Recent Developments & Emerging Issues

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RECENT DEVELOPMENTS

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RECENT DEVELOPMENT IN LICENSING

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PATENT LICENSES

OBLIGATIONS OF SUCCESSOR

One party in this case (Altera) and a predecessor in interest of the other party (MMI) entered into a cross-license in early 1987 to settle various patent disputes concerning certain existing patents and pipeline inventions. Following the acquisition of MMI by Advanced Micro Devices later in 1987, a dispute arose as to whether certain independently developed AMD patents were licensed to Altera under the cross license. The Federal Circuit held in a divided opinion that they were not.

The settlement agreement defined the scope of the cross-licensed patents as being those covering certain logic devices and "owned or to be owned by [Altera or MMI] and having a first filing date prior to two years after the date of entry of judgement by the court terminating the present litigation." The agreement also provided that a successor to the entire business of either company could succeed to the agreement if it "agreed in writing to be bound" by it and further provided that neither party could otherwise assign or transfer the agreement without the prior permission of the other party. Following AMD's acquisition of MMI, AMD notified Altera that it succeeded to MMI's rights and obligations under the settlement agreement.

In 1995, AMD sued Altera asserting infringement of eight AMD patents. However, based on the cross license and AMD's acceptance of its terms, Altera resisted the suit. Altera argued that, by accepting the rights and obligations under the cross license, AMD automatically granted Altera a license to any of its patents that met the subject matter and time limitations of the scope definition of the agreement. The trial court determined that sufficient ambiguity existed in the definition of the cross-licensed patents to admit extrinic parole evidence. Based on that evidence, the jury found that (by agreeing to be bound by the conditions of the settlement agreement) AMD had granted licenses to the patents in question.

The Federal Circuit (Bryson dissenting) held that the trial court erred in admitting extrinsic evidence and reversed. The majority held that the language of the agreement was unambiguous in granting cross licenses only to the patents of the contracting parties, and not those of any successor. *Advanced Micro Devices, Inc. v Altera Corporation*, Nos. 98-1090, 98-1111, Fed. Cir.; 1999 U. S. App. LEXIX 6272 (CAFC 1998).

SCOPE OF LICENSE

In 1989, the parties entered into a ten year agreement which granted Boehringer Mannheim ("BMC") the exclusive license to certain existing assay systems and the right to acquire an exclusive license to certain future assay systems within the scope of technology of Cardiovascular Diagnostics ("CDI"). The agreement provided that if BMC declined to license any future assay, CDI would be entitled to use its technology "in connection with and as part of such ... assay". To settle a later dispute, the parties executed an amendment to the agreement adding a new paragraph that defined CDI's rights with respect to certain assays that BMC has declined to license. The paragraph defined "only in connection with and as part of such ...assays" to mean that CDI has "no limitation" on its activities under its exercise of its rights as long as certain conditions were met. Prior to the execution of the amendment, BMC acquired the right to two patents related to the assays at issue. The question presented was whether or not the "no limitation" language prevented BMC from asserting these two acquired patents against CDI.

The Federal Circuit affirmed the trial court's holding that the "no limitation" language barred BMC from using any of its patents to restrict CDI's right to make use or sell the subject assays. Although BMC argued that the "no limitation" language should be restricted to CDI patents only, and not include BMC patents, the court was not persuaded. *Cardiovascular Diagnostics, Inc. and Dade International, Inc. v Boehringer Mannheim Corporation*, 98-1190, 98-1232 Fed. Cir.; 1999 U. S. App. LEXIS 1366 (CAFC 1999).

BANKRUPTCY

The debtor in this case ("Catapult") was the non-exclusive licensee of certain technology relating to video games. In 1996, it filed for Chapter 11 bankruptcy protection and, as part of the planned reorganization (which included a merger with another company), sought to assume 140 executory contract, including the license in question. Although the licensor objected, the bankruptcy court nevertheless granted Catapult's request. On appeal to the Ninth Circuit Court of Appeals, the court reversed, holding that Section 365 (c) (1) of the Bankruptcy Code permits the licensor to prevent this assumption if applicable law (patent law, in this case) would prevent the licensee from assigning the license to a third party. *In re Catapult Entertainment; Perlman v Catapult Entertainment*, 165 F. 3rd 747; 1999 U. S. App. LEXIS 1072; Bankr. L. Rep. (CCH) P77,886 (9th Cir. 1999).

ESTOPPEL

In an unusual case, the Federal Circuit held that statements by a licensee asserting that it was a non-exclusive licensee did not estop it from later asserting it was an exclusive licensee entitled to damages from infringement.

