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Finnegan, Henderson, Farabow, Garrett & Dunner, LLP

# Recent Developments and Best Practices in Patent Licensing


**Presented by**

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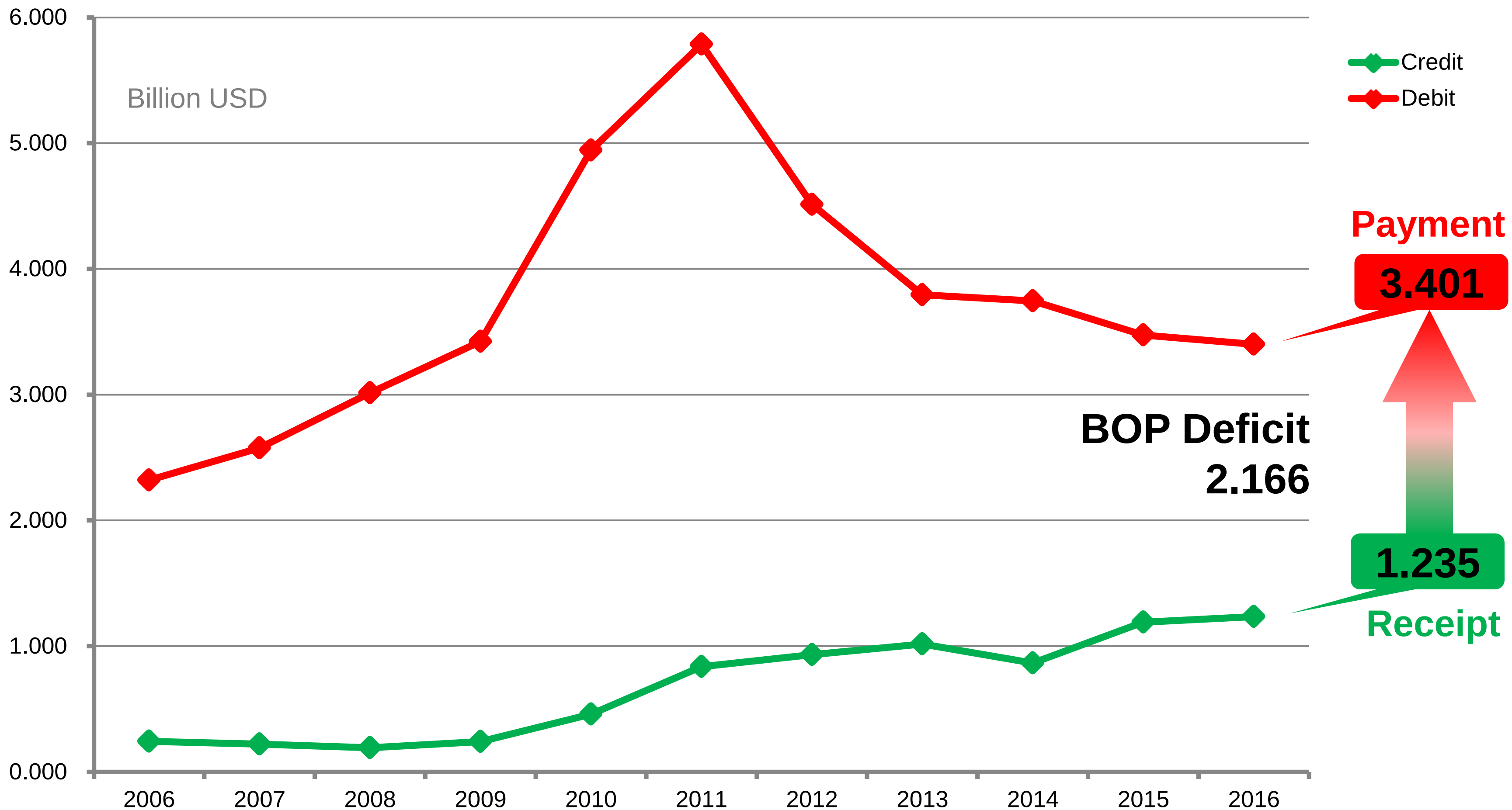
# Licensing is Big Business

## Taiwan Continues to have an IP Royalty Deficit




Source: Taiwan Central Bank

# Our Agenda

Important Recent Developments:

- Post-Expiration Royalties
- Most-Favored Licensee
- Scope of Assignment
- Patent Exhaustion
- Equitable Estoppel
- Standing to Sue

