

Litigation-Related Clauses: Enforcement, Settlement and Dispute Resolution

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It is a truism of legal practice that license agreements are negotiated in the shadow of litigation. If a prospective licensee does not enter into a license agreement for an item of intellectual property (IP), then it is liable to suit for infringement. Every prospective licensor and licensee knows this from the moment that a negotiation begins, and the (sometimes not very) tacit threat of litigation underlies every license negotiation.

In many licensing agreements, matters relating to litigation are addressed explicitly. One frequent issue is which party is permitted, or required, to bring suit to enforce licensed IP against a third-party infringer. [Section 11.1](#) discusses the legal rules that govern an exclusive licensee's ability to bring suit against an infringer, and [Section 11.2](#) covers contractual provisions that allocate the responsibility for enforcing licensed IP rights against infringing third parties. [Sections 11.3–11.5](#) then turn to contractual mechanisms for resolving disputes between the parties themselves, including choice of law, forum and alternative dispute resolution mechanisms. [Section 11.7](#) concludes by discussing contractual clauses that are unique to the settlement of IP litigation between the parties.

11.1 LICENSEE STANDING AND JOINDER

When a licensee receives an exclusive license to exploit an item of IP in a particular field, the responsibility for maximizing the economic return from that right is placed on the licensee's shoulders. Under most of the compensation mechanisms discussed in [Chapter 8](#), the greater the revenue from exploitation of the licensed rights, the greater the licensee's profit. The licensor, who also benefits from the licensee's exploitation of the licensed rights, usually participates in these gains to a lesser degree (e.g., through a running royalty or milestone payments).

Given the financial stake that the licensee has in the licensed rights in an exclusive field, it is in the licensee's interest to ensure that no third parties are infringing the licensed rights and thereby

diverting revenue from the licensee's own efforts. But what can an exclusive licensee do if a third-party infringer emerges? Does a licensee have the right to sue an infringer under licensed IP?

As you may recall from civil procedure, this question is one of standing or *locus standi* – a doctrine established under the “case or controversy” clause of Article III of the US Constitution. Standing signifies a party's ability to participate in a legal action because it bears some relation to the action. Most importantly, standing depends on whether a prospective litigant can show that it has suffered a legally redressable injury in fact arising from the matter being litigated. The Federal Circuit has recognized that those who possess “exclusionary rights” in a patent suffer an injury when their rights are infringed, giving them standing to sue (*WiAV Sols. LLC v. Motorola, Inc.*, 631 F.3d 1257, 1264–65 (Fed. Cir. 2010)).

What, specifically, must a licensee demonstrate in order to establish standing to sue a third-party infringer? This question, it turns out, is complicated and varies depending on the type of IP involved.

11.1.1 Copyright Licensee Standing

Let's begin with copyrights. Below are relevant portions of the Copyright Act.

17 U.S.C. 501: Infringement of Copyright

(b) The legal or beneficial owner of an exclusive right under a copyright is entitled ... to institute an action for any infringement ... while he or she is the owner of it ... The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.

17 U.S.C. 101: Definitions

A “transfer of copyright ownership” is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

A common theme in standing cases (under copyright, as well as patent and trademark law) is whether a legal instrument purporting to “transfer” ownership of a right for standing purposes is actually a transfer. The Ninth Circuit focuses the issue in the following colorful anecdote:

Abraham Lincoln told a story about a lawyer who tried to establish that a calf had five legs by calling its tail a leg. But the calf had only four legs, Lincoln observed, because calling a tail a leg does not make it so. Before us is a case about a lawyer who tried to establish that a company owned a copyright by drafting a contract calling the company the copyright owner, even though the company lacked the rights associated with copyright ownership. Heeding Lincoln's wisdom, and the requirements of the Copyright Act, we conclude that merely calling someone a copyright owner does not make it so.

Righthaven LLC v. Hoehn, 716 F.3d 1166, 1167–68 (9th Cir. 2013)

The following case builds on the Ninth Circuit's reasoning in examining whether the *original* copyright holder has retained sufficient rights to be considered the owner for purposes of standing.

Fathers & Daughters Nevada, LLC v. Zhang

284 F. Supp. 3d 1160 (D. Or. 2018)

MICHAEL H. SIMON, DISTRICT JUDGE

Plaintiff Fathers & Daughters Nevada, LLC (“F&D”) brings this action against Defendant Lingfu Zhang. F&D alleges that Defendant copied and distributed F&D’s motion picture *Fathers & Daughters* through a public BitTorrent network in violation of F&D’s exclusive rights under the Copyright Act. Before the Court is Defendant’s motion for summary judgment. Defendant argues that F&D is not the legal or beneficial owner of the relevant exclusive rights under the Copyright Act and thus does not have standing to bring this lawsuit. For the following reasons, the Court grants Defendant’s motion.

Background**A. Sales Agency Agreement**

F&D is the author and registered the copyright for the screenplay and motion picture *Fathers & Daughters*. On December 20, 2013, with an effective date of April 1, 2013, F&D entered into a sales agency agreement with Goldenrod Holdings (“Goldenrod”) and its sub-sales agent Voltage Pictures, LLC (“Voltage”). Under this agreement, F&D authorized Goldenrod and Voltage as “Sales Agent” to license most of the exclusive rights of



FIGURE 11.1 The 2016 film *Fathers and Daughters* starring Russell Crowe and Amanda Seyfried was the subject of the copyright dispute in *Fathers & Daughters Nevada, LLC v. Zhang*.

Fathers & Daughters, including rights to license, rent, and display the motion picture in theaters, on television, in airplanes, on ships, in hotels and motels, through all forms of home video and on demand services, through cable and satellite services, and via wireless, the internet, or streaming. F&D reserved all other rights, including merchandising, novelization, print publishing, music publishing, soundtrack album, live performance, and video game rights.

F&D further authorized Goldenrod and Voltage to execute agreements in their own name with third parties for the “exploitation” of the exclusive rights of *Fathers & Daughters* and agreed that Goldenrod and Voltage had “the sole and exclusive right of all benefits and privileges of [F&D] in the Territory, including the exclusive right to collect (in Sales Agent’s own name or in the name of [F&D] ...), receive, and retain as Gross Receipts any and all royalties, benefits, and other proceeds derived from the ownership and/or the use, reuse, and exploitation of the Picture ...” The “Territory” is defined as the “universe.”

B. Distribution Agreement with Vertical

On October 2, 2015, Goldenrod entered into a distribution agreement with Vertical Entertainment, LLC (“Vertical”). Under this agreement, Goldenrod granted to Vertical a license in the motion picture *Fathers & Daughters* in the United States and its territories for the:

sole and exclusive right, license, and privilege ... under copyright, including all extensions and renewal terms of copyright, in any and all media, and in all versions, to exploit the Rights and the Picture, including, without limitation, to manufacture, reproduce, sell, rent, exhibit, broadcast, transmit, stream, download, license, sub-license, distribute, sub-distribute, advertise, market, promote, publicize and exploit the Rights and the Picture and all elements thereof and excerpts therefrom, by any and every means, methods, forms and processes or devices, now known or hereafter devised, in the following Rights only, under copyright and otherwise.

The “rights” enumerated include ... digital rights, meaning the exclusive right “in connection with any and all means of dissemination to members of the public via the internet, ‘World Wide Web’ or any other form of digital, wireless and/or Electronic Transmission ... including, without limitation, streaming, downloadable and/or other non-tangible delivery to fixed and mobile devices,” which includes “transmissions or downloads via IP protocol, computerized or computer-assisted media” and “all other technologies” ... The rights granted also include the right to assign, license, or sublicense any of these rights.

The distribution agreement also purports to retain to Goldenrod the right to pursue for damages, royalties, and costs actions against those unlawfully downloading and distributing *Fathers & Daughters* via the internet, including using peer-to-peer or BitTorrent software. This clause purports to retain “the right to pursue copyright infringers in relation to works created or derived from the rights licensed pursuant to this Agreement.” Shortly thereafter, however, Goldenrod and Vertical confirm and agree that “Internet and ClosedNet Rights (and all related types of transmissions) (e.g., Wireless/Mobile Rights) shall be included in the Rights licensed herein)” as long as Vertical uses commercially reasonable efforts to ensure security. Vertical was required to use commercially reasonable efforts to ensure that Vertical’s internet distribution and streaming could only be received within its contract territory, was made available over a closed network where the movie could be accessed by only authorized persons, and could only be accessed in a manner that prohibited circumvention of digital security or digital rights management security features. F&D does not

assert that Vertical breached this provision of the agreement or did not use commercially reasonable efforts to ensure digital security or its territorial limitations.

Discussion

F&D asserts that it is both the legal owner and the beneficial owner of the copyright to *Fathers & Daughters*, which would give F&D standing to bring this infringement suit against Defendant. F&D misstates the law of legal ownership of copyright exclusive rights and thus its argument that it is the legal owner of the exclusive rights at issue in this lawsuit is rejected. F&D also fails to present evidence that create a genuine dispute of material fact that F&D is the beneficial owner of the relevant exclusive right. Thus, that argument is similarly rejected. F&D also argues that based on a reservation of rights in the distribution agreement with Vertical and in a separate addendum to the agreements, F&D has standing. This argument also is without merit.

Standing as the Legal Owner

The legal owner of a copyright has standing. F&D argues that it is the legal owner because it registered the copyright and the copyright remains registered in its name. This simplistic view of ownership of a copyright misunderstands that copyright “ownership” can be transferred through an exclusive license (or otherwise), and can be transferred in pieces.

In the sales agency agreement, F&D authorized Goldenrod to license F&D’s exclusive rights in *Fathers & Daughters*. In the distribution agreement, Goldenrod granted to Vertical a license in many of the exclusive rights of *Fathers & Daughters* as enumerated under copyright law. The first question is whether F&D, through Goldenrod, granted Vertical an exclusive license, which is a transfer of ownership, or a nonexclusive license, which is not a transfer of ownership.

The agreement is clear that Vertical was granted an exclusive license for the rights that were transferred. It is true that not all rights were transferred to Vertical, but under the Copyright Act of 1976, a copyright owner need not transfer all rights. The copyright owner may also “subdivide his or her interest” in an exclusive right by transferring his or her share “in whole or in part” to someone else.

The critical inquiry is to consider whether the substance of the rights or portions of rights that were licensed were exclusive or nonexclusive. Vertical plainly received exclusive rights. Vertical received the exclusive right to “manufacture, reproduce, sell, rent, exhibit, broadcast, transmit, stream, download, license, sub-license, distribute, sub-distribute, advertise, market, promote, publicize and exploit the Rights and the Picture and all elements thereof and excerpts therefrom” in the United States and its territories for almost all distribution outlets, except airlines and ships. This constitutes an exclusive license.

An exclusive license serves to transfer “ownership” of a copyright during the term of the license. Thus, for the exclusive rights licensed to Vertical, Vertical is the “legal owner” for standing under the Copyright Act, and not F&D. F&D argues that because it did not license to Vertical all of its rights in *Fathers & Daughters*, including rights to display the movie on airlines and ships, rights to the movie clips, and rights to stock footage, F&D remains the legal owner of the copyright with standing to bring this infringement claim. F&D misunderstands Section 501(b) of the Copyright Act.

As Section 501(b) states, and the Ninth Circuit has made clear, after a copyright owner has fully transferred an exclusive right, it is the transferee who has standing to sue for that particular exclusive right. The copyright owner need not transfer all of his or her exclusive rights, and will still have standing to sue as the legal owner of the rights that were not

transferred. But the copyright owner no longer has standing to sue for the rights that have been transferred.

F&D also argues that because Paragraph 7(d) of the distribution agreement requires Vertical to use commercially reasonable efforts to ensure that its internet distribution and streaming were limited to the contract territory (the United States and its territories), were on a closed network, and were only accessible to networks prohibiting circumvention of digital rights management security and other digital security, this means that the contract reserved BitTorrent rights to Goldenrod. That is not, however, what Paragraph 7(d) provides. Paragraph 7(a) of the distribution agreement grants Vertical extremely broad rights, including comprehensive digital rights. Paragraph 7(b) grants Vertical the right to authorize others to the rights of *Fathers and Daughters*. Paragraph 7(c) reserves certain rights to Goldenrod, not relevant here. Finally, Paragraph 7(d) merely reaffirms that certain digital rights belong to Vertical and then applies commercially reasonable requirements to Vertical's exercise of those rights, primarily security terms. Paragraph 7(d) does not reserve any exclusive copyright digital rights to Goldenrod.

Under the Copyright Act, F&D is not the "legal owner" with standing to sue for infringement relating to the rights that were transferred to Vertical through its exclusive license granted in the distribution agreement. These rights include displaying or distributing copies of *Fathers & Daughters* in the United States and its territories. They further include displaying or distributing via the internet, using IP protocol, using computers, and using "all other technologies, both now or hereafter known or devised," which includes using BitTorrent protocol. In the distribution agreement Goldenrod (and therefore F&D) did not retain any fraction or portion of these digital rights. Because the infringement in this case relates to rights transferred to Vertical and there is no alleged infringement relating to display on airlines, display on ships, movie clips, stock footage, or any other rights that F&D retained, F&D does not have standing as the legal owner to bring the claims alleged.

Standing as the Beneficial Owner

A beneficial owner of a copyright may also have standing. F&D argues that it has standing as the beneficial owner of the copyright because it receives royalties for the licensing of the movie to Vertical. In support, F&D summarily asserts that the distribution agreement with Vertical states that F&D is entitled to "Licensor Net Receipts" from Vertical. The problem with this argument is that the "Licensor" in the distribution agreement is Goldenrod, not F&D. So it is Goldenrod who is entitled to those net receipts from the distribution agreement. F&D offers no argument or evidence of how the money Goldenrod receives from Vertical qualifies as royalties payable to F&D.

[T]he Court has reviewed the sales agency agreement to see if it elucidates how Goldenrod's receipts from Vertical might be payable as royalties to F&D. The sales agency agreement provides that Goldenrod may enter into license agreements and collect monies in its own name. Thus, Goldenrod may collect the monies from Vertical in Goldenrod's name. The sales agency agreement also provides, however, that monies obtained from licensing the movie shall be deemed "Gross Receipts." As described in the factual background section, the first eight steps in distributing Gross Receipts could not be considered royalties to F&D.

It is conceivable that in the final step, after the monies become "adjusted gross receipts," there may be some type of distribution that might be considered royalties to F&D. That entire section, however, is redacted in the copy provided to the Court. Thus, there is no way for the Court to know whether the adjusted gross receipts are divided in such a

manner that could be considered royalties to F&D. F&D did not provide the Court with an unredacted copy or any evidence showing how F&D can be deemed to be receiving royalties. The Court would have to engage in pure speculation as to how adjusted gross receipts are divided, and the Court will not do so. Accordingly, there is no evidence before the Court that F&D receives anything from the sales agency agreement that looks like royalties, let alone that F&D receives royalties from the distribution agreement with Vertical. F&D therefore fails to show a genuine dispute that it is the beneficial owner with respect to the exclusive rights licensed to Vertical.

Contractual Reservation of Right to Sue Clause

F&D also argues that because the distribution agreement between Goldenrod and Vertical contained a reservation of the right to sue for infringement via BitTorrent and other illegal downloading via the internet, F&D has standing to sue. This argument fails for two reasons. First, the reservation of rights was to Goldenrod and not to F&D. Thus, even if the clause could convey standing, it does not convey standing to F&D.

Second, the Ninth Circuit has repeatedly held that agreements and assignments cannot convey simply a right to sue, because a right to sue is not an exclusive right under the Copyright Act. If a party cannot transfer a simple right to sue, the Court finds that a party similarly cannot retain a simple right to sue. Just as Goldenrod (or F&D) could not assign or license to Vertical or anyone else no more than the right to sue for infringement, it cannot transfer the substantive Section 501(b) rights for display and distribution in the United States and its territories, including digital rights, but retain only the right to sue for one type of infringement of those transferred rights (illegal display and distribution over the internet).

Anti-Piracy Addendum

F&D also relies on an undated “Anti-Piracy and Rights Enforcement Reservation of Rights Addendum.” This document provides that “all peer-to-peer digital rights (BitTorrent, etc.) in the Picture, including international rights, are reserved to [F&D],” that F&D shall be authorized to issue Digital Millennium Copyright Act take down notices against any infringer, that F&D shall be authorized to “enforce copyrights against Internet infringers including those that use peer-to-peer technologies in violation of U.S. Copyright law,” and that there shall be no cost to Vertical with regards to these enforcement actions. This document does not provide F&D with standing for two reasons.

