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**HASTINGS**

# **UPDATE ON IP LICENSING LAW**

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# TODAY'S AGENDA

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- Scope of license grant
- *Brulotte* and post-expiration payments
- MFN clause
- No-challenge clauses
- Boiler plate
  - Applicable law
  - Confidentiality
  - Dispute resolution clause



# SCOPE OF LICENSE GRANT

# SCOPE OF LICENSE-SILENCE IS NOT GOLDEN

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- Continuation Application (narrower than the licensed patent)?
  - Implied license found in *General Protecht Group, Inc. v. Leviton Manufacturing Co., Inc.* (Fed. Cir. 2011)
  - “the newly asserted continuations are based on the same disclosure as the previously licensed patents and that, by definition, the continuations can claim no new invention not already supported in the earlier issued patents.”
  - “At best, the Settlement Agreement is silent on this point. At worst, the careful establishment of rules of engagement without any mention of later suits involving the same products and related patents shows that Leviton did not reserve this right.”
  - Presumption that continuation is implicitly licensed is created

# SCOPE OF LICENSE-SILENCE IS NOT GOLDEN

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## Broadening Reissue?

- License found in *Intel Corp. v. Negotiated Data Solutions, Inc.* (Fed. Cir. 2012)
- Intel entered into a patent cross-license agreement with the original patent owner. The original patent owner assigned the patents at issue to another entity. That entity filed and was granted broadening reissue patents
- The Intel license granted Intel nonexclusive royalty-free licenses to all of the original patent owner's patents and patent applications having an effective filing date prior to the expiration of the Agreement
- The court held a reissue patent does not replace an original patent
- The broad license grant supported the court's finding that the reissue patents were licensed
- Allowing a suit on a subsequent patent covering the same subject matter would "risk[] derogating rights for which the licensee had paid consideration"

# SCOPE OF LICENSE-SILENCE IS NOT GOLDEN

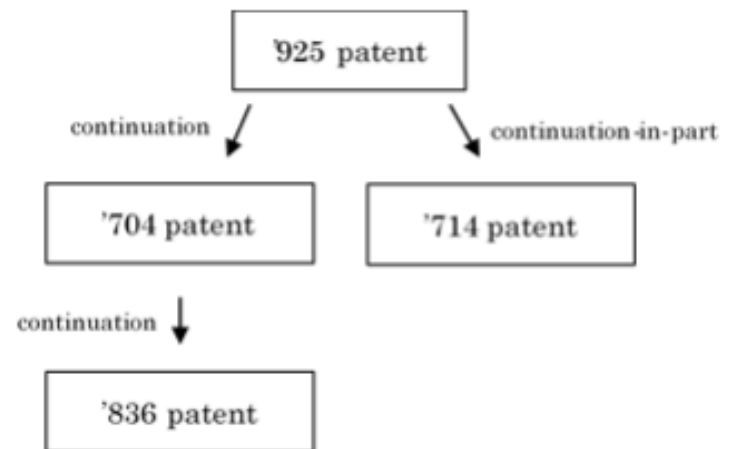
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- Subsequent application sharing a common provisional (but not claiming priority to the expressly licensed patents)
  - License rejected in *Endo Pharmaceuticals v. Actavis* (Fed.Cir. 2014)
- License granted to “(a) any [U.S.] patents that are both (i) now owned by Endo . and (ii) issued as of the Effective Date of this Agreement, including the Opana® ER Patents, (b) any [U.S.] patent applications that claim priority to the Opana® ER Patents, including any continuation, continuation-in-part and divisional patent applications that claim priority to Opana® ER Patents, and (c) any patents resulting from the reissue or reexamination of patents or patent application of patents or patent applications comprised within clauses (a) and (b) .”
- The patents at issue claimed priority to a provisional application from which one of the subsequently issued licensed patents derived and claimed priority to. Those patents did not reference the Opana ER Patents or any other expressly licensed patents as parent application
- The Court found the patents at issue outside the scope of grant, because they did not satisfy conditions of clause (b) above
- Imagine/think about what is NOT covered!



