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COUNSEL COMMENTARY

IP: Unintended consequences when licensing patented technology

RECENT CASES HIGHLIGHT A FEW REMINDERS THAT THE PARTIES TO THE LICENSE SHOULD KEEP IN MIND.

When licensing or purchasing technology that may include patented inventions, the negotiating parties will have a large number of legal and business priorities to consider. While considering all of those factors, the parties also want to be sure that the language of the agreement governing their relationship is clear, particularly in respect to areas where unintended consequences may result from lack of clarity. Recent cases highlight a few reminders that the parties to the license should also keep in mind.

1. Be clear about continuing royalties in licenses that cover both patented and non-patented technology

In 1964, the Supreme Court decided in *Brulotte v. Thys Co.* that a patent licensing agreement requiring a licensee to make royalty payments beyond the expiration date of the licensed patent was unenforceable because it improperly extended the patent monopoly. This ruling has been read to also cover license agreements relating to patent applications that do not issue as patents. In both instances, the license agreement is held to be unenforceable unless the royalty rate agreed to in the license decreases when the patent expires or fails to issue. The 9th Circuit recently addressed the situation in which a license agreement covers both patented and non-patented technology in *Kimble v. Marvel Enterprises, Inc.* While acknowledging that the Supreme Court's decision has frequently been criticized and describing it as counterintuitive and its rationale arguably unconvincing, the 9th Circuit "reluctantly" applied the *Brulotte* rule to hybrid license agreements covering non-patented technology. As a result, a license agreement that covers both patented and non-patent technology will be unenforceable if there is not some clear indication that the royalty at issue is not subject to patent leverage, such as a discounted royalty rate for the non-patented technology. The same rule has been applied in at least the 6th, 7th and 11th Circuits.

2. Consider patent ownership in states in which patents are considered marital assets

When at least one of the patents involved is owned, at least in part, by an individual (frequently the inventor), the parties may need to consider ownership of the patent. Many states recognize as marital property all property acquired during the life of the marriage, including intellectual property. These property rights may arise even before issuance of the patent if creation of the invention occurred during the marriage and can be vested in the spouse immediately, not just upon divorce. A recent district court decision highlighted the effect that treating patents as a marital asset may have on ownership and enforcement (*James R. Taylor v. Taylor Made Plastics, Inc.*). Patent litigation brought by the inventor was dismissed for lack of standing because his ex-wife, who was granted 60 percent of the proceeds from the patent in the divorce decree and the court presumed an ownership interest as well, was not joined as a party. If one of the inventors is married, consider whether the inventor's spouse should be included as a licensor or assignor.

3. Covenant not to sue is a license

In a related note, covenants not to sue are now treated as licenses for most purposes. When negotiating resolution of litigation, parties often considered a covenant not to sue as a grant of something less than licensed rights. Some believed that these covenants not to sue were limited only to the assigning parties. Courts now treat an unconditional covenant not to sue as the grant of a non-exclusive license and an assignee to the patent takes the patent subject to existing licenses, including covenants not to sue (such as in *Innovus Prime, LLC v. Panasonic Corp.*). As a party to a licensing transaction, it is necessary then to be aware not only of licenses encumbering the technology at issue but also covenants not to sue to which the obtaining party may be bound.

4. Look out for implied licenses

Similarly, even where a patent license only explicitly includes certain named patents, the license may also cover other technology through an implied license. For example, parties to a settlement agreement covering a parent application have been read to include continuation patents issuing from that parent even when those continuations are not listed in the license. Continuation patents, by definition, must be based on the same inventive disclosure as the parent application, so the Federal Circuit (*General Protecht Group, Inc. v. Leviton Mfg. Co.*) reasons that the licensor would be taking back rights that have been granted and for which it has obtained a benefit if the continuations were not also licensed. The court did acknowledge, however, that the parties are free to contract around this presumption, but the language must clearly indicate this intent.

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