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IP LICENSING: A LITIGATOR'S PERSPECTIVE

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AGENDA

- Litigation Considerations in IP Transactions
- Standing to Sue
- No-Challenge Clauses
- Royalty Rates in IP Licenses
- Post-Expiry IP Royalties





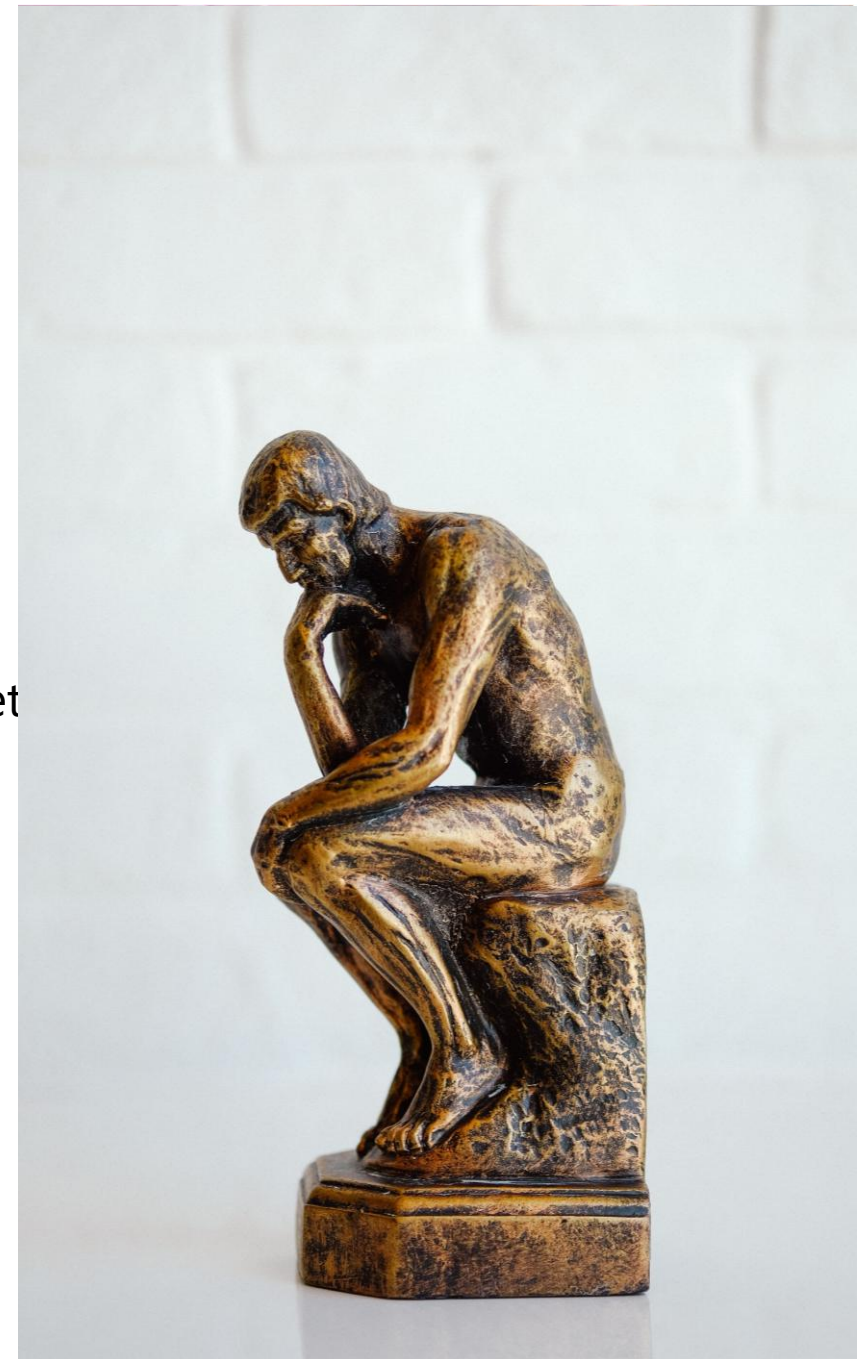
LITIGATION CONSIDERATIONS IN IP TRANSACTIONS

