



Rewards and Risks of “Green:”

How To Make Your IP Assets Work Double-Duty While Minimizing the Risks of Disputes

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Featured Guest Speaker



Martin Hanssmann, President at AltaStream Energy Solution Inc.

- AltaStream Energy Solution Inc. is a market leader in Wireless Energy Monitoring and Control Solutions and provides consulting services for making commercial building more energy efficient
- Formerly served as President and CEO at Millennial Net as well as VP Sales and Services at Brooks Automation



Featured Foley Speakers

Series Moderator:



Edouard C. LeFevre, Partner and member, Private Equity & Venture Capital and Transactional & Securities Practices

Speakers:



Debra D. Nye, Partner and member, Intellectual Property Department



Sven Riethmueller, Partner and member, Private Equity & Venture Capital and Transactional & Securities Practices



Today's Program

- R&D: Creating royalty revenue and leveraging IP assets
- Technology Collaborations: Strategic Alliances
- License grants: Enforcement rights and ramifications
- Patent infringers: Safeguarding and managing their pursuit
- Potential litigations: Vital financial and business considerations
- Licensing parties: Negotiations and Quantifying Risk



Creating Royalty Revenue and IP Assets

- Intellectual property assets both provide exclusion of others from practicing your invention, and can also provide a stream of revenue in the form of royalty payments through a license.
 - Intellectual assets vs. Marketed products and services
 - IP rights are an increasing portion of enterprise value
 - Strategic consideration of future market goals - what technology can you afford to license?
 - Clarify and prioritize your business goals
 - Who are your competitors?
 - What technology can you collaborate on?



Creating Royalty Revenue and IP Assets

- More IP assets increase possible licensing revenue and the ability to leverage your IP to acquire IP rights from competitors through cross-licensing.
 - Consequences of Increase in patents:
 - Freedom to Operate vs. Exclusion of Others
 - Owning a patent does not mean you have a right to practice – it is only a right to exclude others.
 - Third party may have an even broader patent that encompasses the subject matter of your patent.
 - Overlapping patents owned by different parties are mutually blocking as to the overlapping subject matter (may lead to a cross-license).
 - Prior patents must be considered when drafting new patent applications
 - Claim broadly, but not what is already disclosed in prior patents
 - Issue: This is still a nascent industry



Creating Royalty Revenue and IP Assets

- Be very careful of licensing language with regard to the scope of the license grant to avoid future litigation.
 - Technology vs. patent
 - Foreign counterparts and subsequent patents and applications.
 - Allocation of “fields of use” or areas of commercialization can increase revenue: potential for multiple exclusive or non-exclusive licensees
 - Sublicensing rights
 - Retaining rights



License Grants: Enforcement Rights

- Who has the right to enforce a patent?
 - A patent owner can enforce a patent.
 - Ownership flows from the inventor(s) to any subsequent assignees or successors in title.
 - An exclusive licensee to whom the patentee transfers some exclusionary rights can enforce a patent.
 - An exclusive licensee who has less than all substantial rights can sue **ONLY** if the patent owner is joined in the suit.
 - If the exclusive licensee has all substantial rights, then they can sue without joinder of the patent owner.
 - The Federal Circuit has defined “all substantial rights” as those rights sufficient for the licensee to be deemed the effective patentee under 35 U.S.C. § 281
 - Address management and costs of enforcement in agreement
 - Be careful of inventorship in collaborations



License Grants: Enforcement Rights

- How is the type of conveyance determined?
 - The courts look to each and every license or agreement to see what is actually conveyed.
 - Use of the term “exclusive” is not determinative.
 - Types of conveyances where the receiving party is allowed to sue for patent infringement:
 - The entire interest
 - An undivided part of share of that interest (joinder of the patentee would be required)
 - An exclusive right within and throughout a specified part of the United States.
 - Anything short of the above three options essentially equates to a covenant not to sue.



License Grants: Enforcement Rights

- Licensing considerations regarding enforcement of patent rights:
 - Representations and warranties regarding ownership and the rights conveyed
 - If the contracting partner doesn't have the rights that they assert they are conveying, then your licensing arrangement may be devalued. Look out for:
 - Research/collaboration agreements
 - Funding agreements
 - Employee agreements



Patent Infringers: Safeguarding

- Patentees have important considerations when they learn of a patent infringement
 - Doctrine of Laches – There is no set time limit, but some courts use a 6 year benchmark.
 - Risk of Creating Declaratory Judgment Jurisdiction – Consideration regarding how or if to approach an infringer prior to suit is important.
 - Doctrine of Patent Exhaustion – The initial authorized sale of a patented item terminates all patent rights to that item
- Who will pursue infringers under collaborations or licenses?



