

Developments in US IP Law Affecting Licensing

**Licensing Executives Society
Annual Conference
October 2011**



J. Derek Mason

dmason@oblon.com

Alex Gasser

agasser@oblon.com

Overview

- ◆ License covering particular products presumed to include implied license to continuation patents for same products
 - ◆ GPT v. Leviton
- ◆ Implied license may also extend to reissue patents
 - ◆ Intel Corp. v. Negotiated Data
- ◆ Clarifying definition of exclusive licensee for standing purposes
 - ◆ WiAV Solutions v. Motorola
- ◆ Death of the 25% Rule
- ◆ Limitations on Entire Market Value Rule
 - ◆ Uniloc v. Microsoft



Presumption of Implied License to Continuations

General Protecht Group (“GPT”) v. Leviton, 2011 US App. LEXIS 13899, 99 USPQ2d 1275 (Fed. Cir. 2011)

- ◆ In 2007 Leviton and GPT settled litigation involving ground fault circuit interrupters
 - ◆ Leviton had accused GPT of infringing its '558 and/or '766 patents.

- ◆ 2.1 . . . Leviton also hereby covenants not to sue
 - ◆ (1) Defendants . . . for alleged infringement of the '558 and/or '766 patents based on the [GPT] products currently accused of infringement and
 - ◆ (2) Defendants . . . for alleged infringement of the '558 *patent* and/or the '766 *patent* with respect to an anticipated future new GFCI product that Defendant [GPT] has indicated its intent to market in the U.S. in the future, provided however that [the future product conforms to a submitted design].



Presumption of Implied License to Continuations

General Protecht Group (“GPT”) v. Leviton, 2011 US App. LEXIS 13899,
99 USPQ2d 1275 (Fed. Cir. 2011)

- ◆ In 2010, Leviton filed new lawsuits against GPT concerning Leviton’s ‘124 and ‘151 patents.
- ◆ The ‘124 & ‘151 patents are continuations ultimately claiming priority to the ‘558 and ‘766 patents – which were subject of earlier litigation.
- ◆ Both the ‘124 and ‘151 patents issued after the Settlement Agreement was executed and the prior litigation resolved.



Presumption of Implied License to Continuations

General Protecht Group (“GPT”) v. Leviton, 2011 US App. LEXIS 13899,
99 USPQ2d 1275 (Fed. Cir. 2011)

- ◆ In new litigation, Leviton accused the same GPT products as in the earlier litigation.
- ◆ Fed. Cir. relied upon *TransCore* to find that legal estoppel provided an implied license to GPT of Leviton’s ‘124 and ‘151 patents.

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



Presumption of Implied License to Continuations

General Protecht Group (“GPT”) v. Leviton, 2011 US App. LEXIS 13899,
99 USPQ2d 1275 (Fed. Cir. 2011)

- ◆ [E]stoppel of the implied license doctrine involves the fact that the licensor . . . has licensed . . . a definable property right for valuable consideration, and then has attempted to derogate or detract from that right. The grantor is estopped from taking back in any extent that for which he has already received consideration.

TransCore, 563 F.3d at 1279.



Presumption of Implied License to Continuations

General Protecht Group (“GPT”) v. Leviton, 2011 US App. LEXIS 13899, 99 USPQ2d 1275 (Fed. Cir. 2011)

- ◆ Fed. Cir. rejected Leviton’s arguments that *TransCore* was limited to cases where later broader claims are acquired that are necessary to practice earlier narrower claims.
- ◆ Fed. Cir. held that legal estoppel extends licenses to continuation applications for products covered by the upstream/parent patents:
 - ◆ “[I]t reasonably follows that where, as here, continuations issue from parent patents that previously have been licensed as to certain products, it may be presumed that, absent a clear indication of mutual intent to the contrary, those products are impliedly licensed under the continuations as well.”

