

I N S I D E   T H E   M I N D S

# Intellectual Property Licensing Strategies

*Leading Lawyers on Educating Clients,  
Drafting Licensing Agreements, and  
Resolving Disputes*

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# Drafting a License Agreement with an Eye to the Future

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## Emerging Trends in IP Licensing Strategies

One ongoing trend in patent law has been the continuing impact of the 2007 decisions in *MedImmune Inc. v. Genentech Inc.*, 549 U.S. 118 (2007), and *SanDisk Corp. v. STMicroelectronics Inc.*, 480 F.3d 1372 (Fed. Cir. 2007), and the license negotiation methods being implemented to avoid the impact of those decisions.

More specifically, prior to those cases, a party could not seek a declaratory judgment action against a patent owner for patent invalidity or non-infringement unless the patent owner's conduct had created a "reasonable apprehension" that the party would face an infringement suit. This created a fairly high hurdle. For example, in *Shell Oil Co. v. Amoco Corp.*, 970 F.2d 885 (Fed. Cir. 1992), both parties engaged in months of licensing discussions, during which Amoco asserted that Shell's activities were covered by Amoco's patent. When Shell tried to assert a declaratory judgment action for non-infringement after the negotiations ceased, the court found that Shell did not have a "reasonable apprehension" that it would face an infringement suit, because "Amoco's use of language to indicate that Shell's activities 'fall within,' are 'covered by,' and are 'operations under' Amoco's patent fall short of alleging infringement." *Id.* at 889.

However, the *SanDisk* case relaxed the standard such that a party could seek a declaratory judgment action where the patent owner "asserts rights under a patent based on certain identified ongoing or planned activity of another party..." Thus, the haven that had been provided by the "reasonable apprehension" test no longer exists, and a patent owner in license negotiations often runs the risk of a preemptory declaratory judgment action. Practitioners are still awaiting an additional definitive decision regarding the scope of the *SanDisk* decision, and more importantly, a decision defining the scope of a safe haven in which to practice the art of initiating patent license negotiations without risking a declaratory judgment action.

In the meantime, when a client suspects infringement of their patent by a competitor, some practitioners are now advising their clients to hold off reviewing the competitor's products and any related infringement analysis

until after an appropriate notice letter is sent to the competitor. Such a notice letter should merely inform the competitor of the patent, and invite them to review their products to determine any interest in licensing the patent. Better yet, if true, the competitor can be informed that the patent owner has not reviewed any products or activities of the competitor. While not litigation-tested, because such an invitation is not based on any “identified ongoing or planned activity of another party,” such an invitation should not subject the patent owner to a declaratory judgment action.

The current economy has affected IP licensing only to the extent that patent owner businesses, in an effort to increase revenues, are less forgiving of patent infringement transgressions. For example, smaller dollar volume infringements are now being pursued, which effectively increases the eventual number of licenses being entered into.

### **Working with Licensors and Licensees**

As an IP licensing attorney, I work with both licensor and licensee clients. In representing the licensor, I try to limit the scope of the license as much as possible—not only as to the patented technology, but also temporally and geographically. In representing the licensee, I try, of course, to maximize the scope of the license.

As to the latter, it is amazing how many attorneys fail to negotiate a “world peace” license on behalf of a licensee. For example, in negotiating a patent license, while attorneys generally will make sure that the license covers an entire patent family, many attorneys fail to appreciate that the licensor may have other unrelated patents, or pending patent applications, covering different aspects of the licensed product at issue. If these are not the subject of the license agreement, the licensee may later be subjected to unexpected infringement claims.

Accordingly, in representing the licensee, it is recommended that all possibly applicable patents and patent applications of the licensor be reviewed and included in the license where necessary. It is also recommended that the license include a warranty or other representation that the licensor does not own or control any other possibly applicable

patents or patent applications in its control. More critically, it is furthermore recommended that the license include a “licensed products” definition broad enough to cover all present and future products and a license clause broad enough to protect the “licensed products” from any infringement claims.

