

Developments in US IP Law Affecting Licensing

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Overview

- ◆ **Expanded Liability for sales and offers for sale made outside the United States**
- ◆ **Expanded Inducement Liability due to redefined “knowledge of patent” requirement**
- ◆ **Extending licensing coverage to subsidiaries acquired after agreement expired**
- ◆ **Trends to reign in unsupported damages claims without sufficient nexus to claimed inventions**
- ◆ **Increasing use of “Ongoing Royalties,” and their greater amount relative to “Reasonable Royalties”**
- ◆ **Covenants not to Sue, Patent Exhaustion and Legal Estoppel**
- ◆ **Status of U.S. Patent Reform Efforts**



Liability for Foreign Sales and Offers for Sale

Transocean v. Maersk Contractors, 2010 US App. LEXIS 17181 (Fed. Cir. 2010)

- ◆ Danish company arranged for construction of oil rig in Singapore
- ◆ Danish company negotiated outside U.S. with Norwegian company regarding delivery and use of rig including, but not limited to, U.S. territorial waters.
- ◆ U.S. subsidiaries of Danish and Norwegian companies came to Norway and signed agreement.



Foreign Sales and Offers for Sale Transocean v. Maersk Contractors (Fed. Cir. 2010)

- ◆ **Can this be an infringing offer for sale or sale of the oil rig?**
- ◆ **Answer: Yes**



Foreign Sales and Offers for Sale

Transocean v. Maersk Contractors (Fed. Cir. 2010)

- ◆ “The focus should not be on the location of the offer, but rather the location of the future sale that would occur pursuant to the offer.”
- ◆ To hold otherwise would re-write the statute precluding “offers to sell . . . within the United States,” to “offers made within the United States to sell” or “offers made within the United States to sell within the United States.”
- ◆ Purpose of the statute is to prevent “generating interest in a potential infringing product to the commercial detriment of the rightful patentee.”



Foreign Sales and Offers for Sale

Transocean v. Maersk Contractors (Fed. Cir. 2010)

- ◆ Can it be an infringing sale if:
 - ◆ Negotiations and execution of contract took place in Norway?
 - ◆ Contract did not limit performance to U.S.?
 - ◆ Entire apparatus had not been constructed and was not ready for use?
 - ◆ Seller reserved right to alter rig to avoid infringement?
 - ◆ Rig delivered to U.S. per contract was altered from contract schematics such that it did not infringe

- ◆ Answer: YES, all of the above



Foreign Sales and Offers for Sale Transocean v. Maersk Contractors (Fed. Cir. 2010)

- ◆ **Contract between two U.S. companies for sale of patented invention with delivery and performance in U.S. constitutes a sale under § 271(a) as a matter of law;**
- ◆ **Sale does not only occur at a “single point where some legally operative act took place.” Other factors such as place of performance are considered.**



Foreign Sales and Offers for Sale Transocean v. Maersk Contractors (Fed. Cir. 2010)

- ◆ Item sold need not be complete - “the schematics that accompanied that contract could support a finding that the sale was of an infringing article under § 271(a).”
- ◆ Regardless whether delivered rig did not infringe: “The potentially infringing article is the rig sold in the contract, not the altered rig that Maersk USA delivered to the U.S.”

Learning Points

Transocean v. Maersk Contractors (Fed. Cir. 2010)

- ◆ Do not rely solely upon foreign negotiations and foreign contract execution to insulate against liability in U.S. if subject matter of contract concerns performance in U.S.
- ◆ Consider sales or offers for sale that occur outside U.S. that may create royalty obligation for licensee if intended use is in U.S.

Inducement Liability

SEB v. Montgomery Ward, 594 F.3d 1360 (Fed. Cir. 2010)(Rader)

- ◆ In *DSU Medical Corp v. JMS Co.*, 471 F.3d 1293, 13 (Fed. Cir. 2006) (en banc), CAFC held inducement requires showing of “specific intent to encourage another’s infringement.”
- ◆ In *DSU*, CAFC stated “[t]he requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.”
- ◆ In *SEB*, CAFC takes a step back from the above, by defining/refining “knowledge of patent requirement.”



Inducement Liability

SEB v. Montgomery Ward (Fed. Cir. 2010)(Rader)

- ◆ Deep fryer manufacturer copied SEB's fryer, then hired attorney to conduct "right to use" study, without informing attorney that they copied SEB's fryer.
- ◆ CAFC held that knowledge requirement of an inducement claim is met even "where the patentee has not produced direct evidence that the accused infringer actually knew of the patent-in-suit," if "there is adequate evidence ... that [the infringer] deliberately disregarded a known risk that [the patentee] had a protective patent."