# SCOPE OF LICENSE-SILENCE IS NOT GOLDEN

- Implied license found: *Cheetah Omni LLC v. AT&T Services, Inc.* (Fed. Cir. 2020)
- License granted to “the Patents-in-Suit, and (ii) all parents, provisionals, substitutes, renewals, continuations, continuations-in-part, divisionals, foreign counterparts, reissues, oppositions, continued examinations, reexaminations, and extensions of the Patents-in-Suit owned by, filed by, assigned to or otherwise controlled by or enforceable by Cheetah or any of its Affiliates or its or their respective successors in interest at any time as of, prior to, or on or after the Effective Date.”
- ‘714 was licensed
- Parent ‘925 is thus expressly licensed
- ‘836 is implicitly licensed (presumption)



# SCOPE OF LICENSE-SILENCE IS NOT GOLDEN

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- Unrestricted license extends to derivative work under copyright law: *Edgenet, Inc. v. Home Depot U.S.A., Inc.* (7th.Cir. 2011)
  - Home Depot contracted with Edgenet to develop a classification system to organize Home Depot's database
  - Home Depot was granted a license to use the system/software as long as Edgenet remains Home Depot's vendor and Home Depot continues paying for services
  - Home Depot may continue using the system/software perpetually if it paid \$100,000 immediately after the license agreement terminates
  - Home Depot began building new software on the Edgenet system/software, terminated agreement and paid \$100,000. Edgenet sued
- No restrictions on license grant regarding derivative work. The Court found license for derivative work



*BRULOTTE* RULE AND POST  
EXPIRATION PAYMENTS

# BRULOTTE RULE

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- *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) bans post-expiration royalties
- *Kimble v. Marvel Entertainment, LLC.*, 576 U.S. 446 (2015) upholds *Brulotte*
  - *Additional guidance from the Court tends to suggest the following may be permitted*
    - *Amortized payments after expiration*
    - *Step down as some IP expire*
    - *Step up with other IP issuing*
    - *Post expiration payment tied to pre-expiration use*

# BRULOTTE RULE

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## *Bayer AG v. Housey Pharmaceuticals, Inc., (D.Del. 2002)*

- The ICT patents, each entitled, "Method of Screening for Protein Inhibitors and Activators," generally relate to research methods used by pharmaceutical companies for discovering drugs
- The patented methods enable companies to screen substances for active compounds that indicate a potential for development as pharmaceuticals
- This court's October 17, 2001 order found that the defendant's patents cover only research methods, not manufacturing methods
- Thus, the patent claims at issue do not cover end products, but rather the identification and generation of data used to develop new pharmaceuticals

# BRULOTTE RULE

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## *Bayer AG v. Housey Pharmaceuticals, Inc., (D.Del. 2002)*

- The license agreement with SCIOS Inc. contains the following section:

In the case of an End Product that is not a Licensed Product and is not covered per se or for a given purpose by any patents obtained by LICENSEE, the obligation to pay royalties shall end ten (10) years after the last to expire of the patents in the Licensed Patent Rights having a claim or claims for a Licensed Method utilized in discovering, creating, identifying, characterizing, isolating, developing, manufacturing, evaluating or establishing the pharmacological properties or condition of use of the End Product (or a component thereof) for the given purpose

# BRULOTTE RULE

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## *Bayer AG v. Housey Pharmaceuticals, Inc.*, (D.Del. 2002)

The Court's ruling:

- “[T]he royalties to be paid after the expiration of the patent are for the use of the subject invention prior to the expiration of the patent.”
- “Royalties are collected based on later pharmaceutical sales, but the royalties are being accrued as the invention is practiced during the research phase.”
- “Collecting royalties after the expiration of the patent has expired is not *per se* patent misuse[.]”
- “The [Supreme] Court acknowledged ‘that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that the payment of this royalty could be postponed beyond that time[.]’”
- “The problem arises when ‘the post-expiration royalties were not for prior use but for current use, and were nothing less than an effort by the patentee to extend the term of his monopoly beyond that granted by law.’”
- “Thus, the SCIOS license does not violate *Brulotte* and defendant has not committed patent misuse.”

