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PATENTS

Patent Assignments and Licenses: The Grant Clause and Related Patents



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Although seemingly unremarkable to the casual reader, a recent opinion from the U. S. Court of Appeals for the Federal Circuit elicited a sigh of relief from patent attorneys across the country. But it was not what the opinion did that caused the response; it was what the opinion did not do. Therein lies a tale, as well as some important lessons for those drafting, negotiating, or litigating patent assignments and licenses.

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That recent opinion, *Intellectual Ventures I LLC v. Erie Indemnity Co.*, 850 F.3d 1315, 1320-24, 121 U.S.P.Q.2d 1928 (Fed. Cir. 2017), affirmed the dismissal of a patent infringement complaint because the plaintiff did not own the patent, holding that an express assignment of particular patents and applications, conveying rights “in and to said patents,” does not automatically incorporate rights to patents that later issue from then-pending continuation applications that were not expressly listed in the assignment. The *Intellectual Ventures* opinion rejected the plaintiff’s argument that an assignment of rights “in and to” a particular patent automatically includes patents issuing on that patent’s child applications because of their familial relationship. *Id.* at 1323. The opinion gave this argument relatively short shrift, relying on three facts (850 F.3d at 1321 (citing 35 U.S.C. § 261)):

- (1) the patent statute’s requirement that patents, patent applications, and any interest therein must be assigned by a written instrument;
- (2) in assigning ownership “the parties limited their written instrument to the seventeen patents and applications expressly listed in that agreement,” did not list the subject application, or generally incorporate the continuations of listed patents; and
- (3) the inclusion of several applications in the assignment showed that the assignor knew how to include applications, and would have done so had it intended to include the subject application.

In and of itself, this analysis is straightforward and unremarkable. But a parallel line of cases in the patent licensing context shows how badly the Federal Circuit could have mishandled it; hence the collective sigh of relief.

For over 60 years before the advent of the Federal Circuit, the law of implied licenses under patents was well settled. An implied license may be created by legal estoppel: the principle being that, after receiving consideration for a right granted, “a grantor of a property right or interest cannot derogate from the right granted

by his own subsequent acts.” *AMP Inc. v. United States*, 389 F.2d 448, 453, 156 U.S.P.Q. 647 (Ct. Cl. 1968); see also *Wang Labs., Inc. v. Mitsubishi Elecs. Am., Inc.*, 103 F.3d 1571, 1581, 41 U.S.P.Q.2d 1263 (Fed. Cir. 1997).

Derogation of a licensed patent right can be shown by either of two rationales: “same product” and “dominating patent.” Under the same-product rationale, after a patentee grants a license under a patent to make, use, offer to sell, sell, or import a product, it may not attempt to derogate or detract from that license by suing the licensee for infringing another patent by producing that same product. See *AMP*, 389 F.2d at 453-54; *Green v. Aerosol Research Co.*, 374 F.2d 791, 794, 152 U.S.P.Q. 657 (7th Cir. 1967); *Nat’l. Rubber Mach. Co. v. McNeil Mach. & Eng’g Co.*, 132 F.2d 436, 438, 56 U.S.P.Q. 131 (6th Cir. 1942); *Victory Bottle Capping Mach. Co. v. O. & J. Mach. Co.*, 280 F. 753, 757 (1st Cir. 1922). Under the dominating-patent rationale, after a patentee grants a license under a patent, it may not derogate or detract from that license by suing the licensee for infringing a patent that is necessarily infringed in producing a product under the licensed patent. See *Minn. Mining & Mfg. Co. v. E. I. du Pont de Nemours & Co.*, 448 F.2d 54, 57, 171 U.S.P.Q. 11 (7th Cir. 1971); *Frederick B. Stevens, Inc. v. Steel & Tubes Inc.*, 114 F.2d 815, 819-20, 47 U.S.P.Q. 323 (6th Cir. 1940); *Cardiovascular Diagnostics Inc. v. Beohringer Mannheim Corp.*, 985 F. Supp. 615, 625 (E.D.N.C. 1997); *Cold Metal Process Co. v. Republic Steel Corp.*, 123 F. Supp. 525, 549, 102 U.S.P.Q. 14 (N.D. Ohio 1954); *United Printing Mach. v. Cross Paper Feeder Co.*, 220 F. 322, 324 (D. Mass. 1915).