◆ GPT v. Leviton, 2011 US App. LEXIS 13899,*13-14



Presumption of Implied License to Continuations

General Protecht Group (“GPT”) v. Leviton, 2011 US App. LEXIS 13899, 99 USPQ2d 1275 (Fed. Cir. 2011)

- ◆ To overcome Fed. Cir.’s presumption in such cases, must be *very explicit* that such continuation applications are not licensed.
- ◆ General language that later issued patents are not covered by a license is insufficient.



Presumption of Implied License to Continuations

General Protecht Group (“GPT”) v. Leviton, 2011 US App. LEXIS 13899,
99 USPQ2d 1275 (Fed. Cir. 2011)

- ◆ In *TransCore*, following language deemed insufficient to overcome the presumption:
 - ◆ “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.”

Presumption of Implied License to Continuations

General Protecht Group (“GPT”) v. Leviton, 2011 US App. LEXIS 13899, 99 USPQ2d 1275 (Fed. Cir. 2011)

- ◆ Leviton argued that settlement with GPT was a “walk-away” and did not imply any license to any other patents, and that certain provisions of agreement contemplated future litigation concerning same or related patents:
- ◆ § 4.1 provided: Leviton agrees not to challenge any proposed claim construction of a '766 patent claim that is reflected in the '766 Markman Order, which any of the Defendants...(or their customers) may propose in connection with any claim of infringement of a '766 patent claim. Defendants...(or their customers) are not precluded from proposing said claim construction **in any action or proceeding asserting infringement of any patent related to the '766 patent**, although Leviton may challenge such proposed claim construction.



Presumption of Implied License to Continuations

General Protecht Group (“GPT”) v. Leviton, 2011 US App. LEXIS 13899, 99 USPQ2d 1275 (Fed. Cir. 2011)

- ◆ **Fed. Cir. found above language from § 4.1 insufficient to overcome presumption of implied license, as it did “not address the question of whether the parties intended that continuations could be asserted against the same products.”**
- ◆ **Since the stronger language in *TransCore* was insufficient, Leviton’s weaker language is insufficient.**



Presumption of Implied License to Continuations

General Protecht Group (“GPT”) v. Leviton, 2011 US App. LEXIS 13899,
99 USPQ2d 1275 (Fed. Cir. 2011)

- ◆ Same rationale might not so easily apply to continuations-in-part, if relevant portion relates to newly added information.
- ◆ Findings of implied licenses to continuations appear limited only to those particular products or methods that were subject of an earlier license. New products or methods may not be covered by such implied license.



Similar Finding Extends Broad Cross-License to include Reissue Patents

Intel Corp. v. Negotiated Data, 699 F. Supp. 2d 871 (E.D. Tex. 2010)

- ◆ District court found broad cross-license agreement provided license under four reissue patents to Intel, given that four original patents replaced by reissue patents were covered, even though cross-license did not explicitly mention reissue patents.
- ◆ Court held that mutual intent of the parties under *Cal. Civ. Code § 1636* and license agreement was to grant each other broad patent rights and avoid future infringement suits. Thus, license agreement covered all four reissued patents-in-suit, protecting plaintiff against claims for infringement of the reissued Patents.



Who is an Exclusive Licensee for Purposes of Standing
WiAV Solutions, LLC v Motorola, Inc.
631 F.3d 1257 (Fed. Cir. 2010)

- ◆ **WiAV sued several defendants with nine patents – it owned two and was purported exclusive licensee of remaining seven (“Mindspeed patents”), relating to signal transmission, and encoding and decoding of data.**
- ◆ **Complex history of prior owners...**



Who is an Exclusive Licensee for Purposes of Standing *WiAV Solutions, LLC v Motorola, Inc.* 631 F.3d 1257 (Fed. Cir. 2010)

<u>Entity</u>	Rockwell Science Center	Conexant	Mindspeed	Skyworks	Qualcomm	Sipro
<u>Potential Licensees</u>	Rockwell International and Affiliates	Subs Spinoffs JD Partners (limited to Conexant Products)	JD Partners (limited to Mindspeed Products)	Qualcomm (promised not to grant new licenses)	Affiliates	Anyone (limited to Mindspeed Products in field of WLAN)
<u>Patents</u>	All	All	All	All	All	'573 and '493 patents