# BRULOTTE RULE

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## *Zila Inc. v. Tinnell* (9<sup>th</sup> Cir. 2007)

- Tinnell developed a liquid solution to treat lesions caused by the herpes virus, got a patent, and subsequently entered an agreement with Zila that assigned all rights in his invention to the company in return for royalty payments and company stock
- The contract is unambiguous as to the duration of the royalties, and the parties agree on their intent at the time it was formed. Tinnell would relinquish all rights to Zilactin, patent or otherwise, and, in return, receive in perpetuity a five percent royalty on Zila's sales of the invention
- *Brulotte* kicked in, but did not invalidate the whole agreement
- And because *Brulotte* prohibits only 'a projection of the patent monopoly after the patent expires, Tinnell can receive payment on his inventions from Zila, the party to whom he has assigned the patent rights and who is therefore the patent owner, so long as that monopoly is valid. Whether this monopoly consists of one patent or a dozen, the ability to exact royalties runs to the last of the patents providing monopoly protection
- Case remanded on the issue of whether Tinnell invented later patents



# BRULOTTE RULE

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## *Tessera, Inc. v. Toshiba Corp.* (N.D.Cal. 2019)

- Tessera granted a license under many patents
- Toshiba stopped payments of royalties after some patents expired and it argued that it did not infringe remaining licensed patents
- The Court's Ruling:
  - Toshiba does not dispute that when it ceased making payments in 2013 there remained unexpired Tessera Patents covered by the Agreement
  - It is clear from the record that Toshiba continued to make royalty payments based on its belief that its products practiced “additional patents” under the Agreement that had not expired
  - *Brulotte*, therefore, does not apply because Toshiba made royalty payments based on *other* patents it believed were unexpired, valid, and enforceable

# C.F. PATENT TERM EXTENSION-SILENCE IS...

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## *Children's Med.Ctr.Corp. v. Celgene Corp. (D.Mass. 2016)*

- CMCC is the owner of “Analog Patents” and granted Celgene an exclusive, worldwide license to the Analog Patents
- Celgene agreed to pay CMCC royalties on three categories of products, and each category of product was covered by a separate royalty provision
- Each such provision specified an end date of "later of the termination of this Agreement or March 1, 2013"
- Additionally, the Amino Thalidomide and Revlimid royalties end dates were to be extended by "the number of days equivalent to any patent term extension granted to Celgene for [a relevant product] under 35 USC Section 156 with respect to March 1, 2013 only"
- In 2008, Celgene obtained a patent term extension ("PTE") for one its own patents on Revlimid®, a Revlimid Product (the "Revlimid PTE")

# C.F. PATENT TERM EXTENSION-SILENCE IS...

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## *Children's Med.Ctr.Corp. v. Celgene Corp. (D.Mass. 2016)*

- Subsequently, Celgene ceased paying royalties on its Amino Thalidomide and Revlimid Products
- CMCC sought further payments, asserting that the Revlimid PTE extended the period for which it could collect royalties
- Celgene declined to pay additional royalties, and CMCC sued, alleging breach of contract and breach of the implied covenant of good faith and fair dealing
- The case was removed to the Federal District Court
- The court agreed with CMCC's interpretation:

“Nothing in the Revlimid Royalty Provision or the definition of a Revlimid Product limits the phrase ‘any patent term extension . . . for a Revlimid Product’ to CMCC's patents. Accordingly, the plain language of the Revlimid Royalty Provision provides that it is to be extended whenever Celgene obtains a PTE on a product containing Revlimid, without reference to whether the PTE is for one of CMCC's Analog Patents. The parties agree that Revlimid® is a Revlimid Product”



# MFN CLAUSE

# LICENSEE'S FAVORITE CLAUSE?

## MFN CLAUSE

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### *JP Morgan Chase Bank, N.A. v. Datatransury Corp. (5<sup>th</sup> Cir. 2016)*