# Post-Expiration Royalties

# Kimble v. Marvel

- *Kimble v. Marvel Entertainment, LLC*, 135 S.Ct. 2401 (Jun. 22, 2015)
  - Kimble sued Marvel for infringing patent on Spiderman web-shooter toy. In settlement, Marvel agreed to pay royalties on sales indefinitely
  - Upon patent expiration, Marvel stopped paying royalties, citing *Brulotte*, which held that post-expiration royalties are *per se* patent misuse and render the patent and license agreement unenforceable
  - Supreme Court refused to overturn *Brulotte* based on the doctrine of *stare decisis*
  - Post-expiration royalties arise when licensee is obligated to make payments based on **use** of patented invention after patent expires

# The *Kimble* Case

- But Supreme Court indicated nothing prevents agreement to pay after expiration
  - Deferred payment
    - "[D]efer payments for pre-expiration use of a patent into the post-expiration period" to amortize pre-expiration royalties over longer term
  - Non-patent rights
    - "[T]ie royalties to non-patent rights" which may be "closely related to a patent," e.g., a trade secret
  - Non-royalty based arrangements
    - Make "non-royalty based business arrangement" for both parties "to share the risks and rewards of commercializing an invention"

# Takeaways

- Post-expiration royalties are illegal until Congress changes the law
- Take advantage of post-expiration payments to benefit from lower initial payments and late commercial success
- Draft agreement carefully to draw a line between royalties during the term of patents and post-expiration period
- Leverage the potential that a patent application would mature into a patent as a non-patent right

# Takeaways

- Royalty structures avoiding *Brulotte/Kimble*
  - Accumulate royalties on sales pre-expiration at one rate but pay at lower rate pre-expiration
  - Fixed amount per year after expiration
  - Other payments not based on post-expiration use, such as front-loaded payments, milestone payments

# Most-Favored Licensee

# *JP Morgan v. DataTreasury*

- *JP Morgan Chase Bank, N.A., v. DataTreasury Corp.*, 823 F.3d 1006 (5th Cir. May 19, 2016)
  - DataTreasury Corp. (DTC) sued JP Morgan Chase (JPMC) and other banks for patent infringement, and JPMC was the first of the defendants to settle with DTC, taking a patent license with a most-favored licensee (MFL) clause
  - JPMC paid up $70 million license fees in installments of $25M, $5M, $5.5M per year for 7 years, and a final $7M

# The *JP Morgan* Case

The MFL clause:

> If DTC grants to any other Person a license to any of the Licensed Patents, it will so notify JPMC, and JPMC will be entitled to the benefit of any and all more favorable terms with respect to such Licensed Patents. JPMC agrees that $.02 to $.05 per Transaction is a reasonable royalty under the license granted herein, and JPMC makes no representation as to what pro-rata share of such royalty is attributable to any portion or sub-part of such Transaction. The notification required under this Section shall be provided by DTC to JPMC in writing within thirty (30) days of the execution of any such third party license and shall be accompanied by a copy of the third party license agreement, which may be redacted by DTC if necessary to comply with any judicial order or other confidentiality obligation. The MFN shall be applied within thirty (30) days from the date this provision is recognized in accordance with Section 10.7.

# The *JP Morgan* Case

- DTC later entered into an agreement on the same patents with Cathay, who paid a $0.25M lump-sum plus $0.25M for any after-acquired entities
- JPMC got wind of the Cathay deal (not from DTC) and sued DTC for breach of contract and demanded the $70M price term be retroactively replaced by Cathay's $0.25M price term and the balance refunded
- District court found that the Cathay price term applied, and JPMC's licensed fees should be reduced to $1M (including additional $0.75M for 3 after-acquired entities), and DTC should refund $69M to JPMC
- DTC appealed the amount of damages

# The *JP Morgan* Case

- 5th Cir. affirmed:
  - Court found the case to be one that "switch[es] from a paid-up lump-sum license to a more favorable paid-up lump-sum license," which is different from a running royalty license scenario
  - "The licenses granted to JPMC and Cathay are identical in most respects. Both are paid-up lump-sum licenses granting unlimited use of the patent. That is to say, neither of the licenses involves periodic royalty payments covering discrete periods of time or per-transaction royalty payments; neither is subject to any cap on the number of transactions; and neither has language tying the lump-sum payment for the unlimited license to either the anticipated number of transactions or the asset size of the licensee."
  - "[T]he JPMC license was all-or-nothing with respect to both the payment owed and the right to use DTC's patents, just like the Cathay license."

# The *JP Morgan* Case

- The only differences are the payment terms:
  - (1) JPMC paid $70M lump-sum, Cathay only $0.25M
  - (2) Cathay's license required $0.25M per additional entity later acquired
- The MFL clause applies retroactively
  - DTC's argument that the MFL clause cannot apply retroactively for payments already paid leads to an unreasonable result because it "would render the MFL clause effectively meaningless in this case and in other cases involving two otherwise paid-up lump-sum licenses, differing only in the total license cost." Otherwise, "once the first licensee had fully paid its license fee (even if it paid the full amount at the outset), it could receive no practical benefit from invoking the MFL clause."