First, the Ninth Circuit instructs courts in considering copyright assignments and agreements to consider substance over form. From the context of this document, it is clear that the peer-to-peer and BitTorrent rights being reserved to F&D are infringing rights. The substance of this Addendum is to confer no more than the right to issue take down notices and sue for copyright infringement for infringing peer-to-peer use through illegal downloading via the internet. The rights to digital display and distribution, which are exclusive rights under the Copyright Act, remain with Vertical. Accordingly, these “reserved” rights are not exclusive rights under the Copyright Act and thus do not confer standing.

Second, F&D provides no evidence in the record that this document was executed before this lawsuit was filed. As discussed above, F&D did not have any digital rights in *Fathers & Daughters* in the United States and its territories and thus did not have standing. Even if this document could provide F&D with rights that would confer standing upon F&D, standing is considered at the time a lawsuit is filed. Although there are a few exceptions to this rule, as the Ninth Circuit noted in *Righthaven LLC v. Hoehn*, 716 F.3d 1166, 1171 (9th

Cir. 2013), “permitting standing based on a property interest acquired after filing is not one of them.” In *Righthaven*, the Ninth Circuit declined to decide whether a late contractual addendum to “clarify” copyright assignments “call[ed] for a new exception to the general rule.” Instead, the court found that the plaintiff lacked standing either way. Under existing Ninth Circuit precedent, there is no such additional exception to the general rule.

In his motion, Defendant expressly noted that the anti-piracy addendum was undated, produced near the end of discovery, and “upon information and belief” was created after this lawsuit was filed. Notably, no other agreement in the record is undated. Additionally, in April 2015, several months before the distribution agreement was executed in October 2015, an anti-piracy agreement that was signed and dated authorized Voltage to investigate and pursue infringers, not F&D.

In its response, F&D did not dispute that the undated anti-piracy addendum was created after this lawsuit was filed, or otherwise respond to Defendant’s standing argument relating to the untimeliness of this document. Nor did F&D provide any evidence as to the date this document was created. Therefore, the only reasonable inference is that this document was created after this lawsuit was filed. Accordingly, because the only reasonable inference supported by the evidence is that this document was created after the filing of this lawsuit, it is not appropriate to consider for purposes of standing.

Conclusion

Defendant’s Motion for Summary Judgment is GRANTED. Plaintiff’s claims are dismissed for lack of standing.

Notes and Questions

1. *The five-legged cow*. What lesson should be taken from the Ninth Circuit’s discussion of Abraham Lincoln’s five-legged cow in *Righthaven v. Hoehn*? How does it apply to *Fathers & Daughters Nevada*?
2. *Who should sue?* The facts of *Fathers & Daughters Nevada* reflect a fairly typical film deal: In exchange for ongoing payments, the producer of the film (F&D) exclusively licenses the distribution and commercialization rights to the film, including electronic distribution rights, to an agent (Vertical/Goldenrod). The facts recited by the court further suggest that Zhang is an internet pirate who illegally downloaded and distributed the film via the BitTorrent file-sharing system. Is there any debate regarding Zhang’s infringement? Why didn’t Vertical or Goldenrod sue Zhang?
3. *Legal versus beneficial ownership*. The court in *Fathers & Daughters Nevada* analyzes F&D’s standing to sue in terms of both legal ownership and beneficial ownership. What is the difference between these two concepts? Why should beneficial ownership, which does not include title, convey standing to a party?
4. *Retaining the right to sue*. In *Fathers & Daughters Nevada*, F&D produced an undated addendum that allegedly demonstrated that F&D retained the right to sue online infringers. Why do you think the parties executed this addendum? The court ruled that there was insufficient evidence to show that the addendum had been executed before suit was filed, thereby eliminating its evidentiary value. But what if the addendum had clearly been executed prior to F&D filing the suit? Would that have changed the court’s view? What other problem did the court find with the addendum?

5. *Copyright trolls. Righthaven LLC v. Hoehn*, 716 F.3d 1166, 1171 (9th Cir. 2013), raised the issue of standing to sue in the context of a “copyright assertion entity” (sometimes referred to as a copyright “troll”). The Ninth Circuit described Righthaven’s business model as follows:

Righthaven LLC was founded, according to its charter, to identify copyright infringements on behalf of third parties, receive “limited, revocable assignment[s]” of those copyrights, and then sue the infringers. Righthaven filed separate suits against defendants Hoehn and DiBiase for displaying copyrighted *Las Vegas Review–Journal* articles without authorization on different websites. Hoehn, who frequently commented in discussion boards at MadJackSports.com, had pasted an opinion piece about public pensions into one of his comments on the site. DiBiase, a former Assistant United States Attorney who maintained a blog about murder cases in which the victim’s body was never found, reproduced an article about one of these “no body” cases on his blog.

Righthaven was not the original owner of the copyrights in these articles. Stephens Media LLC, the company that owns the *Las Vegas Review–Journal*, held them at the time defendants posted the articles. After the alleged infringements occurred, but before Righthaven filed these suits, Stephens Media and Righthaven executed a copyright assignment agreement for each article. Each copyright assignment provided that, “subject to [Stephens Media’s] rights of reversion,” Stephens Media granted to Righthaven “all copyrights requisite to have Righthaven recognized as the copyright owner of the Work for purposes of Righthaven being able to claim ownership as well as the right to seek redress for past, present, and future infringements of the copyright ... in and to the Work.”

The court held that Righthaven lacked standing to sue, observing that,

Stephens Media retained “the unfettered and exclusive ability” to exploit the copyrights. Righthaven, on the other hand, had “no right or license” to exploit the work or participate in any royalties associated with the exploitation of the work. The contracts left Righthaven without any ability to reproduce the works, distribute them, or exploit any other exclusive right under the Copyright Act. Without any of those rights, Righthaven was left only with the bare right to sue, which is insufficient for standing under the Copyright Act.

Following this holding, how do you think that copyright trolls have adjusted the language of their agreements with copyright owners in order to overcome standing issues?

11.1.2 Patent Licensee Standing

Under Section 281 of the Patent Act, the right to bring an action for infringement is reserved to the patentee. The patentee includes both the original assignee of a patented invention from the inventor(s), as well as its successors in interest. It also includes each joint owner of a patent, as discussed in [Section 2.6.1](#).

Courts have interpreted the definition of “patentee” for purposes of standing as designating whichever entity holds “all substantial rights” to the patent. As the Federal Circuit explained in *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1359–60 (Fed. Cir. 2010),

[A] patent may not have multiple separate owners for purposes of determining standing to sue. Either the licensor did not transfer “all substantial rights” to the exclusive licensee, in which case the licensor remains the owner of the patent and retains the right to sue for infringement, or the licensor did transfer “all substantial rights” to the exclusive licensee, in which case the licensee becomes the owner of the patent for standing purposes and gains the right to sue on its own. In either case, the question is whether the license agreement transferred sufficient rights

to the exclusive licensee to make the licensee the owner of the patents in question. If so, the licensee may sue but the licensor may not. If not, the licensor may sue, but the licensee alone may not. When there is an exclusive license agreement, as opposed to a nonexclusive license agreement, but the exclusive license does not transfer enough rights to make the licensee the patent owner, either the licensee or the licensor may sue, but both of them generally must be joined as parties to the litigation.

We will discuss joinder in [Section 11.1.5](#). For now, we will focus on the requirement that in order for a licensee to have standing to sue, it must have an exclusive license, and that exclusive license must convey “all substantial rights” to the licensee.

Lone Star Silicon Innovations LLC v. Nanya Tech. Corp.

925 F.3d 1225 (Fed. Cir. 2019)

O'MALLEY, CIRCUIT JUDGE

Lone Star Silicon Innovations LLC (“Lone Star”) sued Appellees for infringing various patents. The district court concluded that Lone Star does not own these patents and therefore lacks the ability to assert them. We agree with the district court that Lone Star cannot assert these patents on its own.

I. Background

The asserted patents were originally assigned to AMD, which later executed an agreement purporting to transfer “all right, title and interest” in the patents to Lone Star. The transfer agreement, however, imposes several limits on Lone Star. For example, Lone Star agreed to only assert the covered patents against “Unlicensed Third Party Entit[ies]” specifically listed in the agreement. New entities can only be added if Lone Star and AMD both agree to add them. If Lone Star sues an unlisted entity, AMD has the right—without Lone Star’s approval—to sublicense the covered patents to the unlisted target. AMD can also prevent Lone Star from assigning the patents or allowing them to enter the public domain. AMD and its customers can also continue to practice the patents, and AMD shares in any revenue Lone Star generates from the patents through “monetization efforts.”

Lone Star sued Appellees, who are all listed as Unlicensed Third Party Entities in the transfer agreement, in successive infringement actions filed between October 2016 and December 2016. In each case, Lone Star alleged, among other things, that AMD transferred “all right, title, and interest” in the asserted patents to Lone Star.

The district court granted Appellees’ motions. As the district court correctly explained, we have recognized three categories of plaintiffs in patent infringement cases. First, a patentee, i.e., one with “all rights or all substantial rights” in a patent, can sue in its own name. Second, a licensee with “exclusionary rights” can sue along with the patentee. And, finally, a licensee who lacks exclusionary rights has no authority to assert a patent (even along with the patentee). The district court concluded that it only needed to address this first category “since Lone Star claims to be an ‘assignee’ and ‘sole owner’ of the patents-in-suit.”

In determining whether the agreement between AMD and Lone Star transferred “all substantial rights” to the asserted patents, the district court examined the rights transferred to Lone Star and those retained by AMD. The district court focused on three aspects of

the transfer agreement in particular: (1) AMD's ability to control how Lone Star asserts or transfers the patents, (2) Lone Star's inability to practice the patents, and (3) AMD's right to share in "monetization efforts." The district court then compared the balance of rights here to previous cases where we have said agreements did or did not transfer all substantial rights. Ultimately, the district court concluded that AMD did not transfer all substantial rights in the patents to Lone Star.

After it concluded that Lone Star could not sue in its own name, the district court dismissed the case. Lone Star timely appealed.

II. Discussion

Lone Star argues that it possesses all substantial rights in the asserted patents and therefore can assert them in its own name. Appellees argue that Lone Star does not possess all substantial rights and therefore lacks standing to bring suit ... We address these arguments below.

All Substantial Rights

Title 35 allows a "patentee" to bring a civil action for patent infringement. 35 U.S.C. § 281. The term patentee includes the original patentee (whether the inventor or original assignee) and "successors in title." 35 U.S.C. § 100(d). But it does not include mere licensees.

If the party asserting infringement is not the patent's original patentee, "the critical determination regarding a party's ability to sue in its own name is whether an agreement transferring patent rights to that party is, in effect, an assignment or a mere license." In distinguishing between "an assignment" and a "mere license," we "examine whether the agreement transferred all substantial rights to the patents." This inquiry depends on the substance of what was granted rather than formalities or magic words. For example, in previous cases we have reviewed how an agreement affected who could use, assert, license, or transfer the covered patents. We have also considered whether the transferor retained reversionary rights in or ongoing control over the patents. But our ultimate task is not to tally the number of rights retained against those transferred. Instead, we examine the "totality" of the agreement to determine whether a party other than the original patentee has established that it obtained all substantial rights in the patent.

Against this backdrop, Lone Star asserts two reasons why it believes it may sue in its own name. First, it argues that the transfer agreement was a complete assignment because a single provision in the agreement conveyed "all right, title and interest" in the patents to Lone Star. Second, Lone Star argues that, even if we look beyond this provision, the transfer agreement gave it all substantial rights in the patents, at least with respect to these alleged infringers. The district court rejected both arguments. We agree with the district court that, while Lone Star was given a number of rights in the transfer agreement, it was not given all substantial rights in the asserted patents.

1. "All Right, Title and Interest"

Lone Star argues that our analysis begins and ends with the transfer agreement's broad conveyance of "all right, title and interest" in the covered patents. But, as the district court correctly recognized, the rest of the agreement "substantially curtail[s] Lone Star's rights." To say that this amounts to an assignment because of the initial, broad grant ignores the total effect of the agreement.

Indeed, the Supreme Court cautioned ... in *Waterman* that “[w]hether a transfer of a particular right or interest under a patent is an assignment or a license does not depend upon the name by which it calls itself, but upon the legal effect of its provisions.” That is consistent with our analysis here.

2. The Totality of the Transfer Agreement

We turn next to whether the “totality” of the transfer agreement reflects a transfer of all substantial rights in the asserted patents to Lone Star. We conclude that it does not.

In considering this question, we have often focused on two salient rights: enforcement and alienation. For example, in *Intellectual Property Development, Inc. v. TCI Cablevision of California, Inc.*, 248 F.3d 1333 (Fed. Cir. 2001), we noted that the transferee could only bring suit, at least in some cases, with consent from the transferor. But, as we explained, “a transferee that receives all substantial patent rights from a transferor would never need consent from the transferor to file suit.” The transferor also retained the right to prevent the transferee from assigning the patents at issue without prior consent. Again, we explained, this sort of restriction on alienation “weigh[ed] in favor of finding a transfer of fewer than all substantial rights.” Taken together, these facts indicated that the transferor retained substantial rights in the patents. The extent of Lone Star’s ability to enforce and alienate the asserted patents is also instructive.

As to enforcement, Lone Star needs AMD’s consent to file suit against unlisted entities. For example, if Lone Star asserts the patents against a target that is not listed in the transfer agreement, then AMD can grant a sublicense and negate the lawsuit. AMD can also negate any effort to add new targets to the agreement. Lone Star’s enforcement rights are, thus, illusory, at least in part. Lone Star therefore does not possess the right to sue for “all infringement.” See *Sicom Sys., Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 979 (Fed. Cir. 2005) (concluding that the right to sue for commercial infringement, but not non-commercial infringement, signified that the transferee lacked “the exclusive right to sue for all infringement”). This suggests that Lone Star therefore lacks all substantial rights in the asserted patents. See *Diamond Coating*, 823 F.3d at 621 (agreeing with a district court’s conclusion that a transferee’s exclusionary rights were not “unfettered” because the transferor enumerated who it wanted the transferee to sue).

Lone Star emphasizes that it possesses the right to initiate lawsuits and the right to indulge infringement (by not initiating a lawsuit) at least as to unlicensed entities, which includes Appellees. It is true that we have treated the exclusive right to sue as significant. But, as explained above, it is AMD who decides whether Lone Star can challenge or indulge infringement with respect to unlisted targets. For example, if an unlisted entity begins practicing the patents, AMD—without Lone Star’s consent—can indulge that infringement by refusing to add that party to the list of approved targets. AMD could even withhold its consent conditional on payments from the unlisted target.

Lone Star insists that restrictions on suing unlisted targets are irrelevant here because Appellees are all Unlicensed Third Party Entities. But we rejected this same argument in *Sicom*:

We find unpersuasive *Sicom*’s response that it is not suing Appellees’ customers, nor suing for non-commercial infringement, and that this court should not consider risks that are outside the scope of the facts in this case. *Sicom*’s focus on the parties in suit is misplaced where this court has established that the intention of the parties to the Agreement and the

substance of what was granted are relevant factors in determining whether all substantial rights in a patent were conveyed.

Sicom, 427 F.3d at 979. The fact that the transfer agreement allows Lone Star to assert the patents against Appellees is important, but it is the effect of the agreement on the respective rights of the patentee and the transferee that controls. And the effect of this agreement is that AMD did not fully transfer the right to enforce its patents. The fact that AMD may have transferred some rights, with respect to certain unlisted entities, does not mean it transferred all substantial rights in the full scope of the patent.

As to alienation, the agreement restricts Lone Star's ability to transfer the asserted patents. In particular, Lone Star cannot transfer the patents to a buyer unless that buyer agrees to be bound by the same restrictions as Lone Star. Otherwise, AMD can withhold its required consent and halt the sale. While Lone Star argues that this restriction is insignificant because AMD cannot "unreasonably" withhold its consent, Lone Star concedes that it would be reasonable, indeed expected, for AMD to withhold consent if the prospective transferee refuses to be bound by the transfer agreement. Not only does this substantially restrict Lone Star's ability to transfer the patents, it ensures that AMD will always control how the patents are asserted. This is fundamentally inconsistent with a transfer of all substantial rights. Requiring Lone Star to assign the patents back to AMD, or an agent of its choice, before abandoning the patents has a similar effect.