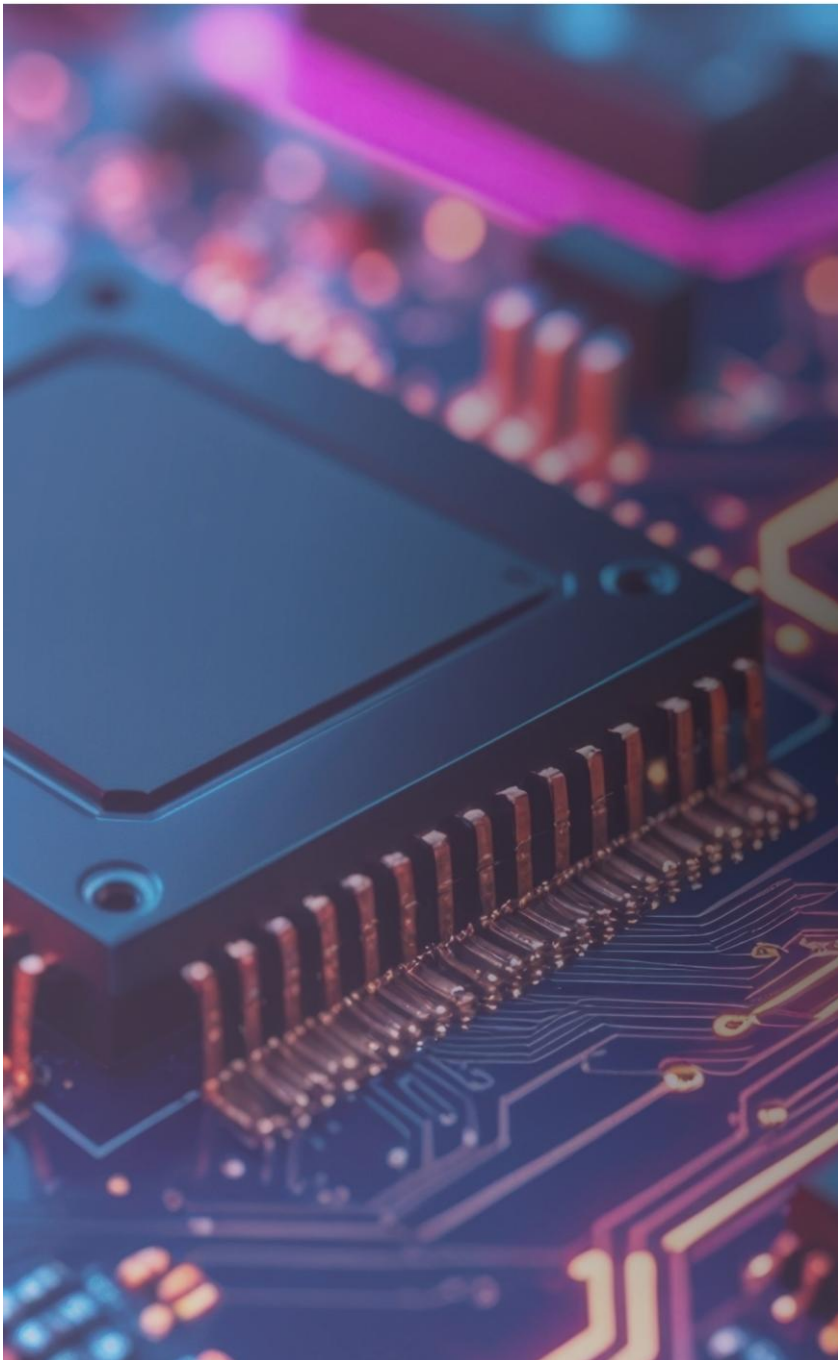
- How does the agreement impact standing to sue IP infringers?
- Does the agreement impact whether/where defensive challenges can be brought if the relationship breaks down?
- How will the terms of the agreement impact potential damages in future IP litigation?
- Are we improperly collecting post-expiration royalties?

STANDING TO SUE

Standing to sue for IP infringement requires ownership!

