

NEARLY A DOZEN LICENSING TIPS

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INTELLECTUAL PROPERTY LAW ADVANCED COURSE

March 5-6, 2009

San Antonio

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Intellectual Property licensing is a complex exercise that combines both business principles and legal principles. Acknowledging and understanding how these principles are interrelated is important for successful licensing. To that end, I have compiled a list of ten items you need to know to help you successfully negotiate intellectual property licensing transactions. Although the list is by no means comprehensive, these are the essential "need to know" items.

I. KNOW THE CIRCUMSTANCES OF THE LICENSE.

When confronted with a licensing transaction, the first step is to determine the circumstances surrounding the license such as the reason for the license, the nature of the Intellectual Property and the parties involved in the licensing agreement. The circumstances that drive the transaction determine the choices you make.

A. Type of License

The type of license is important: is it a patent license, technology license, trademark license, copyright license or a software license?

B. Reason for License

Knowing the reason also helps you determine the classification of the license, whether it is a Shotgun license, a Roadblock license or a Romance license.

- A Shotgun license is one that you must have as a result of your actions – usually infringement.
- A Roadblock license is one that you need to proceed, but one that you can get around at greater expense and/or time delay.
- A Romance license is one that you want to start a new venture or new direction – optional but desirable.

The reason for writing the license largely determines your options and your negotiating strategy.

C. Nature of IP

The nature of the intellectual property is also a critical consideration. A patent license has different characteristics from a trademark license or a copyright license. A trade secret or "know-how" is different from other licenses. The following table is an attempt

to summarize some of the distinguishing features of licenses base upon the kind of intellectual property involved.

Kind of IP	Distinguishing Elements
Patent License Exclusive Non-exclusive	Patent definition & scope Performance guarantees
Trademark license	Quality control
Copyright license	Scope & distributive rights
Technology – know-how license	Confidentiality, disclosure, & grantbacks

D. Licensee & Licensor

Knowing the situation of the licensee and licensor are also important. Take, for example, university & government licenses, which have well defined limitations. Most university licenses are also government licenses since the work is most often supported by government grants. In recent years, university licensing has proliferated and is conducted through research commercialization departments. Publication rights are usually essential to a university's mission, and the government, while allowing exclusive licenses, requires "march in" rights if the technology is not adequately commercialized. Moreover, university licensing is often constrained by rigid policies that are not subject to negotiation.

Once you have determined the circumstances, you are in a better position to make decisions about the type of license and the limitations you face.

II. KNOW YOUR STRATEGIC POSITION AND THAT OF THE OTHER PARTY - PREPARE, PREPARE, PREPARE.

The need to prepare for a license negotiation cannot be over emphasized. Remember that licensing is primarily a business activity – not a legal exercise. It is vital to success to know as much as possible about the other party's position, motivation, limitations and negotiating "room". It is just as important to have the same information about your client's position. Analyze what your client wants and what negotiating flexibility is available. Frequently, what you discern as important is not shared by the other party, and vice versa. Egos are always involved – that of the decision maker and of the negotiator – so completely vanquishing your opponent is never a good idea. Negotiate with give and take that maximizes the mutual satisfaction of the parties.

Honesty, if not complete candor, is always the best policy. The Rhone Poulenc - DeKalb disputes illustrate some of the problems with dishonest negotiation.

"The research that led to Roundup Ready corn was done under a joint development/license agreement between Rhone-Poulenc Agro (RPA) and DeKalb. RPA did the genetic engineering, and DeKalb did the greenhouse and field testing of the corn. DeKalb was obligated to report the results of its testing back to RPA, and for a while it did so until early in 1994, DeKalb learned that a particular genetic construct which RPA had prepared, known as RD-12, provided plants with up to four times the normal resistance to the Roundup herbicide. In late 1994, RPA and DeKalb renegotiated their license agreement. Not knowing that the RD-125 construct was so valuable, RPA gave DeKalb a paid-up, worldwide license to its intellectual property covering RD-125, which included the right to sublicense. In essence, RPA gave up all of its exclusive rights to its RD-125 work. In the end, not only did the trial court award millions in damages, but it also rescinded the 1994 license agreement. Roundup Ready corn was thus on the market without a license." ¹

Zachary Cornish, Technology Manager, Texas Tech University System OTC and member of the Licensing Managers group of LinkedIn describes the need for negotiation preparation this way.