In addition to these restrictions on enforcement and alienation, several other aspects of the agreement further support our conclusion. For example, the agreement secures a share of Lone Star's "monetization efforts" for AMD. And the agreement allows AMD and its affiliates to make, use, and sell products practicing the patents. While these facts may not be dispositive alone, together they suggest that AMD did not transfer all substantial rights in its patents to Lone Star.

Lone Star argues that the policy underpinning our "all substantial rights" test, the danger of multiple litigations against the same defendant by multiple plaintiffs, is not present here because AMD cannot sue Appellees. But we have also recognized a danger in allowing patentees to award a "hunting license" to third-parties. This additional policy concern lends support to our conclusion here.

In sum, we agree with the district court that AMD did not transfer all substantial rights in the asserted patents. Lone Star is therefore not the relevant patentee and cannot assert these patents in its own name under § 281.

Accordingly, we agree with the district court that Lone Star cannot bring suit in its own name because it does not possess all substantial rights in the asserted patents.

Notes and Questions

1. *Nonexclusive licensees*. The question of licensee standing only arises in the context of exclusive licensees. Why don't nonexclusive licensees ever get standing to sue third-party infringers? Aren't nonexclusive licensees also injured by infringing conduct in their respective fields?
2. *The question of exclusivity*. A licensee only has standing to sue an infringer if its license is exclusive. But what does "exclusive" mean in this context? *Rite-Hite Corp. v. Kelly Co. Inc.*, 56 F.3d 1538 (Fed. Cir. 1995) is best known for authorizing the recovery of certain "lost profits" damages under patent law. But *Rite-Hite* also addresses the issue of exclusivity for the

purposes of establishing standing for patent licensees. In that case, Rite-Hite, the manufacturer of a patented device for securing a trailer to a loading dock, distributed its products both through its own direct sales organization and through a group of independent sales organizations (ISOs), each granted an exclusive sales territory. The Rite-Hite direct sales organization accounted for approximately 30 percent of product sales, with the ISOs accounting for the remaining 70 percent. When Rite-Hite sued Kelley for patent infringement, the ISOs sought to join the lawsuit as co-plaintiffs. The Federal Circuit rejected the ISOs' claims, holding that their sales contracts were not exclusive patent licenses. It reasoned as follows:

[The contracts] did not mention the word "patent" until the eve of this lawsuit. The ISO contracts permitted the ISOs only to solicit and make sales of products made by Rite-Hite in a particular "exclusive" sales territory. While the agreements conveyed the right to sell [products] covered by the patent, any "exclusivity" related only to sales territories, not to patent rights. Even this sales exclusivity was conditional on Rite-Hite's judgment that the ISOs were doing an "adequate job."

Most particularly, the ISOs had no right under the agreements to exclude anyone from making, using, or selling the claimed invention. The ISOs could not exclude from their respective territories other ISOs, third parties, or even Rite-Hite itself. Any remedy an ISO might have had for violation of its rights would lie in a breach of contract action against Rite-Hite, if the agreement was breached, not in a patent infringement action against infringers. Rite-Hite had no obligation to file infringement suits at the request of an ISO and the ISOs had no right to share in any recovery from litigation. Moreover, appellees have not contended that such obligations and rights are to be implied. Nor do appellees even argue that the ISOs had the right under their contracts to bring suit for infringement against another ISO or a third party, making Rite-Hite an involuntary plaintiff. To the contrary, under their agreement, if an ISO sold in another's territory, the profits were shared according to Rite-Hite's "split commission" rules.

These agreements were simply sales contracts between Rite-Hite and its independent distributors. They did not transfer any proprietary interest in the '847 patent and they did not give the ISOs the right to sue. If the ISOs lack a remedy in this case, it is because their agreements with Rite-Hite failed to make provisions for the contingency that the granted sales exclusivity would not be maintained. The ISOs could have required Rite-Hite to sue infringers and arrangements could have been agreed upon concerning splitting any damage award. Apparently, this was not done.

How does the court's analysis in *Rite-Hite* compare to the more recent "all substantial rights" analysis under *Lone Star*? Which analytical framework is more likely to result in a finding of standing?

3. *The missing damages.* Judge Pauline Newman dissented from the court's decision in *Rite-Hite*. Among other things, she argued that by failing to recognize the ISOs' standing to sue, the majority allowed Kelley, the infringer, to avoid paying 70 percent of the damages it otherwise would have had to pay. That is, it should have paid damages attributable to the 70 percent of sales made by the ISOs either to the ISOs themselves or to Rite-Hite. Do you agree? Does the failure to grant standing to the ISOs represent a windfall to the infringer?
4. *Negotiating for fewer than all substantial rights.* In *Lone Star*, the court found that Lone Star lacked "all substantial rights" to the patent in question, even though the agreement purported to assign the patent to Lone Star. In particular, the court focused on a number of limitations on Lone Star's ability to exploit the patent rights to their fullest degree:

Lone Star agreed to only assert the covered patents against "Unlicensed Third Party Entit[ies]" specifically listed in the agreement. New entities can only be added if Lone Star and AMD both agree to add them. If Lone Star sues an unlisted entity, AMD has the right—without

Lone Star’s approval—to sublicense the covered patents to the unlisted target. AMD can also prevent Lone Star from assigning the patents or allowing them to enter the public domain. AMD and its customers can also continue to practice the patents, and AMD shares in any revenue Lone Star generates from the patents through “monetization efforts.”

Why do you think that the parties structured their agreement in this manner? What advantages would AMD obtain from appearing to assign a patent but retaining rights such as these?

5. *All of the substantial rights.* In *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1360–61 (Fed. Cir. 2010), the Federal Circuit listed a number of factors that it would consider when determining whether all substantial rights had been transferred to an exclusive licensee for standing purposes. These included:
 - transfer of the exclusive right to make, use, and sell products or services under the patent
 - the scope of the licensee’s right to sublicense,
 - the nature of license provisions regarding the reversion of rights to the licensor following breaches of the license agreement,
 - the right of the licensor to receive a portion of the recovery in infringement suits brought by the licensee,
 - the duration of the license rights granted to the licensee,
 - the ability of the licensor to supervise and control the licensee’s activities,
 - the obligation of the licensor to continue paying patent maintenance fees,
 - the nature of any limits on the licensee’s right to assign its interests in the patent, and
 - the nature and scope of the exclusive licensee’s purported right to bring suit, together with the nature and scope of any right to sue purportedly retained by the licensor.

Of these, however, the court states that the licensor’s right to sue accused infringers is the most important factor in determining whether an exclusive license transfers sufficient rights to render the licensee the owner of the patent. Why is this right so much more important than all the others? If none of the other factors listed above weighed in favor of a transfer of all substantial rights, but the licensor retained the right to sue infringers, what should a court conclude about the licensee’s standing to sue?

6. *More substantial rights.* Does the court in *Lone Star* add any new factors to the list started by the court in *Alfred E. Mann*? Create an updated, comprehensive list of factors that a court should consider when analyzing whether a patent licensee should have standing to enforce a licensed patent against an infringer.
7. *Standing and exclusive fields.* Should a patent licensee have standing to sue an infringer if it has an exclusive license that is limited to a specific field of use? See *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1342 (9th Cir. 2001) (holding that a licensee that is exclusive in a field does have standing to sue an infringer in that field).
8. *A troll with horns.* Lone Star Silicon Innovations, the plaintiff in *Lone Star*, is a patent assertion entity (PAE) controlled by Texas-based Longhorn IP. It “acquired” a portfolio of patents from AMD in 2016 and promptly filed several lawsuits against semiconductor manufacturers including Nanya and United Microelectronics. In fact, the rise of PAE litigation has sparked a resurgence of interest in licensee standing doctrines, and several recent cases analyze whether PAEs that acquire some, but not all, rights to patent portfolios have standing to sue.

The facts that the Federal Circuit recites, as well as those in the opinion that follows, shed light on PAE licensing practices. For example, when AMD divested its patents to Lone Star,

it specifically designated competitors that Lone Star was authorized to sue, while retaining the right to veto suits against other companies. What kinds of companies might AMD have wished to prevent Lone Star from suing?

11.1.3 Trademark Licensee Standing

If the rules that have been developed for patent licensee standing seem confusing, then those involving trademark law are even more so, as they vary even within different sections of the Lanham Act. The below case illustrates this problem.

Gruen Marketing Corp. v. Benrus Watch Company, Inc.

955 F. Supp. 979 (N.D. Ill. 1997)

HART, DISTRICT JUDGE

Gruen Marketing Corporation (“Gruen”) brings this action against defendants Benrus Watch Company, Inc. (“Benrus”), Hampden Watch Co., Inc. (“Hampden”), Irving Wein, Joseph Wein and Jim Herbert. [Defendants] move to dismiss Gruen’s complaint.

I. Alleged Factual Background

Gruen, a Delaware corporation, is in the business of merchandising various products, such as watches, to major retailers and others. Benrus, a Delaware corporation, also sells watches and is the registrant for the trademark BENRUS. Hampden, a U.S. Virgin Islands corporation, assembles and sells watches for Benrus. Irving Wein controls Hampden and his son, Joseph Wein is a shareholder and officer of Benrus. Jim Herbert is a former Benrus employee.

Until June 1995, Benrus had sold its watches both with and without the BENRUS trademark. The watches not bearing the BENRUS trademark were sold as either personalized watches or private label watches. Personalized watches are sold by retailers with custom changes to the watch dial. Private label watches bear trademarks or logos of third parties, such as retailers.

In June 1995, Gruen and Benrus entered into three agreements, a License Agreement, Purchase Agreement and a Letter Agreement, each relating to Benrus’ BENRUS line of watches. Pursuant to these agreements, Gruen acquired Benrus’ business in BENRUS watches, including a master customer list, inventory, components and raw materials, intellectual property and a sales force to carry on the business. The License Agreement granted an exclusive license to Gruen for all uses of the BENRUS mark worldwide, except in Japan. Under the License Agreement, Benrus was not permitted to use the BENRUS mark without the prior written consent of Gruen. In addition, defendants Joseph Wein and Jim Herbert became Gruen sales agents. Gruen has paid \$722,727.30 to Benrus under the License Agreement. Pursuant to the Purchase Agreement, Gruen paid \$4,360,000 for all of Benrus’ inventory, components and raw materials.

Despite its contractual obligations, Benrus did not discontinue using the BENRUS mark. Benrus and Irving Wein continued to use the BENRUS mark on Benrus letterhead and in other written materials. Benrus has sold watches bearing the BENRUS mark after the effective date of the License Agreement.

At a watch industry trade show in Hong Kong in September 1996, Joseph Wein stated to vendors and actual and potential customers of Gruen that Gruen was insolvent and unable to fulfill orders for BENRUS watches. Irving Wein has also made these representations, as well as stated that, in the future, Benrus will continue to sell BENRUS watches. In fact, Gruen is not insolvent and has substantial financial backing. Gruen's representatives have spent considerable time and effort to correct Irving and Joseph Wein's representations. In October 1996, Benrus diverted a shipment of watch cases from Gruen to itself. Benrus was able to accomplish the diversion by using information learned as a result of its position as licensor of the BENRUS mark.

Irving Wein and Jim Herbert are former Benrus employees who became Gruen sales agents after the execution of the agreements between Benrus and Gruen. Benrus owed one of its customers a credit for returned BENRUS watches sold prior to the execution of the agreements. Joseph Wein directed the customer to apply the credit against invoices for watches purchased from Gruen. Jim Herbert persuaded certain Gruen customers to purchase Benrus' private label watches, although Herbert was working for Gruen at the time.

On November 12, 1996, Gruen filed its seven-count complaint ...

II. Discussion

A. Count I: Trademark Infringement

In Count I, Gruen alleges that defendants are liable for trademark infringement because they used the BENRUS mark after the effective date of the License Agreement. Defendants argue that Gruen, as a licensee of Benrus, lacks standing to assert a claim under the Lanham Act. Gruen responds that it has standing because the License Agreement assigned, rather than merely licensed, the BENRUS trademark to Gruen.

Section 32 of the Lanham Act, 15 U.S.C. § 1114(1), grants standing to assert a claim for trademark infringement only to the "registrant" of the trademark. The term "registrant" includes the registrant and its "legal representatives, predecessors, successors and assigns." Several courts have held that a licensee has no right to sue a licensor under the Lanham Act, even where the licensee has been granted an exclusive right to use the trademark. Gruen, therefore, has standing to assert a trademark infringement claim only if the rights



FIGURE 11.2 A 1995 stainless steel Benrus "Men's Modern" watch issued to commemorate the fiftieth anniversary of D-Day.

granted to Gruen by the License Agreement amount to an assignment, as contemplated by the statute. An “assignment” of a mark is “an outright sale of all rights in that mark,” whereas a license is “a limited permit to another to use the mark.”

Benrus argues that the terms of the License Agreement demonstrate that Gruen is a licensee and not an assignee of the BENRUS mark. Benrus asserts that the License Agreement unequivocally reserved numerous rights in the BENRUS mark indicating that the BENRUS mark was not assigned to Gruen. For example, the License Agreement excludes Gruen from using the BENRUS mark in Japan and requires Gruen to obtain Benrus’ approval for certain uses of the mark, such as advertising. In addition, Benrus reserved the right to sell BENRUS-marked goods to Jan Bell Marketing, Inc. and to use the mark on certain products sold through catalogs and direct mailings. Gruen was required to obtain Benrus’ approval before assigning Gruen’s rights under the License Agreement. Finally, the License Agreement contained the following provision:

[Gruen] acknowledges that, as between [Gruen] and [Benrus], [Benrus] is the owner of all right, title and interest in and to the Licensed Mark in any form or embodiment thereof.

For its part, Gruen argues that it was assigned the BENRUS mark because “[n]otwithstanding the use of the term ‘license’ in an agreement, if a contract gives a party an exclusive license to use a trademark and otherwise discloses a purpose to transfer the rights in the trademark, the transfer is an assignment for purposes of the federal trademark laws.” Gruen asserts that this is the case since it received the exclusive right to exploit the BENRUS mark, the right to sue for infringement, and the executory right to secure permanent transfer of the mark to Gruen. Gruen argues that its agreements with Benrus were akin to a mortgage or installment sale where Gruen’s rights did not become final until future payment of funds.

Gruen’s argument, however, does not overcome the express language of the License Agreement that Benrus retained ownership of the BENRUS mark. A licensee lacks standing where the agreement indicates that the licensor retains exclusive ownership of the mark. Other provisions of the agreement also support the conclusion that Gruen received only a license to use the BENRUS mark. For example, the License Agreement provides that Benrus “grants an exclusive license” to Gruen. Gruen was obligated to make royalty payments to Benrus and failure to do so terminated the license. Benrus retained the power to assure that Gruen maintained the quality of the BENRUS mark, a requirement consistent with a trademark license but not an assignment. That the License Agreement contemplated that Gruen one day would have the right to acquire title in the BENRUS mark does not mean Gruen was assigned the mark from the outset of the parties’ relationship. Thus, title in the BENRUS mark did not pass to Gruen and Gruen does not have standing under 15 U.S.C. § 1114.

B. Count II: Section 43(a) of the Lanham Act¹

Benrus moves to dismiss Count II, Gruen’s Section 43(a) claim, on the same standing grounds as Gruen’s trademark infringement claim. Under Section 43(a), however, a

¹ Section 43(a) of the Lanham Act (15 U.S.C. § 1125(a)), the “false designation of origin” provision, prohibits the making of a false statement that “(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person’s goods, services, or commercial activities” (Ed.)

plaintiff need not be the owner of a registered trademark in order to have standing to sue. Although a few cases have treated standing under Section 43(a) as interchangeable with standing under 15 U.S.C. § 1114, the better rule is that a licensee may assert a Section 43(a) claim against its licensor and third parties. Section 43(a) states that a person who violates its prohibitions shall be liable in a civil action “by any person who believes that he or she is likely to be damaged” by a prohibited act. 15 U.S.C. § 1125(a). This language is broader than the language of 15 U.S.C. § 1114(1), which states that trademark infringers “shall be liable in a civil action by the registrant.” Consistent with the language of the statute, a plaintiff will be required to show “the proof of ownership of a proprietary right” or that it has “a reasonable interest to protect, which some courts have characterized as a commercial interest.” Because Gruen possesses a license to use the BENRUS mark, Gruen has standing under Section 43(a) to bring an action against Benrus and the other defendants.