Patent Infringement: Safeguarding

- Declaratory Judgment Jurisdiction
 - ***MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 S.Ct. 764 (2007)**
 - The U.S. Supreme Court rejected the Federal Circuit’s “Reasonable Apprehension of Suit” test for Declaratory Judgment Jurisdiction.
 - The “*MedImmune*” test is “whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between the parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”



Patent Infringement: Safeguarding

- The *MedImmune* case eased the requirements for establishing declaratory judgment standing in patent cases. Post-*MedImmune* the Federal Circuit has yet to fully clarify how much liability the alleged infringer must risk to obtain standing for declaratory relief.
- Post-*MedImmune* a licensee may also challenge the validity of a patent and remain licensed.
 - The *MedImmune* strategy to challenge the validity of a patent may also be used to reduce license fees
 - This needs to be addressed contractually in the license or collaboration agreement



Patent Infringement: Safeguarding

- Because *MedImmune* eased the requirements for declaratory judgment jurisdiction, many patent holders are dispensing with pre-lawsuit negotiations and have adopted a policy of “sue first, ask questions later.”
 - Allows for choice of venue for the patent holder rather than being dragged into a jurisdiction not of their choosing.



Patent Infringement: Safeguarding

■ Patent Exhaustion

- In *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S.Ct. 2109 (2008), the U.S. Supreme Ct. has recently explained that under the doctrine of patent exhaustion “the initial authorized sale of a patented item terminates all patent rights to that item” and that “exhaustion is triggered only by a sale authorized by the patent holder.”
 - The authorized sale of an article or component will trigger patent exhaustion when the article or component “substantially embodies the patent.”
 - Also method patents are exhausted by the sale of an item that embodied the method.



Patent Infringement: Safeguarding

■ Patentee’s arguments against claims of patent exhaustion:

- Licensed technology has some reasonable use that does not practice the patent.
- Licensed technology is not a material part of the patented system and therefore does not substantially embody the patent.
- The manufacture, sale or use was unauthorized or outside of the scope of or in violation of the license grant.



Potential Litigations: Considerations

- Contract provisions may provide safeguards for litigation risks associated with IP licenses:
 - Indemnification provisions
 - Use of milestones with early stage technologies; due diligence requirements
 - Need to address the unique circumstances of the emerging Greentech industry/market
 - Control of any patent litigation and its ultimate disposition
 - Provisions regarding who bears the cost of litigation
 - Provisions regarding how information is shared between the parties; audit rights
 - Warranties and representations regarding the rights conveyed



Potential Litigations: Considerations

- Contract litigation - contract provisions could lesson damages available between the licensing parties.
 - Stipulated damages provisions (may have an affect on reasonable royalty)
 - Arbitration provisions (including additional requirements for proof) or jury waiver clause
 - Choice of law provisions; choice of forum
 - Limitation on damages (e.g., consequential damages)
 - Sovereign immunity when dealing with governments
- Patent litigation typically results in stronger relief than contract litigation
- BUT: UCC and contract law may afford additional or alternative relief in collaborations



Potential Litigations: Considerations

- In light of *MedImmune* it may be advantageous for licensors to collect royalties and fees early in an up-front license fee
- Running royalties (e.g., “per unit”) provides a steady stream of income over time.
- Milestone payments of royalties are useful in licensing “early state” and unproven technologies and provides incentives to commercialize a product faster
- This is a key issue in the nascent Greentech industry



Licensing Parties: Considerations

- Protect your technology during negotiations
 - NDA to cover negotiations
 - Contractual terms to keep the agreement terms secret
 - File provisional patent before entering negotiations
 - Document invention and keep a record of what was presented
- Research the history/derivation of the licensed IP
 - Research/collaboration agreements
 - Funding agreements (especially government funding) can come with strings attached to the IP
 - Employee agreements
 - Consulting agreements
 - Who is the inventor



Licensing Parties: Considerations

- Choose collaboration partners carefully – you could be “stuck” with them for a while
 - Reputation/history
 - Complementary business; adoption of technology standards (vs. proprietary tech)
 - Ability to enforce and exit scenarios
 - Control and corporate governance issues (are we a partnership?)
 - Who holds the \$\$
 - Research licensing and collaboration practices of partner
 - Prior deals of partner available to determine what partner has done before
 - If you collaborate on selling “goods,” need to know the Uniform Commercial Code and draft agreements accordingly
 - If you collaborate on new technology development, ownership allocation, management and commercialization of IP are key; define field of collaboration
- Consult with counsel regularly during life of license/collaboration to avoid surprises



Follow-up Information

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- Following today's discussion, these materials will be emailed to attendees and posted online at www.foley.com/news/events
- Foley will apply for CLE credit and email certificates to attendees in approximately 6-8 weeks.



Rewards and Risk of “Green”- Next Session

- Safeguarding against questioning by the FTC and competitors on the basis of unfair trade or false advertising as a green technology company
- Details will be announced soon