Who is an Exclusive Licensee for Purposes of Standing *WiAV Solutions, LLC v Motorola, Inc.* 631 F.3d 1257 (Fed. Cir. 2010)

- ◆ Through its agreement with the prior assignee (“Skyworks”) WiAV received:
 - ◆ “[A]ll of Skyworks’ right, title, and interest, in and to the [Mindspeed Patents] in the Wireless Handset field of use.”
- ◆ This "exclusive right" included right to:
 - ◆ (1) make, use, offer to sell, export, and import hardware products in field of Wireless Handsets;
 - ◆ (2) assign and sublicense its rights in Mindspeed Patents at its discretion; and
 - ◆ (3) assert against third parties claims of infringement of Mindspeed Patents in the Wireless Handset field, including right to sue for past, current, and future infringements of the patents.

Who is an Exclusive Licensee for Purposes of Standing
WiAV Solutions, LLC v Motorola, Inc.
631 F.3d 1257 (Fed. Cir. 2010)

- ◆ **Skyworks agreed going forward "not to grant any additional licenses and/or covenants not to sue under, or otherwise encumber, any [Mindspeed Patent]."**
- ◆ **Skyworks, through its own assignment from its predecessor, retained right to license and sue only Qualcomm in all fields of use (not just in field of wireless handsets), as Skyworks could not assign those rights without written consent (which it apparently did not wish to seek).**

Who is an Exclusive Licensee for Purposes of Standing *WiAV Solutions, LLC v Motorola, Inc.* 631 F.3d 1257 (Fed. Cir. 2010)

- ◆ Defendants argued WiAV cannot be exclusive licensee to the Mindspeed patents if others retain right to license the patent, citing *Textile Productions*:
 - ◆ "[I]f a patentee-licensor is free to grant licenses to others, licensees under that patent are not exclusive licensees. . . . To qualify as an exclusive license, an agreement must clearly manifest the patentee's promise to refrain from granting to *anyone else* a license in the area of exclusivity." *134 F.3d at 1484*.

Textile Productions, Inc. v. Mead Corp., 134 F.3d 1481, 1484 (Fed. Cir. 1998)

- ◆ WiAV argued that constitutional standing to assert patent exists when party holds any exclusionary right in a patent.



Who is an Exclusive Licensee for Purposes of Standing *WiAV Solutions, LLC v Motorola, Inc.* 631 F.3d 1257 (Fed. Cir. 2010)

- ◆ Fed. Cir. agreed with WiAV, holding that
 - ◆ “Nowhere did the *Textile Productions* court suggest that a party holding one or more of the exclusionary rights in a patent does not have standing to sue to protect those rights against infringement by an unauthorized third party. Nor is there any indication that the court created a bright-line rule that a party cannot be an exclusive licensee of a patent if others have the right to license the patent....
 - ◆ In sum, neither of these cases supports the proposition pressed by the Defendants on appeal: that for a licensee to be an exclusive licensee of a patent, the licensee must be the *only* party with the ability to license the patent. ... As explained above, a licensee is an exclusive licensee of a patent if it holds any of the exclusionary rights that accompany a patent.”

WiAV, 631 F.3d at 1266 (emphasis added).



Who is an Exclusive Licensee for Purposes of Standing
WiAV Solutions, LLC v Motorola, Inc.
631 F.3d 1257 (Fed. Cir. 2010)

“Depending on the scope of its exclusionary rights, an exclusive licensee may have standing to sue some parties and not others.

....

But if an exclusive licensee has the right to exclude others from practicing a patent, and a party accused of infringement does not possess, and is incapable of obtaining, a license of those rights from any other party, the exclusive licensee's exclusionary right is violated...and the injury predicate to constitutional standing is met.”