Benrus contends, however, that even if Gruen has standing to raise a Section 43(a) claim, Gruen has failed to state a claim beyond a breach by Benrus of the License Agreement. Because this argument is not a jurisdictional challenge, the allegations of the complaint will be taken as true and all disputed facts will be resolved in favor of the plaintiff. In Count II, Gruen alleges that Benrus’ use of the BENRUS trademark constitutes false designation of origin and constitutes “passing off” of its watches as Gruen’s BENRUS watches. In order to prove a claim pursuant to Section 43(a), a plaintiff must show “(1) that its trademark may be protected and (2) that the relevant group of buyers is likely to confuse the alleged infringer’s products or services with those of plaintiff.”

Gruen’s right to relief hinges on its ability to enforce the exclusivity provision of the License Agreement. Gruen has not alleged anything beyond Benrus’ alleged breach of the License Agreement. As one court has noted in considering an exclusive licensee’s claim against its licensor ...

[T]his case is essentially a contract dispute between an exclusive licensee and a licensor over the right to use the trademark MEAT LOAF. Silverstar’s dispute should be determined by the principles of contract law, as it is the contract that defines the parties’ relationship and provides mechanisms to redress alleged breaches thereto. The Lanham Act, in contrast, establishes marketplace rules governing the conduct of parties not otherwise limited. This is not a case of either the licensee or licensor attempting to protect a trademark from unscrupulous use in the marketplace by third parties. Rather, this case involves the alleged breach of a license agreement.

[*Silverstar Enterprises, Inc. v. Aday*, 537 F. Supp. 236, 242 (S.D.N.Y. 1982)]. *Silverstar’s* reasoning applies in this case. Moreover, the principle that a contractual dispute concerning a license will not give rise to a federal cause of action has been recognized in this circuit. Contract law, not the Lanham Act, governs the parties’ dispute. Count II will be dismissed.

Notes and Questions

1. *Vive la différence*. Section 32 of the Lanham Act permits only the “registrant” of a trademark to bring a suit for infringement, while Section 43(a) allows “any person” who has been injured to bring a suit for false designation of goods. Is this difference justified? What would be the effect of expanding the scope of standing for trademark infringement, or narrowing the scope of standing for false designation claims?

2. *What about licensees?* Under both copyright and patent law, an exclusive licensee has standing to bring suit against an infringer. But the term “registrant” under Section 32 of the Lanham Act has not been interpreted to include licensees. Why not? Would you extend standing to exclusive trademark licensees?
3. *Breach of contract.* The court finds that Gruen does have standing to bring a false designation claim under Section 43(a) of the Lanham Act. Yet the court still dismisses Gruen’s Section 43(a) claim against Benrus. Why? How might you amend Gruen’s complaint to avoid this problem?

11.1.4 Trade Secret Licensee Standing

Because many trade secret cases are brought under state law, standing rules vary among the states. Nevertheless, it is generally understood that trade secret licensees, even nonexclusive licensees, have standing to bring claims for trade secret misappropriation.² This principle is embodied in the Uniform Trade Secrets Act (USTSA), which has been adopted in most states, as well as the federal Defend Trade Secrets Act.³ In fact, courts have even held that the mere lawful *possession* of a trade secret entitles the possessor to maintain a claim of trade secret misappropriation.⁴

The rationale for this departure from the standing rules for other forms of IP is not well articulated. One pair of practitioners suggests that “the harm suffered by a victim of trade secret misappropriation does not emanate solely from a violation of property rights, but also from a violation of confidence and fair and ethical business practices. Thus, anyone who possesses a trade secret, whether an exclusive licensee or not, can theoretically suffer harm via a violation of confidence.”⁵

11.1.5 Joinder

Further complicating the question of licensee standing is the procedural issue of joinder. As discussed above, a party must have *standing* in order to participate in a lawsuit. But for a suit to be maintained and heard by a court, all necessary parties must participate in that suit. Otherwise, the resolution reached by the court may not actually dispose of the matter and, if fewer than all required plaintiffs are not joined in the suit, the defendant may be subjected to multiple liability for the same wrong. For example, suppose that a copyright is jointly owned by three co-authors. One of them sues an infringer and the court renders a judgment against the infringer, who pays damages to the asserting co-author. Can the other two co-authors now bring suit separately against the infringer? If they are successful, the infringer could end up paying the same damages three times. But if they cannot bring suit, they are deprived of an important legal right. More importantly, what if the first co-author handled the suit poorly and failed to prove infringement? Does that finding have *res judicata* effect on the other co-authors?

To avoid these and many other difficult questions, the Federal Rules of Civil Procedure (FRCP) require that all necessary parties to a suit be joined in the suit. FRCP 20 addresses voluntary joinder (who *may* join a suit), while FRCP 19 address mandatory joinder (who *must* join in order for the suit to move forward).

² See Esha Bandyopadhyay & Alana Mannige, *What to Know about Licensee Standing in Trade Secret Cases*, Law360, June 16, 2020.

³ 18 U.S.C.S. § 1836; 18 U.S.C.S. § 1839

⁴ *Advanced Fluid Sys. v. Huber*, 958 F.3d 168 (3rd Cir. 2020), *DTM Research, L.L.C. v. AT & T Corp.*, 245 F.3d 327 (4th Cir. 2001).

⁵ Bandyopadhyay & Mannige, *supra* note 2.

JOINDER UNDER THE FEDERAL RULES OF CIVIL PROCEDURE

Rule 19: Required Joinder of Parties**(a) Persons Required to be Joined if Feasible.**

- (1) *Required Party.* A person who is subject to service of process and whose joinder will not deprive the court of subject-matter jurisdiction must be joined as a party if:
 - (A) in that person's absence, the court cannot accord complete relief among existing parties; or
 - (B) that person claims an interest relating to the subject of the action and is so situated that disposing of the action in the person's absence may:
 - (i) as a practical matter impair or impede the person's ability to protect the interest; or
 - (ii) leave an existing party subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations because of the interest.
- (2) *Joinder by Court Order.* If a person has not been joined as required, the court must order that the person be made a party. A person who refuses to join as a plaintiff may be made either a defendant or, in a proper case, an involuntary plaintiff.

(b) When Joinder Is Not Feasible. If a person who is required to be joined if feasible cannot be joined, the court must determine whether, in equity and good conscience, the action should proceed among the existing parties or should be dismissed. The factors for the court to consider include:

- (1) the extent to which a judgment rendered in the person's absence might prejudice that person or the existing parties;
- (2) the extent to which any prejudice could be lessened or avoided by:
 - (A) protective provisions in the judgment;
 - (B) shaping the relief; or
 - (C) other measures;
- (3) whether a judgment rendered in the person's absence would be adequate; and
- (4) whether the plaintiff would have an adequate remedy if the action were dismissed for nonjoinder.

In patent cases, courts have generally held that all co-owners of a patent must join in a suit for the suit to proceed.⁶ But what if a co-owner, for any of a number of reasons, is not willing to join a suit to enforce a co-owned patent? Can it be compelled to join pursuant to FRCP 19? In *STC.UNM v. Intel Corp.*, 767 F.3d 1351 (Fed. Cir. 2014), the Federal Circuit said no, holding that

the right of a patent co-owner to impede an infringement suit brought by another co-owner is a substantive right that trumps the procedural rule for involuntary joinder under Rule 19(a).

In *STC.UNM*, the fact that Sandia National Laboratory, the co-owner of the asserted patent, refused to join an infringement suit brought against Intel by *STC.UNM* (the licensing arm of

⁶ See *Ethicon, Inc. v. United States Surgical Corp.*, 135 F.3d 1456, 1468 (Fed. Cir. 1998) ("An action for infringement must join as plaintiffs all co-owners").

the University of New Mexico) led the district court to dismiss the suit for failure to join all necessary parties. In affirming the district court's decision, the Federal Circuit recognized the hardship caused to STC.UNM, the co-owner who asserted the patent:

This court is, of course, conscious of the equities at play in this case. Unless STC can secure Sandia's voluntary joinder ... STC cannot enforce the '998 patent in court. STC is certainly still free to enjoy all the rights a co-owner enjoys, such as commercializing or exploiting the '998 patent through licensing without consent of the other co-owners. Admittedly, a license demand may have less bite if STC cannot sue potential licensees if they refuse (and if Sandia would not voluntarily join the suit). However, this limit on a co-owner's right to enforce a patent is one effect of the reality that each co-owner is "at the mercy" of its other co-owners.

Importantly, this limit protects, *inter alia*, a co-owner's right to not be thrust into costly litigation where its patent is subject to potential invalidation. Furthermore, the rule requiring in general the participation of all co-owners safeguards against the possibility that each co-owner would subject an accused infringer to a different infringement suit on the same patent. Both concerns underpin this court's joinder requirement for patent owners.

Despite this unfortunate result for STC.UNM, the Federal Circuit did recognize two exceptions to the rule against using FRCP 19 to compel a patent co-owner to join a suit to enforce the patent:

First, when any patent owner has granted an exclusive license, he stands in a relationship of trust to his licensee and can be involuntarily joined as a plaintiff in the licensee's infringement suit; second, if, by agreement, a co-owner waives his right to refuse to join suit, his co-owners may subsequently force him to join in a suit against infringers. [citations omitted]

Thus, unlike a co-owner of a patent, an exclusive licensee can require its licensor to join a suit as a necessary party under Rule 19. This "exception" to the rule against compelling joinder of co-owners of patents arose before the adoption of the FRCP. In *Independent Wireless Telegraph Co v. Radio Corp of America*, 269 US 459 (1926), the Supreme Court recognized that licensees cannot generally bring suit in their own name, but also concluded that an exclusive licensee should be able to join the patent owner, involuntarily if need be, to maintain suit. Otherwise, the licensee possesses a right without a remedy. Joinder "secur[es] justice to the exclusive licensee." It also honors "the obligation the [patent] owner is under to allow the use of his name and title to protect all lawful exclusive licensees and sublicensees against infringers." The joinder rule outlined in *Independent Wireless* was eventually incorporated into FRCP 19, and is generally viewed as applying both to exclusive licensees of patents and copyrights.

If a party whose joinder is required by FRCP 19(a) cannot be feasibly joined, part (b) allows a court to consider whether the case should proceed anyway or be dismissed because that party is indispensable. In *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1222 (Fed. Cir. 2010), the Federal Circuit held that dismissal was appropriate because the absent patent owner, who could not be joined because it had not waived sovereign immunity, "was not only a necessary party but also an indispensable party."

Notes and Questions

1. *Rationales for refusal.* A patent holder stands to collect damages and eliminate a potential competitor by enforcing its patent in court. What reasons might the co-owner of a patent have for declining to join a suit to enforce its co-owned patent?

2. *Licensees are special.* As discussed by the Federal Circuit in *STC.UNM*, while a co-owner of a patent cannot utilize Rule 19 to require the joinder of another co-owner in an infringement suit, an exclusive licensee can. Why does a licensee have the ability to drag its licensor into litigation against its will when the co-owner of a patent does not?
3. *Joinder of whom?* Suppose a patent is jointly owned by two parties. One of the co-owners grants an exclusive license to a licensee. The licensee wishes to sue a third party for infringement. Under the rule articulated in *STC.UNM*, the licensee may involuntarily join the licensor under FRCP 19. But what about the other co-owner? The exception stated by the court in *STC.UNM* only relates to the licensor. But without the joinder of both co-owners, the suit may not be able to proceed. Should an exclusive licensee be able to involuntarily join its licensor's co-owners?
4. *Joinder as a remedy for lack of standing.* In *Lone Star* (discussed in [Section 11.1.2](#)), the district court found, and the Federal Circuit affirmed, that because *Lone Star* lacked "all substantial rights" in the asserted patent, it lacked standing to bring suit. However, the Federal Circuit also held that "the district court should not have dismissed this case without considering whether Advanced Micro Devices, Inc. ('AMD'), the relevant patentee, should have been joined." The Federal Circuit further explained,

If AMD is the patentee, as the district court correctly concluded, then AMD's joinder would ordinarily be "required." And since *Lone Star* agreed that AMD should be joined, assuming it retained substantial rights in the asserted patents, *Lone Star* essentially conceded that AMD is a necessary party. The district court therefore should have considered whether AMD's joinder was feasible. If so, then AMD must be joined—involuntarily if need be. If not, then the district court should consider whether AMD is indispensable. Rather than engaging in this analysis, however, the district court declined to join AMD ... But the application of Rule 19 is mandatory, not discretionary.

What could be the result if AMD did not wish to be joined in the suit? Given the context discussed in Note 8 of [Section 11.1.2](#), how likely do you think it is that AMD would join *Lone Star*'s suit?

5. *Joinder and copyright.* Section 501(b) of the Copyright Act provides that when a joint owner of a copyright brings an action to enforce its copyright against an infringer,

the court may require such owner to serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.

Unfortunately, the Act is not clear about when a court that "may" require notice to or joinder of co-owners should do so. Is the standard for joinder the same as it is under FRCP 19? Should it be? Should the Patent Act be amended to be more consistent with the Copyright Act in this regard? When might a court be justified in *not* exercising its discretion to order such co-owner notice or joinder in a copyright infringement suit?

6. *International complications.* As you have doubtless concluded by now, the rules regarding licensee standing to sue are convoluted, inconsistent and difficult to reconcile. Yet imagine the added complexity when the laws of multiple countries are involved. As described by Professor Jacques de Werra,

A review of case law shows that local courts take very different factors into account when they assess whether a license is exclusive and whether an exclusive licensee has the right to sue. Under certain legal systems, courts can admit exclusivity despite the fact that the IP owner retains certain rights. Similarly, certain courts have deemed a patent license to be exclusive even though other licenses had previously been granted to third parties, i.e. before the license agreement at issue was executed. Other courts, however, have rejected such a conclusion. For certain courts, a short contractual term of an exclusive license constitutes a reason to refuse the licensee a right to sue, while other courts consider this factor to be irrelevant. This could mean that, based on the same license agreement, which would provide for a relatively short term, the licensee could be permitted to sue in one country but be refused standing to sue in another country. The question whether a licensee can grant sublicenses can also be relevant for the courts' determinations as to whether or not a licensee has the right to sue third-party infringers.⁷

Given all this, how would you advise a client seeking to exploit its IP rights around the world, yet wishing to retain the right to enforce its IP?

11.2 AGREEMENTS TO ENFORCE

In [Section 11.1](#) we considered when an exclusive licensee of an IP right has legal standing to bring suit to enforce that IP right, and when the IP owner must be joined in that suit in order for it to proceed. In this section we shift to a related question: How is the responsibility for pursuing infringers of a licensed IP right contractually allocated among a licensor and its exclusive licensee?

As discussed in [Section 7.2.3](#), a licensor has no implied obligation to pursue infringers in an exclusive licensee's field. Thus, if a licensee wishes to require the licensor to pursue infringers, or to pursue infringers itself (with the consent and joinder of the licensor), these obligations must be specified in the agreement. As noted by the Federal Circuit in *Ethicon v. United States Surgical Corp.*, 135 F.3d 1456, 1465 (Fed. Cir. 1998), "A patent license agreement that binds the inventor to participate in subsequent litigation is very common."

EXAMPLE: ENFORCEMENT AGAINST THIRD-PARTY INFRINGERS

1. **Notification of Third Party Infringement.** When information comes to the attention of Licensor or Licensee to the effect that any of the Licensed Rights in the Field have been or are threatened to be infringed by a third party ("Third Party Infringement"), such party shall notify the other party in writing of such Third Party Infringement.
2. **Enforcement by Licensor.** Licensor shall have the initial right, but not the obligation, to take any action to stop such Third Party Infringement [1] and Licensee shall, at Licensor's expense, cooperate with Licensor in any such action.
3. **Enforcement by Licensee.** In the event that Licensor takes no action to stop such infringement within ninety (90) days of receipt of notice from Licensee, Licensee shall have the right to commence an action against the alleged infringer, at its own expense and in its own name [2].

⁷ Jacques de Werra, *Can Exclusive Licensees Sue for Infringement of Licensed IP Rights? A Case Study Confirming the Need to Create Global IP Licensing Rules*, 30 Harv. J. L. & Tech. 189, 195–96 (2017).

