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Chapter

The Shifting Subject Matter of IP Licensing in the Information Age: Maximizing the Licensor's Asset Monetization while Facilitating the Licensee's Success

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Introduction

In our increasingly data-driven economy, we continue to see shifts in the relative value of a company's intellectual property (IP) assets. Particularly in the information technology (IT) space, the value of patents has become more uncertain, while at the same time data and know-how have become increasingly valuable. These trends suggest that IP licensing strategies should be adapted to offer combinations of different types of IP that are more valuable and attractive to a licensee than one type of IP alone. We are also seeing increased activity in joint development efforts, as companies are facing increased pressure to efficiently create new and customized products and are turning to outside expertise in order to do so. In these changing circumstances, it is up to the attorney to guide the client through the process of protecting all forms of the client's IP, securing the essential agreement terms, and facilitating ongoing compliance by both parties. Effective practices for communicating with the client and the other party regarding the commercial objectives and each party's rights to all forms of existing and future IP can significantly enhance the likelihood of a successful outcome for both parties.

1. The Shifting Subject Matter of IP Licensing in the Information Age

- a. Data and know-how may be as valuable as patents in today's economy

Today's economy is increasingly dependent on "big data" and data analytics, both of which are playing a greater role in the value of a company's IP. There is also growing pressure on companies to maximize the value of all their assets, including IP. For this reason, today's IP trends increasingly relate to the identification, labeling, protection, and licensing of data and know-how.

At the same time, there is greater degree of uncertainty in patenting IT-related inventions, brought about by the Supreme Court's decision in *Alice Corporation Pty Ltd. v. CLS Bank International*.¹ The *Alice*

¹ *Alice Corporation Pty. Ltd. v. CLS Bank International et al.*, 134 S. Ct. 2347 (2014).

case addressed the question of whether computer-related inventions are eligible for patent protection, or, conversely, whether they are merely "abstract ideas" and therefore ineligible. For attorneys and their clients, this means it is generally more difficult to license IT-related patents alone. Considering the increased value of data and know-how today, it is often more fruitful for companies to license patents together with data, know-how, and/or software as a package, because the licensee often perceives more value in that combination than in a patent license alone.

Companies are increasingly aware of the value of their data, not only to themselves, but also to other companies. Some companies have also realized that their specialized expertise in a particular industry can be quite valuable, whether or not it is the subject of patents. This "know-how" can be licensed as technical information or coded and licensed as software, or both, to various licensees that recognize its value. It has become more common for clients look to those types of IP, in addition to patents, as a way to transfer or acquire value through licensing. The volume and diversity of data that is available, the speed at which it can be accessed, and the demand for efficiencies and automation are all factors affecting licensing strategies.

Because IT-related products and services develop and change so rapidly, it is critical to identify any licensable IP early in the process and to think broadly about what that might include. It will be advantageous for the licensor to define various types of data, technical information, and know-how specifically and early on, so they are not just grouped together under a broad definition of "confidential information" and treated in a way that does not recognize the unique value that each type of information provides.

Extracting more value from a client's information assets requires the attorney and client to actively think about what types of information and know-how could be valuable to a third party, and then protect it. For example, different types of unregistered IP to be licensed can be described in an agreement using a defined term for each type, which serves to highlight the importance of the IP asset. In addition, a separate license grant can be drafted for each defined type of IP, which allows the licensor to specify in detail what the licensee is permitted and prohibited from doing with each type of IP. Finally, each type of IP should be protected by using appropriate confidentiality measures that make it accessible to only those who need to know it. Additionally, if the IP includes patentable ideas, filing patent applications early can establish the client's ownership and the potential patent rights of an idea before the client enters into discussions with third parties. Together, these processes can transform a relatively disorganized collection of data and ideas into one or more properly identified, labeled, and potentially patentable IP assets, each with its own recognized value.

b. Increasing reliance on joint development

Joint development efforts have also become more prevalent in the last year, presumably due to increased pressure companies are facing to efficiently develop innovative and customized products and services. Increased competition in the economy has compelled companies to find and secure the best resources for technology development, which in many cases may be outside of the company. A joint development agreement generally allows the company to create a better product more expeditiously than building the required technical capability in-house. As long as the company obtains adequate ownership and/or licensing rights to use and commercialize the developed IP in its business, the company may be no worse off than if it had developed and owned all the IP itself.