# The *JP Morgan* Case

- "An MFL clause would mean virtually nothing if it did not allow the earlier licensee to obtain a lower license cost, which in turn means nothing if the earlier licensee cannot receive a refund in the amount of the overpayment."

# Takeaways

- A most-favored licensee clause can retroactively apply to lump-sum payments under unrestricted terms
- As Licensor, consider restricting the scope of MFL clause by:
  - Using periodic royalty payments covering discrete periods or pre-transaction royalty payments
  - Placing cap on the use of the patented technology
  - Limiting the effective period of licensee’s right to exercise MFL clause
  - Tying the amount paid for paid-up lump-sum licenses to the licensee’s asset size
  - Stating that the amount paid was tied to the remaining life of the patent

# Scope of Assignment

# *TriReme v. AngioScore*

- *TriReme Medical, LLC v AngioScore, Inc.*, 812 F.3d 1050 (Fed. Cir. Feb. 5, 2016)
  - The "Consulting Agreement":
    - AngioScore consulted Dr. Lotan on developing balloon catheters, entering into a Consulting Agreement, which addresses rights to Dr. Lotan's background IP in § 9(a) and foreground IP in § 9(b)
    - Before entering into the Agreement, Dr. Lotan suggested an improved design for a catheter to AngioScore, but did not list the suggestion pursuant to § 9(a) of the Agreement
    - AngioScore's patents at issue relate to catheters, but Dr. Lotan is not a listed as an inventor

**9. Inventions:**

**(a) *Inventions Retained and Licensed*.** Consultant has attached hereto, as part of *Exhibit C*, a list describing all inventions, original works of authorship, developments, improvements, and trade secrets which were made by Consultant prior to the date of this Agreement (collectively referred to as "*Prior Inventions* "), that belong solely to Consultant or belong to Consultant jointly with another *and* that relate to any of the Company's current or proposed businesses, products or research and development; or if no such list is attached, Consultant represents that there are no such Prior Inventions. If, in the course of providing the Services, Consultant incorporates into a Company product, process or machine or into any Invention (as defined below), a Prior Invention owned by Consultant or in which Consultant has an interest, the Company is hereby granted and shall have a non-exclusive license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell and otherwise distribute such Prior Inventions as part of or in connection with such product, process, machine or Invention.

**(b) *Assignment of Inventions*.** Consultant agrees to promptly disclose to the Company and hereby assigns to the Company, or its designee, all right, title and interest in and to all inventions, original works of authorship, developments, concepts, know-how, improvements or trade secrets, whether or not patentable, that Consultant may solely or jointly conceive or develop or reduce to practice during the term of this Agreement that relate to the Services (collectively referred to as "*Inventions* ")."

# The *TriReme* Case

- District Court Action
  - Dr. Lotan granted TriReme, AngioScore's competitor, an exclusive license to "any and all legal and equitable rights" he held in AngioScore's patents
  - TriReme sued for correction of inventorship to add Dr. Lotan to AngioScore's patent
  - District Court, however, agreed with AngioScore's argument that Dr. Lotan's failure to list the improvement resulted in assignment to AngioScore, based on § 9(a) and § 9(b)

# The *TriReme* Case

- Fed. Cir. reversed:
  - Language of § 9(a) provides no assignment
    - Nothing in § 9(a) "suggests that anything not listed as a 'Prior Invention' would not be 'retained.'"
    - § 9(a) is at most a nonexclusive license provision
  - Estoppel by contract does not apply
    - AngioScore argued that estoppel by contract bound TriReme to Dr. Lotan's implicit representation that he had no prior inventions, and hence owned no rights in development or improvement of AngioScore's prototype
    - But Court held that "[e]stoppel by contract does not apply here, because neither Dr. Lotan nor his successor in interest (TriReme) seeks to enforce any rights under the contract."

