

Technology Licensing Basics – What You Need to Know



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Agenda

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2. Exclusive License Provisions
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Grant Provisions

Granting Clause: Expanding the Bundle of Rights

- Normally license grant identifies specific exclusive rights subject to grant:
 - 35 U.S.C. §271(a) – make, use, offer to sell, or sell within US, or import into US
 - 17 U.S.C. §106 – reproduce, prepare derivative works, distribute, perform or display in public
- But courts may expand the rights identified in some situations

Expanding “Upstream” Rights

- Example – a copyright grant including the right to “use”
 - *Kennedy v. NJDA and IJJC*, 187 F.3d 690 (7th Cir 1999). Licensor granted a license under copyright to “reproduce, publish, and **use**” materials
 - Court interpreted to include right to create derivative works
- Licensee as a “Foundry”
 - Unrestricted grant of the right to “sell” includes foundry rights, to make and sell products fabricated to a third party’s specs, and the resulting sales may exhaust patentee rights
 - See *Cyrix Corp. v. Intel Corp.*, 77 F.3d 1381 (Fed. Cir. 1996) (grant to “make, use, lease, sell, and otherwise transfer IBM Licensed Products” did NOT exclude foundry rights)
 - Compare *Intel Corp. v. U.S.I.T.C.*, 946 F.2d 821 (Fed. Cir. 1991) (inclusion of “Sanyo Clause” **excludes** foundry rights)

Expanding “Downstream” Rights

- *Core Brace LLC v. Star Seismic LLC*, 566 F.3d 1069 (Fed Cir 2009).
- “Have made” term in granting clause allows licensee the flexibility to have patented products fabricated by a third party
 - “The right to ‘make, use, and sell’ a product inherently includes the right to have it made by a third party, absent a clear indication to the contrary.”
CoreBrace at 1072-73
 - License in *CoreBrace* included “have made” rights even though:
 - “Have made” rights not expressly granted
 - Sublicense rights expressly disclaimed (“have made” is NOT a sublicense)
 - General reservation of rights was present
- Licensee need not participate in manufacturing at all – licensee can “engage others to do all the work connected with the production of the article for him.” *CoreBrace* at 1073

Software License Grant

- What is the scope of use?
 - Who
 - Know the license model and definition of user.
 - License Model: Named User, Concurrent, Enterprise
 - User: Are affiliates and subcontractors allowed to use the software? Is use limited to employees?
 - Where
 - Geographical or hardware restrictions? Is third party hosting allowed?

Software License Grant

- What is the scope of use?
 - When
 - What is the duration of the license grant? Is it term or perpetual?
Does it automatically renew?
 - What
 - What can the licensee do with the software?
 - Productive or non-productive use
 - Internal business purposes
 - Copy (for what purpose), distribute, sublicense, modify?

Exclusive License Provisions

Who has the right to sue for patent infringement?

- Assignee
- Exclusive Licensee
 - Often need to join the patent owner
 - Two types of exclusive licenses
 - “all substantial rights” can result in a “virtual” assignment and right to sue without licensor
- Non-exclusive license does not convey standing to sue

Limited Exclusive License

- For a license to convey standing: "a party must have received, not only the right to practice the invention within a given territory, **but also the patentee's express or implied promise that others shall be excluded from practicing the invention within that territory as well.**"
 - [*Rite-Hite Corp. v. Kelley Co., Inc.*](#), 56 F.3d 1538, 1552 (Fed. Cir. 1995)
- "All substantial rights" not transferred to licensee
- Need to join the patent owner
 - Protect the alleged infringer from multiple lawsuits
 - Protect patent owner from losing substantial rights if the patent is invalidated or rendered unenforceable
 - *Luminara Worldwide, LLC v. Liown Elecs. Co. Ltd.*, 814 F.3d 1343, 1350 (Fed. Cir. 2016).

Virtual Assignment

“All substantial rights” transferred to licensee

- Do not need to join patent owner in lawsuit
- The nature and scope of the licensor’s retained right to sue accused infringers is often considered the most important factor to determine whether licensee is a virtual assignee.
 - *Alfred E. Mann Found. For Sci. Res. v. Cochlear Corp.*, 604 F.3d 1354, 1361 (Fed. Cir. 2010)
- Licensor retained rights, which do not prevent virtual assignment
 - Patentee retains right to practice invention
 - Patentee has financial interest in litigation/licensing
 - Patentee maintains title to the patent
 - Patentee responsible for Maintenance Fees
 - Patentee has right to notice of litigation/licensing activities
 - *Luminara*, 814 F.3d at 1351