Inducement Liability

SEB v. Montgomery Ward (Fed. Cir. 2010)(Rader)

- ◆ This “deliberate indifference of a known risk is not different from actual knowledge, but is a form of actual knowledge.”
- ◆ Accused infringer may defeat showing of subjective deliberate indifference to the existence of a patent where it shows that it was genuinely "unaware even of an obvious risk."
- ◆ CAFC hints it may even further lower hurdle of the “knowledge” requirement, for example, to “constructive knowledge with persuasive evidence of disregard for clear patent markings, similar to the constructive notice requirement in § 287(a).”

Subsidiaries acquired after agreement expired may still be covered by License

Imation v. Koninklijke Philips Electronics, 586 F.3d 980 (Fed. Cir. 2009)

- ◆ **Issue: Was cross license agreement between Philips and Imation and their respective subsidiaries:**
 - ◆ **1) a grant of several licenses over the time of the agreement?**
 - ◆ including grants of new licenses to new patents or subsidiaries as they come into existence, such that agreement excludes subsidiaries acquired after expiration of agreement (although licenses granted during the period are still in effect); or
 - ◆ **2) a single grant of present and future patents to group of parties and their present and future subsidiaries?**
 - ◆ such that as long as acquired company meets definition of “subsidiary” they automatically receive benefits of group license, even if acquired after agreement expired (but while licenses were still in effect)?

Subsidiaries acquired after agreement expired may still be covered by License

Imation Corp. v. Koninklijke Philips Electronics N.V. (Fed. Cir. 2009)

- ◆ **Court: After acquired subsidiaries are covered due to grant language - “agrees to grant and does hereby grant’ constitutes a present grant of rights - albeit to future inventions, but nonetheless a present grant - that vests immediately.”**
- ◆ **“As of the effective date of the Agreement, each license to Imation and its Subsidiaries vested immediately, and thus the licenses ‘had been granted’ prior to the expiration date.”**



Subsidiaries acquired after agreement expired may still be covered by License

Imation Corp. v. Koninklijke Philips Electronics N.V. (Fed. Cir. 2009)

- ◆ **Definition of “Subsidiary”**
 - ◆ included any business organization “to which the party now or hereafter has more than a fifty percent (50%) ownership interest.”
 - ◆ allowed class membership to grow (or shrink) over time, so non-existence of [two subsidiaries] at time of license grant did not prevent either entity from receiving benefits of the fully vested licenses.
 - ◆ “Hereafter” contemplates future activity
 - ◆ Complete absence of any temporal limitations

- ◆ Parties easily could have defined subsidiaries or license grants with temporal limitations explicitly linked to expiration of agreement.



Reasonable Royalty

Lucent Technologies v. Gateway, 580 F.3d 1301 (Fed. Cir. 2009)

- ◆ Jury (S.D. of California) awarded \$357 million as reasonable royalty based on infringement of “date-picker” tool included in Outlook
- ◆ Microsoft had argued royalty should be \$6.5 million
- ◆ Federal Circuit (Chief Judge Michel): award not supported by substantial evidence, set aside jury award



Reasonable Royalty Lucent v. Gateway

- ◆ Federal Circuit confirmed that EMVR (Georgia Pacific Factor 13) is applicable to reasonable royalty, but:
 - ◆ Claims were method claims (the accused infringers were contributory infringers – end users were direct infringers)
 - ◆ No evidence as to how many (how much) people used “date picker” (factors 10 and 11)
 - ◆ Outlook has numerous features, no evidence “date-picker” was responsible for popularity (consumer demand) of Outlook (factors 10 and 13)
- ◆ Lucent relied heavily on “other licenses” (factor 2) - - generally a weak basis for establishing a royalty rate
- ◆ Microsoft relied heavily on one “other license”



Reasonable Royalty Lucent v. Gateway Important Points

- ◆ EMVR remains applicable
- ◆ Substantial Evidence – standard on review (difficult to overturn jury verdicts on fact issues) – but here Federal Circuit said there was essentially no evidence to support award
- ◆ Judges looking at damages carefully
- ◆ Must present factual evidence supporting expert's opinion and jury verdict - - address as many Georgia Pacific factors as possible
- ◆ Extreme ranges of damages theories \$6.5 – 357 million - - Credibility?