- Datatransury settles with JP Morgan and received \$75 million
- The agreement included the following clause:

#### 9. Most Favored Licensee

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

# LICENSEE'S FAVORITE CLAUSE?

## MFN CLAUSE

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### *JP Morgan Chase Bank, N.A. v. Datatransury Corp. (5<sup>th</sup> Cir. 2016)*

- The Court found JPM royalty to be a lump-sum payment and all other terms are comparable
- What could have been done to avoid invoking MFN clause? What could be done to make sure MFN clause gets invoked?
  - Licensor perspective (lean for more difficult invocation)
  - Licensee perspective (lean for easier invocation)



**NO CHALLENGE CLAUSE**

# LICENSOR'S FAVORITE?

## LICENSEE ESTOPPEL/NO CHALLENGE CLAUSE

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- *Lear, Inc. v. Adkins*, 395 US 653 (1963)
  - The doctrine of licensee estoppel was overturned and public interest requires that licensee be free to challenge validity of patents licensed
  - No challenge clause is not enforceable
- *Medimmune, Inc. v. Genentech, Inc.*, 549 US 118 (2007)
  - Licensee's a declaratory judgment action challenging the licensed patent while license agreement intact, royalties being paid meets the "case or controversy" requirement
  - Repudiation (breach or termination) of license agreement not necessary
- *Rates Technology Inc. v. Speakeasy*, 685 F.3d 163 (2d Cir. 2012)
  - No challenge clause + liquidated damages for breach
  - Not enforceable under the Second Circuit law (potentially different in other jurisdictions)
- Termination upon challenge may be enforceable (c.f., questionable under New York law)
- Turning exclusive into non-exclusive upon challenge may be enforceable





# BOILER PLATE

# BOILER PLATE

## AGREED APPLICABLE LAWS AND JURISDICTION

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### *Dodocase VR, Inc. v. Merchsource, LLC (Fed.Cir. 2019)*

- License agreement contained the following language

6.4 MerchSource shall not (a) attempt to challenge the validity or enforceability of the Licensed IP; or (b) directly or indirectly, knowingly assist any Third Party in an attempt to challenge the validity or enforceability of the Licensed IP except to comply with any court order or subpoena

13.4 The laws of the State of California shall govern any dispute arising out of or under this Agreement, notwithstanding the conflict of laws principles of the State of California . . . THE PARTIES AGREE THAT THE SUBJECT MATTER AND PERSONAL JURISDICTION ARE PROPER IN THE COURTS LOCATED IN SAN FRANCISCO COUNTY OR ORANGE COUNTY, CALIFORNIA AND THAT DISPUTES SHALL BE LITIGATED BEFORE THE COURTS IN SAN FRANCISCO COUNTY OR ORANGE COUNTY, CALIFORNIA

# BOILER PLATE AGREED APPLICABLE LAWS AND JURISDICTION

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## *Dodocase VR, Inc. v. Merchsource, LLC* (Fed.Cir. 2019)

- The District Court granted the preliminary injunction against AIA challenges moving forward
- MerchSource appealed and the injunction was stayed pending the Federal Circuit review
- During the Federal Circuit appellate briefing, all AIA challenges were instituted and proceeded
- The court found that these clauses precluded licensee from filing an IPR against licensed patents in PTAB
- The Federal Circuit found
  - the broad “arising out of” language of the forum selection clause included disputes about the validity of the licensed patents
  - irreparable harm would occur if Dodocase had to defend the validity on two fronts
  - equities and public interest also favored an injunction, ruling that the public interest of eliminating invalid patents could be adequately accomplished by a District Court
- The Court ordered MerchSource to comply with the injunction and file a request with PTAB to terminate all AIA proceedings
- MerchSource requested *en banc* review, which was denied in July 2019 after multiple *amici* weighed in

# BOILER PLATE

## AGREED APPLICABLE LAWS AND JURISDICTION

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### *Dodocase VR, Inc. v. Merchsource, LLC (Fed.Cir. 2019)*