Exclusive Licensing in Complex Organizations

- *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1318 (Fed. Cir. 2010)
 - Dispute about whether Synthes Spine had standing to sue for patent infringement based on understanding between it and its sister-company (SSI).
 - The evidence was limited to testimony from SSI's corporate representative that "there was an agreement between the parties based on the way Synthes is organized" and that based on that agreement SSI had made an "implied promise" to exclude entities besides Synthes Spine from practicing the patent-in-suit.
 - The Federal Circuit concluded Synthes Spine did not have standing: **Simply because a related entity is the only one practicing invention does not make that entity an exclusive licensee:** "[i]f we were to find standing on these facts, this would mean that any company related to a patent owner could be treated as an exclusive licensee, so long as the patent owner allows only that company to practice the patent, regardless of any actual agreement as to exclusivity."

Why does this matter?

- Need to Decide who you want to be able to sue and whether patent owner will retain interest sufficient to require its presence in lawsuit.
 - Typically party cannot prove lost profits damages if it cannot prove lost sales.
 - *Poly-Am., L.P. v. GSE Lining Tech., Inc.*, 383 F.3d 1303, 1311 (Fed. Cir. 2004)
 - Practicing entity more likely to prove irreparable harm for injunction relief
 - Ensure that entity that practices the invention will have standing to join the suit as either assignee or exclusive licensee

- ❖ Additional Information:
<https://www.acc.com/resource-library/spoonful-licensing-helps-medicine-go-down-avoiding-standing-problems-between>

Assignment Provisions

Assignments: Present Assignment or Promise to Assign?

- A pre-invention present assignment creates equitable title in the transferee:
 - “If an assignment of rights in an invention is made prior to the existence of the invention, this may be viewed as an assignment of an expectant interest.”
 - “Once the invention is made and an application for patent is filed, however, legal title to the rights accruing thereunder would be in the assignee (subject to the rights of a subsequent purchaser under [35 U.S.C. § 261], and the assignor-inventor would have nothing remaining to assign.”
 - *FilmTec Corp. v. Allied-Signal Inc.*, 939 F.2d 1568 (Fed. Cir. 1991)

Patent Assignment Provisions

- *Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832 (Fed Cir 2009), *aff'd*, 563 U.S. 776 (2011):
 - “I agree to assign or confirm in writing...” is a “mere promise to assign rights in the future, not an immediate transfer of expectant interests.” *Id* at 841
 - “I will assign and do hereby assign...” is a “present assignment of [inventor’s] future inventions.” *Id*.
- When second assignment was executed, inventor retained no rights to assign pursuant to the first assignment

Patent Assignment Provisions

- Examples of language creating a current assignment
- “I will assign and do hereby assign...” – *Stanford*
- “agrees to grant and does hereby grant” – *Filmtec*
- “agrees to and does hereby grant and assign”
 - *DDB Techs., L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284 (Fed. Cir. 2008)

Patent Assignment Provisions

- Examples of language creating a promise to assign:
- “I agree to disclose [inventions] promptly to HP, to assign them to HP; [and sign documents required to obtain patent protection].”
 - *IpVenture, Inc. v. Prostar Computer, Inc.*, 503 F.3d 1324 (Fed. Cir. 2007).
- “shall be the property of CLIENT, and all rights thereto will be assigned by IDEA ... to CLIENT.”
 - *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574 (Fed. Cir. 1991).
- “shall, or shall cause one or more of its Affiliates to, Transfer to the Purchaser, and the Purchaser shall purchase and accept from the Seller or its Affiliates, as applicable all of the right, title and interests[.]”
 - *Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359 (Fed. Cir. 2010)

Scope of Assignment

- What inventions will be covered by assignment?
- *Preston v. Marathon Oil Co.*, 684 F.3d 1276 (Fed. Cir. 2012).
 - Agreement stated that it covered inventions “made or conceived by EMPLOYEE during the term of employment[.]”
 - Contract governed by state law (interpretation, consideration, etc.)
 - Covered an invention conceived before employment, but reduced to practice during employment
- Caution: Court may not apply same definition of “conceive” as would apply in a patent case. See *ReCor Med., Inc. v. Reinhard Warnking & Sound Int., Inc.*, 2013 WL 3760022 (Del. Ch. May 31, 2013)