3. **Control of Litigation.** The party that initiates suit hereunder with respect to a Third Party Infringement (the “Litigating Party”) shall have sole control of that proceeding and the exclusive right to employ counsel of its own selection and to direct and control the litigation. The Non-Litigating Party shall have, at its own expense, the right to participate in such action through counsel of its own selection.
4. **Settlement.** The Litigating Party shall have the sole right to settle any litigation brought hereunder, provided that if such Litigating Party is the Licensor and it desires to settle such litigation by granting a third party a license in the exclusive field of the Licensee, the Licensor shall first give the Licensee written notice of the terms of the proposed settlement, and the Licensee shall have the right to approve or reject such proposed settlement in its reasonable discretion. The failure of the Licensee to respond to such notice of settlement within ten (10) business days shall automatically constitute an approval of the terms of the proposed settlement by the Licensee.
5. **Allocation of Recoveries.** Any recovery, whether by way of settlement or judgment, from a Third Party pursuant to a legal proceeding initiated in accordance with this Section shall first be used to reimburse the Litigating Party for its actual fees, costs and expenses incurred in connection with such proceeding. The balance of such recovery shall be divided in the ratio of [__% to Licensor/Litigating Party and __% to Licensee/Non-Litigating Party] [3].
6. **Cooperation; Joinder.** The Non-Litigating Party shall cooperate fully with and supply all assistance reasonably requested by the Litigating Party in connection with any action brought hereunder, including without limitation, joining the proceeding as a party if requested [4].

DRAFTING NOTES

- [1] *First right to sue* – this clause gives the licensor the first right to sue a third-party infringer, but does not require the licensor to sue. Clauses with a strict requirement to sue are rare.
- [2] *Licensee’s right to sue* – the above example gives the exclusive licensee the second right to sue a third-party infringer if the licensor declines to exercise its right to sue. Not all licensing agreements give the licensee the right to sue if the licensor declines to do so. Not giving this right to the licensee effectively places full control over the right to sue in the hands of the licensor, which might be appropriate if the licensee’s exclusivity is only in one narrow field or if the licensor has extensive business arrangements that it does not wish a licensee to disrupt through litigation.
- [3] *Split of recoveries* – if the licensor/licensee are successful in pursuing a claim of infringement against a third party and thereby receive a monetary award, they must decide how to split that award after the litigating party is reimbursed for its costs of litigation. There are many theories regarding the appropriate split of these proceeds. At one extreme, the party that litigated the claim may wish to retain all of the proceeds, given the risk it incurred in bringing the litigation. The parties may also determine a fixed formula for splitting proceeds, such as 50 percent to each party, or 75 percent to the litigating party and 25 percent to the other. Or the parties may treat such litigation proceeds as “net

sales” subject to whatever royalty obligation otherwise exists under the agreement (e.g., if the licensee pays a 10 percent royalty to the licensor, then the licensor would receive 10 percent of the litigation recovery and the licensee would retain the remaining 90 percent). Of course, in the case of an infringement, the licensee has incurred no costs of manufacturing or distributing the products triggering the payment, so permitting it to retain all but the original royalty percentage may overcompensate the licensee. Some agreements are drafted more vaguely, providing that the proceeds be divided “in proportion to the loss incurred by each party,” which introduces its own evidentiary burdens. In reality, such a clause will likely require the parties to agree on a split of proceeds as part of their discussion of which of them will initiate litigation against the third-party infringer.

- [4] *Agreement to join* – as discussed in [Section 11.1.4](#), the IP owner or exclusive licensee may be required to join an infringement suit in order for the suit to proceed. Yet there are circumstances under which a party may be reluctant to join such a suit voluntarily, and the court may lack the jurisdiction to compel such party to join under FRCP 19. This provision contractually obligates a party to join a suit initiated by the other party when necessary to maintain the suit. The parties should consider carefully whether there are any exceptions to this mandatory joinder requirement that they wish to reflect in the agreement (e.g., a university may not wish to be required to sue one of its major donors).

Ryan Data Exch., Ltd. v. Graco, Inc.

913 F.3d 726 (8th Cir. 2019)

BEAM, CIRCUIT JUDGE

On September 13, 2005, [Ryan Data Exchange (Rydex)] and Graco entered into a Settlement and License Agreement (Agreement) in which Rydex granted Graco a patent license. In the instant action, the parties litigated three provisions of the Agreement at trial: (1) the provision wherein Rydex granted Graco an exclusive license to make, have made, use, and sell articles covered by the patent (§ 3.0); (2) the Agreement’s provision that if a third party were to infringe the patent, Rydex would have the initial choice and obligation to prosecute the infringement (§ 11);⁸ and (3) a provision stating that Graco would pay Rydex royalties of 5% of the net selling price of its product using the patent (§ 4.1).

Relevant to the instant litigation, in 2011, years after the parties entered into the Agreement, Rydex initiated a lawsuit alleging patent infringement against Badger Meter, Inc., Balcrank Corp., and Lincoln Industrial Corp. (collectively, Badger). The district court found, and the trial evidence revealed, a unique set of circumstances regarding Badger’s

⁸ Section 11 of the Agreement reads: “Should there be patent infringement relating to the licensed field of use by a third party and Licensee notifies Licensors of such infringement, Licensors shall have the initial choice and obligation to prosecute the infringement. If Licensors do not prosecute the infringement within ninety [*5] (90) days of learning of the infringement, then Licensee is free to prosecute the infringement. If Licensee prosecutes the patent infringement ... the benefit of the damages or settlement achieved from the infringement shall be divided equally between Licensors on one hand and Licensee on the other after enforcement expenses incurred by Licensee have been paid” (2016 U.S. Dist. LEXIS 189569, at *4–5 (S.D. Ia. 2016)). “The Agreement also states that if in a separate action with a third party a court finds that a product equivalent to the Matrix system does not infringe the ‘180 Patent, ‘all obligations under this Agreement will terminate’” (*Id.* at *5–6).

infringement, in that at the time Rydex and Graco entered into the 2005 Agreement, both parties were aware that Badger was allegedly already infringing the patent, and yet the Agreement purported to give Graco an exclusive right to the patent. In 2012 Rydex and Badger filed a stipulation of dismissal and agreed that Rydex's claims and Badger's counterclaims in the matter would be dismissed with prejudice.⁹ This dismissal between Rydex and Badger is the source of Graco's claim against Rydex for failure to prosecute infringement under the Agreement.

Graco stopped paying royalties to Rydex as of December 31, 2013, as Graco believed that Rydex had breached the Agreement's exclusivity provision and the patent infringement prosecution provision (§§ 3 and 11) by allowing Badger to continue its infringement and by failing to fully prosecute the infringement claim against Badger. In May 2014, Rydex filed the instant complaint alleging breach of contract and patent infringement by Graco. Graco countersued, also alleging breach of contract and seeking declaratory judgments that the patent was invalid and that Rydex had lost its right to receive royalty payments under the Agreement due to its alleged breaches.

A jury trial was held in November 2016 on all of the contract claims then pending. During trial Graco moved pursuant to Rule 50(a) for judgment as a matter of law at the close of Rydex's case-in-chief, claiming in part that it had established through cross-examination that Rydex had breached its duty under the Agreement to prosecute the Badger litigation, and that Rydex had breached the exclusivity provision of the Agreement. In ruling on Graco's motions from the bench, the district court held as a matter of law that Rydex had breached its duty to prosecute infringement as of the date of the dismissal of the Badger litigation in 2012, and that Rydex was in breach of the exclusivity provision of the Agreement from the date of the dismissal of the Badger litigation until the expiration of the patent on March 10, 2015. Accordingly, the court granted Graco's Rule 50 motion to that extent. There was no ruling by the court as to whether Rydex breached the Agreement by failing to provide Graco an exclusive license from the date the parties entered into the Agreement in 2005 until the dismissal of the Badger litigation in 2012.

The parties discussed throughout, and after trial, how to "package" this case for the jury in light of the court's Rule 50 rulings. Accordingly, the case was presented to the jury for very particular determinations with a verdict form consisting of five narrow questions for the jury. Instruction 7, titled "Elements of Breach of Contract," stated the elements required to prove a breach of contract under Iowa law, and also instructed the jury regarding the district court's prior grant of judgment as a matter of law in favor of Graco:

Regarding the Rydex Parties' breach of contract claim, it is for you to decide whether Graco breached the License Agreement by failing to pay royalties to the Rydex Parties for the period ending December 31, 2013, through the date of the expiration of the '180 patent on March 10, 2015.

⁹ The district court opinion in the case below offers additional insight as to why Rydex dismissed its infringement suit against Badger: "The Badger Defendants asserted defenses of invalidity and non-infringement concerning the '180 Patent and filed a counterclaim for declaratory judgment of invalidity and non-infringement. Rydex knew there was a risk that the Badger Litigation would end with a finding of non-infringement or that the '180 Patent was invalid, and that either would relieve Graco from royalty payments. Thereafter, Rydex did virtually nothing to prosecute the Badger Litigation: among other things, it did not serve any document requests, requests for admission, or interrogatories; it did not depose any defendant or third parties; it did not bring a motion for an injunction; and it did not attend a preliminary scheduling conference set by the court. Instead, Rydex and the defendants requested that the district court adjourn the scheduling conference so the parties could discuss settlement" (2016 U.S. Dist. LEXIS 189569 at *6-7 (S.D. Ia. 2016)).

Regarding Graco's breach of contract claim, the Court has found as a matter of law that the Rydex Parties were not required to commence an infringement action prior to the filing of the Badger Litigation. The Court has also found as a matter of law that the Rydex Parties were in breach of the duty to prosecute infringement as of the date of the dismissal of the Badger Litigation on August 15, 2012. The Court has further found as a matter of law that the Rydex Parties were in breach of the exclusivity provision of the License Agreement from the date of the dismissal of the Badger Litigation on August 15, 2012, until the expiration of the '180 patent on March 10, 2015. You must accept these facts as having been proved. It is for you to decide whether the Rydex Parties were in breach of the exclusivity provision of the License Agreement from the date the parties entered into that license agreement on September 13, 2005, through the dismissal of the Badger Litigation on August 15, 2012.

Upon deliberation, the jury found, first, that Rydex proved at trial that Graco breached the Agreement by failing to pay royalties to Rydex from December 31, 2013, through the date of the expiration of the patent on March 10, 2015; and awarded Rydex \$313,000 in damages. Next, in response to the query regarding the amount of damages due Graco as a result of Rydex's breaches already determined by the court as a matter of law and laid out for the jury in Instruction 7 (i.e., its breach of duty to prosecute infringement and the breach of the exclusivity provision of the Agreement at the time of the Badger litigation dismissal), the jury answered "\$0.00." As to the question to the jury as to whether Graco proved that Rydex breached the Agreement by failing to provide Graco an exclusive license from the date the parties entered into the Agreement on September 13, 2005, until the dismissal of the Badger litigation on August 15, 2012, the jury answered "no."

Notes and Questions

1. *Declining the first right to sue.* Under what circumstances might a licensor legitimately not wish to bring suit against an alleged infringer? In these circumstances, should the licensor retain the right to veto any suit by the licensee?
2. *Contract versus standing.* Suppose that a licensing agreement gives the licensor the right to sue infringers, but is silent as to the licensee's right. Should the licensee be permitted to sue if it otherwise has standing? What if the licensing agreement expressly prohibits the licensee from bringing suit? Should this contractual prohibition be disregarded if the licensee otherwise has standing?
3. *Consent to settlement.* In clause 4 of the example, the licensee is given the right to consent to a settlement proposed by the licensor, but the reverse is not true (i.e., the licensee may settle litigation without the licensor's consent). Why?
4. *Remedies.* What is the appropriate remedy when a party breaches its contractual obligation to join a lawsuit brought by the other party? A court cannot generally compel a party over which it lacks jurisdiction to join a lawsuit; can a party be compelled by contract to join a suit? What amount of monetary damages? Why do you think the jury in *Ryan Data* awarded Graco \$0.00 with respect to Rydex's failure to enforce the licensed patent after 2012?
5. *Timing of enforcement.* Why do you think the jury in *Ryan Data* found that Rydex had not breached its contractual obligation to enforce the patent against Badger from 2005 through 2011? Would the result have been different if Graco had asserted this breach in 2010 instead of 2014? Why did the court hold, as a matter of law, that Rydex breached this obligation from 2012 through 2015?

Problem 11.1

Draft an enforcement clause that reflects the perspective and likely requirements of each of the following clients:

- a. A small US liberal arts college that has exclusively licensed a set of educational videos to a large online learning company for distribution via the Internet.
- b. A United States-based manufacturer of decorative license plates that has exclusively licensed a well-known brand from an Italian luxury goods maker in the US market.
- c. A large US aircraft manufacturer that has exclusively licensed a system for onboard entertainment from a German software company.

11.3 CONTRACTUAL CHOICE OF LAW

It is not unlikely that disagreements over the terms of licensing agreements and disputes over compliance with those terms will arise, and parties are well-advised to plan in advance how they would like to resolve those disagreements. There are several types of contractual clauses that are used in this regard – those that specify which jurisdiction’s substantive laws will govern an agreement (Choice of Law), those that specify which court(s) are designated to resolve disputes (Choice of Forum or Venue, discussed in [Section 11.4](#)), and those that establish alternative dispute resolution procedures (discussed in [Section 11.5](#)).

The interpretation and enforcement of every contract is conducted through the medium of a particular jurisdiction’s laws. The meanings of terms such as “best efforts,” “prompt response” and “reasonable notice” may differ substantially from one state to another, not to mention from one country to another. Some jurisdictions may impose implicit duties of good faith and fair dealing that color the parties’ actions, and others may permit parties to rely entirely on the four corners of their contract. Some jurisdictions have more stringent data protection, personal privacy and risk disclosure rules than others, all of which could affect a party’s liability for inadequate performance. And, as discussed in [Section 3.3.3](#), Virginia and Maryland are the only two states that have enacted the Uniform Computer Information Transactions Act (UCITA), which could have a material effect on some licensing transactions. Thus, the particular body of legal rules governing the performance and interpretation of an agreement may have a substantive impact on the parties’ duties and liability.

In addition to these substantive concerns, parties may wish to select a particular jurisdiction’s laws in order to ensure consistency of interpretation across disputes concerning the same contract. For example, a multiparty international license agreement could be enforced in any of the countries in which a party is based or where the agreement is performed, and could be interpreted quite differently depending on the law governing the agreement. For the sake of consistency and stability, it is advisable to have all disputes arising under a single agreement or set of agreements governed by the same set of laws.

Along the same lines, it is useful to operate under the laws of a jurisdiction in which the courts have considered the issues that are likely to arise under the agreement in question. For example, the courts of Southern California have probably considered far more agreements relating to film production than the courts of, say, North Dakota. The body of case law in a particular area makes it more likely that binding precedent will exist to guide the parties’ planning and behavior. This observation applies even in areas that are principally governed by federal law, such as patents, copyrights and trademarks, as the relevant federal district courts hearing such cases will necessarily draw upon local contract law in order to guide their resolution of nonfederal issues.

Finally, and perhaps most importantly, attorneys drafting, negotiating and interpreting agreements generally derive a degree of comfort from knowing that an agreement will be governed by a set of laws with which they are familiar. In some cases, this desire for familiarity is more than just a matter of comfort. The bar overseers of certain US states, particularly California, have taken a strict view of out-of-state attorneys providing advice regarding contracts governed by California law, an activity that could constitute the unauthorized practice of law.¹⁰

For all of these reasons, it behooves parties to select the body of substantive law¹¹ that will govern the interpretation of their agreement and any disputes arising out of it. And, in fact, most parties to substantial agreements today attempt to do so.¹²

EXAMPLE: GOVERNING LAW

This Agreement and its interpretation, and all disputes between the parties arising in any manner hereunder, shall be governed by and construed in accordance with the internal laws of [STATE/COUNTRY] [1] [without giving effect to any choice or conflict of law provision or rule (whether of [STATE/COUNTRY] or any other jurisdiction) that would cause the application of laws of any jurisdictions other than those of [STATE/COUNTRY]] [2].

The Parties hereby unconditionally waive their respective rights to a jury trial of any claim or cause of action arising directly or indirectly out of, related to, or in any way connected with the performance or breach of this Agreement, and/or the relationship that is being established among them [3].

