

Patent Licenses: Continuing Obligations during the License Period

A Lexis Practice Advisor® Practice Note by Michael J. Kasdan, Wiggin and Dana LLP



Michael J. Kasdan,
Wiggin and Dana LLP

Patent Marking

Under the Patent Act, a patentee is entitled to obtain past damages against an infringer who had not received actual notice of a patent only if the patentee has marked its products with appropriate patent information. 35 U.S.C. § 287(a). In order to comply with that provision, the licensor should consider requiring the licensee to mark the products sold under the license agreement. However, because this places a potentially onerous obligation on the licensee, a potential licensee may resist this overture.

In this connection, it should be noted that after the adoption of the America Invents Act, the patent owner and licensee may mark their products by establishing a website containing current “virtual marking” information. See 35 U.S.C. § 287(a). Accordingly, a licensee may choose to mark in this “virtual” manner, rather than by marking the packaging, product literature, or the product itself with the patent number(s). There has been very little caselaw regarding such virtual marking. In one reported case, *A to Z Machining Serv., LLC v. Nat’l Storm Shelter, LLC*, 2011 U.S. Dist. LEXIS 149387, *8-*9 (W.D. Okla. Dec. 29, 2011), the district court opined that marking via a website, but without any indication of “patent” or “pat.”, was insufficient

to provide the constructive notice necessary for proper marking. For more information regarding virtual marking, see the USPTO’s Report on Virtual Marking, submitted to Congress in 2014 (https://www.uspto.gov/sites/default/files/aia_implementation/VMreport.pdf).

Since the licensee may have a different view of the scope of the patent claims, and may be required to pay royalties on any product that it marks, a licensor should monitor and police the licensee’s compliance with a marking provision. Failure of the licensor to require and appropriately monitor compliance with patent marking by a licensee can lead to loss of all damages for past infringement. See *Arctic Cat Inc. v. Bombardier Rec. Prods.*, 950 F.3d 860 (Fed. Cir. 2020). Significantly, *Arctic Cat* held that mere cessation of unmarked sales does not cure failure to mark and that even willful infringement does not excuse compliance with the marking requirement.

In evaluating whether a patentee has complied with patent marking requirements, the Federal Circuit has generally applied a “rule of reason” approach. *Funai Electric Co. Ltd. v. Daewoo Electronics Corp.*, 616 F.3d 1357, 1375 (Fed. Cir. 2010). Perfect compliance is not necessarily required, but the patentee must establish that it instituted policies and procedures designed to ensure compliance by licensees. As a result, the patentee should consider the following steps:

- Licenses and sublicenses should require appropriate marking of patented products.
- The patentee should consider prescribing the manner of marking. For example, a licensee should not merely mark

packaging or literature when it is feasible to mark the product itself.

- All licenses and sublicenses should provide for audits and inspections of licensed products to verify marking.
- The patentee should conduct periodic audits of licensee and sublicensee marking practices to police compliance with the license agreement. Audits may be scheduled to coincide with scheduled royalty audits.
- The patentee should maintain detailed records of periodic audits and any resulting demands that licensees take corrective actions.

Patentees should note that under the rule of reason analysis, the number of products sold without proper marking is not conclusive of the issue of whether the patentee's marking was substantially consistent and continuous. The court also may consider whether the patentee made reasonable efforts to ensure compliance with the marking requirements.

Improvements and License/Grant Backs

During the term of a license agreement, a licensee may develop a patentable improvement to the licensed technology. A licensor may be concerned that the improved technology may have great commercial or competitive value, and want to avoid a situation where the licensor later must approach the licensee for authority to access the improvement, even though the improvement would not have been possible in the first place without the license. Many licenses include "grant back" provisions, which grant the licensor a non-exclusive right to practice such improvements.