The Federal Circuit’s first substantive foray into the implied-license-by-legal-estoppel arena occurred in *TransCore, LP v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271, 90 U.S.P.Q.2d 1372 (Fed. Cir. 2009), where a patentee and competitor settled a patent infringement action with a covenant not to sue. The patentee then sued its competitor’s customer for infringing a patent that issued after the settlement on an application “related” to one of the patents asserted in the first action and subject to the covenant not to sue. *Id.* at 1273. The Federal Circuit held that the third party enjoyed an implied license to the later-acquired patent because it “was broader than, and necessary to practice, at least [one of the patents] that was included in the . . . settlement agreement.” 563 F.3d at 1279. If the competitor was going to obtain the benefit of its bargain, the court reasoned that it and its customer “must be permitted to practice the [later-acquired] patent to the same extent it may practice the [settled] patents.” *Id.* A straightforward application of the dominating-patent rationale: so far, so good.

The Federal Circuit next ventured into the implied-license-by-legal-estoppel arena in *General Protecht Group, Inc. v. Leviton Manufacturing Co.*, 651 F.3d 1355, 99 U.S.P.Q.2d 1275 (Fed. Cir. 2011). There, after the patentee and a competitor settled an infringement action with a covenant not to sue under the asserted patents, the patentee sued the competitor for infringing two patents that had subsequently issued from continuations of the same application that led to the previously asserted patents. *Id.* at 1357. The accused products in the second action were the same as those in the first, settled action. *Id.* at 1358. Relying on the Federal Circuit’s *TransCore* opinion and its dominating-patent rationale, the district court ruled for the accused infringer. *General Protecht Grp., Inc. v. Leviton Mfg. Co.*,

No. 10-1020, 2010 BL 283674, at *16-23 (D.N.M. Nov. 30, 2010). On appeal, the patentee argued that the dominating-patent rationale was inapplicable because at least some of the continuations’ claims were narrower than the previously asserted claims. The Federal Circuit affirmed, based instead on the same-product rationale. 651 F.3d at 1361.

Rather than confining its discussion to the well-established same-product rationale, however, the *General Protecht* opinion went on in a flurry of dicta. The court noted that “the newly asserted continuations are based on the same disclosure as the previously licensed patents and that, by definition, the continuations can claim no new invention not already supported in the earlier patents.” 651 F.3d at 1361. Because legal estoppel applies “where a patentee has licensed or assigned a right, received consideration, and then sought to derogate from the right granted,” the court reasoned that “it 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.” *Id.* at 1361-62 (emphases added). The court then explained that “if the parties intend otherwise, it is their burden to make such intent clear in the license.” *Id.* at 1361. Even though the familial relationship between licensed patents and later-asserted patents is irrelevant to the same-product and dominating-patent rationales, the *General Protecht* opinion’s dicta suggests an implied license to continuation patents, at least where the same products are at issue, placing the onus on the patentee to specifically exclude any continuation patents it wishes to exclude from the scope of the license.

The Federal Circuit returned to the implied-license-by-legal-estoppel arena in *Endo Pharmaceuticals Inc. v. Actavis, Inc.*, 746 F.3d 1371, 110 U.S.P.Q.2d 1199 (Fed. Cir. 2014). The *Endo v. Actavis* patentee had previously sued a competitor for selling a particular product, and settled by granting a license to its then-owned and issued patents, including the three asserted patents, and continuation patents issuing from continuing applications that claim priority to the asserted patents. *Id.* at 1372-73. The patentee then sued its licensee, again for selling the same product, alleging infringement of three other patents: one entirely unrelated to the previously asserted patents or their continuations and two continuations of an application that was one of four applications to which one of the previously asserted patents claimed priority (to be clear, these two patents were not continuations of the previously asserted patents). The licensee/accused infringer asserted the defense of implied license by legal estoppel under the same-product rationale, relying on “*TransCore* and related cases.” *Id.* at 1376-77. That is not, however, how the Federal Circuit decided the case.