- Patents:
 - Must own “all substantial rights” in the patent—licensee has no standing to sue, unless license is tantamount to ownership
 - If joint owners, each may fully exploit (without consent of others) BUT no standing to sue unless ALL joint owners voluntarily join as plaintiffs
- Trade Secrets:
 - Owner can be anyone who rightfully possesses a trade secret (and maintains it as such)
 - Even joint owners (but note: unless bound by contract or fiduciary duty, disclosure by a joint owner could destroy trade secret)





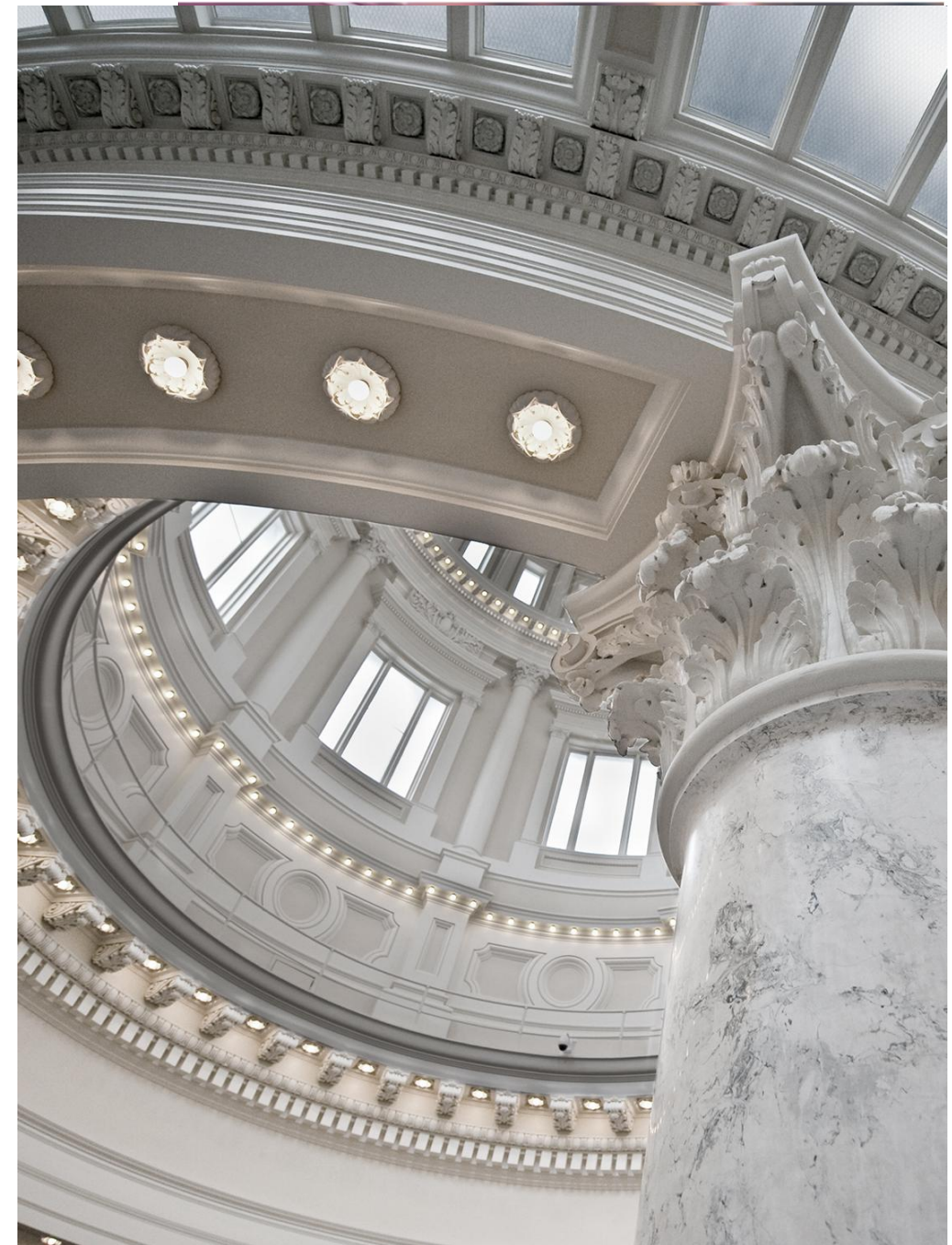
Example: Does the licensee have litigation standing?