# The *TriReme* Case

- Fed Cir. remanded on § 9(b) :
  - AngioScore alternatively argued that Dr. Lotan assigned his rights under § 9(b) because his work before signing the Agreement continued into the contract period
  - Court found the parties heavily disputed whether Dr. Lotan's work relating to designing, implementing, and analyzing clinical trials after the effective date of the Agreement fell under § 9(b), and remanded
  - On remand, district court ruled that no assignment was effected under § 9(b) by Dr. Lotan's work in the contract period, but there is also insufficient evidence that inventorship of the patents should be corrected to add Dr. Lotan

# Takeaways

- Rights to retain prior IP and assign nonexclusive licenses do not automatically amount to assignment rights
- Differentiate foreground IP from background IP in clear and specific language in a licensing/consulting/servicing/contracting agreement
- Perform due diligence on the other party’s IP portfolio, when licensing or acquiring, including records of prior assignments

# Patent Exhaustion

# Patent Exhaustion Generally

- Patent exhaustion doctrine provides that the initial authorized sale of a patented item terminates all patent rights to that item
  - “Exhaustion protects an authorized acquirer’s freedom from the legal restrictions imposed by the patent statute.”
  - An authorized sale “confers on the purchaser, or any subsequent owner, the right to use [or] sell” the patented item as the purchaser sees fit
  - The goal is to “avoid[] re-imposition of section 271 constraints on an authorized acquirer—reflects the doctrine's origin in common-law rules limiting servitudes, and specifically alienability restrictions, on personal property.”

# *Helferich Patent Licensing v. NY Times*

- *Helferich Patent Licensing, LLC v. New York Times*, 778 F.3d 1293 (Fed. Cir. Feb. 10, 2015)
  - Helferich owned patents of wireless communication technologies, containing
    - "Handset claims": Apparatus and method claims directed to mobile handsets and receiving and requesting certain content
    - "Content claims": System and method claims directed storing and updating information of various content and sending it to handsets

# The *Helferich* Case

**Content Claim**

1. A method of providing content to a cell phone comprising:

a content provider causing the content to be stored in an internet accessible storage unit;

the content provider initiating a page to a content subscriber, the page including a notification that: (i) identifies the content, and (ii) includes an address of a system to be contacted to trigger retrieval of the content, but does not include the content;

wherein the page indicates that the content is available for a specified time; and

the content provider causing the content identified by the notification to become inaccessible at the internet accessible storage unit after the specified time identified by the initiated page.

**Handset Claim**

7. A method of operating a wireless communication device in a communication system that includes a plurality of information storage systems, and a mobile radiotelephone network comprising:

receiving a notification message from the mobile radiotelephone network, . . . ;

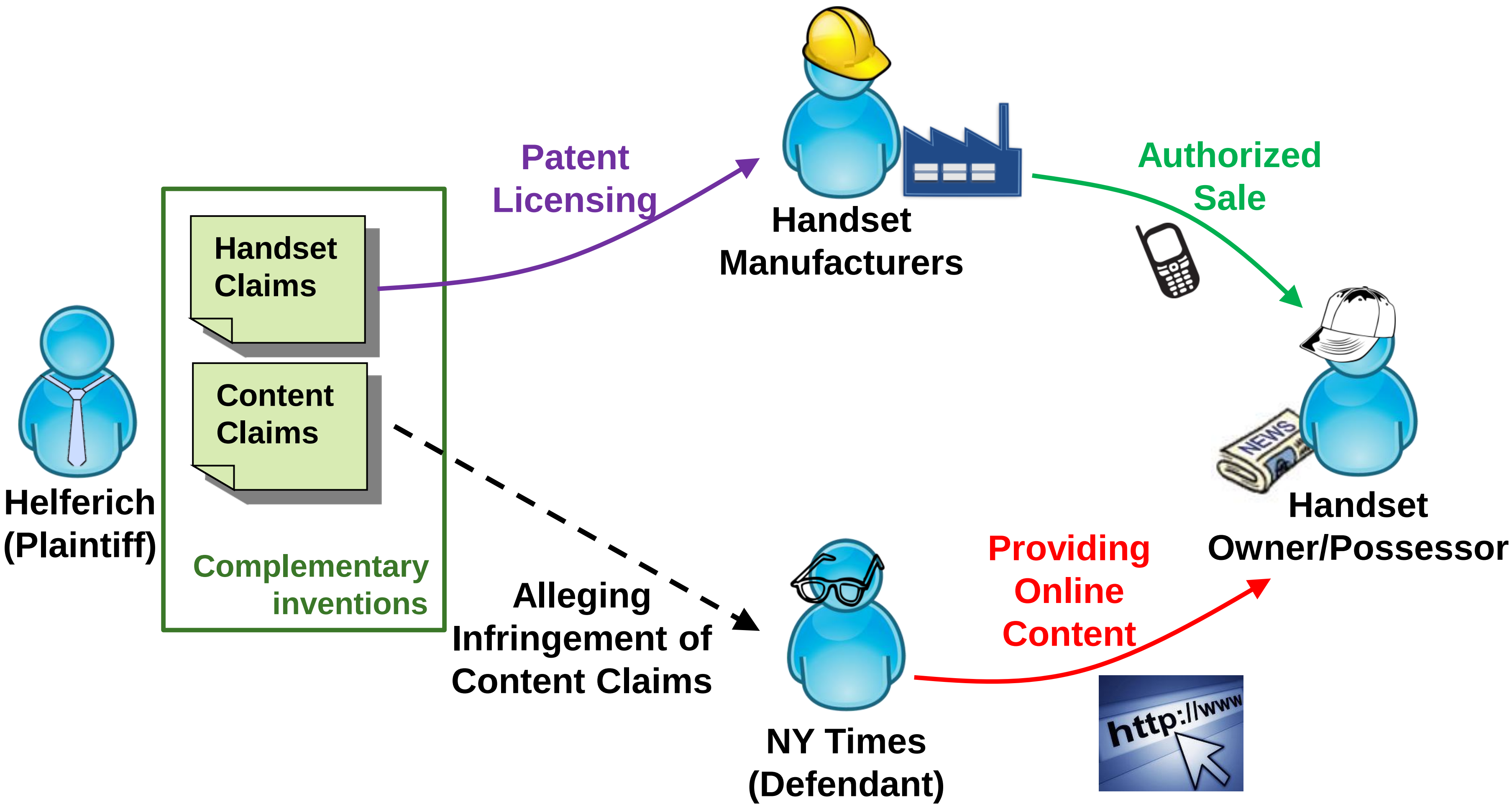
alerting the user that the notification message has been received;