"It's good to have a handle on the intellectual property strength and weakness before approaching (or getting too far) with a licensee. The biggest Licensees we deal with have their own team of attorneys that will review things. These partners will ask questions though, and I think it is to test the licensing partner to make sure they are dealing with someone who is knowledgeable and honest.

For high capital intellectual property (like pharmaceuticals and transgenic plants) licensing partners like to see two things: 1) proof of concept and 2) strategic IP.

Proof of concept doesn't have much to do with the legal rules behind licensing, just the sale. But the strategic intellectual property is

very important. Larger partners like to have the ability to make strategic choices about international patent rights, and are unhappy when the choices have been made for them via public disclosure before US filing or failure to claim PCT priority off a national application. Not necessarily a deal breaker, but it is something that I know leaves a bad taste in their mouth. If international rights are gone, the technology has to be especially strong and pertinent to the U.S. for a concluded license agreement. There's so much to be said, and so little time, I will leave it with this:

When someone is trying to license you a patent or patent application, you proceed at your own risk in executing a license if you have not done your due diligence in investigating the validity and strength of the intellectual property offered. Why anyone would in-license a patent (or non-granted application) without doing a prior art search and reviewing the file wrapper, I don't know. But I suspect that it happens more often than not."

The motivation of the parties is extremely useful in determining licensing terms and conditions. See, for example, the article about University licensing by Mark Crowell in No. 6 below. In some cases companies wish to license technology (especially product technology) to obtain a source of desired products – Shell Oil Exploration and Production Division did this frequently. In other cases a license is to obtain strategic partners.

All these factors, honest and open negotiation and sensitivity to the needs, motivation and objectives of the other party, influence the way in which you approach and structure a license deal.

III. KNOW WHO OWNS THE INTELLECTUAL PROPERTY RIGHTS.

Technology today increasingly results from collaboration, consultancy, sponsored research or joint research from grants. Much of the technology for "start-up" companies comes from university research and/or other government research. Moreover, many technology businesses grow by acquisition of other companies (and their intellectual property assets). All this greatly complicates ownership and/or title determination for the intellectual property.

Tony Kulesa, Managing Director, ThinkFire Inc. and member of the Licensing Managers group of LinkedIn, advises:

"Fully vet the title chain patents your company has acquired that you are offering to license. A

¹ Engineering in Medicine and Biology Magazine, IEEE; Sept.-Oct. 2004; Volume: 23, Issue: 5

problematic title transfer may be the easiest way to attack a patent."

The issue of ownership is also greatly complicated by our laws on inventorship. A patent must be filed in the name of the inventors, and co-owners of patents have equal rights to independently exploit (and license) all the claims of the patent without consent of the co-owner.

A perfect illustration of the problem of joint effort is the recent suit by Memorylink Corporation against Motorola:

"Wisconsin-based tech firm Memorylink is suing Motorola claiming that the telecom giant defrauded the small company and stole its technology. Memorylink's suit says that founder Peter Strandwitz contacted Motorola in late 1997 to discuss his invention. Strandwitz and Memorylink director Robert Kniskern signed confidentiality agreements and memorandums of understanding with Motorola to work jointly on a wireless technology that transmits live video to a TV set and computer. Motorola stopped working with Memorylink in 2003 but the two Memorylink execs say they unwittingly ceded a portion of their patent rights to Motorola for free. Motorola says Memorylink's claims are without merit."²

Io Dolka, Manager, Business Development at Onconome and member of the Licensing Managers group of LinkedIn, suggests that options to license are useful tools that aid in minimizing risk of acquiring technology:

"The most important issue in terms of licensing for us has been careful selection of inventions relying on strength of intellectual property and scientific data. An important tool that we use for this purpose, is the execution of an exclusive option agreement prior to the licensing agreement. This gives you usually a 6-12 month renewable period where the licensee can have exclusive access to all scientific and intellectual property related data in order to perform an extensive analysis of the strength of the existing patent -and in many cases just an existing patent application- and any additional evaluation of scientific data generated so far. Terms of the -future- license are usually negotiated at the time of the option agreement. In my experience this is one of the

most cost-effective ways to minimize risk and maximize ROI (return on investment) when selecting inventions for in-licensing."