Likewise, many attorneys fail to appreciate that the licensor may have other related or unrelated patents or patent applications in relevant foreign markets. The same steps outlined above should be taken to ensure that the license extends to those markets. A licensee does not want to settle a dispute in the United States through a patent license covering only United States patents and then be immediately subjected to an infringement suit in a foreign country.

Therefore, when questioning the licensee, it is critical to determine all possible present and future technologies that needed to be covered by the license, together with all geographical locations where such technologies may be manufactured, used, sold, offered for sale, or imported so that the license can be crafted accordingly to protect such activities.

In general, state contract law is applicable in the enforcement of licensing agreements. However, federal laws, such as antitrust laws and patent laws, may also be applicable to particular disputes.

While basic contract law is fairly uniform from state to state, there may sometimes be differences or nuances that could affect the outcome of a license dispute. If such a dispute can be foreseen as a possibility, it is wise to research the best applicable state law, providing within the license itself that such law applies.

### **Handling a Possible Infringement Scenario**

An article that is patented or has a patent pending should be marked as such. Marking provides constructive notice to the public that the article is patented or has a patent pending. *American Medical Sys. v. Medical Eng'g Corp.*, 6 F.3d 1523, 1538 (Fed. Cir. 1993). One may give notice that a patent is

pending on the article by simply affixing “patent pending” to the article. One may give notice that the article is patented by affixing on the article either the word “patent” or “pat.” together with the patent number. See 35 U.S.C. § 287. In the event that an article cannot be marked, a patentee may satisfy the marking requirements by affixing a label with notice of the patent either to the article or on the packaging of the article. See 35 U.S.C. § 287(a). The Federal Circuit has summarized the purposes of the marking statute as: (1) to avoid innocent infringement, (2) to encourage patentee to give notice to the public that the article is patented, and (3) to allow the public to determine whether an article is patented. *Nike Inc. v. Wal-Mart Stores Inc.*, 138 F.3d 1437 (Fed. Cir. 1998).

If the client is commercializing the patent without providing appropriate patent marking, it is important to put the alleged infringer on notice of the allegedly infringing activities as soon as possible in order to maximize the recoverable damages. This is because 35 U.S.C. § 287 states that if there is no marking on a patented product, no damages shall be recovered by the patentee “except on proof that the infringer was notified of the infringement and continued to infringe thereafter.” Once notice is given, damages may be recovered only for infringement occurring after such notice.

### **Keeping Clients Updated about Changes in IP Licensing Regulations and Strategies**

Clients should be updated with information about changes in IP licensing regulations and strategies immediately, especially if a change results in a recommended or necessary change in the way that client does business. Clients can be updated through letters; through copies of cases, statutes, regulations, or other materials reflecting such changes; or through seminars conducted by counsel. An attorney should always be consulted if the client has any belief that any change in its business might affect a license term.

Personal visits to the client should be based on the needs of the client, and whether there have been legal developments that pertain to the client and need to be discussed, and the activity level of the client.

Active clients—meaning those that have large intellectual portfolios and ever-evolving technologies or products—should be visited often. Such meetings are necessary to evaluate such new technologies and products as to whether intellectual property protection should be sought, whether such new technologies and products possibly infringe competitive intellectual property, and the impact of such new technologies and products on existing licenses. As to the latter, for example, a new development may fall outside the scope of an existing license, or within the safe harbor of an existing license, thereby negating the need to continue paying license royalties.

### **Key Elements of a Licensing Agreement**

The following is a checklist of elements or issues to be considered in negotiating and drafting a license agreement:

#### INTRODUCTION

- 0.01 Date or “Effective as of”
- 0.02 Identify the parties, name, state of incorporation, address, hereinafter “XYZ”

#### ARTICLE I – BACKGROUND

- 1.01 Spell out pertinent relationship between parties
- 1.02 Purpose of agreement

#### ARTICLE II – DEFINITIONS

- 2.01 Licensed patents (consider including applications and later acquired rights, domestic and foreign related patents, and non-related patents, which might also arguably cover licensed technology)
- 2.02 Licensed technology (may include trade secrets and know-how)
- 2.03 Net sales; identify deductions; when sale occurs shipped/ invoiced/paid?