receiving input from the user specifying an action . . . to be performed . . . ; and

transmitting via a mobile radiotelephone network, . . . , an action identifier corresponding to the action . . . ;

alerting the user that the action specified by the user has been completed.

# *Helferich Patent Licensing v. NY Times*



# The *Helferich* Case

- Helferich licensed patents containing handset claims to handset manufacturers
  - Under the **doctrine of patent exhaustion**, the licenses eliminated patent-related rights for the owners/possessors of handsets acquired from the licensed manufacturers—“authorized acquirers”—regarding their sale or use of their handsets

# The *Helferich* Case

- But the licenses differentiate handset and content claims and the associated grant of rights
  - "The licenses themselves generally reflect painstaking efforts to distinguish the conduct of handset makers and possessors from the conduct of others, such as content providers, and to distinguish claims practiced by the former from claims practiced by the latter."
  - "The licenses generally disclaim any grant of rights to such content providers and reserve Helferich's enforcement rights against them."

# The *Helferich* Case

- Helferich sued content providers for infringing the content claims
- District court ruled that patent exhaustion applied to the content claims through authorized sale of every handset, because all of the patents “require the use of a handset device”

# The *Helferich* Case

- Fed. Cir. reiterated the principle set forth in Supreme Court precedent, and held that exhaustion does not bar the content claims:
  - "In short, the decisions finding exhaustion (or relying on exhaustion to reject an antitrust defense) have done so only when the patentee's assertion of infringement was, or depended on, an assertion that an authorized acquirer was using the same invention by infringing the asserted claims."

# The *Helferich* Case

- Fed. Cir. rejected the content providers' reliance on "reciprocal enhancement of utility" between handsets and its contents
  - "[T]he exhaustion doctrine's lifting of patent-law restrictions on a licensed product has never been applied to terminate patent rights in [the present case's] complementary activities or goods in these circumstances."

# The *Helferich* Case

- Fed. Cir. also did not find exhaustion using the two-part test to determine exhaustion of method claims triggered by authorized sale of an article from *Quanta*
  - (1) Does the article include all the inventive aspects of the patented methods?
    - "Here, if the inquiry compares handset claims and content claims, we cannot find that either set wholly contains the invention found in the other. Each has its own inventiveness, as the cases come to us."
  - (2) Does the article have no reasonable noninfringing use?
    - "[W]e cannot say that the inventions of the asserted content claims have no reasonable use other than one involving someone's practicing of the handset claims, because we cannot say that the asserted content claims call on use of the inventive features of the handset claims: at most an ordinary handset is required."

# Takeaways

- Complementary, non-licensed products covered by separate patents may not be subject to exhaustion by authorized sales of licensed products
- In license agreements, consider complementary patents and technologies and whether license should cover them
- In preparing patent applications for a new technology, consider claiming distinct but complementary inventions in separate patents

# *High Point v. T-Mobile*

- *High Point SARL v. T-Mobile USA, Inc.*, 640 Fed.Appx. 917 (Fed. Cir. Feb. 18, 2016)
  - The asserted patents relate to technology for voice transmission over wireless networks
  - The patents were originally owned by AT&T, assigned to Lucent, AT&T's spin-off, and finally bought by High Point in 2008
  - The patents were the subject of three licensing deals:
    - AT&T-Alcatel cross-license (1996)
    - AT&T-Siemens cross-license (1988)
    - Lucent-LM Ericsson cross-license (1996)