An interesting case for failure to include a proper co-inventor is *Ethicon, Inc. v. US Surgical, Inc.*, 135 F.3d 1456 (Fed. Cir. 1998), summarized by John P. Isacson, who is a partner in the Washington, D.C. office of Proskauer Rose LLP:

"In *Ethicon*, plaintiff Ethicon licensed a patent for a surgical instrument from the named inventor. Ethicon then sued its competitor, defendant US Surgical, for infringing the licensed patent. In response to the lawsuit, US Surgical investigated and determined that there was a second inventor, and that inventor was omitted from the licensed patent. US Surgical obtained a license from the omitted inventor and filed a motion to add the omitted inventor to the patent.

The court agreed that the inventor had been improperly omitted, and ordered correction of the patent. Since US Surgical had a license from, and cooperation of, the omitted inventor, that inventor refused to join in the suit against US Surgical. The suit was dismissed because Ethicon failed to obtain consent from and to join the omitted inventor as a plaintiff in the suit against US Surgical. US Surgical thus could not be held liable for patent infringement under the licensed patent."³

In licensing transactions, licensees want reassurance and licensors want risk-avoidance so be prepared to negotiate indemnities.

As in many other areas of law, you don't have title you don't have anything and the rule is "Buyer Beware!"

A related problem arises in exclusive patent licenses. Naturally, a licensor does not want to pay royalties if the patents are later found to be worthless – and perceives that the patent holder is in the best position to judge this. Moreover, licensees feel that it should be the patentee obligation to assure relief if the licensed patents are invalidated – and often if they are infringed by a competitor (thus reducing the royalty base). Thus, indemnification -- assurance by the patent holder to protect the licensee from paying if the

³ "Maximizing Profits through Intelligent Planning and Implementation," *Nature Biotechnology*, May 2000.

² <http://www.fiercewireless.com/story/memorylink-sues-motorola-over-invention/2008-06-10>

licensed patent is later found invalid or unenforceable - is something that a licensee almost always wants. The patent holder, because it has limited knowledge of invalidating documents at the time of the license, is naturally reluctant. A possible compromise is to indemnify only against documents (including patents) available at the time of the license. Another is, of course, to expressly agree about what is to be done when the validity of the patents become suspect.

In *Miller v. Daybrook*; 291 F. Supp. 896 (W.D. Ohio 1968), an exclusive licensee had an obligation to stop infringers – or license them to generate income for the licensor. The description of the parties activities and personalities is classic. If you have not read this case you are in for a treat.

IV. KNOW THE PROPER CUSTOMARY "FORM". THE "FORM" OF A LICENSE IS IMPORTANT.

While a license does not have to be in any particular form, over the years, certain forms have come into common usage. Because a standard format has become familiar to those accustomed to licensing, a nonstandard format raises suspicions and invites deeper scrutiny.

Therefore, a good formbook is worth your study. If you only occasionally deal with licensing transactions a search of the internet can be productive. Many university commercialization organizations post their standard license agreement online. See:

- <http://www.utsystem.edu/ogc/intellectualproperty/dbmock.htm>
- <http://otc.tamu.edu/industry/index.jsp?cid=35>
- *Patent Licensing: Strategy, Negotiation, and Forms* by Mark S. Holmes, published by Practising Law Institute, 2000; <http://www.pli.edu/product/>

Taking the time to obtain a standard form can protect you and your client from undue scrutiny.

V. KNOW WHAT LICENSE RESTRICTIONS ARE LEGAL AND HOW TO ANALYZE THEM.

Any restriction in the use of the subject matter of a license can be problematic but not to the extent that desirable restrictions should not be considered. Restrictions in all forms of licensing are often desirable. For example, a licensee may want to restrict the licensee to:

- a particular area

- a particular product
- restrict the selling price of the products made
- tie the license to another product, patent or technology

Yet the law has, in the past, severely limited what restrictions can be legally imposed – particularly in the area of patent licenses. This has been changing since about 1982.

At one time patents were conclusively presumed to confer monopoly power and as such to violate antitrust laws (Sherman and Clayton Acts) if their use or transfer was restricted in any way. Many restrictions were held to be *per se* illegal - illegal regardless of circumstances or analysis. The law has been trending away from this former *per se* treatment; however, antitrust law is highly political and this trend may not continue.

Moreover, restrictions can also be "patent misuse". Although Misuse is not illegal, it renders the patent unenforceable.

This dual attack on patent use grew out of a conclusion that patents were monopolies. Therefore, a restriction in a patent license must be analyzed under both misuse principles and antitrust principles.