c. Maximizing the monetization of IP through combinations of complementary IP

One of the more important aspects to consider when trying to monetize IP is the prospective licensee's perception of the value of the IP being offered. There are two common situations in which this may occur. One is where the IP holder approaches the licensee with technology and IP the licensee does not already

have and perceives to be of value because it can potentially make the licensee money or provide it with some other advantage. The other situation is where a patent holder approaches a potential licensee because the licensee is already practicing whatever the patent covers. In the latter situation, the licensee often does not perceive value, other than the freedom from being sued, making it more difficult to license the IP and often requiring the licensor to file at least one patent infringement lawsuit. Thus, it can be advantageous for the patent holder to offer the potential licensee a combination of patent rights, know-how, technical information, and/or data to provide the licensee with some technology or data it did not already have. Giving the licensee something of value instead of an offer that is merely a better alternative to being sued generally puts the patent holder in a better position for monetizing the IP.

It is also important to keep in mind that, apart from a patent assertion/licensing situation, the relationship between licensor and licensee should be mutually profitable in order to succeed. The licensor's attorney will, of course, want to maximize the licensor's return. But it is also important to create a deal that allows the relationship to succeed for both parties. The licensor should therefore grant the licensee sufficient rights, incentive, and compensation to motivate the licensee to successfully develop and commercialize the product. For example, it may be more commercially beneficial for a licensor to grant a somewhat broader license that allows the licensee to grow than to be unnecessarily restrictive. While certain restrictions on field of use, markets, products, or territory may be necessary to protect the licensor, the licensor should generally avoid making such provisions overly restrictive such that the licensee loses its motivation to operate in the space it is given or to expand its business.

d. Other monetization and licensing strategies: Public IP companies

Licensing or selling IP to public IP companies can bring in new revenue to a client under the right circumstances. For example, if your client owns IP that has utility outside of its core business, licensing that IP to a public IP company in a different field of use will produce a royalty stream without adversely affecting your client's profit margin in its core business. However, there are also some risks to consider. For example, if the license grant to the public IP company is drafted too broadly, the public IP company could license a competitor of the client. And in most cases, the client will realize a greater return on the profit margin resulting from retaining the exclusivity provided by its patent rights, than the return from royalties derived through licensing those patent rights to competitors.

In addition, when licensing or assigning IP to a public IP company, it is critical to consider how the IP may be enforced. In the case of an assignment from the client to a public IP company, the client loses all control over subsequent enforcement. In the case of an exclusive license, the client may retain some control, but typically the public IP company will not want to accept terms restricting its enforcement decisions, and the client may lose a large degree of control in this situation as well. Hence, it is very important to consider whether the public IP company may have the ability to sue the client's business partners and/or customers. A lawsuit by a public IP company against the client's good customer for infringement of a patent having the client's company name on it could significantly damage the client-customer relationship. Even if it is a rational business decision, the executive at the client may have a difficult time explaining to the good customer why the client decided to make some extra money by teaming up with the public IP company. Hence, while there are undoubtedly worthwhile opportunities that public IP companies can offer for maximizing the value of a client's IP, the potential risks should be carefully analyzed before giving up control over the IP.

2. Changes in the Law Affecting IP Licensing

There have been a number of recent cases influencing licensing strategies, particularly as related to the patentability of IT-related inventions, royalties for licenses of patents and other forms of IP, and the extent to which a sale or license exhausts patent rights.

a. Patentability of Computer-Related Inventions

Alice v. CLS Bank decided by the Supreme Court in 2014 did not directly involve licensing, but it has had a noticeable impact on licensing strategies for IT-related inventions. In the *Alice* case, the patents at issue related to a computer-implemented scheme for mitigating settlement risk (*i.e.*, the risk that only one party to a financial transaction will pay what it owes) by using a third-party intermediary.² The issue was whether this IT-related invention on a financial method was eligible for patent protection. According to longstanding Supreme Court precedent, certain types of subject matter, namely “abstract ideas,” “natural phenomena,” and “laws of nature” have not been eligible for patent protection.³ In the *Alice* case, the Supreme Court held that *Alice*'s financial method for intermediated settlement was nothing more than an “abstract idea” and therefore ineligible to receive patent protection.⁴ The *Alice* decision provides little guidance as to how to define the “abstract idea” in question, or how to determine whether the patent claim recites “significantly more” than the abstract idea, thus making it eligible for patent protection.⁵ Hence, a patent challenger now has broad latitude to formulate arguments, and judges have considerable discretion to rule, that certain IT-related inventions are nothing more than abstract ideas. The results have been significant over the past year in terms of the number of IT-related patents invalidated based on *Alice*. Thus, while the prevalence, value and licensing of data and know-how are steadily increasing, the value of IT-related patents is, in general, decreasing due to the uncertainty created by the *Alice* decision.

