

Licensing Update 2014

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Introduction

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- What we will cover
- What we *won't* cover
 - Cases that do not pertain directly to licensing
 - Trade secret and trademark cases
- Disclaimer

Remark LLC v. Adell Broadcasting (E.D. Mich. 2011)

- Owner of copyrighted TV commercial for radio station sued alleged infringer for copyright infringement and contract breach.
- **Issue:** Did settlement agreement redline proffered by Δ and accepted in email by Π but not manually signed by Δ bind Δ?
- **Holding:** Settlement agreement was binding by email exchange, notwithstanding lack of execution.
- **Practice Tip:** If parties still negotiating and reviewing, clarify that transmittal of redlines is not an offer subject to acceptance. Also, expressly state that contract is not effective until manually signed by applicable/both parties.

Remark LLC v. Adell Broadcasting (6th Cir. 2012)

- This is the 6th Circuit Opinion on appeal from E.D. Mich.
- **Issue:** Was settlement agreement redline proffered by Δ and accepted in email by Π but not manually signed by Δ binding?
- **Holding:** *YES, even though no execution and even though contract stated it was effective when signed by the parties.*
- **Practice Tips:** Consider clarifying all of the following in drafts and transmittals – draft is a draft; draft is not an offer and not subject to acceptance; draft is subject to further review by the party providing it; formal execution (by pen or electronic signature service) is a material term; counsel has no authority to make a binding offer or to accept an offer in the negotiation.

Remark – Key Takeaways

- Do not rely on document title, reference to later definitive agreement, or text that document is “non-binding” or “draft” as dispositive.
- Assess whether draft, standing alone, is sufficient, were the document adjudged binding, and draft accordingly.
- If you care whether document became binding in its current form, take time to clarify what the document is and is not.
- When you are exchanging non-final drafts, expressly reserve the right not to be bound.

CopyTele, Inc. v. E Ink Holdings, Inc., 2013 WL 3456737 (N.D. Cal. 2013)

- CopyTele sued E Ink for patent infringement. E Ink defended that CopyTele had assigned the patents to AU Optronics. CopyTele granted a AUO “an exclusive, worldwide license under the patents to use, make, have made, sell, offer to sell and import . . . the licensed product, and also to sublicense the . . . patents.” AUO, among other things, breached its best efforts [to jointly develop] obligation, and CopyTele sought to rescind.
- **Issue:** Does an assignee (or exclusive licensee) of patents have the ability to enforce the patents while seeking to rescind the assignment / license?

CopyTele, Inc. v. E Ink Holdings, Inc., 2013 WL 3456737 (N.D. Cal. 2013)

- **Holding:** No. The court also held that since this was a transfer the attempt to rescind would not affect the case unless and until the rescission was successfully completed.
- **Practice Tips:** If a grantor intends to retain rights in connection with a patent license, it should clearly spell out what substantive rights are retained. The grantor should also *restrict* the rights of the grantee, not just retain rights.
- Also, if a grantor wants to be sure that the grantee meets its obligations, it could condition the transfer on payment/actions/etc. or include an express termination provision.

Lavigny Holdings Ltd. v. Collier Int'l Partners V-A, LP, 2014 WL 67324 (N.Y. App. Div. 2014)

- **Background:** Lavigny entered into an agreement to purchase a patent portfolio from Collier. Lavigny, however, did not pay the purchase price. The agreement included termination language in the event that the purchase price was not paid by a certain date.
- **Issue:** Could the Lavigny prevail in a suit against Collier for selling to a third party after Lavigny entered into a purchase agreement but failing to pay the purchase price.

Lavigny Holdings Ltd. v. Collier Int'l Partners V-A, LP, 2014 WL 67324 (N.Y. App. Div. 2014)

- **Holding:** No. The agreement had specific language stating that agreement was void and of no force or effect if the purchase price was not paid by a certain date. According neither party could sue the other for breach, and Collier was free to sell to another party. The court noted that contract had the termination language and that Collier did not impede Lavigny from performing.
- **Practice Tip:** The court relied on the termination language, but it also stated in dicta that the consequential damages / lost profits waiver would have prevented recovery anyway, as the only recovery would have been “profit” since Lavigny did not pay anything

Beastie Boys, v. Monster Energy Co., 2013 WL 5902970
(S.D.N.Y. 2013)

- M used Z's remix of BB's music without any license from BB or any express license from Z.
- **Issue:** Does Z's oral statement that M could use his remix of BB's music amount to a license from BB to M to include the BB songs on a video produced by M? Was there a binding contract between M and Z?
- **Holding:** No. A reasonable company of M's means would not have entrusted complex licensing matters to persons with little formal education and skill. M's "belief" that it did not need anything more than Z's oral statement is not a defense to copyright infringement. Moreover, the brief oral exchange, plus the follow-up emails between M and Z, did not amount to a binding contract.