The recent *Illinois Tool Works, et al v. Independent Ink, Inc.*, 547 US 28 (2006) illustrates the current law. The court held:

"Because a patent does not necessarily confer market power upon the patentee, in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product. Pp. 3-17.

(a) Over the years, this Court's strong disapproval of tying arrangements has substantially diminished, as the Court has moved from relying on assumptions to requiring a showing of market power in the tying product. The assumption in earlier decisions that such "arrangements serve hardly any purpose beyond the suppression of competition," *Standard Oil Co. of Cal. v. United States*, 337 U. S. 293, 305-306, was rejected in *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U. S. 610, 622 (Fortner II), and again in *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U. S. 2, both of which involved unpatented tying products. Nothing in *Jefferson Parish* suggested a rebuttable presumption of market power applicable to tying arrangements involving a patent on the tying good. Pp. 3-8.

(b) The presumption that a patent confers market power arose outside the antitrust context

as part of the patent misuse doctrine, and migrated to antitrust law in *International Salt Co. v. United States*, 332 U. S. 392. See also *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488; *United States v. Loew's Inc.*, 371 U. S. 38. Pp. 8-10."

Also in *Leegin Creative Leather v. PSKS*, 127 S. Ct. 2705 the Supreme Court decided that retail price maintenance – dictating the price that a retailer could sell shoes – was not per se illegal under Sec. 1 of the Sherman act. The court expressly overturned the *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U. S. 373, a 1911 case that held that all price maintenance was invalid. This 5/4 decision continues the trend away from strict *per se* antitrust rules that severely limited restrictions in patent licensing. Perhaps the only remaining *per se* illegality is in naked horizontal price fixing and some forms of tying.

A Joint Report⁴ of the Department of Justice and Federal Trade Commission is also instructive. Its major conclusions include:

- Antitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections. Antitrust liability for refusals to license competitors would compel firms to reach out and affirmatively assist their rivals, a result that is in tension with the antitrust laws.
- Conditional refusals to license that cause competitive harm are subject to antitrust scrutiny.
- Joint negotiation of licensing terms by standard-setting organization participants before the standard is set can be procompetitive. Such negotiations are unlikely to constitute a per se antitrust violation. The agencies will usually apply a rule of reason analysis when evaluating these joint activities.
- The agencies evaluate the competitive effects of cross-licenses and patent pools under the

rule of reason framework articulated in the 1995 Antitrust-IP Guidelines.

- Combining complementary patents within a pool is generally procompetitive. A combination of complementary intellectual property rights, especially those that block the use of a particular technology or standard, can be an efficient and procompetitive way to disseminate those rights to would-be users of the technology or standard. Including substitute patents in a pool does not make the pool presumptively anticompetitive – competitive effects will be ascertained on a case-by-case basis.
- The agencies apply a rule of reason analysis to assess intellectual property licensing agreements, including non-assertion clauses, grantbacks, and reach-through royalty agreements.
- The Antitrust-IP Guidelines will continue to guide the agencies' analysis of intellectual property tying and bundling. The agencies consider both the anticompetitive effects and the efficiencies attributable to a tie, and would be likely to challenge a tying arrangement if: (1) the seller has market power in the tying product, (2) the arrangement has an adverse effect on competition in the relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects. If a package license constitutes tying, the agencies will evaluate it under the same principles they use to analyze other tying arrangements.
- The agencies consider both the anticompetitive effects and the efficiencies attributable to a tie or bundle involving intellectual property.
- The starting point for evaluating practices that extend beyond a patent's expiration is an analysis of whether the patent in question confers market power. If so, these practices will be evaluated under the agencies' traditional rule of reason framework, unless the agencies find a particular practice to be a sham cover for naked price fixing or market allocation.
- Collecting royalties beyond a patent's statutory term can be efficient. Although there are limitations on a patent owner's ability to collect royalties beyond a patent's statutory term, see *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), that practice may permit licensees to pay lower royalty rates over a longer period of time which can reduce the deadweight loss

⁴ U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007).

www.usdoj.gov/atr/public/hearings/ip/222655.pdf

associated with a patent monopoly and allow the patent holder to recover the full value of the patent, thereby preserving innovation incentives.