Due to potential antitrust concerns, the grant back provision generally should not trigger an assignment of rights to the improvement or an exclusive license to the licensor, unless the *purpose* of the license is for the licensee to develop an improved product or technology for the licensor's benefit. For example, a typical Sponsored Research Agreement providing a research institution with a grant of funds and/or materials is generally designed to enable development and/or improvement of the technology. In such cases, a grant back provision is a logical protective measure for the sponsor, consistent with the purpose of the agreement. Conversely, in ordinary license agreements which provide for the licensee to use the technology, a grant back provision which deprives the licensee of the

right to use improvements, or requires them to negotiate a second license, may create a disincentive for investment in research and development, which in turn may have an anti-competitive effect on the relevant market.

A grant back provision should anticipate, to the extent possible, issues that are likely to arise later concerning technology developed by the licensee during the license term. For example, the parties should specify whether the grant back applies only to technologies that fall within the licensed patent, or whether the right only applies to improvements that are independently patentable. For example, if the licensee develops a product which includes copyrighted content or trade secrets, such as computer software, the parties should specify whether the licensor automatically obtains rights to practice those materials, and the limits of those rights.

Control of Intellectual Property

Exclusive licensees generally prefer to maintain control over the prosecution, assertion, and even defense of the intellectual property in the license. By virtue of the exclusive license, the licensee seeks to commercialize the technology, and is thus in the best position to craft a strategy for prosecuting pending patent applications to obtain claims covering the products, recognize competitors who may present the need for assertion of the patents in infringement litigation, and to defend against litigation related to the patents. License agreements may vest control of prosecution in the licensee, with the licensor retaining the right to review and comment, and may also provide for cost sharing among the parties. With respect to litigation, even when the exclusive licensee has essentially all the rights to the patents and is thus a proper party to an infringement lawsuit, license agreements frequently provide that the licensor as owner of the patents has the right to join such litigation as the party in interest.

Effect of Patent Invalidity on License Agreement

If a patent is ruled invalid during the term of a license agreement, the licensee is released from any obligation to pay additional royalties attributable to the patent. Many license agreements define a royalty-bearing sale as a sale of a product in a territory where a valid claim in an unexpired

patent covers the product. The licensee does not, however, have any claim to recover royalties paid to the licensor prior to the invalidity determination. *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 489 F.2d 968, 973 (6th Cir. 1973). If it were to have such a claim, a licensor would in effect be required to ensure the validity of the licensed patent, and any royalty payments received by the licensor would forever be subject to a potential refund claim.

Assistance provided by Christina Williams, Wiggin and Dana LLP

Michael J. Kasdan, Partner, Wiggin and Dana LLP

Michael J. Kasdan is a partner in the Intellectual Property Practice at Wiggin and Dana LLP. Michael has spent his career handling litigations, licensing matters, and transactional work, performing analyses and providing opinions, and advising companies on all aspects of intellectual property. Trained in electrical engineering and with a business background as a technology consultant, Michael works with a broad range of technologies, including consumer electronics, mobile devices, computer architecture, semiconductor chips, Internet and e-commerce, and medical devices.

In addition to his diverse experience as outside counsel, Michael has served as in-house patent counsel to Panasonic Corporation in Japan while working on secondment in Panasonic's licensing center. In that role, he acted as lead counsel in numerous third-party patent assertions and license negotiations, negotiated complex agreements, including portfolio cross-license agreements, and worked with the company to identify high value patents and strengthen their protection.

Michael also teaches as an adjunct professor at his alma mater, NYU School of Law, and has served as an adjunct professor at Seton Hall University School of Law, addressing topics such as patent and trade secret law, IP Licensing, global patent litigation, patent exhaustion, and inequitable conduct. He also frequently writes and speaks on a range of topics including IP litigation, patent monetization and licensing practices, strategic portfolio development, patent eligibility, patent exhaustion, willful infringement, patent misuse and standards estoppel, standards essential patents, damages and patent valuation, inequitable conduct, social media and privacy issues, and legal ethics.

This document from Lexis Practice Advisor®, a comprehensive practical guidance resource providing insight from leading practitioners, is reproduced with the permission of LexisNexis®. Lexis Practice Advisor includes coverage of the topics critical to practicing attorneys. For more information or to sign up for a free trial, visit [lexisnexis.com/practice-advisor](https://www.lexisnexis.com/practice-advisor). Reproduction of this material, in any form, is specifically prohibited without written consent from LexisNexis.