# The *T-Mobile* Case

- AT&T-Alcatel cross-license (1996)
  - The license automatically extended sublicenses to current and future subsidiaries of both parties, but extended only to “any or all products and services of the kinds” which the parties used or sold on the effective date of the agreement

# The *T-Mobile* Case

- AT&T-Siemens cross-license (1988)
  - A divestment rider was subsequently executed
    - "[I]n the future, if [Siemens] or any of the three [AT & T divested] entities divest a portion of its present business, the licenses and rights granted in the [1988 cross-license between Siemens and AT & T] may be sublicensed to the divested business by the divesting company. Such sublicenses may be granted and retained only while the future divested business operates as a separately identifiable business and only to the extent applicable to products and services sold by the future divested business prior to its divestiture."
  - Later, the Siemens carrier division and the Nokia networks business were joined to form Nokia Siemens B.V., which owned Nokia Siemens U.S., both of the Nokia Siemens having obtained retroactive sublicenses from their parents

# The *T-Mobile* Case

- Lucent-LM Ericsson cross-license (1996)
  - Non-exclusive cross-license with the right to grant sublicenses to its subsidiaries
    - Section 1.02 states that “[a]ll licenses granted herein under any patent shall ... continue for the entire unexpired term of such patent.”
    - Section 1.03(c) states that any sublicense LM Ericsson conveyed to a subsidiary “could be made effective retroactively.”
  - LM Ericsson granted its subsidiary, Ericsson U.S., a *nunc pro tunc* sublicense to the patents-in-suit, which already expired earlier

# The *T-Mobile* Case

- High Point filed an infringement suit against T-Mobile, who had been purchasing network equipment from its suppliers, Alcatel, Nokia Siemens U.S., and Ericsson U.S.
- Nokia Siemens U.S., and Ericsson U.S. intervened in the suit, and together with T-Mobile, moved for summary judgment, which the district court granted, concluding that patent exhaustion barred all of High Point's infringement claims
- Fed. Cir. affirmed that the patent rights were exhausted by authorized sales to the suppliers

# The *T-Mobile* Case

- Sales by Alcatel
  - Fed. Cir. rejected High Point's argument that products of Alcatel sold to T-Mobile were not the original Alcatel products
    - The language of the provision "any or all products and services *of the kinds* " uses "general, functional terms" to cover not just the particular components sold in 1996 but any products of the same type or "kind."
    - The court did not think that the parties intended to protect only products that had the "same features or functionality" as those in 1996 at a time of "rapid technological evolution."

# The *T-Mobile* Case

- Sales by Nokia Siemens U.S.
  - Fed. Cir. found Nokia Siemens B.V. qualified as a "separately identifiable business" under the divestment rider
    - AT&T could have explicitly prohibited a Siemens divested division from entering into a joint venture relationship
    - The circumstances strongly suggest that parties intended to grant broad license protection to divested businesses
    - The provision provided Siemens with explicit authority to sublicense any "portion" of its business it chose to divest
    - From a business perspective, whether the Nokia-Siemens joint venture was done in a single step rather than in multiple steps should not matter

# The *T-Mobile* Case

- Sales by Ericsson U.S.
  - Fed. Cir. rejected High Point's assertion that Ericsson could not convey a retroactive sublicense to Ericsson U.S. because its right to grant sublicense expired
    - The Lucent-Ericsson cross-license did not have a termination date, and no provision in that agreement imposed any timing constraint
    - High Point unduly twisted section 1.02 into a restriction on the licensee's explicit right to grant retroactive sublicenses
    - Ericsson had the unrestricted right, pursuant to section 1.03(c), to grant Ericsson U.S. a sublicense, thereby immunizing Ericsson U.S. from any potential infringement liability

# The *T-Mobile* Case

- Substantial Embodiment
  - Fed. Cir. ruled that the district court correctly determined that licensed equipment substantially embodied all purportedly inventive features recited in the asserted claims
    - High Point failed to provide evidence that T-Mobile used unlicensed routers and interconnect equipment in its system to perform the inventive features of the asserted claims

# Takeaways

- Clearly define the term and licensed products/activities of sub-licensees to avoid misinterpretation
- Subsequent products similar to licensed products may be covered by license unless license is restricted to specific, original models

# *Lexmark v. Impression*

- *Lexmark Intern., Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. Feb. 12, 2016) (en banc), cert. granted, 137 S. Ct. 546 (2016)
  - Lexmark sells its patented printer cartridges in the U.S. and abroad, subjecting the sales to an express single-use/no-resale restriction
  - Impression obtains the used Lexmark cartridges in the U.S. and outside of the U.S., refills and resells/imports them back to the U.S. without Lexmark's permission
  - Is Impression's resale and importation noninfringing under the doctrine of exhaustion, based on Lexmark's first sale?