The DOJ's position on collecting royalties beyond the patent term is very interesting since *Brulotte v. Thys* held such practice to render the agreement unenforceable – assumed forever after to mean the practice is patent misuse. Thus, extending the royalty may yet render the patent and the agreement unenforceable but may not be an antitrust violation. Such is the nature – and fun – of patent antitrust analysis.

Perhaps the best advice is to tread carefully in this area and do your homework!

VI. KNOW THE VALUE OF THE LICENSED SUBJECT.

The value of the intellectual property determines royalty. Because of that it is crucial to know the value of the licensed subject.

So much has been written on this subject, that it is easy to find resources for determining royalties. An internet search will yield a host of useful sites dedicated to this topic.

"Successful Technology Licensing", for example, is an excellent WIPO publication⁵ available online that treats all aspects of technology licensing, including an extensive discussion on royalties.

These resources reveal three broad categories under which royalty can be determined:

- By customary or standard rates in an industry
- By the cost to obtain the Intellectual Property
- By arbitrary formulas

A useful technique for instructing your client and setting bounds on the negotiating range is what has been labeled the 25% rule. This rule is based on the commercial merit of the technology. It has been fairly well documented that an appropriate and reasonable royalty that fairly compensates both licensor and licensee falls between 20% and 40% of the financial advantage (relative to alternatives.) 25% of the financial advantage is preferable.

It is sometimes possible to estimate the advantage of the use of the Intellectual Property compared to alternatives by estimating savings; market advantage; enhanced market share; correlative sales and the like. But getting the numbers to make the analysis is often difficult. Moreover, it is frequently not possible to break the "custom and practice" in an industry.

The only real rules for setting royalty are:

- (1) You can't get more than the other party is willing to pay and
- (2) You can't get more than you ask for.

Licensing satisfaction is not always monetary value as noted by Mark Crowell, Associate Vice Chancellor for Economic Development and Technology Transfer at the University of North Carolina, Chapel Hill, and president of the AUTM Foundation:

"'Technology transfer' is a term of art to those of us in the field but a magical mystery tour for so many who benefit from university innovations reaching the marketplace, or who evaluate, study, fund and invest in this process.

It's all about the millions in royalties, right? Or professors and Ferraris?

The truth about technology transfer is that the process is so complex, so multi-dimensional and so driven by external forces that few of us who practice the craft can easily explain all aspects of our daily activities.

To a certain degree, anyone looking at technology transfer is drawn to focus on royalty income -- because that's the language of corporate America, a language we all can understand. Yet while corporations talk about revenues, price per share or other measurable monetary concepts, the university has never been about return on investment, shareholder dividends or net profit.

So why should the square peg that is technology transfer be forced into such a round hole? Any effort to capture the impact of academic technology transfer that focuses only on royalty income will fail to capture or profile the full impact of a region's great faculty scientists, who make the brilliant discoveries, and the dedicated professionals who manage the process of connecting those innovations with the marketplace.

Limiting the discussion to royalty income as a measure of success in connecting innovation for the public good will fail to consider, for example, the value of drugs developed at UNC-

⁵ http://www.wipo.int/ip-development/en/strategies/pdf/publication_903.pdf

Chapel Hill and currently in clinical trials in sub-Saharan Africa for treating malaria, sleeping sickness and the parasitic disease leishmaniasis. By the way, Carolina had to forswear royalty income on those drugs in order to receive clinical trial funding from the Gates Foundation.

And how about our effort to help establish a nonprofit vaccine development company, Global Vaccines, Inc., whose mission is to design and develop affordable vaccines for people in poor countries? Doesn't show up on the royalty report -- but imagine the economic (and human) impact on people now able to receive preventive or therapeutic treatment for otherwise debilitating or life-threatening diseases.

If we wanted to focus on looking strong in the royalty reports, we'd be smart as an institution and a region to put much less emphasis on facilitating the formation and growth of local start-up companies to commercialize our innovations.

Sure, locally created start-up companies attract investment, grow jobs and generate wealth locally, and they often do the best job at shepherding a technology through the "valley of death" and toward market (and patent) success. However, they pay us with restricted, illiquid equity, and they often pose the greatest financial risk in terms of reimbursing the university for certain direct costs typically charged to licensee companies.

Instead of start-ups, direct licensing of research discoveries into existing companies -- typically located elsewhere -- would offer more up-front cash and royalties and much less ongoing financial risk to the university.