Software License Assignment Provisions

- General rule under federal common law: a license to copyrighted or patented subject matter is non-transferable unless expressly provided for within the license or underlying contract
 - “It has long been held by federal courts that agreements granting patent licenses are personal and not assignable unless expressly made so.” *PPG INDUSTRIES, INC. v. GUARDIAN INDUSTRIES CORPORATION*, 597 F.2d 1090 (6th Cir. 1979), citing *Unarco Industries, Inc. v. Kelley Company*, 465 F.2d 1303, 1306 (7th Cir. 1972)
- The general rule of patent license non-assignability has been explicitly extended into the realm of software licenses via the federal preemption of copyright law. *CINCOM SYSTEMS INC v. NOVELIS CORP.*, 581 F.3d 431 (6th Cir. 2009)

Software License Assignment Provisions

- A software license agreement will typically prohibit assignment of the license completely or permit it only upon consent of the licensor; may reserve right to charge a fee
- Licensee should see terms allowing transfer in case of a change of control
- Negotiating points:
 - exception for affiliate company or specific named company as long as not a competitor or licensor
 - consent not unreasonably withheld

Marking Provisions

Substantial & Continuous Marking

- “[O]nce marking has begun, it must be substantially consistent and continuous. . . . The world cannot be “put on notice” if the patentee [or licensee] marks certain products, but continues to ship unmarked products.”
 - *Am. Med. Sys., Inc. v. Med. Eng’g Corp.*, 6 F.3d 1523, 1537-38, 28 USPQ2d 1321 (Fed. Cir. 1993)
- “Full compliance [is] not achieved until [patentee] consistently marks substantially all of its patented products and it [is] no longer distributing unmarked products.” *Id.* at 1538
- “The duty to mark (or to give other notice) does not apply when the patentee has not made or sold any article covered by the patent.”
 - *Rembrandt Wireless Techs., LP v. Samsung Elecs. Co.*, 853 F.3d 1370, 1383 (Fed. Cir. 2017)

Marking Requirements of Licensees

- Both the patent owner and **licensees** must consistently mark substantially all of their products practicing the invention
 - *Am. Med. Sys., Inc.* 6 F.3d 1523 at 1537-38

- “When the failure to mark is caused by someone other than the patentee, the court may consider whether the patentee made **reasonable efforts** to ensure compliance with the marking requirements.”
 - *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098 (Fed. Cir. 1996)

- Patentee bears burden of proof
 - *K&K Jump Start/Chargers v. Schumacher Elec. Corp.*, 52 Fed. Appx. 135, 141 (Fed. Cir. 2002)

Marking Requirements of Licensees – *K&K Jump Start*

- K&K licensed Century to practice the '407 Patent
- Century agreed to mark products under that license
- Despite the marking provision, K&K took no steps to determine if Century was actually marking its products until litigation
- K&K sent letter to Century re marking and was informed there was a delay in Century marking products
- Federal Circuit concluded that K&K had failed to comply with the marking statute based on Century's failure to mark
- **“We do not hold that bare evidence of a contractual provision requiring marking can never constitute reasonable efforts by the patentee to ensure that a licensee is marking the products properly, but under the circumstances here the jury's conclusion that K&K has met its burden to show compliance is not supported by substantial evidence.”**

–*K&K Jump Start/Chargers*, 52 Fed. Appx. at 141

Marking Provisions Considerations

- A regular reporting requirement detailing whether and how the licensee is marking the product
- Licensor should obligate the licensee to reject goods that are not marked, or otherwise prevent those goods from reaching the public
- Even with an effective marking provision, consistent and continuous communication with licensee is best practice
 - “reasonable efforts”
- Be prepared to enforce marking provisions
- Consider warranty provision for lost damages due to failure to mark?

Cyber Security & Data Privacy Provisions

Contracting for Cyber Issues

- Are you a service provider or customer?
 - Service provider - make sure you are not overcommitting
 - Customer - get the protections your business needs
- Specific terms addressing Cyber Issues
 - Data privacy
 - Data security
 - Representations and warranties
 - Indemnification

Data Privacy Provisions

- **Confidentiality**

- Defines who can access PI and how it can be used by the Processor, as well as each party's obligations regarding compliance with privacy laws

- **Definition of Personal Information**

- Too broad/too narrow/just right
- Square with governing statutes and regulations
- Does it include protected health information?

- **Incident response**

- Response timing
- Necessary notification and reporting regarding the incident

- **Remediation and Mitigation**

- Reporting to government agencies, credit bureaus, other required entities
- Who pays for the remediation and mitigation?