DRAFTING NOTES

- [1] *Which state(s)?* – the typical governing law clause specifies the laws of a single state or other jurisdiction, but it is also possible to choose the laws of multiple jurisdictions to govern different aspects of a complex transaction.¹³
- [2] *Excluding conflicts principles* – suppose that a contract specifies that it will be governed by the laws of State X, but because the parties have no contacts with State X, and the performance of the contract does not affect State X, the conflicts of laws rules of State X may hold that the laws of State X should not apply to the contract. This clause seeks to avoid that outcome by overriding the conflicts rules of State X and providing that the

¹⁰ See *In Re Garcia*, 335 B.R. 717 (9th Cir. BAP 2005) (“Preparation of legal documents ... are regarded as legal services. It is well settled in California that “practicing law” means more than just appearing in court ... Under California law, the practice of law includes the preparation of legal instruments and contracts by which legal rights are secured, whether the matter is pending in court or not” (citations omitted)).

¹¹ In contrast to substantive law, it is more difficult to select a set of procedural rules to govern a particular contract. Procedure is typically applied by the courts of a jurisdiction in a mandatory fashion that is difficult to alter by contract.

¹² John F. Coyle, *A Short History of the Choice-of-Law Clause*, 91 U. Colo. L. Rev. 1147, 1181 (2020) (citing studies finding that 70–75 percent of agreements filed with the US Securities and Exchange Commission contained choice of law clauses).

¹³ See Henry E. Smith, *Modularity in Contracts: Boilerplate and Information Flow*, 104 Mich. L. Rev. 1175, 1192–93 (2006) (discussing selection of multiple state/national laws in governing law clauses).

laws of State X will apply, even if the laws of State X themselves would not apply State X's laws to the agreement. As you can imagine, the courts of many jurisdictions will not enforce such an override clause.⁴⁴ Nevertheless, attorneys often include it in their agreements.

- [3] *Waiver of jury trial* – in the United States (alone among nations), jury trials are still guaranteed under the Seventh Amendment of the Constitution in all civil cases. This clause, which sometimes appears in a standalone section of an agreement, is a voluntary waiver of the parties' right to a trial by jury. It is generally considered to be enforceable. Waiving this right may or may not be advisable. Juries often sympathize with injured parties (including IP holders), and sometimes award astronomical damages in IP cases. Thus, an IP holder may be better off with a jury trial than a bench trial, in which factual matters, including monetary damages, are decided by a judge.

11.3.1 *Jurisdictional Requirements for Domestic (US) Choice of Law*

For the reasons set forth above, the parties to an agreement may find it advantageous to choose the set of laws under which their agreement will be governed. But parties do not have unlimited discretion in this regard. Within the United States, the law governing an agreement must bear some relationship to the parties or the subject matter of the agreement. As explained by § 187(2) of the *Restatement (Second) of Conflict of Laws* (1971),

The law of the state chosen by the parties to govern their contractual rights and duties will be applied, even if the particular issue is one which the parties could not have resolved by an explicit provision in their agreement directed to that issue, unless either

- (a) the chosen state has no substantial relationship to the parties or the transaction and there is no other reasonable basis for the parties' choice, or
- (b) application of the law of the chosen state would be contrary to a fundamental policy of a state which has a materially greater interest than the chosen state in the determination of the particular issue and which ... would be the state of the applicable law in the absence of an effective choice of law by the parties.

Thus, it is unlikely that a contractual choice of Utah law would be enforced with respect to an agreement between a Massachusetts-based licensor and a Texas-based manufacturer for the distribution of products in Kansas.

Notwithstanding this general rule, beginning in the 1980s a number of states enacted statutory provisions expressly permitting contracting parties to select their laws, notwithstanding the lack of any connection to the state. As Professor John Coyle explains,

In 1984, for example, New York enacted [N.Y. Gen. Oblig. L. § 5-1401(1)] directing its courts to enforce choice-of-law clauses selecting New York law in commercial contracts for more than \$250,000 even when the parties and the transaction lacked a "reasonable relation" to New York. The legislature was transparent about its motivation in passing this law—it hoped to divert legal business to New York and away from other jurisdictions, thereby generating more business for New York lawyers. The practical effect of this statute was to encourage companies with no other connection to New York to select that state's law to govern their agreements, without any concern that the choice-of-law clause would be in-validated for the lack of any "substantial relationship" to New York.

⁴⁴ See Michael Gruson, *Governing Law Clauses Excluding Principles of Conflict of Laws*, 37 Int'l Lawyer 1023 (2003).

In the years that followed, a number of other states followed New York in requiring their courts to enforce choice-of-law clauses selecting their law even where the transaction lacked a substantial relationship to the state ...

A statute enacted by North Carolina in 2017 goes even further. This statute stipulates that a choice-of-law clause selecting North Carolina law in a business contract is enforceable even when the parties and the transaction lack a “reasonable relation” to the state. The statute then goes on to provide that the same result should be obtained even when the contract contained a provision that was “contrary to the fundamental policy of the jurisdiction whose law would apply in the absence of the parties’ choice of North Carolina law.” The end result is a legal regime in which the North Carolina courts will apply that state’s law to any business contract selecting the law of North Carolina, even when the transaction lacks a reasonable relation to the state and even when its law is contrary to a fundamental policy of a jurisdiction with a closer connection to the dispute.¹⁵

Despite the efforts of other states, New York law is by far the most popular choice of law in domestic commercial contracts due to the perceived sophistication of its courts, the enormous body of New York precedent in many areas of commercial law and the familiarity of many commercial practitioners with New York law.¹⁶ Delaware runs a respectable but distant second.

11.3.2 International Choice of Law

Choice of law clauses are even more popular in international agreements than domestic agreements, with one recent study finding that 99 percent of international supply agreements filed with the US Securities and Exchange Commission contained choice of law clauses.¹⁷ At the international level one influential convention expresses the fundamental principal governing international choice of law as “freedom of choice,” a concept that is borrowed from the European Union.¹⁸



FIGURE 11.3 According to its website, the North Carolina Coalition for Global Competitiveness “wants people all around the world to recognize and know North Carolina as a great place to invest, work, study, visit, partner, and live.”

¹⁵ Coyle, *supra* note 12, at 1179–80 (footnotes and citations omitted). Delaware has also recently enacted a choice of law statute, permitting the contractual choice of Delaware law in contracts involving more than \$100,000 (6 DE Code § 2708 (2016)).

¹⁶ See Geoffrey P. Miller & Theodore Eisenberg, *The Market for Contracts*, 30 *Cardozo L. Rev.* 2073 (2009).

¹⁷ John F. Coyle & Christopher R. Drahozal, *An Empirical Study of Dispute Resolution Clauses in International Supply Contracts*, 52 *Vand. J. Transnat'l L.* 323 (2019).

¹⁸ See Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (Rome I), Ch. II, Art. 3 (Freedom of Choice).

Hague Conference on Private International Law

Principles on Choice of Law in International Commercial Contracts (2015)

Article 2

Freedom of Choice

1. A contract is governed by the law chosen by the parties.
2. The parties may choose –
 - (a) the law applicable to the whole contract or to only part of it; and
 - (b) different laws for different parts of the contract.
3. The choice may be made or modified at any time. A choice or modification made after the contract has been concluded shall not prejudice its formal validity or the rights of third parties.
4. No connection is required between the law chosen and the parties or their transaction.

Given this freedom, which laws should parties choose to govern their international contracts? One recent study of more than 4,400 international contracts finds that the most popular choices of governing law are English¹⁹ and Swiss law, followed by US (generally New York²⁰), French and German law.²¹

In Asia, Western firms often gravitate to the laws of Singapore, given its British common law heritage and the prevalence of English. Hong Kong was once the preferred choice of law in Asia, especially in the financial sector, but its gradual absorption by the People's Republic of China, along with recent political unrest, has caused it to decline in popularity. Due to their proximity to the Asia Pacific region, their English language usage and their common law heritage, Australia and New Zealand have become increasingly attractive legal systems for the resolution of disputes between North American and Asian parties.

WHEN MEETING IN THE MIDDLE SPELLS TROUBLE

Negotiation experts often encourage attorneys to “meet in the middle” when confronted by seemingly intractable issues. Choice of law is often one of those issues: Each party wants its own law to govern. As a result, parties negotiating choice of law clauses sometimes try to compromise in a way that, to the naïve observer, seems fair and equitable, but in reality is an invitation to disaster.

¹⁹ It is a common mistake to refer to these laws as the laws of the “United Kingdom” because the United Kingdom also includes Scotland, which has its own parliament, statutes and common law corpus of cases. Thus, it is preferable to avoid “UK” law and choose instead the laws of “England and Wales,” which are the most familiar to international practitioners.

²⁰ In addition to the reasons noted above, New York is a popular choice for international contracts due to the ability of foreign attorneys to be admitted to practice in New York.

²¹ Gilles Cuniberti, *The International Market for Contracts: The Most Attractive Contract Laws*, 34 *Nw. J. Int'l L. & Bus.* 455 (2014).

Consider a licensing agreement between a Canadian university and a Japanese manufacturer. The university would strongly prefer that the agreement be governed by Canadian law, while the manufacturer would strongly prefer Japanese law. Rather than flipping a coin, the parties could try to be clever: If one party initiates litigation over the agreement, choose the law of the other party. Thus, if the university initiates a lawsuit, Japanese law will apply, and if the manufacturer initiates a lawsuit, Canadian law will apply. Voila! Not only is the result fair, but it also deters litigation, as the aggressor must deal with the law of the non-aggressor party. This Solomonic solution is actually embodied in many international agreements, but when a dispute arises it often leads to trouble.

What is wrong with this compromise? A lot! First, it provides no baseline governing law before litigation is initiated. If a party wants to assess the scope of its obligations and remedies under the agreement, it must consider both sets of laws, and a party will not know whether to plan its actions based on one set of laws or the other. Second, it is often unclear what happens if each party initiates litigation in a different jurisdiction, as often happens. Will a different set of laws govern the agreement in each proceeding? That makes little sense. Third, once a court hands down an interpretation of the agreement under one set of laws, will that interpretation be valid if the agreement is later interpreted under the other set of laws? Thus, while choosing the non-aggressor's law seems like a fair and reasonable compromise, it generally results in more conflict and uncertainty than it solves.

So, what are parties to do when they cannot agree that one or other's laws should govern their agreement? They can always choose the laws of a neutral third jurisdiction, subject to the constraints mentioned in the text. Or, if that fails, they can flip a coin.

Note: While adopting a non-aggressor choice of law provision can be inadvisable, this approach is not unreasonable when it comes to selecting a forum for litigation (see [Section 11.4](#)).

11.3.3 *International Contractual Conventions*

Responding to concerns about jurisdictional differences in the treatment of commercial issues, the United Nations Commission on International Trade Law drafted an international treaty known as the United Nations Convention on Contracts for the International Sale of Goods (UNCISG), which was first adopted in 1980. Today, there are ninety-four signatories to the Convention, including the United States and most other industrialized nations other than Iran, South Africa, Great Britain and Ireland.²² Unless the parties expressly exclude application of the UNCISG, it will apply automatically to eligible transactions involving parties with a presence in, or doing business in, such countries. In addition, parties can voluntarily elect to apply the UNCISG to a transaction even if they do not have places of business in a ratifying country.

The UNCISG applies to contracts for the sale of goods between parties whose places of business are in ratifying countries.²³ But unlike the Uniform Commercial Code, the interpretation of "goods" for the purposes of the UNCISG can vary by country, and could, in some countries, include software and other intangibles. The most recent digest of judicial interpretations of the UNCISG explains:

²² A current list of signatories can be found at https://uncitral.un.org/en/texts/salegoods/conventions/sale_of_goods/cisg/status.

²³ If a party has more than one "place of business," the place of business for determining whether the UNCISG applies is that which has the closest relationship to the contract and its performance.

28. According to case law, “goods” in the sense of the Convention are items that are, at the moment of delivery, “moveable and tangible”, regardless of their shape and whether they are solid, used or new, inanimate or alive. It does not matter that the contract obliges the seller to install such goods on land unless the supply of labour or services is the preponderant part (article 3 (2)). Intangibles, such as intellectual property rights, goodwill, an interest in a limited liability company, or an assigned debt, have been considered not to fall within the Convention’s concept of “goods”. The same is true for a market research study. According to one court, however, the concept of “goods” is to be interpreted “extensively,” perhaps suggesting that the Convention might apply to goods that are not tangible.

29. Whereas the sale of computer hardware clearly falls within the sphere of application of the Convention, the issue is not so clear when it comes to software. Some courts consider only standard software to be “goods” under the Convention; another court concluded that any kind of software, including custom-made software, should be considered “goods.”²⁴

As of 2016, over 4,500 cases had been decided under the UNCISG, building a growing body of decisions.²⁵ It should be remembered, however, that there is no single tribunal charged with adjudicating cases brought under the UNCISG. It is therefore interpreted by national courts whose interpretation of its various clauses may vary or even conflict, and which have no binding precedential effect on courts in other jurisdictions.

Many international practitioners routinely exclude application of the UNCISG due to a lack of familiarity with its provisions and because it imposes a number of unfamiliar (and possibly unwelcome) obligations on the parties. For example, Article 42(1) of the UNCISG provides that a seller “must deliver goods which are free from any right or claim of a third party based on industrial property or other intellectual property, of which at the time of the conclusion of the contract the seller knew or could not have been unaware.” This type of warranty against IP infringement is often disclaimed by parties in licensing agreements (see [Section 10.1.2](#)).

In addition to the UNCISG, thirty countries, including the United States, have ratified the UN’s 1974 Convention on the Limitation Period in the International Sale of Goods. This Convention establishes an automatic four-year statute of limitations on disputes arising from the sale of goods. It applies in virtually the same situations as the UNCISG. Depending on the expectations and requirements of the parties, it may also be advisable to disclaim application of this Convention.

EXAMPLE: EXCLUSION OF INTERNATIONAL CONVENTIONS

The choice of law described above shall exclude any application of the United Nations Convention on Contracts for the International Sale of Goods.

11.3.4 Choice of Language

It is fortunate for the American-trained attorney that the English language had, by the late twentieth century, become the global *lingua franca* for international business transactions. Examples abound of agreements between parties from countries in which English is not an official language that are drafted, negotiated and enforced entirely in English.

²⁴ United Nations Commission on International Trade Law, UNCITRAL Digest of Case Law on the United Nations Convention on Contracts for the International Sale of Goods – 2016 Edition, at 7 (citations omitted) [hereinafter UNCISG 2016 Digest].

²⁵ See UNCISG 2016 Digest, *supra* [note 24](#), at xi.

Nevertheless, agreements among international parties are often translated into other languages, both for the convenience of non-English-speaking personnel and for filing with governmental agencies, lenders and other third parties. Some agreements are prepared in parallel versions, with translations being made with each revision. Thus, it is sometimes important to specify the “official” language of an agreement.

EXAMPLE: OFFICIAL LANGUAGE

The parties hereto have required that this Agreement and all documents relating thereto be drawn in the English language, and that the English language version shall control over all translations thereof.

Even with such a clause, some jurisdictions require more. For example, the laws of the province of Quebec, Canada, require a specific notification *in French* if the English version of an agreement will control. Thus, if an agreement will be governed by the laws of Quebec, or involves parties or performance in Quebec, the following text should be appended to the end of the official language clause: “*Les parties conviennent que cette entente ainsi que tout document accessoire soient rédigés en anglais.*”

Notes and Questions

1. *The long history of choice of law.* Professor John Coyle traces the first express choice of law clause in the United States to a loan agreement executed in 1869, and finds a motion picture licensing agreement in existence as early as 1917.²⁶ Yet the 1934 *Restatement (First) of Conflict of Laws* does not recognize them, and, according to Professor Coyle, it was not until the early 1960s that choice of law clauses became part of mainstream contract drafting practice.²⁷ In your opinion, are such clauses beneficial, and should they be encouraged or discouraged in IP licensing agreements?
2. *Nonwaivable provisions of law.* If parties are operating in a country, then there are likely to be legal restrictions and requirements of local law that simply cannot be waived or overridden by selecting the law of a different jurisdiction to govern the arrangement. Obvious examples of nonwaivable legal provisions include employee protections, privacy regulations, tax laws, currency controls, anti-bribery and export control laws, and the underlying rules of IP protection and infringement.²⁸ Other, less common, legal provisions can act as traps for the unwary. For example, the 1986 EU Agency Directive (Council Directive 86/653/EEC) requires that a licensor or manufacturer that terminates a sales agent in the EU must pay the terminated agent an indemnity or compensation in the range of one year’s full compensation. This requirement cannot be waived by contract, and has caught many non-EU principals unawares.