b. Royalties after Patent Expiration

In general, parties to a license agreement have a large degree of freedom to define the commercial terms, such as royalty provisions. However, there are some limitations. One of those limitations relates to whether a licensor of a patent can demand royalties for sales occurring after the patent expires. The recent Supreme Court case of *Kimble v. Marvel Entertainment, LLC*⁶ revisited this issue.

In *Kimble*, the Supreme Court confirmed that royalty obligations based on the sale of a patented article after the patent has expired are unenforceable. The Court considered the licensor's various arguments that this rule, originally announced in a 1964 Supreme Court case, was unnecessarily restrictive and should be overruled.⁷ Ultimately, however, the Court noted that licensees and licensors had relied on this established precedent for many years, and the Court decided that the principle of *stare decisis* was controlling and the rule should be upheld.

After *Kimble v. Marvel*, it is important to continue the practice of terminating patent royalty obligations based on sales of the patented article occurring after expiration of the patent. However, licensors do have some flexibility in drafting royalty obligations if there is other intellectual property, such as trade secrets, being licensed together with patents. Under these circumstances, the licensor can attribute some portion of the royalty amount to the non-patent IP and draft the royalty obligation so that the royalty percentage decreases or “steps down” by a specified amount after the patent expires. This scenario was

² *Alice*, 134 S. Ct. at 2351.

³ See, e.g., *Association for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2116 (2013).

⁴ *Alice*, 134 S. Ct. at 2352.

⁵ *Alice*, 134 S. Ct. at 2355.

⁶ *Kimble v. Marvel Entertainment, LLC*, 576 U.S. ____ (2015).

⁷ See *Brulotte v. Thys Co.*, 379 U. S. 29 (1964).

acknowledged by the Supreme Court in *Kimble*.⁸ The ability to continue reduced royalty obligations after patent expiration, based on licensing of both patents and trade secrets, provides another potential advantage to licensors from licensing a combination of patent rights with data, technical information, and/or know-how.

c. Patent Exhaustion

The doctrine of patent exhaustion is another area of the law relating to IP licensing that has been developed and refined in a number of cases recently. Patent exhaustion refers to the principle that the sale of a patented product by the patent holder, or a sale authorized by the patent holder, "exhausts" the patent holder's rights with respect to the particular product that was sold. Hence, if the patent holder grants a license to a licensee, and the licensee sells a patented product under that license to a customer, neither the patent holder nor the licensee can sue the customer for using or reselling the purchased product.

In 2008, the Supreme Court's *Quanta Computer, Inc. v. LG Electronics, Inc.*⁹ decision articulated a relatively broad interpretation of the scope of patent exhaustion in a few important aspects. Specifically, the Court held that patent exhaustion can apply even though there is some variance between the product being sold and the scope of the patents that are exhausted. The Court also held that exhaustion applies to method claims as well as apparatus claims. Finally, the Court held that a license grant clause that authorized a particular sale exhausted the patent holder's rights, even though the agreement between the parties included certain restrictions on the sale that were essentially disregarded. Hence, after *Quanta*, the licensor should pay particular attention to the license grant clause to make sure that any restrictions are in the grant clause itself. In this way, if the licensee sells a product outside of the scope of the grant clause, the licensor will be in a position to argue that the sale was not authorized and therefore there was no patent exhaustion.¹⁰

Lower court decisions after *Quanta* have analyzed related aspects of patent exhaustion. For example, in *Transcore, LP v. Electronic Transaction Consultants Corp.*¹¹, the Federal Circuit held that a covenant not to sue was essentially equivalent to a nonexclusive license grant for the purposes of patent exhaustion. Therefore, patent rights can be exhausted with respect to products sold under a covenant not to sue. In *Lifescan Scotland, Ltd. v. Shasta Technologies, LLC*¹², the Federal Circuit decided that a transfer of an apparatus for no compensation, as opposed to a sale for money, can cause patent exhaustion. And in *Keurig, Inc. v. Sturm Foods, Inc.*¹³, the Federal Circuit held that exhaustion applies to the patent as a whole, rather than to individual claims in the patent. In each of these cases, the Federal Circuit incrementally broadened the scope of patent exhaustion to the detriment of the patent holder or licensor. These cases highlight the importance to the patent holder or licensor of carefully considering the potential scope of exhaustion of its patent rights resulting from different types of transactions.