Data Security

- Customer will want strong measures
- Service providers will likely need to include language regarding how their systems can deliver basic security measures:
 - Personal Identifiable Information is not stored on public or private computers
 - Data is secure in motion and at rest
 - Strong encryption technologies for at rest data
 - Secure disposal of Personal Identifiable Information
 - Maintain and review activity logs
 - Security barriers (authentication controls, malicious or hostile software detection, physical access control, computer locking mechanisms, etc.)
 - Certification of meeting industry standards
 - Control testing
 - Network firewalls, intrusion detection systems
 - Data backups
 - Disaster recovery and business continuity plans

Representations, Warranties & Indemnification

- Service Providers: Be careful about what you agree to in connection with data privacy and security.
 - Are you agreeing to something within your control?
- Customers: What is your remedy if the Service Provider breaches its data privacy/security obligations?
 - Representations and warranties - breach of contract
 - Indemnification
 - Termination
 - Limitation of Liability

Best Efforts/Shall Provisions:

Avoiding vague terms that can cause business misunderstandings and legal disputes

“Best Efforts” Provisions

- Ambiguity and vagueness in interpretation of “best efforts”-type language (including “best,” “reasonable,” “reasonable best,” “commercially reasonable”)
 - All efforts, including those that disadvantage a party bound to make the effort?
 - “Whatever makes sense in context”?
 - Courts have held that these types of obligations are fact dependent

“Best Efforts” Provisions

- “Best efforts” does not require a party to:
 - Expend any material funds
 - Take actions which would result in a material adverse change in the benefits to the party under the agreement
 - Incur any other material burden
 - Commence any litigation
 - Act in a manner contrary to normal commercial practices
 - Dispose of or make any materially adverse change to its business

“Best Efforts” Provisions

○ Cases

- *Olympia Hotels Corp.; v. Johnson Wax Dev. Corp.*, 908 F. 2d 1363, 1373 (7th Cir. 1990) (The term “best efforts” is a familiar one in contract parlance, and its meaning is especially plain in a case such as this where the promisor has similar contracts with other promisees. In such a case, “best efforts” means the efforts the promisor has employed in those parallel contracts where the adequacy of his efforts have [sic] have not been questioned.”)
- *Triple A Baseball Club Assoc. v. Ne. Baseball, Inc.*, 832 F.2d 214, 228 (1st Cir. 1987) (“We have found no cases, and none have been cited, holding that “best efforts” means every conceivable effort...”)

“Best Efforts” Provisions

- Implications for license and technology agreements:
 - Joint Ownership: party or parties to use “best efforts” to prosecute applications, or include claims that reflect commercial interests of both parties
 - Technology and Intellectual Property Development:
 - Licensees to use “best efforts” to commercialize technology
 - Parties to use “best efforts” to develop improvements or new technology
- Software Licensing – Licensors should resist attempts to use “best efforts” to make software perform as warranted or to prevent a security breach, as the standard implies unlimited time, effort and skills to reach the result
 - Tip – define “best efforts” or include qualifications (e.g., failure to achieve target does not indicate that best efforts were not utilized)
 - Tip - specify more objective measures of performance
 - Consider defining minimum efforts, rather than “best efforts”

Using (or misusing?) “Shall” in Contracts

- Guidance regarding proper usage is unsettled
 - “Though ‘shall’ generally means ‘must,’ legal writers sometimes use, or misuse, ‘shall’ to mean ‘should,’ ‘will,’ or even ‘may.’”
 - *SmithKline Beecham Corp. v. Apotex Corp.*, 247 F. Supp. 2d 1011. 1049 (N.D. Ill., 2003)
 - B. Garner, *Dictionary of Modern Legal Usage* 939 (2d ed. 1995) ('Courts in virtually every English-speaking jurisdiction have held--by necessity that--*shall* means *may* in some contexts, and vice versa.'). *id.*
 - “For example, certain of the Federal Rules use the word 'shall' to authorize, but not to require, judicial action. See, e.g., [Fed. Rule Civ. Proc. 16\(e\)](#) ('The order following a final pretrial conference *shall* be modified only to prevent manifest injustice.') (emphasis added); [Fed. Rule Crim. Proc. 11\(b\)](#) (A *nolo contendere* plea '*shall* be accepted by the court only after due consideration of the views of the parties and the interest of the public in the effective administration of justice.') (emphasis added).” See also [Gray-Bey v. United States](#), 201 F.3d 866, 867-70 (7th Cir. 2000). *id.*

What is a conscientious drafter to do?