Problem 11.2

Assume that you are negotiating an IP licensing agreement with a large Chinese industrial firm on behalf of a California-based licensor. What would you propose as an appropriate choice of

²⁶ Coyle, *supra* note 12, at 1156, 1164 table 1.

²⁷ *Id.* at 1173–74.

²⁸ With respect to the application of foreign IP laws, see deWerra, *supra* note 7, at 195–96.

law for the agreement? What arguments would you make to persuade the other party to accept your proposal? Would it matter if the IP in question were a motion picture, a new drug or a sportswear brand?

11.4 FORUM SELECTION CLAUSES

Whereas choice of law clauses specify which body of substantive law the parties wish to govern their agreement, forum selection clauses specify the jurisdiction or physical location where they wish disputes arising under an agreement to be adjudicated.²⁹ Forum selection clauses often go hand in hand with dispute resolution clauses. Though there is no strict requirement that the law chosen to govern an agreement be the law of the jurisdiction in which a dispute will be resolved, it is worth remembering that judges, and the attorneys arguing before them, are most comfortable and most adept at applying the laws of their own jurisdictions.³⁰

EXAMPLE: FORUM SELECTION CLAUSE

The parties irrevocably submit to the [exclusive/nonexclusive [1]] jurisdiction of the [federal and state] [2] courts sitting in [CITY/STATE/COUNTRY] for the resolution of any action or proceeding arising out of or relating to this Agreement [; *provided, however,* that each party shall have the right to institute judicial proceedings against the other party or anyone acting by, through or under such other party, in order to enforce the instituting party's rights hereunder through injunctive or similar equitable relief or to enforce the terms of a judgment or order issued by the court designated above [3]].

Each Party agrees that all claims in respect of such action or proceeding may be heard and determined in any such court, irrevocably waives any claim of inconvenient forum or other challenge to venue in such court, and agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court or tribunal.

DRAFTING NOTES

[1] *Exclusivity* – the selected forum need not be the exclusive venue for adjudicating disputes. Rather, it can be established as a forum where a party may bring suit, but would not preclude a party from bringing suit elsewhere. Choosing a nonexclusive forum effectively gives the parties a safe haven for suit, but does not mandate where their dispute must be heard. This being said, the large majority of forum selection clauses are exclusive.

²⁹ Forum selection clauses typically relate to judicial adjudication of disputes. For arbitration and other alternative dispute resolution mechanisms, see [Section 11.5](#).

³⁰ To wit, see *Apple v. Motorola*, 2012 U.S. Dist. LEXIS 181854 at *43 (W.D. Wis., Oct. 29, 2012) (“At summary judgment, I applied Wisconsin law to Motorola’s contracts with IEEE and French law to the ETSI contracts. In their motions *in limine*, both parties cite Wisconsin contract law and do not argue that French law is any different. I will apply general principles of Wisconsin contract law to interpret Motorola’s commitments to both IEEE and ETSI”). One suspects that French attorneys might question the notion that the contract law of Wisconsin and France are equivalent.

- [2] *Federal and state* – in the United States, parties must remember that the federal and state courts have different jurisdictional rules. Certain matters, such as patent and copyright cases, can only be heard in federal court. Some matters, such as contractual disputes between parties that do business in the same state, must be heard in state court. Thus, forum selection clauses designating a US forum usually specify that the forum for litigation will be the federal and/or state courts sitting in a particular location (e.g., New York City).
- [3] *Injunctive relief* – even if the parties agree to litigate their disputes in a particular forum, it may be necessary to bring a legal action in another jurisdiction in order to enjoin infringement in that other jurisdiction (something that the selected court might not be authorized to do) or to enforce the judgment of the selected court.

Many of the same issues arising in the context of choice of law also arise in the context of choice of forum, but even more so, as the selection of a forum necessarily utilizes the limited judicial resources of the forum jurisdiction. Thus, courts generally do not hear cases over which they cannot establish both personal and subject matter jurisdiction. For example, the parties could not validly select the state courts of South Carolina to hear a patent or copyright infringement dispute, as the federal courts have exclusive subject matter jurisdiction over patent and copyright matters. Likewise, a state court in Alabama is probably unlikely to adjudicate a dispute between a Japanese and a German party over a European licensing agreement unless either party has some connection with the state of Alabama.

As with choice of law, however, some US states have deliberately opened their courts to litigation involving foreign parties. As a companion to the choice of law statute discussed above, New York General Laws § 5-1402 allows contracting parties to choose to resolve their disputes in the courts of New York, so long as their agreement is governed by New York law, the parties have contractually submitted to the jurisdiction of the New York courts and, most importantly, the dispute involves “a contract, agreement or undertaking, contingent or otherwise, in consideration of, or relating to any obligation arising out of a transaction covering in the aggregate, not less than one million dollars.”

Internationally, many of the factors motivating choice of law also affect choice of forum. London, Geneva and Zurich are popular venues for international commercial litigation. Within the European Union, Ireland is a popular choice (given that English is an official language of the country), as is the Netherlands, which permits a growing number of international commercial and IP matters to be conducted in English. Similar considerations apply in Asia with respect to Singapore and Hong Kong, as well as Australia and New Zealand. For geographical (and sometimes aesthetic) reasons, Hawaii is often selected as a forum for adjudication of disputes between North American and Asian parties.

Notes and Questions

1. *Forum selection and the PTAB*. What if the parties to a patent licensing agreement select the federal and state courts of New York as the exclusive venue for the resolution of disputes relating to the agreement, and the licensee then challenges one of the licensor’s patents at the Patent Trial and Appeals Board (PTAB)? Does the forum selection clause bar its PTAB action? See *Kannuu Pty Ltd., v. Samsung Electronics Co., Ltd.* (Fed. Cir. 2021).

11.5 ALTERNATIVE DISPUTE RESOLUTION

While the courts are available to resolve disputes arising in IP licensing transactions, litigation is not always an efficient or desirable mechanism for dispute resolution. Parties often wish to implement less adversarial and costly procedures for dealing with disagreements. These procedures can involve pre-litigation dispute resolution steps, such as escalation and mediation, as well as arbitration as an alternative to litigation. In this section we will discuss each of these mechanisms and the contractual terms that enable them.

11.5.1 *Escalation*

Many dispute resolution clauses establish a tiered or stepped process for resolving disputes between the parties. The first step in this process is often internal to the parties, and involves escalating a dispute from the project team, committee or managers directly involved in the project to upper-level managers or executives. This process can include one or more steps, and generally requires that the individuals to whom a dispute is escalated spend some minimum amount of time and good-faith effort toward resolution of the dispute. This route is also preferable for resolving disputes about pure business or technical decisions that professional arbitrators are ill-suited to decide.

EXAMPLE: DISPUTE ESCALATION

X. In the event of any dispute, controversy or claim of any kind or nature arising under or in connection with this Agreement (a “Dispute”), then upon the written request of either Party, each of the Parties will appoint a designated senior business executive whose task it will be to meet for the purpose of endeavoring to resolve the Dispute. The designated executives will meet as often as the Parties reasonably deem necessary in order to gather and furnish to the other all information with respect to the matter in issue which the Parties believe to be appropriate and germane in connection with its resolution. Such executives will discuss the Dispute and will negotiate in good faith to resolve the Dispute without the necessity of any formal proceeding relating thereto. The specific format for such discussions will be left to the discretion of the designated executives but may include the preparation of agreed upon statements of fact or written statements of position furnished to the other Party. No formal proceedings for the resolution of the Dispute under Sections Y or Z may be commenced until the earlier to occur of (a) a good faith conclusion by the designated executives that amicable resolution through continued negotiation of the matter in issue does not appear likely or (b) the 30th day after the initial request to negotiate the Dispute.

11.5.2 *Mediation*

Mediation involves further attempts to resolve a dispute among the parties guided by an impartial third party known as a mediator. The mediator typically has no authority to resolve a dispute or order the parties to take any action, but plays the role of a facilitator who can structure discussions and help the parties to find a pathway to resolution. In order to be effective, mediators should have the respect and trust of both parties, and are thus often selected from pools of retired judges, government officials and academics. If a mediation does not successfully resolve the parties’ dispute, then a more formal adjudicatory mechanism – arbitration or litigation – is usually authorized.

EXAMPLE: MEDIATION

Y. Any Dispute that the Parties are unable to resolve through informal discussions or negotiations pursuant to Section X will be submitted to nonbinding mediation. The parties will mutually determine who the mediator will be from a list of mediators obtained from the American Arbitration Association office located in [CITY] (the “AAA”). If the Parties are unable to agree on the mediator, the mediator will be selected by the AAA, and will be an individual who has had both training and experience as a mediator of international commercial and intellectual property matters. Within thirty days after the selection of the mediator, the parties and their respective attorneys will meet with the mediator for one mediation session of at least four hours.

If the Dispute cannot be settled during such mediation session or during any mutually agreed continuation of such session, any party to this Agreement may give to the mediator and the other party to this Agreement written notice declaring the mediation process at an end, and such dispute will be resolved by arbitration pursuant to Section Z hereof. All discussions pursuant to this section will be confidential and will be treated as compromise and settlement discussions. Nothing said or disclosed, and no document produced, in the course of such discussions which is not independently discoverable may be offered or received as evidence or used for impeachment or for any other purpose in any arbitration or litigation. The costs of any mediation pursuant to this section will be shared equally by the parties to this Agreement.

The use of mediation will not be construed under the doctrines of laches, waiver or estoppel to affect adversely the rights of either party, and in particular either party may seek a preliminary injunction or other interim judicial relief at any time if in its judgment such action is necessary to avoid irreparable harm.

11.5.3 Arbitration

Arbitration is a form of private dispute resolution that serves as an alternative to judicial resolution. Arbitration is typically voluntary, so all parties to a dispute must consent to resolve the dispute by arbitration. If arbitration is selected to resolve disputes, the parties may also specify that arbitration will be the exclusive mechanism for dispute resolution, and thus eliminate their ability to bring suit in court.

Many volumes have been written about arbitral dispute resolution, and the relative advantages and disadvantages of arbitration versus judicial dispute resolution.³¹ Below are a few of the factors that parties often consider when deciding whether to resolve disputes arising under an agreement by arbitration.

11.5.3.1 Speed

It is generally believed that arbitration proceedings are completed more quickly than judicial proceedings. The arbitrator(s) are engaged for a particular case and do not have to juggle competing case schedules as judges do. Likewise, many of the procedural steps that exist in litigation – lengthy discovery, motions, witness testimony – are eliminated or significantly curtailed

³¹ See, e.g., Gary Born, *International Commercial Arbitration* (3rd ed., Wolters Kluwer, 2020).

in arbitration. Of course, while the elimination of these procedures may accelerate the dispute resolution process, it also results in a less comprehensive record.

11.5.3.2 Institutional versus Ad Hoc Arbitration

Various institutions around the world have created arbitration rules and procedures tailored to the adjudication of commercial and IP disputes. These include the American Arbitration Association (AAA) and its International Center for Dispute Resolution (ICDR), the United Nations Commission on International Trade Law (UNCITRAL), the International Court of Arbitration of the International Chamber of Commerce (ICC), the London Court of International Arbitration and the Singapore International Arbitration Centre. The World Intellectual Property Organization (WIPO), a UN agency that oversees international IP treaties, established an Arbitration and Mediation Center in 1995, and has developed arbitral rules specifically for IP disputes. The choice of an arbitral institution and rules can have a significant impact on arbitration procedure, the composition of the arbitral tribunal and the cost of the proceeding. The most important decision in this regard, however, is whether the parties wish to appoint an arbitral institution to organize and manage their arbitration (“institutional arbitration”) or to manage the arbitration themselves using an existing set of arbitral rules (“ad hoc arbitration”). While ad hoc arbitration can be less costly than institutional arbitration, it places significantly greater administrative burdens on the parties and can require more frequent recourse to the courts.

11.5.3.3 Cost

Just as arbitration is typically viewed as faster than litigation, it also has the reputation of being less costly (mostly due to the streamlining of procedures noted above). This being said, the costs of the judicial system and its employees are largely borne by taxpayers, while arbitration tribunals charge the parties for their services. In some cases, arbitration fees are based on the arbitrators’ hourly rates plus a surcharge for the institution that manages the arbitration, but some institutions such as the WIPO Arbitration and Mediation Center and the ICC generally charge the parties a percentage of the amount in dispute.

11.5.3.4 Case or Controversy

Courts are generally unwilling or unable to hear cases unless a genuine case or controversy between the parties exists (see [Section 22.3](#)). As such, courts seldom render advisory opinions that resolve questions about agreement interpretation or a party’s duties unless one party has sued the other for breach. Arbitrators, however, will hear any matter brought before them by the parties.

11.5.3.5 Confidentiality

As a general rule, arbitration proceedings are conducted privately and all parties, including the arbitrators, are required, whether by law, ethical canon or contract, to maintain the confidentiality of the evidence presented, the parties’ arguments and the arbitral award. As Sir George Jessel, Master of the Rolls, observed of arbitration agreements in 1880, “persons enter into these contracts with the express view of keeping their quarrels from the public eyes, and of avoiding

that discussion in public, which must be a painful one.”³² In fact, it is this very confidentiality that often makes arbitration more attractive than litigation, in which most of the proceedings become matters of public record.

11.5.3.6 Enforceability

Because arbitration tribunals are privately convened bodies, they have no authority to enforce their awards under pain of contempt. However, in most countries arbitral awards can be enforced by the courts. In the United States, for example, the Federal Arbitration Act, 9 U.S.C. §§ 1–14 (“FAA”), enacted in 1925, ensures that all agreements to arbitrate matters involving interstate commerce are “valid, irrevocable and enforceable” in both state and federal courts. And in 1982 the US Patent Act was amended to recognize voluntary arbitration as a valid means for adjudicating disputes relating to the validity and infringement of patents (35 U.S.C. § 294).

But unlike judicial awards, which are generally enforceable only in the jurisdiction in which they were issued,³³ arbitral awards are enforceable internationally. Under the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 1958), most arbitral awards rendered in accordance with a customary set of due process procedures are recognized and enforceable in all countries that are members of the Convention (166 countries as of this writing).

EXAMPLE: ARBITRATION

- (a) Should the parties fail to reach agreement with respect to a Dispute [1], through the aforesaid mediation or otherwise, then the Dispute will be resolved by final and binding arbitration conducted in the English language in accordance with the [ARBITRAL RULES] of the [ARBITRAL INSTITUTE] [3] by a tribunal comprised of three independent and impartial arbitrators [4], one of which will be appointed by each of the parties, and the third of which shall have at least twenty years’ experience in the field of [intellectual property licensing]. If the parties to this Agreement cannot agree on the third arbitrator, then the third arbitrator will be selected by the [ARBITRAL INSTITUTE] in accordance with the criteria set forth in the preceding sentence; provided that no person who served as a mediator pursuant to Section Y hereof with respect to such dispute may be selected as an arbitrator pursuant to this section. The seat of the arbitration shall be deemed to be [CITY] and all hearings and physical proceedings shall be held in [CITY] [2].
- (b) Disputes about arbitration procedure shall be resolved by the arbitrators or, failing agreement, by the [ARBITRAL INSTITUTE]. The arbitrators may proceed to an award notwithstanding the failure of a party to participate in the proceedings.
- (c) The tribunal will allow such discovery as is appropriate, consistent with the purposes of arbitration in accomplishing fair, speedy and cost effective resolution of disputes. Such

³² *Russel v. Russel*, L.R. 14 Ch. D. 471 at 474.

³³ There are some exceptions to this rule that have been established by treaty. For example, the 2005 Uniform Foreign-Country Money Judgments Recognition Act had been adopted by 26 states as of 2020. It provides that certain final money judgments rendered in foreign courts pursuant to recognized standards of due process may be enforced in the courts of the adopting states.

discovery shall be limited to mutual exchange of documents relevant to the Dispute and depositions shall not be permitted unless agreed to by both parties. The tribunal will reference the rules of evidence of the Federal Rules of Civil Procedure then in effect in setting the scope of discovery.

