Think about issues like perpetual grants, auto-renewals, etc. in licensee's grants to its sublicensees

**COMMON MISTAKE # 9 –
ROYALTY PROVISIONS**

- I. ROYALTY BASE
 - A. If sales to distributors or via sublicensors - use fixed per unit royalty rather than %
 - B. Gross selling price easier to determine than “net” quantities
 - 1. Does licensee want to open its books?
 - C. Watch out for conveyed or package sales
 - 1. Royalty as % of total price
 - 2. Pro rata allocation based on respective list prices
 - 3. Royalty as fixed \$ per unit
 - D. Watch out for “freebies” and “loss leaders”
 - E. Watch out for non-sale transfers of goods (e.g., payment in kind)
 - F. Watch out for related company sales

G. Economic convenience or misuse?

1. License agreements commonly have royalty base including products of a specified type, whether or not they are actually covered by the patents
 - a. A typical “economic convenience” arrangement.
 - b. Avoids the difficulty (impracticability) of “claims charting” every product, over its geographic and temporal lifecycle (manufacture → distribution → use)
 - c. DJ: The licensee might argue it would be misuse to pay on non-covered products, thus, in order to be valid, the license should be construed to require payment only on covered products.
 - d. Practice Tip: State “economic convenience” and “no misuse”

Powertech v. Tessera (Fed. Cir. Sept 30, 2011)

- II. MOST FAVORED LICENSEE CLAUSE
 - A. If overbroad (“more favorable terms”), causes trouble
 - B. Carefully define basis for comparison
 - C. Limitations
 - 1. Same territory/field/technology
 - 2. Prospective (future) licenses only
 - 3. Licenses with substantially similar terms
 - a. Take all terms or none
 - b. Beware “mutatis mutandis” clauses
 - 4. Notification and acceptance time frames

- D. Exclude (if grantor)
 - 1. Companies in which grantor has interest/affiliation
 - 2. Settlements of past infringements (forbearance, release, etc.)
 - 3. Compulsory licenses
 - 4. Options
 - 5. Cross-licenses
- E. Beware of confidentiality clause conflicts
- F. Specify who decides “more favorable”

- III. RECORDKEEPING, REPORTING, AUDITS
 - A. Require licensee reports
 - 1. Qty. manufactured
 - 2. Qty. sold
 - 3. Returns
 - 4. Samples
 - 5. Related company sales
 - B. Reports should be certified (“to best of licensee’s knowledge”)
 - C. “Three Strikes Rule”

- IV. DON’T FORGET COMPOUND INTEREST ON LATE/MISSING PAYMENTS

COMMON MISTAKE # 10 – NEGOTIATIONS

- I. COUNSEL
 - A. Corporate v. IP v. patent licensing expert
 - B. Get involved early (at term sheet stage)
- II. TERM SHEET STAGE
 - A. Resolve all major issues at term sheet stage
 - B. Don't start drafting too early
- III. NEGOTIATION STAGE
 - A. Negotiate issues collectively
 - B. Avoid price "lock in"
- IV. BE CAREFUL WITH "CARROT AND STICK" LICENSING
 - A. Declaratory judgment motions
 - B. Estoppel and laches
- V. PAY ATTENTION TO CALIFORNIA LAW
 - A. Non-competes invalid (Bus. & Prof. Code 16600)
 - B. Assignment via RTM (*SQL Solutions*)?
 - C. Free transferability of inbound patent licenses (*SuperBrace*)?

SPEAKER BIOGRAPHY – JOSEPH YANG

Joe Yang is founding partner at PatentEsque Law Group, LLP, and previously served as VP & General Counsel of Cryptography Research, Inc., whose patent and technology licensees make over 8 billion security chips worldwide each year.

Joe specializes in handling IP-centric deals (patent licensing/sales, tech transactions, JVs and IP aspects of M&A), and in the use of patents as strategic business assets. He has been lead counsel on hundreds of deals involving billions of dollars, across the computer, electronics, semiconductor, entertainment, consumer goods, manufacturing, energy and healthcare industries. Joe has also been an arbitrator, overseen complex patent litigation, led the development of worldwide corporate patent portfolios, and served as an expert witness for patent/technology licensing related litigation.

Joe is profiled as one of the “World’s Leading IP Strategists” and “World’s Leading Patent and Licensing Attorneys” by Intellectual Asset Management magazine. He is also listed in Marquis “Who’s Who in American Law” & “Who’s Who in America.” Joe co-chairs the “Advanced Licensing” and “Advanced Patent Licensing” courses at the Practising Law Institute, and has written for journals and books, and been cited by courts and treatises, on patent and licensing law. He is teaching the Patent and Technology Licensing” course at Stanford Law School, and previously co-taught the “Patent Law and Policy” course at U.C. Berkeley School of Law.

Joe formerly led the IP Strategy & Transactions practice based in the Silicon Valley office of Skadden, Arps -- a practice he co-founded when he helped launch the firm’s Palo Alto office in 1998.

Early in his career, Joe was a research engineer in the aerospace and energy industries. He holds a J.D. from Stanford and a Ph.D. (in engineering) from the California Institute of Technology, where he has served on the boards of the Alumni Association, and the Caltech Associates. He can be reached at joe@patentesque.com or 650-233-0822.

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