- Inventors assign all rights to invention to University
- University grants exclusive license to Research Foundation
 - License allows University the right to make and develop the invention for internal research, clinical, and educational purposes
 - License silent on who has the right to sue for infringement
 - License stated that infringement damages awards would be shared between University and Research Foundation

***UNIV. SOUTH FLORIDA RES. FOUND,
INC. V. FUJIFILM MED. SYS.,
19 F.4TH 1315 (FED. CIR. 2021)***

“While we acknowledge that the license agreement transfers significant rights to USFRF ... we agree with the district court that USF retained enough important rights to conclude that USF did not transfer all substantial rights in the patent.”

Upheld district court’s dismissal for lack of standing





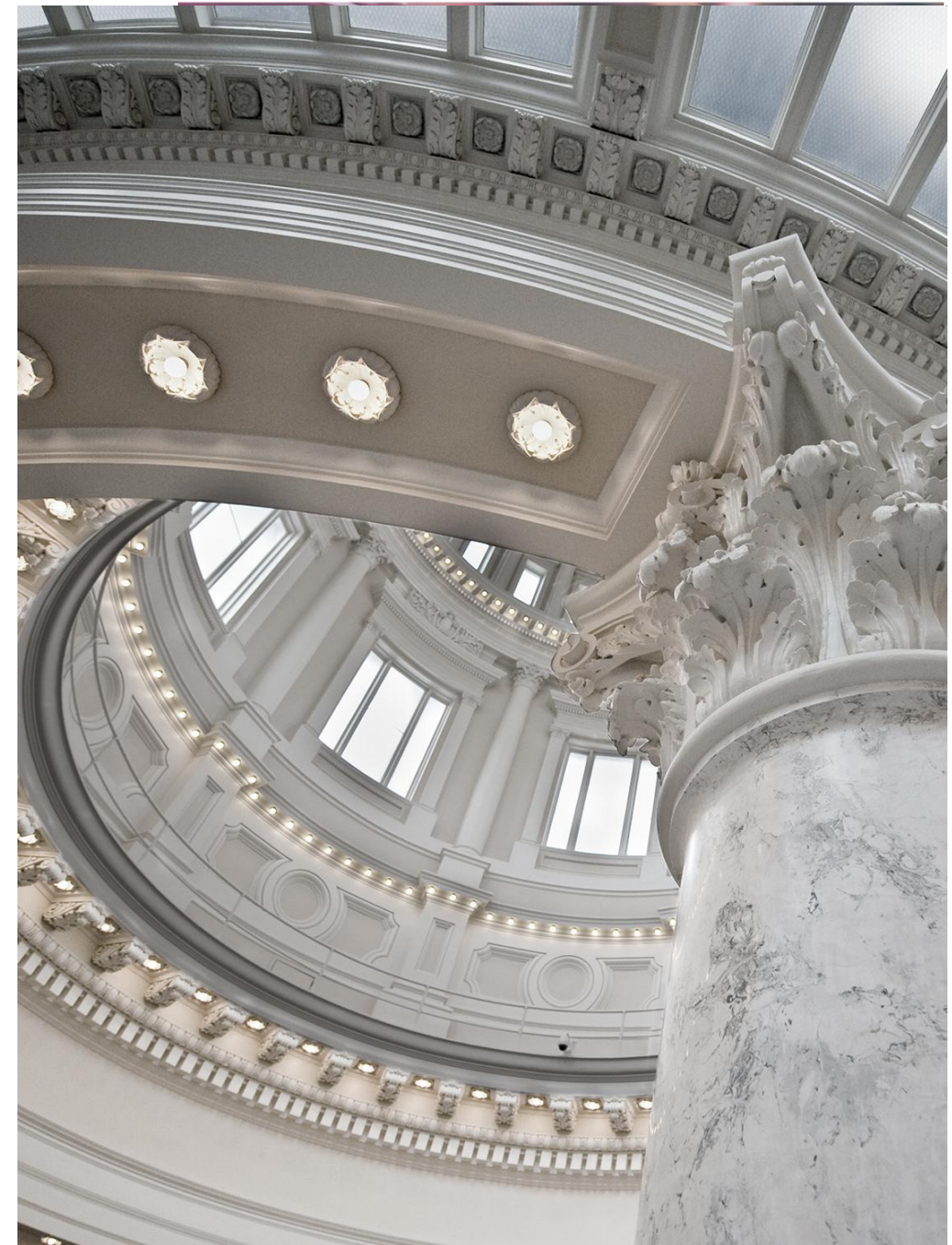
Does a prior assignment (with carve-out) impact litigation standing?