Technology transfer successes emanating from North Carolina institutions abound. Hundreds of new companies have been created, along with untold numbers of jobs, investments and other economic benefits.

None of the state's technology transfer offices -- certainly not UNC-Chapel Hill's -- would be disappointed to have a Gatorade or a Warfarin in our portfolios; we'd all enjoy the opportunity to manage a blockbuster innovation and to use the royalty windfall to invest in more research and innovation. But we'd still run our programs in the same manner -- we'd just spend less time retelling the story about the true impact and importance of connecting our innovation pipeline for the public good."

VII. KNOW THAT EVERY LICENSE WILL SOUR WITH TIME.

After a few years into the license, one or both parties to a license will have buyer's remorse (or seller's remorse) and be unhappy with the terms. The licensee will think it is paying too much and that the subject of the license does not meet expectations. The licensor will think he sold too cheaply and gave up too much, and that the licensee is failing to meet expectations.

"It is easy to view the commercialization of an innovation as being literally the 'last word', the dawn of a halcyon era in which a new product is manufactured, distributed, purchased and profitably marketed until the end of time. This rarely happens. Competitors rise to the challenge of innovating around any successful new product in order to share, or improve upon, its money-earning ability (who still uses portable cassette players?); fashions and tastes change (how much revenue would a new Bing Crosby song generate in 2008?); even the environment takes its toll, as dazzling new contrivances are rejected for their carbon footprint. The moral is clear: when computing how many years of income you may enjoy, during which you hope to pay off a loan or redeem a mortgaged IP right, be realistic: you may have far less time than you think."⁶

Almost every case involving a license dispute illustrates that licenses generally sour with time. Circumstances change, the people involved in the license change, and questions of invalidity and/or infringement arise -- all producing dissatisfaction in one, if not both, parties to the license.

In *Lawler Mfg. v. Bradley Corp.*₂ (Fed. Cir. 2008), the parties disputed the meaning of the term "If a Licensed Unit is invoiced or shipped in combination in another product such as an emergency shower or eyewash, [then the combination rate applies.]" The Federal Circuit (CAFC) undertook to determine the meaning that the parties had in mind -- a favorite ploy of Judge Rader -- and concluded that the "such as" language limited the combinations recited. This seems a stranded interpretation that reads more like claim

⁶ IP Financing: the Ten Commandments; WIPO Magazine, September 2008; http://www.wipo.int/wipo_magazine/en/2008/05/article_0002.html

interpretation than contract interpretation, but there you are – you never know what a court will do with your language.

So what principles can be learned from this case?

- Choose your language carefully.
- Provide details in the agreement.
- Explore with the other party what is meant by each term; don't assume she agrees with you.
- Document the negotiations as completely as possible.
- Provide for frequent reporting to keep the license from being forgotten or neglected.

You will never eliminate all ambiguities – and sometimes you do not wish to – but many future problems can be anticipated and addressed by adhering to these guidelines.

VIII. KNOW HOW (AND WHERE) THE LICENSE WILL BE ENFORCED.

Generally license agreements, like other contracts, are tried in state courts subject to state law. Patent matters, on the other hand, are tried in Federal court. It is customary to provide in the license a provision specifying the law and the forum for settling disputes arising from the license. Sometimes things get confused.

In *Fairchild Semiconductor v. Third Dimension* (3D) (D. Maine 2008), the court decided, in Federal court on diversity jurisdiction, that it had jurisdiction to determine the scope of Chinese patents in the context of a dispute by licensee Fairchild over its obligation to pay royalty on products it did not consider covered by the patents even though it would have to determine the scope of the patents. The agreement specified Maine and Texas courts as choice of forum and choice of law.

The important point here for licensing agreements is to understand why you want a particular choice of law and choice of forum. In the past, conventional wisdom argued choice of New York law on the basis that commercial law of New York was more settled and, therefore, more predictable. This was especially argued by companies resident in New York. However, I think that is not the case today. I have always argued for Texas law because it is more convenient for me.

IX. KNOW THAT INITIATING A LICENSE NEGOTIATION WILL LIKELY OPEN THE PATENTEE TO A DECLARATORY JUDGMENT ACTION.

My how times have changed! In 2007 the Supreme Court made a radical change in CAFU law on the requirements for Declaratory Judgment jurisdiction. In *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007), it was made very clear that a licensee may sue for Declaratory Judgment of patent invalidity or non-infringement.