Beastie Boys, v. Monster Energy Co., 2013 WL 5902970
(S.D.N.Y. 2013)

▪ **Practice Tips:**

- Court had no patience for M having entrusted licensing to someone w/out even an undergraduate degree. If client wants to entrust a young marketing executive with no education to handle complex legal matters, it does so at its own risk – the rules of what’s “hip” in the 21st century do not change the law.
- There is a tendency these days to try to simplify drafting and transactions. This is good, in the abstract. But, there are limits. This case is a reminder to clients who would eschew all formal legal requirements in favor of too much simplification. Saying what must be said in fewer words is good. Not saying at all what must be said is bad, even in the Internet age.

JVC Kenwood Corp. v. ARCSoft, Inc., 2013 WL 4758187 (C.D. Cal. 2013)

- JVC sued Nero for indirect infringement of JVC's DVD patents. Nero makes software for writing data to and reading data from DVD and Blue-ray discs. Nero countered that since JVC had licensed its patents to various DVD and Blue-ray disc makers and to DVD and Blue-ray equipment makers, the patents were exhausted.
- **Issue:** Can DVD/Blu-ray read/write patents be exhausted by the sale of blank DVDs and Blue-ray discs?

JVC Kenwood Corp. v. ARCSoft, Inc., 2013 WL 4758187 (C.D. Cal. 2013)

- **Holding:** Yes. The authorized sale of DVDs and Blue-ray discs exhausted the read/write patents as the discs were *capable of use only in practicing the patents*. In other words, the discs could only be used for recording data onto them and for playing back that data once recorded. The manufacturers of the discs were licensed by JVC and there was no reasonable use of the discs other than practicing the JVC patents.
- **Practice Tips:** A licensor may want to get the licensee to acknowledge a secondary use of a patented article in order to avoid exhaustion based upon there being no reasonable use of the article other than practicing the subject patents.

Design Basics, LLC v. Chelsea Lumber Co., 2013 WL 5539609
(E.D. Mich. 2013)

- Licensor (DB) licensed architectural plans to licensee (CL) for resale and distribution to CL's customers. CL also had rights to modify. CL, after a time, continued to use DB's plans, but "forgot" to continue making payments.
- **Issue:** Do the limitations and restrictions in the DB-CL license create conditions, which would allow a copyright claim, or covenants, which would preclude a copyright claim?
- **Holding:** Notwithstanding the verbiage "subject to" in the license grant, this creates a covenant when the grant is "subject to" all terms of the Agreement, some of which were necessarily intended to be performed after the sale or sublicense of the plans and some of which do not obligate performance at all.

Design Basics, LLC v. Chelsea Lumber Co., 2013 WL 5539609
(E.D. Mich. 2013)

- **Practice Tips:**

- Use term “subject to [compliance with] the terms of this Agreement” at your peril. It is so broad that it may not be construed as creating a condition at all. If license is granted subject to certain terms, those terms should be specified.
- Opinion does not contemplate self-revoking grants or conditions subsequent; court finds that actions taking place after a sale do not create a condition. Draft carefully.
- Conditions should be specific. Consider “subject to”, “unless”, “provided that”, or – preferably – something that uses the word “condition”; if you mean to create condition subsequent, say so.
 - See also “Down with Provided That”, Michigan Bar Journal – July 2004

In re Porter, 498 B.R. 609 (E.D. La. 2013)

- PBS contracted with HSP, a band manager, for management services. Contract was silent w/r/t copyright. HSP mismanaged band, commingled funds, and PBS members ended up bankrupt.
- **Issue:** Did HSP infringe PBS copyrights under Anti-Bootlegging Statute when HSP created, distributed, and licensed recordings of PBS and the management contract contained no express license.
- **Holding:** No. PBS granted a non-exclusive license under totality of circumstances test, rejecting requirements of other circuits (L/ee requests creation of work, L/or creates and delivers, L/or intends that L/ee copy and distribute). Implied license may be a permission or lack of objection. L/ee under implied license could grant exclusive sublicense, but L/or is not bound. Non-exclusive license is revocable, however, if without consideration.

In re Porter, 498 B.R. 609 (E.D. La. 2013)

▪ Practice Tips:

- Be aware of broader test for implied license in 5th Cir. If you do not intend to grant any © license – express or implied – in an agreement subject to 5th Cir. law, consider expressly negating.
- Consider reciting consideration related to the license grant, if revocability is a concern. Consider also expressly stating that a license is “revocable” or “irrevocable”.
 - Note that Porter court found the license revocable for lack of consideration, notwithstanding that contract from which the implied license arose was supported by consideration.
- Consider additional warranties and additional diligence if your client is the recipient of an inbound exclusive license.