- MerchSource complied with the injunction and requested termination of the AIA actions
- However, the proceedings went to an advanced stage: a Preliminary Response, an institution, full discovery from the challenger and patent owner, a Response, a Reply and a request for oral argument were in
- The PTAB terminated the proceedings without final opinions

# BOILER PLATE CONFIDENTIALITY OF TERMS

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## *Uniloc 2017 LLC v. Apple Inc. (N.D.Cal. 2019)*

- Whether confidentiality of terms of other license agreements may preclude discovery of those terms
- The court found that financial terms of other agreements were one of the key issues and could not escape discovery

# DISPUTE RESOLUTION CLAUSE

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- Management discussions
- Mediation to arbitration; mediation or arbitration
- Litigation
  - How important is the relationship between the parties?

# PROFILE



## Hiroyuki Hagiwara

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**Hiro Hagiwara** is a partner in the Litigation Department and based in the firm's Tokyo office. Mr. Hagiwara offers more than 20 years of experience in investigations, cross-border litigations and transactions. Investigations, patent infringement litigations, licensing transactions and disputes, and arbitrations are the main focus of his practice. Mr. Hagiwara has represented clients in US DOJ investigations, international arbitrations and mediations, US Federal Court actions, ITC Section 337 investigations, US PTAB proceedings. In patent disputes, Mr. Hagiwara has handled wide-ranging subject matters from electronics, software, chemical, pharmaceutical, biologics, semiconductor, telecommunication to automotive. He has represented US, European, Asian and Japanese clients in various legal matters.

Clients and independent sources have singled him out as one of the very best in the market to navigate the complex cross-border dispute landscape. One client describes Mr. Hagiwara as a "very smart and very aggressive" practitioner who is "very good and prominent in US patent litigation" (*Chambers Global* 2018). Another client adds: "He is a top litigator who understands what Japanese customers want and works very closely with them" (*Chambers Global* 2018). *IAM Patent 1000* says, "he oversees proactive enforcement and commercialisation strategies and executes them wherever required" (*IAM Patent 1000: 2018*). Another source calls Mr. Hagiwara a "Dispute Resolution Star" (*Benchmark Litigation Asia Pacific* 2019). He was also named Cross-Border Disputes Lawyer of the Year in Japan - *Global Law Experts* (2019). Mr. Hagiwara's case and matter list is available upon request.

### Accolades and Recognitions

- The Best Lawyers in Japan, Intellectual Property Law - The Best Lawyers in Japan (2014-2020, 2022)
- Licensing Transactions and Disputes Expert of the Year in Japan - Global Law Experts (2021)
- Patent Infringement Litigations Expert of the Year in Japan - Global Law Experts (2021)
- Dispute Resolution Expert of the Year in Japan - Global Law Experts (2021)
- Japan, Intellectual Property: International - Chambers Global, Asia-Pacific (2012-2021)
- Global Leader in Japan: Foreign - IAM Global Leader (2020)
- Cross-Border Disputes Lawyer of the Year in Japan - Global Law Experts (2019-2020)
- Dispute Resolution Star in Intellectual Property Disputes - Benchmark Litigation (Asia-Pacific) (2013, 2019-2020)
- The World's Leading Patent Professionals, Japan: Foreign - IAM Patent 1000 (2012-2020)
- Patent Star, Japan - IP Stars, Managing Intellectual Property (2014-2020)
- Japan, Intellectual Property: Hall of Fame - The Legal 500 Asia-Pacific (2020)
- Japan, Intellectual Property: Leading Individual - The Legal 500 Asia-Pacific (2013-2020)
- Japan, Intellectual Property: Top Tier International Law Firm - The Legal 500 Asia-Pacific (2018-2020)
- The Leading Patent Lawyers in Japan - Who's Who Legal: Patents (2014-2020)
- Expert in Patents, Japan - Expert Guides (2018-2019)
- World IP Review Leader, Technology Patents - The World IP Review (2016-2019)
- The World's Leading Patent Litigators - IAM Patent Litigation 250 (2011)

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