- (d) The tribunal may decide any issue as to whether, or as to the extent to which, any Dispute is subject to the arbitration and other dispute resolution provisions in this Agreement. The tribunal must base its award on the provisions of this Agreement and must render its award in writing, which must include a reasoned explanation of the basis for such award [5].
- (e) Any arbitration pursuant to this section will be governed by the substantive laws specified in Section __ of this Agreement, and by the arbitration law of the Federal Arbitration Act.
- (f) The award of the arbitrator[s] shall be the sole and exclusive remedy of the parties and shall be enforceable in any court of competent jurisdiction, subject only to revocation on grounds of fraud or clear bias on the part of the arbitrator.
- (g) All fees, costs and expenses of the arbitrators, and all other costs and expenses of the arbitration, will be shared equally by the parties to this Agreement unless such parties agree otherwise or unless the tribunal assesses such costs and expenses against one of such parties or allocates such costs and expenses other than equally between such parties.
- (h) Notwithstanding the foregoing, either party may seek a temporary restraining order and/or a preliminary injunction from a court of competent jurisdiction, to be effective pending the institution of the arbitration process and the deliberation and award of the arbitration tribunal.
- (i) The limitations on liability set out in Section __ of this Agreement shall apply to an award of the arbitrators. Specifically, but without limitation, under no circumstances shall the arbitrators be authorized to award punitive or multiple damages. Any purported award of punitive or multiple damages or of other damages not permitted under Section __ hereof shall be beyond the arbitrator's authority, void, and unenforceable.

DRAFTING NOTES

[1] *Which disputes?* – Not all disputes arising under an agreement must be resolved using the same dispute resolution mechanism. Some agreements specify particular tribunals – whether arbitral or judicial – for the resolution of certain types of disputes.³⁴ For example, royalty calculation disputes may be referred to a neutral accounting firm, while other disputes may be referred to a more general arbitral institution. In some cases, the parties may wish to exclude an entire category of disputes (e.g., patent validity or other IP issues³⁵) from arbitration, preferring instead that these be resolved through litigation.

³⁴ See Cathy Hwang & Matthew Jennejohn, *Deal Structure*, 113 Nw. L. Rev. 279, 328–30 (2018).

³⁵ See *Oracle America Inc. v Myriad Group*, 724 F.3d 1069 (9th Cir. 2013) (concerning software licensing agreement containing the following arbitration clause: “[a]ny dispute arising out of or relating to this License shall be finally settled by arbitration as set out herein, except that either party may bring any action, in a court of competent jurisdiction (which jurisdiction shall be exclusive), with respect to any dispute relating to such party’s Intellectual Property Rights or with respect to Your compliance with the TCK license ...”).

- [2] *Location and “seat” of arbitration* – the parties must specify the physical location of the arbitration, which can be almost anywhere in the world (bearing in mind that the parties must pay the travel expenses of the arbitrators). A neutral location is often preferred, generally in a large commercial center. Note, however, that in addition to the physical location of the hearings, every arbitral proceeding must have a “seat” – the location that defines the “nationality” of the arbitration and of the award and defines the local law that will apply to the arbitration proceedings, which may or may not match the actual location of the hearings.
- [3] *Arbitral institute and rules* – the parties must specify which, if any, arbitral institution will manage the arbitration or whether the parties choose ad hoc arbitration under a specified set of rules, such as the UNCITRAL Arbitration Rules.
- [4] *Number of arbitrators* – most arbitral rules permit tribunals of varying sizes, the most common being a single arbitrator or a panel of three. A single arbitrator is both easier to schedule and less costly than a three-person panel. Some attorneys favor a three-person panel to avoid the risk of a single, erratic individual making all decisions. Others find that three-arbitrator tribunals add little value over a single arbitrator: The two arbitrators appointed by the parties often advocate on behalf of the parties who appointed them, leaving the deciding vote to the neutral third arbitrator – the same effect as a single arbitrator but at three times the cost.
- [5] *Reasoned decision* – in an arbitration proceeding, the parties may specify whether or not the arbitrators must issue a written opinion supporting their decision and informing the parties of the grounds on which the ruling was based (a “reasoned decision”). While many institutional arbitration rules provide that the arbitrators will render a reasoned decision, this requirement may be waived by the parties, who may specify that the arbitrators simply issue an award without explanation. This approach may be desirable when parties are concerned with protecting confidential information or having the weaknesses of a patent discussed in an opinion that could be leaked to third parties or produced in discovery in another proceeding. Parties should be aware, however, that an unreasoned arbitral award is more vulnerable to subsequent judicial challenge on grounds of public policy.

Notes and Questions

1. *Dispute escalation.* Escalation of disputes is often a multi-tier process, but not all such processes include mediation or arbitration. Why might parties elect to forego either mediation or arbitration when determining how disputes will be resolved?
2. *Arbitration location.* What practical issues can arise in selecting a location for arbitration? Do you think that Zoom and other online video services will soon supplant physical hearings for international commercial arbitration?
3. *Confidentiality.* As noted in [Section 11.5.3.5](#), the confidentiality of arbitral proceedings makes them more attractive to some parties than judicial proceedings that are conducted in the public eye. Others, however, have criticized the use of confidential arbitration proceedings because they cannot be used as precedent or to guide the conduct of other participants in the market.³⁶ Which view do you find more persuasive and why?

³⁶ See, e.g., Jorge L. Contreras & David L. Newman, *Developing a Framework for Arbitrating Standards: Essential Patent Disputes*, 2014 J. Dispute Resol. 23, 39–41 (2014).

4. *IP carve-outs*. As noted in Drafting Note [1], some parties choose to exclude certain types of disputes, including IP-related disputes, from arbitration. What considerations might motivate parties to exclude IP disputes, in particular, from an arbitration clause? Would you recommend this approach to your clients?

Problem 11.3

Draft a reasonable set of dispute clauses for a licensing agreement (governing law, forum selection and dispute resolution) that takes into account the likely perspectives and preferences of the following clients:

- a. A Missouri-based author of a popular series of children's books who is entering into an agreement to adapt her books for a Polish television series.
- b. A California-based private university that is licensing a patented vaccine technology to a New Jersey-based multinational pharmaceutical company.
- c. A multinational fast-food conglomerate incorporated in Bermuda that is licensing its brand to a Taiwanese manufacturer of plush dolls for sale worldwide.

11.6 FEE SHIFTING

In many countries the losing party in litigation is required to pay the legal fees of the winner. That is not the rule in the United States, however, and awards of legal fees in IP licensing disputes litigated in the United States are rare. As a result, some licensing agreements contain express fee shifting clauses along the lines of the following example.

EXAMPLE: LEGAL FEES

For purposes of this Agreement, "Prevailing Party" [1] means the party to this Agreement that, in a final and unappealable decision in a litigation or arbitration initiated under this Agreement (an "Action"), (a) is awarded monetary damages in excess of the monetary damages awarded to the other Party, or (b) if no monetary damages are awarded in such Action, prevails in its claim for substantial nonmonetary relief such as a permanent injunction, specific performance or declaration in its favor to the exclusion of the other party, provided that if each party prevails on one or more substantial nonmonetary claims in such Action, then neither party shall be considered the "Prevailing Party" [2].

The Prevailing Party in any such Action, if any, shall be entitled to recover from the other party (the "Non-Prevailing Party") all [out-of-pocket] [3] costs and expenses incurred by the Prevailing Party in such Action, including court costs, experts and attorneys' fees, and reasonable travel and other expenses, upon delivery to the Non-Prevailing Party a statement enumerating each of these costs and expenses in reasonable detail no later than ninety (90) days following the conclusion of such Action.

DRAFTING NOTES

- [1] *Prevailing Party* – the crux of a fee shifting clause is the award of legal expenses to the prevailing party in a dispute. It is thus essential to define "prevailing party" with specificity and to avoid ambiguity when, for example, each party prevails on some of its claims

or counterclaims. The above example defines prevailing in terms of the relative size of the parties' monetary damages awards, with the important caveat that if no monetary damages are awarded, the party that prevails on its claim for nonmonetary relief will be considered prevailing.

- [2] *No prevailing party* – it is sometimes the case that each party “wins” some aspect of an action. If this happens, then neither party should be considered the prevailing party for the purposes of fee shifting.
- [3] *Expenses* – when discussing legal costs and expenses, it is important to clarify whether the cost of a party's in-house legal team (e.g., a pro-rated share of salary and benefit costs) should be included, or whether only out-of-pocket costs paid to external counsel and experts should be covered.

11.7 SETTLEMENT LICENSE AGREEMENTS

In many cases, licensing agreements are entered in connection with the settlement of IP infringement litigation. In this scenario, the defendant infringer usually enters into a nonexclusive license agreement with the plaintiff IP owner under which ongoing use of the asserted IP is authorized. The defendant/licensee typically agrees to pay both a lump sum in consideration of past infringement, as well as an ongoing royalty for future use of the licensed IP. These payment provisions are comparable to those discussed in [Chapter 8](#).

However, because a settlement agreement is not a normal commercial arrangement, it often lacks many of the features typically found in commercial licensing agreements such as milestones, warranties, technical assistance, support and ongoing technical cooperation.

By the same token, settlement agreements contain provisions not found in ordinary licensing agreements. Some of these are discussed below.

11.7.1 *Dismissals*

The main point of a settlement agreement is to resolve litigation between the parties. Thus, the settlement agreement usually contains a provision stipulating that this litigation will be dismissed, usually with prejudice (meaning that it cannot be brought again).

EXAMPLE: DISMISSAL OF LITIGATION

No later than one (1) business day following the Effective Date, Defendant shall complete, execute and deliver to Plaintiff stipulated worldwide dismissals and withdrawals, as applicable, of the Litigation in the forms attached hereto as Exhibits _____. Plaintiff shall thereafter promptly file with the applicable courts and other governmental authorities the fully executed stipulated dismissals and withdrawals. Any dismissals of court proceedings shall be with prejudice.

11.7.2 *Release and Covenant*

In addition to granting licenses relating to future use of IP, a settlement agreement usually includes a release of claims for past unauthorized use of that IP (infringement). Such a release exonerates the infringer (now the licensee) from its past infringing activity. Generally, a release

from liability is preferred to a retroactive license, which is generally discouraged for tax, accounting and other reasons.

In addition to a release from liability, the party asserting its IP often covenants that it will not sue the alleged infringer or others (e.g., the infringer's customers and suppliers) for use of infringing products prior to the date of the settlement. Such a covenant is desirable from the defendant's standpoint, as it is often not possible to release unspecified and unnamed parties from liability, and a release does not itself exhaust the infringed patents vis-à-vis customers and other third parties. The covenant, however, can be enforced with respect to any user of an infringing product, whether specified or not.

EXAMPLE: RELEASE AND COVENANT NOT TO SUE

1. Upon receipt of the Settlement Payment, Plaintiff, on behalf of itself and its Affiliates, hereby unconditionally and irrevocably releases, remises, acquits and forever discharges Defendant and its present or former employees, directors, officers, shareholders, agents, successors, assigns, heirs, executors and administrators, in their capacities as such, from any and all debts, demands, actions, causes of action, suits, dues, sum and sums of money, accounts, reckonings, bonds, specialties, covenants, contracts, controversies, agreements, promises, doings, omissions, variances, damages, extents, executions, and liabilities of every kind and nature, at law, in equity or otherwise, liquidated or indefinite, known or unknown, suspected or unsuspected, fixed or contingent, and whether direct or indirect, hidden or concealed, arising out of or related in any way (directly, indirectly, factually, logically or legally) to the IP Rights from the beginning of time until the Effective Date.
2. Plaintiff, on behalf of itself and its Affiliates, agrees not to bring any claim of infringement (whether direct, contributory or inducement to infringe) of the IP Rights against Defendant or any of its customers, distributors, resellers or users based upon the use, sale or import of, or the practice of any method or process using or in connection with, any product manufactured, sold or imported by Defendant prior to the Effective Date.

In addition to the standard release language, if a settlement agreement implicates parties or rights in California, the parties must include a statutorily required warning pertaining to the release of unknown claims:

Unknown Claims. Plaintiff, on behalf of itself and its Affiliates, hereby irrevocably and forever expressly waives all rights that Plaintiff and/or its Affiliates may have arising under California Civil Code Section 1542 and all similar rights under the Laws of any other applicable jurisdictions with respect to the release granted by Plaintiff under Section __, above. Each Party understands that California Civil Code Section 1542 provides that:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

Each Party acknowledges that it has been fully informed by its counsel concerning the effect and import of this Agreement under California Civil Code Section 1542 and similar Laws of any other applicable jurisdictions.

Given the size and market influence of California, many settlement agreements include this language even when there is no clear-cut relation to the state.

11.7.3 *Licensed Rights*

Typically, a settlement agreement following an IP dispute contains a license of the disputed IP and *only* the licensed IP. Unlike a commercial arrangement in which the licensor wishes to grant the licensee sufficient rights to develop or manufacture a particular product or carry on a particular business, a settlement license is intended to do no more than settle a dispute over IP that has been asserted. The restricted nature of the licensed IP in settlement agreements can, however, lead to problems, as illustrated in *TransCore, LP v. Elec. Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009) and *Endo Pharms., Inc. v. Actavis, Inc.*, 746 F.3d 1371 (Fed. Cir. 2014). In these cases (discussed in [Section 4.4](#), Notes 3–4), settlement licenses were granted covering patents that were asserted, but the patent holder later obtained additional patents that covered the same products. In *TransCore*, the court held that the new patent, which was a continuation of one of the licensed patents, was subject to an implied license, but in *Endo*, in which the new patent was not a continuation of a licensed patent, no implied license was found. These cases illustrate the need for parties to consider carefully the scope of settlement licenses and to consider including at least other members of the same patent family in the licensed rights.

11.7.4 *No Admissions*

Even though an alleged infringer may agree to settle litigation by taking a license to the asserted IP and paying royalties for past and future use of the asserted IP, it is generally loathe to admit any wrongdoing or even that it was infringing (among other things, to avoid prejudicing itself with respect to other claims by other IP owners). Accordingly, most settlement agreements contain a “no admissions” clause along the following lines.

EXAMPLE: NO ADMISSIONS

This Agreement is entered into in order to compromise and settle disputed claims and proceedings, without any concession or admission of validity or invalidity or enforceability or non-enforceability of any IP Rights by any Party, and without any acquiescence on the part of either Party as to the merit of any claim, defense, affirmative defense, counterclaim, liabilities or damages related to any IP Rights or the Litigation. Neither this Agreement nor any part hereof shall be, or be used as, an admission of infringement, liability, validity or enforceability by either Party or its Affiliates, at any time for any purpose.

11.7.5 *Warranty*

A settlement agreement typically contains no warranties regarding the quality, validity or coverage of the asserted IP rights. However, it is important to the defendant that the plaintiff represent and warrant that entering into the settlement will actually dispose of all potential claims under the relevant IP. Accordingly, the plaintiff is often required to warrant both that it is the sole owner of the asserted IP and that it has not assigned any of its litigation claims to others who are not parties to the settlement agreement.

EXAMPLE: PLAINTIFF'S WARRANTIES

Plaintiff represents and warrants to Defendant that, as of the Effective Date,

- (a) Plaintiff is the exclusive owner of all right, title and interest in, to and under the IP Rights,
- (b) Plaintiff has the right to grant the licenses granted hereunder,
- (c) to Plaintiff's knowledge, no third party has any enforceable right of ownership with respect to the IP Rights that may be asserted following the Effective Date, and
- (d) Plaintiff has not assigned, sold, or otherwise transferred any legal claim that it has or may have against Defendant or its Affiliates to any third party (including any Affiliate) or otherwise structured its affairs in a manner so as to avoid the release of all such claims pursuant to Section ___ above.

11.7.6 No Challenge

If a settlement agreement resolves patent or other IP litigation between the parties, then it is not uncommon for the agreement to contain a clause prohibiting the alleged infringer from later challenging the validity of the asserted IP rights. The enforceability of such no-challenge clauses is discussed in [Section 22.4](#).

Notes and Questions

1. *Settlement licenses.* As noted above, a settlement license agreement often lacks many of the features typically found in commercial licensing agreements such as milestones, warranties, technical assistance, support and ongoing technical cooperation. Why are these features absent from settlement licenses?
2. *Release and covenant.* What would be the consequence of granting a release of claims for past infringement without a corresponding covenant not to sue? Explain using a concrete example.
3. *Plaintiff's warranties.* Why are each of the suggested warranties made by the plaintiff in a settlement agreement important? How would you advise your client, the defendant, if the plaintiff claims that it is unable to make one or more of these warranties?
4. *Later-issued patents.* Consider the *TransCore* and *Endo* cases. Why did the licensee not negotiate to include later-issued patents in its settlement license? Why would the licensor object to including such later-issued patents?