SRAM, LLC v. Hayes Bicycle Group, Inc., 2013 WL 5408666
(N.D. Ill. 2013)

- SRAM sued Answer Products, for patent infringement and Answer entered into a license (as licensee) and settlement agreement with SRAM. The settlement agreement included a no-challenge provision. Answer surrendered the settlement agreement and license to its lender when it defaulted on its loan. The lender sold and transferred the license to HB Bicycles, who later transferred the license and settlement to its sole member, Hayes. Hayes did not pay royalties to SRAM under the license. SRAM sued Hayes for infringement, and Hayes challenged the validity of the subject patent. SRAM countered that the Hayes was subject to the no-challenge provision.
- **Issue:** Do both the rights and obligations of a settlement agreement pass to multiple tiers of assignees?

SRAM, LLC v. Hayes Bicycle Group, Inc., 2013 WL 5408666
(N.D. Ill. 2013)

- **Holding:** Yes. In this case, each of the transfers fit within the exceptions to SRAM's consent requirements because substantially all of Answer's assets were transferred. If less than substantially all of Answer's assets had been transferred, the transfer of Answer's rights and the delegation of Answer's obligations would have been ineffective, for SRAM did not consent. The court held that notwithstanding the transfer from Answer, to the lender and then to Hayes, the negative covenant was still enforceable against Hayes.

SRAM, LLC v. Hayes Bicycle Group, Inc., 2013 WL 5408666
(N.D. Ill. 2013)

- **Practice Tips:** More of a due diligence issue than a licensing issue, but it is very important to look for adverse covenants before acquiring a license. This can occur with negative covenants as well as affirmative covenants. If an ongoing royalty is to be paid, the licensor may be willing to give up some of the covenants in exchange for the ongoing revenue stream, as opposed to the license being held by a bank that is not generating any royalties
- Also, if you are the beneficiary of the assignee's obligation (e.g., a no-challenge provision), it is important to make sure that the transfer was effective (grant consent if necessary).

Bean v. Pearson Educ., Inc., 2013 WL 2564106 (D. Ariz. 2013)

- P, a textbook publisher, contracted with B for photos to use in P's books. Although there were express P-B licenses for the photos, P exceeded license scope but claimed it had an implied license for out-of-scope use.
- **Issue:** Did B grant an implied license for photo use outside-of-scope of express license when B had never previously denied a request from P to broaden express license over 27 years?
- **Holding:** No. Parties had lengthy, highly structured relationship, precluding finding of implied license. There was no meeting of the minds w/r/t an implied right to use B's photos beyond the terms of the parties' express license.

Bean v. Pearson Educ., Inc., 2013 WL 2564106 (D. Ariz. 2013)

- **Practice Tips:**

- A prior course of performance that included licensor's regular, express agreement to broaden the license grant does not equate to an implied license to broaden the license grant without express agreement.
- Majority rule - “[A]n implied license is granted when (1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requestor copy and distribute his work.”

Kimble v. Marvel Enterprises, Inc., 727 F.3d 856 (9th Cir. 2013)

- Kimble held a a patent for a Spiderman web-blaster glove. Kimble and Marvel entered into an agreement for the glove, which transferred both patent and non-patent rights (hybrid license).
- **Issue:** Can Kimble continue to charge royalties after the expiration of the glove patent?
- **Holding:** No. However, certain charges could be made for the non-patent obligations. The ongoing charge would need to show a discount (or other evidence of the patent royalties ending) after expiration of the patent.
- **Practice Tips:** In order to survive the expiration of a patent, ongoing royalties should be broken out between patent and non-patent (and the patent royalties must end upon the expiration of the patent).

MDS (Canada) Inc v. Rad Source Technologies, Inc. 720 F.3d 833
(11th Cir. 2013)

- Update: We spoke about this case last year. The trial court based its decision on the exclusivity language referring to a field (narrow), rather than referring to the patents (broad). This allowed the grantor to develop new technology that was outside of the field, but perhaps, within the scope of the patents.
- **Issue:** Does “*embodies, in whole or in part, the Patents*” cover all practice of the patents or just a certain field/item?
- **Holding:** It covers all practice of the patents (**reversed**).
- **Practice Tips:** Clearly state whether an exclusive provision is based on the patents or the filed of use. In states where it is enforceable, consider a non-competition covenant if that is the intent.

Questions?

Thanks!