- 2 Approaches to Consider:
 - Adams: make disciplined use of shall in business contracts, i.e., “shall” = “has a duty to.”
- Kenneth A. Adams, *A Manual of Style for Contract Drafting*, 2nd Ed., § 2.25, et seq. (ABA 2008)
 - Usage to express obligations, not to express future time or other purposes. *id.*
 - Garner: dispense with “shall” entirely
 - replace it with a clearer word more characteristic of American English: *must, will, is, may* or the phrase *is entitled to*

Royalty Provisions

Traditional Types of Royalties

- General Types
 - Lump Sum
 - Fixed per unit of measurement
 - Percentage Royalty on profit
 - Percentage Royalty on revenue
 - Royalties on sub-licenses
 - Milestone obligations and payments
 - Hybrid royalties
 - Multi-country royalties
 - A combination of the above
- Be aware of currency/inflation risks

Measure of Royalty Rate in Litigation

- Minimum possible damages
 - *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201 (Fed. Cir. 2014)
- $\$ = \text{Rate} \times \text{Base}$
- Two methods to determine Rate:
 - Established royalty
 - Hypothetical negotiation
- Both are based on **historical licensing activity**

Measure of Royalty Rate in Litigation

○ Established Royalty

- Royalty payment must be sufficiently prevalent and accepted
- Royalty rate should be:
 1. paid prior to infringement
 2. paid by sufficient number of persons
 3. uniform
 4. not set under threat of suit or settlement
 5. covers comparable set of rights or uses

Monsanto Co. v. McFarling, 488 F.3d 973 (Fed. Cir. 2007); *Rude v. Westcott*, 130 U.S. 152 (1889)

○ Hypothetical negotiation

- Hypothetical negotiation between patentee and infringer at the time of first infringement
- Assume patent valid and infringed
- Use Georgia Pacific factors to determine royalty rate

○ Georgia Pacific factors include prior licenses as reference points, including:

- No. 1 The royalties received by patentee for licensing the patent, proving or tending to prove an established royalty.
- No. 2 The rates paid by the defendant for the use of other similar patents.

Factors Establishing the Comparability of Licenses

- Factors tending to establish comparability:
 - Similar technology
 - Substitute/interchangeable
 - Similar profit expectation
 - Same industry/product
 - Nonexclusive
 - Royalty based on smallest saleable unit (or something close)
- Factors negating comparability:
 - Settlement of litigation
 - Cross-licenses
 - Package licenses (multiple technologies)
 - Licenses bundling patents with significant other IP rights (copyrights, trademarks)
 - Exclusive licenses
 - Licenses as part of M&A, joint ventures
- Neutral factors (may require conversion of rates):
 - Lump sum royalty terms
 - Royalties based on product, rather than component, revenue
 - Royalties based on extraterritorial sales

Licensing Strategies

- Select the correct royalty structure for your business
- Seek out comparable licenses for important technologies.
- For unfavorable licenses, include terms to negate comparability.
- Include royalty rate language in agreements.

NDA Provisions

Restrictive Covenants

- Non-compete
- Non-solicitation
- Non-disclosure
- DTSA gives employees/contractors immunity for disclosing confidential information to a government official or an attorney
 - Solely for the purpose of reporting or investigating a suspected violation of law.
 - This includes a complaint or other document filed under seal.
 - Employer must give immunity notice in any contract or agreement with an employee that governs the use of a trade secret or other confidential information

Sources: DTSA 18 U.S.C. § 1833(b) (2016)

Key Parts of All NDAs

- Who is covered under the NDA? Affiliates?
- Define “confidential information”
 - Preferred scope may depend on whether you are the intended discloser, recipient, or both
 - Information shared through documents, emails, oral conversations, hand-written notes, letters, etc. is all included
 - Information marked or identified in writing after disclosure
 - Information that a party reasonably recognizes as, or should recognize as, confidential information.
- Clearly define the timeframe for non-disclosure
 - most jurisdictions won’t enforce unrealistic time limits
- Clearly define the permitted use of the confidential information
 - Broad: in furtherance of a mutually beneficial business relationship
 - Narrow: solely in connection with discussions related to Project X

Choice of Law Issues

- Enforceability of choice of law is subject to challenge (multistate scenarios)
 - Generally enforceable if a party or the agreement has a reasonable relationship to the law selected (and, if public policy of the selected jurisdiction is not contrary to the subject matter of the agreement). Courts consider the following:
 - Place of employment
 - *Ciena Corp. v. Jarrard*, 203 F. 3d 312, 323-324 (4th Cir. 2000)
 - Transaction at hand/place of performance
 - *Herring Gas Co. v. Magee*, 22 F.3d 603 (5th Cir. 1994)
- “California Rule” (other “covenant hostile” states have similar approaches)
 - Anti-competition clauses are prohibited, although confidentiality agreements and covenants not to use or disclose trade secrets are generally enforceable in CA.
 - Prohibition upheld even if another state law is specified, if the specified state has no real relationship to the parties or the agreement.
 - Choice of law provisions cannot be used to avoid the CA rule.

Questions?