# The *Lexmark* Case

- Fed. Cir. upholds post-sale limits on use and resale
  - "A sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the 'authority' to engage in the use or resale that the restriction precludes."
  - Court likened the circumstances to a licensor limiting the rights of a licensee, finding no exhaustion "simply because [the patentee] sold the [patented articles] itself…, rather than having left the manufacture and sale to others under [a] license."

# The *Lexmark* Case

- Sales of patented article outside U.S.
  - "[A] U.S. patentee, merely by selling or authorizing the sale of a U.S.-patented article abroad, does not authorize the buyer to import the article and sell and use it in the United States, which are infringing acts in the absence of patentee-conferred authority."
  - "A U.S. patentee, simply by making or authorizing a foreign sale of an article, does not waive its U.S. rights to exclude regarding that article, either conclusively (no matter how clear the reservation of U.S. rights) or only presumptively (subject to sufficiently clear preservation of U.S. rights)."

# The *Lexmark* Case

- Supreme Court will rule on:
  - (1) Whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent-exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy; and
  - (2) whether, in light of this court's holding in *Kirtsaeng v. John Wiley & Sons, Inc.* that the common-law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article – authorized by the U.S. patentee – that takes place outside the United States exhausts the U.S. patent rights in that article.

# Equitable Estoppel

# *High Point v. Sprint*

- *High Point SARL v. Sprint Nextel Corp.*, 817 F.3d 1325 (Fed. Cir. Apr. 5, 2016)
  - Patents-in-suit cover transfer of packetized voice traffic between cellular base stations and switching centers
  - The patents were owned by AT&T and successor Lucent, and then acquired by High Point
  - AT&T and Lucent licensed the patents to Sprint and supplied licensed equipment for Sprint to build its wireless network
  - Later, Sprint started buying unlicensed equipment, but Lucent continued to support development of network standards for Sprint

# The *Sprint* Case

- High Point sued Sprint for breach of contract and infringing the patents
- District court ruled in favor of Sprint, finding that Lucent's silence to Sprint's active activities in expanding the network placed Sprint in detrimental reliance
- Fed. Cir. affirmed the finding that High Point's lawsuit is barred by equitable estoppel

# The *Sprint* Case

- Fed. Cir.'s reasoning for equitable estoppel:
  - (1) "High Point's predecessors' misleading course of conduct caused Sprint to reasonably infer that they would not assert the patents-in-suit while Sprint purchased unlicensed infrastructure to build its network."
  - (2) Sprint "detrimentally relied on the conduct of High Point's predecessors."
  - (3) Sprint "suffered prejudice from the delay."

# Takeaways

- Purchaser of patents may be affected by the conduct of the patent owner(s) before it, when it tries to enforce the patents
- Important to take this into consideration when performing due diligence before purchasing patents

# Standing to Sue

# *Lack of Substantial Rights*

- *Alps South, LLC v. The Ohio Willow Wood Company*, 787 F.3d 1379 (Fed. Cir. Jun. 5, 2015), cert. denied, 136 S. Ct. 897 (2016)
  - Court reiterated that "our standing jurisprudence 'compels an exclusive licensee with less than all substantial rights, such as a field of use licensee, to join the patentee before initiating suit,'" and concluded that the licensee lacks standing to sue without joining the patent owner because the license restricts the licensee to a particular field of use
  - "[N]unc pro tunc assignments are not sufficient to confer retroactive standing." (Amendment to contract to grant licensee standing to sue was after licensee brought action)

# License to Expired Patents

- *Keranos, LLC v. Silicon Storage Technology, Inc.*, 797 F.3d 1025 (Fed. Cir. Aug. 13, 2015)
  - Keranos obtained exclusive license to *expired* patents from UMC; including exclusive rights to past, present, and future rights to sue
  - “We see no reason for a party's standing to turn on whether it enters into an exclusive license with a patent owner before or after the patent expires.”
  - “We acknowledge that the patentee has fewer rights to transfer when the patent has expired; for example, the patentee can no longer transfer the right to exclude others from practicing the patent going forward. But the absence of some rights in an expired patent does not affect the standing of a transferee that received all substantial rights in an expired patent, just as it does not divest of standing the transferor that did not contract away any substantial rights.”