***WiAV*, 631 F.3d at 1266-67.**



Who is an Exclusive Licensee for Purposes of Standing
WiAV Solutions, LLC v Motorola, Inc.
631 F.3d 1257 (Fed. Cir. 2010)

- ◆ **Fed. Cir. determined WiAV had exclusive rights to exclude the respective defendants from practicing the Mindspeed patents in the wireless handset field, and none of six prior licensors or spin-offs had right to extend licenses to Defendants in that field.**

***WiAV*, 631 F.3d at 1267-68.**



**Proving Reasonable Royalties and Death of the 25% Rule
Uniloc USA v. Microsoft Corp.
632 F.3d 1292 (Fed. Cir. 2011)**

- ◆ **Uniloc's patent at issue against Microsoft directed to software registration system to deter software copying.**
- ◆ **Uniloc accused Microsoft's Product Activation feature that acts as a gatekeeper to Microsoft's Word XP, Word 2003, and Windows XP software.**
- ◆ **Jury awarded Uniloc \$388 million in damages**
- ◆ **Microsoft sought, *inter alia*, a new damages trial.**



Proving Reasonable Royalties and Death of the 25% Rule

Uniloc USA v. Microsoft Corp.

632 F.3d 1292 (Fed. Cir. 2011)

- ◆ At trial, Uniloc relied on expert testimony that damages should be \$564,946,803.
- ◆ Uniloc arrived at this amount by:
 - ◆ Using internal Microsoft document stating that product keys are worth at least \$10 per license;
 - ◆ Applying a 25% rule of thumb resulting in a baseline royalty rate of \$2.50 per license.
 - ◆ Multiplying \$2.50 by the number of licenses, 225,978,721 yields \$564,946,803.
 - ◆ As a “check,” Uniloc expert relied on entire market value calculation, multiplying 225,978,721 licensed units by sales price of \$85, resulting in gross revenue value of \$19.28 billion, of which the prior royalty calculation constituted a royalty rate over the gross revenue of “only” 2.9%.



The 25% Rule

Rule/Starting Point/Guideline?

- ◆ Uniloc expert took position that 25% Rule was widely accepted, and at very least served as starting point or guideline for determining reasonable royalty for damages purposes.
- ◆ The “Pirate’s Code” position?
 - ◆ “the code is more what you'd call "guidelines" than actual rules.” - Capt. Barbossa
 - ◆ “...hang the rules. They're more like guidelines anyway.” - Elizabeth
 - ◆ 2003 Pirates of the Caribbean: The Curse of the Black Pearl

Proving Reasonable Royalties and Death of the 25% Rule

Uniloc USA v. Microsoft Corp.

632 F.3d 1292 (Fed. Cir. 2011)

- ◆ **Fed. Cir. delivered first mortal blow to the 25% rule after reviewing *Daubert* requirements:**
 - ◆ **Held as matter of Federal Circuit law that:**
 - ◆ “[T]he 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation.”
 - ◆ Evidence relying on 25 percent rule of thumb thus inadmissible under *Daubert* and the F.R.E., because it fails to tie a reasonable royalty base to the facts of the case at issue.
 - ◆ Patentee bears burden of proving damages. To properly carry burden, patentee must "sufficiently [tie the expert testimony on damages] to the facts of the case." If patentee fails to tie theory to facts of case, testimony must be excluded.

Uniloc, 632 F.3d at 1315 (citations omitted).



Proving Reasonable Royalties and Death of the 25% Rule

Uniloc USA v. Microsoft Corp.