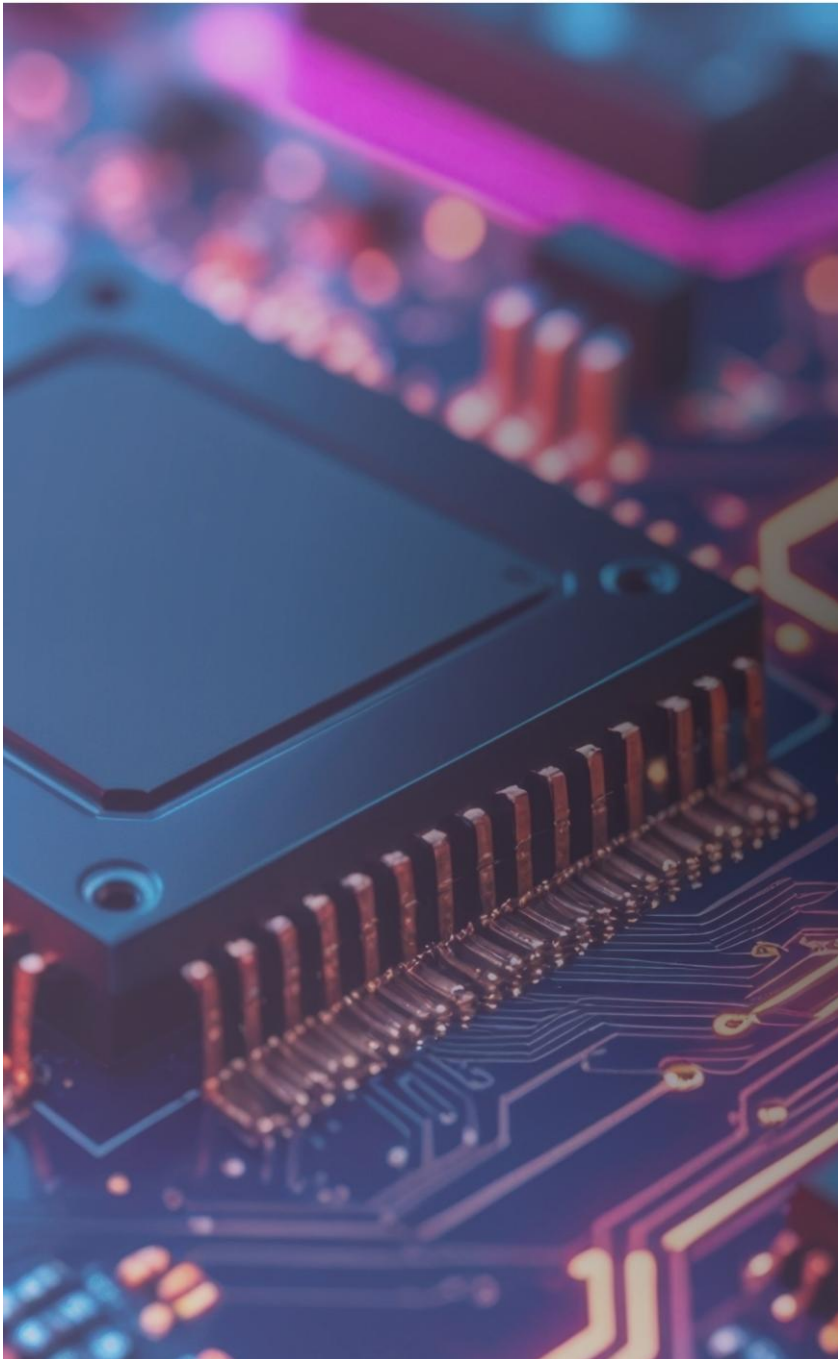
- Inventor has employment agreement that (generally) assigns to Company all inventions conceived, developed or reduced to practice that “relate to the business or activities of the Company.”
 - Carve-out: No assignment of inventions “developed entirely on [inventor’s] own time.”
- Inventor is accepted into Ph.D. program and Company funds Inventor’s Ph.D. research through fellowship program.
- Inventor eventually files a patent on his Ph.D. dissertation.
- Inventor forms Business to commercialize patented invention, and assigns patent to the Business.
- Business sues third party for infringement.