- 2.04 Royalty base; units or sales, non-patented components
- 2.05 Trademarks and copyrights

### ARTICLE III – GRANT, DEFINITION OF RIGHTS TRANSFERRED AND RESERVATION

- 3.01 To whom: subsidiaries; affiliates; related companies
- 3.02 What: licensed patents; make, use, sell, offer for sale, import, lease or otherwise dispose of; limitations of use; trade secrets, know-how, and later acquired patents on improvements
- 3.03 Right to sub-license or assign; bankruptcy of either party
- 3.04 Release for past infringement
- 3.05 Exclusive vs. non-exclusive
- 3.06 Who has the right to enforce patent
- 3.07 Grant back of right to use improvements
- 3.08 Cross license
- 3.09 Best efforts (set minimum licensee milestones, but as a licensee beware of implied conditions that are difficult or impossible to meet)

### ARTICLE IV – ROYALTIES AND REPORTS

- 4.01 Up-front money (credit against future royalties)
- 4.02 Payments contingent upon dollar or unit sales
- 4.03 Best royalty rate clause/multiple patent problems
- 4.04 Audit: cost, notice, frequency
- 4.05 Royalty rate varies as function of sales volume

### ARTICLE V – MINIMUM PERFORMANCE REQUIREMENTS

- 5.01 Minimum annual payments
- 5.02 Exclusive converts to non-exclusive
- 5.03 Contract terminates
- 5.04 Consumer price index adjustment to minimum amounts

## ARTICLE VI – TERMINATION

- 6.01 Term: fixed or last to expire of the licensed patents
- 6.02 For cause, material breach, minimum performance
- 6.03 Notice: to whom; method of delivery
- 6.04 Right to cure, time period
- 6.05 Identify which paragraphs remain in effect if terminated; i.e., reports, audit, confidentiality, etc.

## ARTICLE VII – MISCELLANEOUS

- 7.01 Confidentiality of trade secrets
- 7.02 Warranties, freedom to practice, third party infringement claims
- 7.03 Notice of infringement of licensed patents by others
- 7.04 Allocation of litigation cost, distribution of proceeds, control, and declaratory judgment
- 7.05 Control of prosecution in reexamination or reissue
- 7.06 Patent notice/marketing
- 7.07 Hold harmless, product liability
- 7.08 Modifications in writing
- 7.09 This is the entire deal
- 7.10 Arbitration (if providing for arbitration in the event of disputes, delineate the arbitration process as much as possible)
- 7.11 Applicable law (e.g., require that the law of a specific state will be used. A license agreement is a contract that is governed by state contract law. *Power Lift Inc. v. Weatherford Nipple-Up Systems Inc.*, 871 F.2d 1082 (Fed. Cir. 1989). Furthermore, states may regulate intellectual property if not inconsistent with federal law. *Cincom Systems Inc. v. Novelis Corp.*, 581 F.3d 431 (6<sup>th</sup> Cir. 2009). Accordingly, it can be important for the parties to agree as to which state law will govern the license agreement.)
- 7.12 Place to litigate contract disputes
- 7.13 Quality control provisions, especially if there is trademark license
- 7.14 Third party guarantee of licensor's performance

## SIGNATURES

- 8.01 Officer of each party, authorized to sign
- 8.02 Witnesses
- 8.03 Duplicate originals/compare copies
- 8.04 Initial all last-minute handwritten changes
- 8.05 Staple and count pages

## APPENDIX

- 9.01 Licensed patents, trademarks, and copyrights
- 9.02 Royalty tables

## AFTER SIGNING

- 10.01 Keep in secure place
- 10.02 Docket any key dates

## **Difficult Types of Licenses**

The most difficult license is that resulting from litigation, where the accused infringer not only makes and sells a variety of allegedly infringing and non-infringing products, but where new or modified products are constantly being introduced into the marketplace. In such a situation, definitions must necessarily be drafted in order to define the products for which royalties must be paid (the royaltied products) and “safe harbor” clauses must necessarily be drafted in order to define the products for which royalties need not be paid (the non-royaltied products). Given that the parties are typically in disagreement as to the meanings of claim terms, and as to infringement, this is an area fraught with disagreement.