The *Endo v. Actavis* majority interpreted *TransCore* and *General Protecht* as standing “for the rule that a license or a covenant not to sue enumerating specific patents may legally estop the patentee from asserting continuations of the licensed patents in the absence of mutual intent to the contrary.” *Id.* at 1378. The majority lumped *TransCore* in with *General Protecht* in its “continuation” analysis despite *TransCore* never mentioning that the subject patent was a continuation of the licensed patent, describing it only as “a related patent”

that “was broader than, and necessary to practice, at least” one of the patents included in the settlement agreement. *TransCore*, 563 F.3d at 1273, 1279. Despite the fact that the appealed action asserted infringement by the same product that was accused in the settled action, the *Endo v. Actavis* majority went on to reject the implied license defense “because none of the asserted patents is a continuation of any of the licensed patents.” 746 F.3d at 1378. Thus, the *Endo v. Actavis* majority opinion transformed the *General Protecht* dicta into a holding, and in doing so wiped away the same-product and dominating-patent rationales that had guided application of implied-license-by-legal-estoppel for over 60 years before creation of the Federal Circuit.

To be sure, in *Endo v. Actavis* Judge Timothy B. Dyk dissented on this very point, arguing that the settlement agreement provided an explicit license to produce the product accused of infringement in the second action, and should thus presumptively provide an implied license under the two patents that claim priority to the same application that led to the patents asserted in the first case “absent contrary evidence.” *Id.* at 1382. To Judge Dyk, the settlement agreement and negotiation history (the licensee was not informed of the pending applications) “suggests that [the licensee/accused infringer] could reasonably conclude it had a right to sell [the product] despite the interim issuance of the [asserted] patents, not merely practice the patents expressly licensed.” *Id.* at 1383. But even Judge Dyk did not consider the pre-Federal Circuit law or its import, as he distinguished the asserted patent that was unrelated to the applications that led to the expressly licensed patents, even though the pre-Federal Circuit authority would have extended an implied license under the same-product rationale. *Id.* at 1383-84 n.2.

So, in the five-year span from the 2009 opinion in *TransCore* to the 2014 opinion in *Endo v. Actavis*, without even a nod to 60 years of precedent that preceded its creation, the Federal Circuit replaced the same-product and dominating-patent analyses of implied-license-by-legal-estoppel with a formalistic rule limited to continuations of the licensed patents. This rule is both too broad in that it sweeps in patents that do not

cover the same product and do not dominate the licensed patent, and too narrow in that it does not necessarily protect licensees selling the licensed product or from dominating patents. In short, the Federal Circuit has made a mess of implied-license-by-legal-estoppel by granting an implied license to continuations of licensed patents. It is this context that made the patent bar sigh in relief when the Federal Circuit rejected the proposed rule that assignment of a patent automatically assigned its continuations.

All that having been said, those drafting, negotiating, or litigating patent assignments and licenses should bear in mind at least the following principles regarding the grant clause and implied licenses:

- *Perform your due diligence first.* The desire to close a deal is understandably strong, particularly when it portends the end of mounting litigation fees and costs, or trial is looming. But careful contracting is possible only if you have performed your due diligence first. Due diligence includes not only identifying the present state of the patent portfolio, but the licensor’s ongoing prosecution activities and potential patent acquisitions. It includes understanding how your own products work and whether there are new products in development, or identified as a potential acquisition. If you do not understand the “world” over which you are negotiating, no amount of careful drafting will forestall future disputes.

- *Make your desires express.* Bearing in mind the Federal Circuit’s admonition, “You get what you bargain for,” *id.* at 1378, relying on implied licenses of any sort should be a last resort. Freedom to operate is a valuable proposition; it deserves careful contracting in the first instance.

- *Keep abreast of legal developments.* The Federal Circuit’s recent rejection of implied licenses for dominating patents and patents that cover the licensee’s accused products requires express licenses. And the prospect of further developments suggests continued monitoring of the case law in this area.