632 F.3d 1292 (Fed. Cir. 2011)

- ◆ Fed. Cir. delivered second mortal blow after finding 25% rule less relevant than unrelated license agreements excluded in past cases:
 - ◆ Court held:
 - ◆ Relying on 25 percent rule of thumb in reasonable royalty calculation far more unreliable and irrelevant than reliance on parties' unrelated licenses, which were rejected by Fed. Cir. in *ResQNet* and *Lucent Technologies*.
 - ◆ There, prior licenses at least involved the same general industry and at least some of the same parties as the hypothetical negotiations at issue, and in *Wordtech* even involved licenses to same patents in suit entered into by the patentee-plaintiff.
 - ◆ Lacking even these minimal connections, 25% rule of thumb would predict same 25%/75% royalty split would begin royalty discussions between, for example, (a) TinyCo and IBM over a strong patent portfolio of twelve patents covering various aspects of a pioneering hard drive, and (b) Kodak and Fuji over a single patent to a tiny improvement in specialty film emulsion.

Uniloc, 632 F.3d at 1317.



**Proving Reasonable Royalties and Death of the 25% Rule
Uniloc USA v. Microsoft Corp.
632 F.3d 1292 (Fed. Cir. 2011)**

- ◆ **In finishing blow, Fed. Cir. Held:**
 - ◆ **25% rule cannot even serve as starting point to be revised by applying Georgia Pacific Factors.**
 - ◆ **“Beginning from a fundamentally flawed premise and adjusting it based on legitimate considerations specific to the facts of the case nevertheless results in a fundamentally flawed conclusion.”**

***Uniloc*, 632 F.3d at 1317.**



Proving Reasonable Royalties and Death of the 25% Rule

Uniloc USA v. Microsoft Corp.

632 F.3d 1292 (Fed. Cir. 2011)

◆ Fed. Cir. clarified:

- ◆ Georgia Pacific factors remain important considerations in determining reasonable royalty, as long as pertinent evidence is relevant to facts of particular case at issue.
- ◆ [F]actors 1 and 2—looking at royalties paid or received in licenses for the patent in suit or in comparable licenses—and factor 12—looking at portion of profit that may be customarily allowed in particular business for use of the invention or similar inventions—remain valid and important factors in determination of reasonable royalty rate.
- ◆ Evidence to apply to these, and any other factors, must be tied to relevant facts and circumstances of particular case at issue and hypothetical negotiations that would have taken place in light of those facts and circumstances at relevant time.

Uniloc, 632 F.3d at 1317-18.



Proving Reasonable Royalties and Death of the 25% Rule Uniloc USA v. Microsoft Corp. 632 F.3d 1292 (Fed. Cir. 2011)

- ◆ Fed. Cir. found that based on Uniloc's improper expert testimony, Microsoft was entitled to a new trial on damages.
 - ◆ Expert's testimony was based on use of the 25% rule of thumb as arbitrary, general rule, unrelated to facts of the case.
 - ◆ Expert did not testify that parties had practice of beginning negotiations with 25%/75% split, or that contribution of Product Activation to Office and Word justified such a split.
 - ◆ Expert did not base 25 percent baseline on other licenses involving patent at issue or comparable licenses.
 - ◆ In short, expert's starting point of 25 percent royalty had no relation to facts of case, and as such, was arbitrary, unreliable, and irrelevant.
 - ◆ The use of such a rule fails to pass muster under *Daubert* and taints the jury's damages calculation.

Uniloc, 632 F.3d at 1318.



Proving Reasonable Royalties and Death of the 25% Rule

Uniloc USA v. Microsoft Corp.

632 F.3d 1292 (Fed. Cir. 2011)

- ◆ Federal Circuit also curtailed use of Entire Market Value Rule (EMVR).
- ◆ Rejected Uniloc’s arguments that EMVR can be used so long as royalty rate is low enough; and EMVR was used only as “check.”
 - ◆ “The Supreme Court and this court's precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate. For the entire market value rule to apply, the patentee *must* prove that the patent-related feature is the basis for customer demand”

Uniloc, 632 F.3d at 1320 (emphasis in original, citations omitted)

- ◆ “[T]hat the entire market value was brought in as only a ‘check’ is of no moment.” *Uniloc*, 632 F.3d at 1321.



Thank you.