In *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372 (Fed. Cir. 2007), the CAFC, relying on *MedImmune*, held:

"We need not define the outer boundaries of declaratory judgment jurisdiction, which will depend on the application of the principles of declaratory judgment jurisdiction to the facts and circumstances of each case. We hold only that where a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights."

Bryson, J., concurring, noted that:

"In practical application, the new test will not be confined to cases with facts similar to this one. If a patentee offers a license for a fee, the offer typically will be accompanied by a suggestion that the other party's conduct is within the scope of the patentee's patent rights, or it will be apparent that the patentee believes that to be the case. Offers to license a patent are not requests for gratuitous contributions to the patentee; the rationale underlying a license offer is the patentee's express or implied suggestion that the other party's current or planned conduct falls within the scope of the patent. Therefore, it would appear that under the court's standard virtually any invitation to take a paid license relating to the prospective licensee's activities would give rise to an Article III case or controversy if the prospective licensee elects to assert that its conduct does not fall within the scope of the patent."

It is not known from these opinions whether agreement by the parties not to challenge the patent will be enforced. Pending further developments it would be prudent to include such a provision in the license agreement. However, *SanDisk* suggests that

statement by the patentee that it is not expecting to sue did not forestall Declaratory Judgment jurisdiction.

Thus, the mere offer of a license may be a risky business. Many patent holders simply cannot afford to defend their patent assets due to the costs of a Declaratory Judgment action. So offering a license may put their patent at risk of loss by default.

On the positive side, a very new case may be good news for patent holders who have offered or granted licenses but want to enjoin an infringer. In *Acumed LLC v. Stryker Corp.*² (Fed. Cir. 2008), the CAFC affirmed a District Court grant of injunction against an infringer despite the fact that the patent holder (Asumed) had granted two previous licenses to others. The court said:

"The essential attribute of a patent grant is that it provides a right to exclude competitors from infringing the patent. 35 U.S.C. § 154(a)(1) (2000). In view of that right, infringement may cause a patentee irreparable harm not remediable by a reasonable royalty. While the fact that a patentee has previously chosen to license the patent may indicate that a reasonable royalty does compensate for an infringement, that is but one factor for the district court to consider. The fact of the grant of previous licenses, the identity of the past licensees, the experience in the market since the licenses were granted, and the identity of the new infringer all may affect the district court's discretionary decision concerning whether a reasonable royalty from an infringer constitutes damages adequate to compensate for the infringement. The district court here weighed these factors and determined, consistent with eBay⁷, that money damages constituted adequate compensation only for Stryker's past infringement and that no adequate remedy at law existed for Stryker's future infringement."

"Adding a new competitor to the market may create an irreparable harm that the prior licenses did not. In this case, the fact that Acumed licensed the '444 patent under two particular sets of circumstances does not mean that the district court abused its discretion in not holding that Acumed must now grant a further license to Stryker and receive only a royalty as compensation."

One of the prior licenses was settlement of litigation and the other determined to be to a company that was not a competitor.

This would appear a major victory for patent holders. It would be consistent with this opinion to allow patent holders to select some and reject other potential licensees and retain the option to enjoin infringers.

X. STRIVE TO ENLARGE THE WORLD'S STORE OF HAPPINESS.

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Intellectual property rights are legal rights to exclude. These are important to provide "ownership" of the products of authorship and invention. Licensing provides the means by which those rights may be shared, coordinated and enhanced for mutual benefit.

A patent is of little value unless exploited. A Trademark may lose its value if its owner ceases the business or goes out of business. Copyrighted material usually cannot be widely marketed by the author.

For many years millions of dollars worth of valuable government and University research went unused because there was no mechanism to provide exclusive licenses. Congress has rectified that, allowing exclusive licenses to government and government sponsored work and the world is hugely benefited.

In many industries cross licensing is the norm but event in those where it is not there are always conflicts to be resolved as in blocking patent situations.

In the main, licensing is, or should be, a *win-win* situation. Unless most intellectual property is available for someone to exploit, or removed as an obstacle to exploitation, it has diminished value.

In structuring and negotiating license agreements it is important to keep this in mind. It is easy to get caught up, during negotiations, in an "I win, you lose" attitude. Since licensing is seldom a "zero sum" game, creative problem solving and understanding of the motivations and needs of the opposite party will always improve the outcome.

⁷ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).