Courts (Especially Federal Circuit) Watching Damages Awards Closely

- ◆ **Cornell v. HP, 609 F.Supp. 2d 279 (N.D. N.Y. 2009)**
– Judge Rader sitting as district court judge by designation - - reduced jury award from \$184 million to \$53 million.
- ◆ **IP Innovation v. Red Hat, 2010 U.S. Dist. LEXIS 28372 (E.D. Tex. 2010)** – Judge Rader sitting by designation, excluding significant portions of expert testimony in response to Daubert Motion, limiting plaintiff’s damages claims.
- ◆ **Judge Rader is now Chief Judge at the Federal Circuit.**



Damages - Future Royalties

Paice v. Toyota, 504 F.3d 1293 (Fed. Cir. 2007)

- ◆ After Supreme Court Ebay decision, injunction no longer automatic
- ◆ New area of law - - how to determine future damages, if no injunction granted, or ongoing damages pending appeal
- ◆ District Court Judge denied Paice's request for injunction, used same royalty for future (approximately \$25 per vehicle) as found by jury for past infringement
- ◆ Federal Circuit remanded: it is appropriate for judge to decide future royalties, but judge must provide a separate analysis based on current and expected future conditions, cannot merely use same number jury used for past damages



Damages – Future Royalties

Paice v. Toyota, 609 F.Supp. 2d 620 (E.D. Tex. 2009)

- ◆ **Federal Circuit: suggested District Court encourage parties to negotiate on remand**
- ◆ **Parties could not reach agreement**
- ◆ **District Court: After further proceedings regarding future royalties - - determined future royalty of \$98/vehicle - - relying heavily on future infringement being “willful.”**
- ◆ **Parties settled prior to Federal Circuit issuing decision.**



Damages – Future Royalties

Recent Application of Paice v. Toyota

Consistent with *Paice*, District Court Decisions below show Ongoing Royalties generally substantially higher than Reasonable Royalties

Case Name	Reasonable Royalty Granted or Requested	Ongoing Royalty Provided by Court
<i>Joyal Prods. v. Johnson Elec. N.A. Inc, 2009</i>	8%	26%
<i>Orion v. Mercedes 2008</i>	2%	2%
<i>Creative Internet v. Yahoo 2009</i>	20%	23%
<i>Boston Sci v. Johnson & Johnson 2009</i>	2%	5.1%
<i>Broadcom v. Qualcomm 2007</i>	Several royalties varying by patent	Treble reasonable royalties



TransCore - traps for patent licensors

TransCore, L.P. v. Electronic Transaction Consultants Corp., 563 F.3d 1271 (Fed. Cir. 2009)

- ◆ For purposes of exhaustion – covenants not to sue (CNS) have same effect as non-exclusive license.
- ◆ As long as initial sale is authorized, exhaustion terminates patent right regardless whether sale is authorized by license or covenant not to sue.
 - ◆ “agrees and covenants not to [sue]... for future infringement” = Authorized future sales
- ◆ Exhaustion applies, despite intent and following language: “No express or implied license or future release whatsoever ... to any third party by this Release”



TransCore - traps for patent licensors

- ◆ **Legal estoppel extended exhaustion to a later issued patent dominating patents subject to the covenant not to sue, trumping language to contrary:**
 - ◆ “This Covenant Not To Sue shall not apply to any other patents issued as of the effective date of this Agreement or to be issued in the future”
- ◆ **Legal estoppel prohibits, “scenarios where a patentee has licensed or assigned a right, received consideration, and then sought to derogate from the right granted.”**

***TransCore* - Lessons and practical tips**

◆ ***Exhaustion***

- ◆ If licensee will sell any patented articles to third parties, negotiate higher royalty up-front, or carve out “sale” explicitly from CNS.

◆ ***Legal Estoppel***

- ◆ If licensor wants to exclude other or future patents, specifically identify patents or applications not covered by CNS.

TransCore - Lessons and practical tips

- ◆ Do not assume that because CNS and license are equivalent for purposes of patent exhaustion, they are equivalent in all respects
- ◆ Open questions remain – Does a CNS run with patent?
- ◆ If CNS is merely contractual promise not to exercise a right, it is personal to party granting it. Case law has not bound future owners of patent to that promise.
 - ◆ See *Jones v Cooper Indus. Inc.*, 938 S.W.2d 118, 125-126 (Tex. App. 1996) (Contractual promise is separate from the right waived, and royalty bearing assignment agreement did not run with the patent where the patent was assigned, but not the assignment agreement).



Status of Patent Reform

- ◆ **Generally Stalled, except for certain fee provisions**
 - ◆ slim chance may be attached to omnibus appropriation bill for passage in lame duck session of Congress between November and January
- ◆ **S. 515 presently includes gate keeper function for judge in determining application of Georgia-Pacific factors applicable to facts of case**
- ◆ **Willful infringement codifies In re Seagate; sets forth criteria for proving willful infringement and defenses**



Thank you.