⁸ *Kimble v. Marvel Entertainment, LLC*, 576 U.S. ____ at *6 (2015).

⁹ *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109 (2008).

¹⁰ See *Quanta*, 128 S. Ct. at 2115 ("The initial **authorized** sale of a patented item terminates all patent rights to that item.") (emphasis added).

¹¹ *Transcore, LP v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009).

¹² *Lifescan Scotland, Ltd. v. Shasta Technologies, LLC*, 734 F.3d 1361 (Fed. Cir. 2013).

¹³ *Keurig, Inc. v. Sturm Foods, Inc.*, 732 F.3d 1370 (Fed. Cir. 2013).

More recently, the Federal Circuit has articulated a new limitation on the scope of patent exhaustion. In particular, in *Helperich Patent Licensing, LLC v. New York Times Company et al.*¹⁴, the court introduced the concept of an “authorized acquirer,” *i.e.*, “those who acquire title to the article at issue from the patentee or from a licensee authorized to sell,” and “those who acquire possession and operational control, as by lease, from such a person.”¹⁵ The court held that patent exhaustion applies to authorized acquirers but not to other parties¹⁶, which may be seen as a departure from the conventional understanding that patent exhaustion relates only to the products being sold. Thus, in the *Helperich* case, the patent holder's previous license grants to one set of licensees (mobile phone manufacturers) did not exhaust the patent holder rights in a separate set of patent claims in a related, complementary field (content publishers) who were not authorized acquirers.

One other noteworthy case on patent exhaustion is *Lexmark International, Inc. v Impression Products, Inc.*¹⁷, which has been briefed and argued but not yet decided by the Federal Circuit. The exhaustion issue in the *Lexmark* case is whether a patent holder can impose post-sale restrictions on the use of an article through a restrictive label (also sometimes referred to as a “label license”) at the time of sale, or whether the sale exhausts the patent rights despite the restrictions in the label license. Although the Federal Circuit's 1992 *Mallinckrodt, Inc. v. Medipart, Inc.*¹⁸ decision upheld this type of restriction, some courts have opined that the Supreme Court's *Quanta v. LG* decision overruled *Mallinckrodt* sub silentio.¹⁹ Hence, the Federal Circuit's impending decision in *Lexmark v. Impression Products* should provide important guidance on whether label-type license restrictions are enforceable or conversely whether the patent rights are exhausted despite the label restrictions.

The patent exhaustion cases are important for patent licensors to keep in mind because they can result in loss of a potential revenue stream. Thus, if the license grant is drafted too broadly or different types of patent claims are all included in a single patent, sales by the patent holder's licensee in one field may exhaust the patent holder's rights in an adjacent, complementary field. On the other hand, by carefully restricting a license grant and filing separate patent applications in complementary fields, a licensor may be able to preserve its ability to benefit from multiple revenue streams (*e.g.*, mobile phone manufacturers and content publishers as in the *Helperich* case). (*end of excerpt.*)

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¹⁴ *Helperich Patent Licensing, LLC v. New York Times Company et al.*, 778 F.3d 1293 (Fed. Cir. 2015).

¹⁵ *See Helperich*, 778 F.3d at 1296, n.1.

¹⁶ *See Helperich*, 778 F.3d at 1301 (“Exhaustion protects an authorized acquirer's freedom from the legal restrictions imposed by the patent statute.”).

¹⁷ *Lexmark International, Inc. v Impression Products, Inc.*, Nos. 14-1617, 14-1619 (Fed. Cir. April 14, 2015) (Order for sua sponte hearing en banc; oral arguments conducted October 2, 2015).

¹⁸ *Mallinckrodt, Inc. v Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

¹⁹ *See Lexmark International, Inc. v. Ink Technologies Printer Supplies, LLC*, Civil Action No. 1:10-cv-564 (S.D. Ohio 27 March 2014).