Typically, the royaltied products are defined in a definitional format, in terms of certain products that may be marked and referenced and kept as samples or in other recorded forms such as photographs, or through both in combination. It is critical for the licensor to contemplate all possibly infringing variations, to ensure that they are covered by such a definition.

The safe harbor products may likewise be defined in a definitional format, in terms of certain products that may be marked and referenced and kept as samples or in other recorded forms, or through both in combination. It is critical for the licensee to contemplate and include possible variations in the safe harbor clause in order to avoid future disputes. It is important for the licensor to make sure that the safe harbor clause is drafted with as many defined parameters as possible in order to both minimize the scope of the safe harbor and to avoid future disputes as to such scope. For example, a licensor desiring to restrict the scope of a process patent involving hot and cold temperature treatment steps would want to restrict each step to a narrow specific temperature range.

## **Final Thoughts**

I advise other IP attorneys who are practicing in this area to always use a checklist of all possible license agreement elements and concerns to make sure nothing critical is missed, and always draft each clause with an eye to the future—i.e., wear the other side’s hat, think hard, and analyze how a clause can be circumvented

## **Key Takeaways**

- When a client suspects infringement of their patent by a competitor, some practitioners are now advising their clients to hold off reviewing the competitor’s products and any related infringement analysis until after an appropriate notice letter is sent to the competitor.
- When questioning the licensee, it is critical to determine all possible present and future technologies that needed to be covered by the license, together with all geographical locations where such technologies may be manufactured, used, sold, offered for sale, or imported so that the license can be crafted accordingly to protect such activities.
- Clients should be updated with information about changes in IP licensing regulations and strategies immediately, especially if a change results in a recommended or necessary change in the way that client does business. Clients can be updated through letters;

through copies of cases, statutes, regulations, or other materials reflecting such changes; or through seminars conducted by counsel.

- Depending on the activity level of the client, meetings are necessary to evaluate whether intellectual property should be sought on new technologies or products, whether such new technologies and products possibly infringe competitive intellectual property, and the impact of such new technologies and products on existing licenses
- IP attorneys engaged in licensing activities should always use a checklist of all possible license agreement elements and concerns to make sure nothing critical is missed, and always draft each clause with an eye to the future—i.e., wear the other side’s hat, think hard, and analyze how a clause can be circumvented.

*John M. Halan has been practicing with the intellectual property law firm of Brooks Kushman PC since 1990, where he has been a shareholder for many years. He is the head of the firm’s trade secrets group and manages the firm’s marketing.*

*As a litigator, Mr. Halan specializes in high-stakes intellectual property litigation, including primarily patent, trade secret, and related commercial litigation. He has tried many cases as lead or assistant trial counsel and has also successfully argued before the United States Court of Appeals for the Federal Circuit*

*In addition to litigation, Mr. Halan has negotiated and prepared numerous intellectual property and commercial agreements, including licenses. He has also prepared many infringement and validity patent opinions and has been called upon to act as a patent dispute mediator.*

*As a licensed professional engineer, prior to attending law school and joining Brooks Kushman, Mr. Halan managed a number of industrial construction projects from initial design through to completion.*

*The intellectual property cases Mr. Halan has represented include Sunbeam Products Inc. v. HoMedics Inc.; Bravo Sports Inc. v. North Pole (US) LLC. et al., Syncorp v. Lear Corp; Lear Corp. v. Bertrand Faure Technical Center Inc.; Expeditors International v. Vastera Inc.; Smith v. Johnson Propeller Co. Inc.; and Accurate Detailing v. Haven Busch Co. Mr. Halan is a frequent presenter and author on IP related matters.*



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