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Patent Licensing and Selling
Strategy, Negotiation, Forms
Second Edition

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For this release, author Mark Holmes has revised and expanded the text and added useful new commentary on the following:

Controlling the construction of license terms: Drafters may want to include a provision covering how the patent license agreement will be construed. The goal is to avoid time-consuming disputes over what the drafter may think are self-evident points. Such a provision may also be useful when the other party is not a U.S. entity and may not be familiar with U.S. law and contract practice. See new § 1:2.

The meaning of "shall": The opinion may be an outlier, but in *PacifiCorp v. Sempra Energy Trading Corp.*, a federal court in California found that the term "shall" is unclear, sometimes meaning "should" and sometimes meaning "must." If "shall" in the context of a contractual agreement is construed to be something less than mandatory, rendering the obligation discretionary, there would be widespread consequences for patent licenses, where "shall" is widely used. To avoid problems, the drafter may want to include a provision defining "shall" as it is used in the license. See new §§ 1:3 and 1:3.1.

Improvements: Both licensors and licensees may invent improvements to the licensed invention. The parties should consider who will own the patent rights to those improvements, and how licensee assignment and grantback provisions may be used to structure the parties' relationship. In addition, the new discussion addresses the situation where the improvement renders the original invention obsolete. See new §§ 2:6 to 2:6.5.

"Irrevocable," "perpetual," and other attempts to bar termination of the license: In patent licenses, the term "irrevocable" is used (often in close proximity to its cousin "perpetual") under a variety of circumstances. Some courts say a "perpetual and irrevocable" license cannot be terminated, even for the licensee's breach, leaving the licensor without the remedy of suing for patent infringement. But "perpetual" alone may not achieve that effect, and the

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author's drafting advice—for the licensee—is to include both terms. Licensors, on the other hand, should negotiate for a license that not only avoids both terms, but expressly spells out that the license may be terminated for cause. See new §§ 2:8 to 2:8.4.

Royalties—"upfront" versus "prepaid": A patent license may include a one-time royalty due upon the signing of the license. New discussion addresses the circumstances that may lead the parties to choose such a royalty; whether "upfront" and "prepaid" have distinguishable meanings; and whether royalties are refundable if the licensed patents are invalidated. Included is detailed analysis of several upfront royalty provisions. See new §§ 4:3 to 4:5.2.

Infringement—licensee standing to sue: When can a licensee sue infringers of the licensed patents without the consent and joining of the licensor? The licensee must be an "exclusive" licensee, but exclusivity depends not on labels but on whether the licensee has been granted "all substantial rights" in the licensed patent. The author considers how the courts have analyzed the "substantial rights" in this context. See new §§ 7:2 to 7:2.5.

Licensee efforts to exploit the patent: Generally, courts have read into exclusive licenses an implied duty of the licensee to use reasonable efforts to create profits and revenues. State laws may vary as to whether "reasonable efforts" or "best efforts" are implied. However, the payment of an upfront royalty may count against the finding of an implied obligation, for that royalty suggests that the licensor has protected itself against the possibility that the licensee will do nothing. See new §§ 12:1 to 12:1.2.

Arbitration—excluding patent issues: The author offers a specimen provision for excluding patent matters from arbitration. See new § 14:11.

Patent marking by licensees: To obtain the benefits of marking, not only the patentee but also the licensee must comply with section 287. In *Maxwell v. J. Baker, Inc*., the Federal Circuit stated: "Recognizing that it may be difficult for a patentee to ensure his licensees' compliance with the marking provisions, we have held that where third parties are involved, courts may consider 'whether the patentee made reasonable efforts to ensure compliance with the marking requirements.'" See new § 15:5.1.

Forum selection clauses—effect on IPR: In *Dodocase VR, Inc. v. MerchSource, LLC,* a California federal district court ruled that the licensee breached a forum selection clause when it went to the PTAB to challenge the validity of the patents in an inter partes review. A panel of the Federal Circuit upheld the injunction. If this ruling stands, it will give an unintended effect to forum selection clauses, altering the bargain between licensors and licensees: Licensees could be precluded from challenging the licensed patents, even if they were indeed invalid. See new § 17:3.3[M][1].

Patent sales—seller's warranties: What kind of language provides the strongest assurance to the buyer that the patent being sold is not subject to any licenses? See new § 19:8.1[D].

New contract provisions: This release includes these new provisions for possible inclusion in a license agreement: Example 1:51 (Commercially reasonable efforts); Example 1:148 (Improvements); Example 4:7 (Upfront or signing royalty); Example 14:24 (Excluding patent issues from arbitration); Example 19:11 (No retained rights; no existing licenses).

The **Table of Examples**, the **Table of Authorities**, and the **Index** have also been updated.

FILING INSTRUCTIONS

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Remove Old Pages Numbered:	Insert New Pages Numbered:
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