# *Retaining Right to Practice*

- *Luminara Worldwide, LLC v. Liown Electronics Co. Ltd.*, 814 F.3d 1343 (Fed. Cir. Feb. 29, 2016)
  - "Under our precedent, only parties with exclusionary rights to a patent may bring suit for patent infringement."
  - Patent owner's retaining the right to practice the patent is not enough to deprive licensee's standing to sue.
  - "A patentee that merely retains the right to practice the patent does not risk *losing* a substantial right if the claims are invalidated or the patent held unenforceable. The retained right to practice a patent is not the same as a retained right to exclude others from doing so."

- *Diamond Coating Technologies, LLC v. Hyundai Motor America*, 823 F.3d 615 (Fed. Cir. May 17, 2016)
  - Transferring less than at least one of the following would be a license and not an assignment:
    - (1) The entire exclusive patent right;
    - (2) An undivided interest in the patent rights; or
    - (3) The entire exclusive right within any geographical region of the United States.

# The *Diamond Coating* Case

- The test for transference of sufficient rights does not entail going through a complete list of rights but involves determining if certain important rights are transferred
  - "[W]e have observed that (1) 'the exclusive right to make, use, and sell ... is vitally important,' and (2) 'the nature and scope of the [patentee's] retained right to sue accused infringers [and license the patent are] the most important factor[s] in determining whether an [agreement] ... transfers sufficient rights to render the [other party] the owner of the patent.'"

# What Rights Must An Exclusive Licensee Obtain to Sue Alone?

| Case | Rights Transferred, Rights Licensee Has, or Limitations Placed on Patent Owner | Rights Not Transferred, Rights Patent Owner Has, or Limitations Placed on Licensee |
|---|---|---|
| ***Diamond Coating v. Hyundai***<br><br>**Standing to sue** ✗ | • A contract titled "Patent Assignment and Transfer Agreement" is signed<br>• Right to "prosecution, maintenance, licensing, litigation, enforcement and exploitation" of patent, but NO right to engage other "business or activity" (Court did not give "exploitation" a broader meaning to include practicing the patent because the agreement does not say so) | • Right to reassign contract to a third party absent Patent Owner's consent<br>• Patent Owner retains economic interest in future proceeds including those from infringement actions<br>• Right to practice patent<br>• Enforcement needs to be considered of the best interests of Patent Owner and Assignee<br>• Ancillary agreement prohibits Assignee from suing certain companies |
| ***Luminara v. Liown***<br><br>**Standing to sue** ✓ | • Worldwide, exclusive rights to the patented technology<br>• "Sole and exclusive right" to sue<br>• Sole right to sublicense<br>• Reasonable right to assign rights | • Worldwide Right for Patent Owner and its affiliates to practice patent<br>• Responsibility to pay maintenance fees<br>• Financial interest in litigation and licensing<br>• Right to notice of litigation and licensing |

# What Rights Must An Exclusive Licensee Obtain to Sue Alone?

| Case | Rights Transferred, Rights Licensee Has, or Limitations Placed on Patent Owner | Rights Not Transferred, Rights Patent Owner Has, or Limitations Placed on Licensee |
|---|---|---|
| ***Alps South v. Ohio Willow Wood***<br><br>**Standing to sue** ✗ | • Right to enforce patent<br>• Patent Owner would cooperate "to the extent necessary . . . , including (without assignment of ownership to any patent rights) transferring of such rights to [Licensee] as are necessary to enable [Licensee] to enforce the patent rights in its own name" | • Right to settle infringement actions without Patent Owner's prior written consent<br>• Right to pursue infringement actions if Licensee declines to do so<br>• Licensee's right to "develop, make, have made, use, sell, offer to sell, distribute, lease, and import " patented products is limited to a certain field of use (certain categories of products)<br>• Licensee's right to pursue infringement actions limited to the same field of use |
| ***Keranos v. SST***<br><br>**Standing to sue** ✓ | • Exclusive past, present, and future rights to sue and recover for infringement<br>• Right to practice patent<br>• Right to negotiate and sublicense<br>• Exclusive right giving Licensee a propriety interest in patent<br>• Intention to transfer all substantial rights captured in a catch-all clause | • Legal title to licensed patent |

# Takeaways

- Determination of standing to sue is based on what substantial rights are transferred to the licensee
- Once suit is filed, standing cannot be cured retroactively
- Standing can be conferred even if patent is expired
- Patent owner’s right to practice does not deprive licensee’s standing
- Licensee’s *exclusive* right to practice is a major substantial right

# Questions?

# Thank you!

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- Experience includes handling complex patent litigations in federal district courts and the U.S. International Trade Commission involving a variety of technologies, including polymer, light emitting diodes, optical sensors, liquid crystal displays, projectors, IC design, and optical storage devices, as well as technologies in the chemical, biotechnology, pharmaceutical, and mechanical arts.

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