CORE OPTI. TECH. V. NOKIA CORP.,

102 F.4TH 1267 (FED. CIR. 2024)

“But Dr. Core was not free to use the entirety of his off-the-clock hours any way he wished without accountability to TRW. His participation in the fellowship program . . . was dependent on his actual pursuit of his PhD research, so he had to spend a large chunk of his off-the-clock time in ways for which he was accountable, financially, to TRW. The contract language, ‘entirely on [his] own time,’ allows either perspective”





NO-CHALLENGE CLAUSES

- Prohibits Licensee from challenging the validity of IP it is licensing (typically patents)
- Can block challenges in district court and/or administrative proceedings (like PTAB)
- Enforceability of these clauses is subject to debate

NO-CHALLENGE CLAUSES – ENFORCEABLE?

- Unenforceable under the policy set out in the Supreme Court decisions *Lear v. Adkins*, *MedImmune v. Genentech* and their progeny.
- Exception: Certain settlement license agreements are okay under the public policy of encouraging the resolution of litigation.
- However, in *Dot Hill Sys. Corp. v. Crossroads Sys.* (IPR2015-0822) the Patent Trial and Appeal Board (PTAB), relying on *Lear*, found a no challenge clause in a settlement agreement unenforceable as a bar to an IPR challenge.





FORUM SELECTION CLAUSES: WORKAROUND?

- Recently, licensors have turned to forum selection clauses to preclude the filing of challenges in the PTAB—do these clauses contradict the *Lear/MedImmune* policy?
 - *Dodocase VR Inc. v. MerchSource LLC* (Fed. Cir. 2019) (forum selection clause requiring challenges “arising out of or under the agreement” to be brought in district court barred PTAB challenge); compare *Kannu Pty Ltd. v. Samsung Electronics* (Fed. Cir. 2021) (same clause in a confidentiality agreement did not bar PTAB challenge)
 - *Nippon Shinyaku v. Sarepta* (Fed. Cir. 2022) (forum selection clause in a confidentiality agreement requiring validity challenges be brought in district court barred PTAB challenge)
 - *DexCom v. Abbott Diabetes Care* (Fed. Cir. 2024) (forum selection clause in settlement agreement did not bar PTAB challenge, but suggested that IPRs can be contractually prohibited under an appropriate clause)

ROYALTY RATES IN IP LICENSES

- Can impact (knowingly or unknowingly) IP litigation damages
- Licenses are often the best evidence of value
- Courts frequently look to comparable licenses to assess IP infringement damages
- Royalty structures matter:
 - Lump Sum vs. Running Royalty
 - Percentage Sales vs. Per-unit Rate
 - Broad IP Portfolio vs. Narrow IP License
 - Settlement vs. Voluntary Commercial License





Can a lump-sum settlement impact “reasonable royalty” for patent damages in subsequent litigation?

- Patentee executed three lump-sum-payment settlement agreements for same patent.
- Each agreement included a WHEREAS clause stating that lump-sum payment was based on what Patentee believes is \$X per-unit royalty for estimated past and future sales.
- In subsequent patent-infringement trial, jury awards \$20M damages, based on expert’s \$X per-unit royalty opinion (citing settlement agreements).
- Infringer appealed arguing that damages opinion was in error based on unreliable methodology.

ECOFACTOR, INC. V. GOOGLE LLC,

137 F.4TH 1333 (FED. CIR. MAY 21, 2025) (EN BANC)

“We hold the existing licenses upon which Mr. Kennedy relied were insufficient, individually or in combination, to support his conclusion that prior licenses agreed to the \$X royalty rate and therefore the district court abused its discretion in failing to exclude this testimony.”





POST-EXPIRATION ROYALTY OBLIGATIONS

- Are royalty obligations that compensate a licensor for post-expiration use of patented technology enforceable?
 - Supreme Court law: *Brulotte v. Thys Co.* (1964); and *Kimble v. Marvel Ent., LLC* (2015).
 - Unlawful to require royalty payments for the use of a patent after its expiration.
 - “A court need only ask whether a licensing agreement provides royalties for post-expiration use of a patent. If not, no problem; if so, no dice.”

POST-EXPIRATION ROYALTY ALTERNATIVES?

- Can parties use alternative contracting methods to accomplish similar outcomes? Yes!
 - Deferring payments owed for pre-expiration use of a patent over the post-expiration period,
 - Tying royalties to non-patent rights like know-how, or
 - Structuring non-patent, royalty-based business terms (e.g., milestone payments).
- *However*—the precise terms of these royalty provisions may give rise to disputes.





C.R. BARD V. ATRIUM MEDICAL CORP.

112 F. 4th 1182 (9th Cir. 2024)

- Parties disputed whether a minimum royalty obligation that extended past the U.S. patent expiration date, on a multi-patent license, was enforceable.
- The district court considered extrinsic evidence and held that the continued “minimum” royalty obligations violated *Brulotte*.
- The Ninth Circuit reversed, finding that the minimum royalty provision did not tie payments to the use of the U.S. patent. In interpreting *Brulotte*, the court clarified that the assessment does not consider the parties’ motivations or negotiations.

ARES TRADING S.A. V. DYAX CORP.

114 F.4th 123 (3d Cir. 2024)

- The royalty provision provided that the licensee was obligated to pay royalties “until the last Valid Claim expires or ten (10) years from the date of First Commercial Sale” of the covered product, “whichever occurs later.”
- Ares argued that the post-expiry royalties violated *Brulotte*, but the district court found the payments to be enforceable deferred compensation.
- The Third Circuit affirmed, finding that *Brulotte* did not apply as the royalty obligations were not tied to post-expiration use of the licensed patents—they were based on the pre-expiry use of the patents for drug discovery.





POST-EXPIRATION ROYALTY ALTERNATIVES

- Atrium unsuccessfully sought Supreme Court review on a perceived split in the Circuits' application of the Brulotte Rule, arguing that certain Circuits consider the intention of the parties, others do not.
- While this "split" persists, clarity and specificity in drafting agreement language is paramount:
 - Does the license cover multiple patents with different expiration dates? If so, are royalties calculated as each patent expires?
 - Does the license include know-how, trade secrets, or other non-patent IP? If so, are the royalty payments structured so that post-expiration royalties are tied to these non-patent rights? Is there a royalty step-down provision?



“TAIL” ROYALTY OBLIGATIONS

- Are products manufactured before the expiration of the patent, but sold afterward, subject to royalty payment obligations—where the obligation is not explicit?
 - *Genentech v. Biogen*, Case No. 3:23-cv-909 (N.D. Cal.)
 - *Genentech v. Millennium*, Case No. 23-civ-924 (Cal. Sup. Ct)
- When does the royalty payment obligation on a Licensed Product accrue?
 - At the point of sale of the unit, so no further royalties are due upon expiry of the last licensed patent? *or*
 - At the point at which the unit became a licensed product (by being made, used, etc.), with the calculation being deferred until sale?

STRATEGIC LITIGATION CONSIDERATIONS FOR IP TRANSACTIONS

- For **standing to sue**, license must be tantamount to ownership.
- **No-challenge provisions** are generally unenforceable. A forum selection clause can sometimes serve the same purpose but must be drafted with an eye toward Federal Circuit rulings.
- **Lump-Sum Payments** can be evidence of a reasonable royalty, but only if supported by evidence in the Agreement.
- **Post-expiration royalty payments** will be impacted by the Circuit split in applying *Brulotte*, and Choice of Venue/Choice of Law provisions in the contract.
- **Royalty obligations** for manufacture vs. sale must be clearly identified come **patent expiration**.





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