The licensee (Ortho-Kinetics, Inc.; "OKI") had a license from the individual inventor Gaffney, who was also the president of OKI. Prior to the lawsuit in question, OKI had entered into eleven sublicenses under this patent, signed by Gaffney both personally and as president of OKI. In each sublicense, Gaffney is described as "owner" and OKI is described as either the "exclusive licensee" or (in two instances) as "a licensee".

When Invacare brought a declaratory judgement action against both OKI and Gaffney in District Court, OKI sought dismissal on the grounds that it was a non-exclusive licensee and that Gaffney was an indispensable party over whom the court lacked personal jurisdiction. During the liability phase of a bifurcated trial the jury found infringement. In the damages phase, the court denied Invacare's motion to exclude evidence of OKI's lost profits on the ground that it was a non-exclusive licensee and awarded damages of $950,000. Invacare appealed the denial.

The Federal Circuit held that OKI is an exclusive licensee entitled to lost profits. OKI's earlier assertion did not estop it from later claiming to be an exclusive licensee since the Court never acted upon the assertion. *Invacare Corporation v Ortho-Kinetics, Inc. and Edward J. Gaffney*, 98-1074 Fed. Cir.; 1998 U. S. App. LEXIS 15202 (CAFC 1998).

NO LICENSE

In this case, an individual inventor (Stanis) sought to interest a company (Allied Signal) in his patented invention, an aircraft banking angle indicator. In 1990, Stanis contacted Allied and completed a "Request to Consider Submission" form provided by Allied. No further action was taken until 1994, when Stanis' attorney wrote Allied asserting that one of its products infringed the Stanis patent and again offering a license. Allied denied infringement and declined to take a license. Stanis sued Allied on grounds of patent infringement and that the "Request to Consider" form was a license obligating Allied to pay compensation. The trial court granted Allied's motion for summary judgement on the patent infringement ground and dismissed Stanis' contract claim for failure to plead facts establishing the existence of a license agreement.

The Federal Circuit affirmed both actions, drawing particular attention to the language in the "Request to Consider" form that recited Allied's lack of obligation to Stanis for the submission unless a subsequent contract were completed. *John W. Stanis v Allied Signal Inc. and Allied Signal Aerospace Co.*, 98-1515 Fed. Cir.; 1999 U. S. App. LEXIS 1189 (CAFC 1999).

UNIVERSITY LICENSES

GOVERNMENT LICENSE

Between 1979 and 1990, the Office of Naval Research (ONR) supported work by certain faculty members at Rutgers University relating to electrical properties of polymers. This action involved the question of whether the US government has a license to certain work by the supported investigators in this area because of its support.

In 1989, a government representative approached Scheinbeim (a Rutgers faculty member) seeking a piezoelectric material with a certain desirable set of properties. Scheinbeim determined that no such material existed but conceived of a way to achieve the desired effect. Reduction to practice of this invention occurred from February to April 1990. In April 1990, Scheinbeim and his coinventor submitted an invention disclosure to Rutgers. In August 1990, the inventors proposed to modify their existing government contract to include future research in the area of this invention. On December 14, 1990, the inventors filed a patent application on their invention. On December 19, 1990, the government accepted the August proposal retroactively effective November 15, 1990, and provided funding, which was used to buy equipment to test the invention. In July 1993, Rutgers was awarded a patent on the invention. Finally, on August 12, 1993, an ONR contracting officer issued a final decision finding that the government was entitled to a non-exclusive paid up license to the invention. Rutgers filed suit in the Court of Claims to overturn the decision, and the government moved for summary judgement.

The relevant language of the agreement defined an invention to which the government would have rights as "any invention of [Rutgers] conceived or first actually reduced to practice in the performance of work under this contract." After finding as a matter of law that the new invention was not within the scope of the original contract, the Court turned to the modification proposal. Since the conception occurred prior to the effective date of the modification, that test failed as to all claims of the patent. With regard to the reduction to practice, the Court found that the reduction to practice of certain claims occurred by April 1990, and thus prior to the effective date of the modification, while the evidence was unclear as to when the remaining claims were reduced to practice. The court denied the government's motion. *Rutgers, the State University of New Jersey v The United States*, 41 Fed. Cl. 764; 1998 U. S. Claims LEXIS 226 (Ct. of Claims 1998).

INVENTORS' RIGHTS

This case is the latest episode in a saga involving attempts by university professors to void a license granted by their university. In 1990, the University of California (UC) granted a license to a patent on certain uses of a contrast agent in magnetic resonance imaging (MRI) to Nycomed Salutar (Nycomed) under which Nycomed made a one-time payment of $25,000 for an exclusive license to the patent. Relevant to this arrangement are the facts that Nycomed supported the research leading to the invention, a Nycomed employee (Rocklage) was a co-inventor on the patent, and the contrast agent used in the invention was itself patented by Nycomed.

In previous decisions in 1996 and 1997, the court absolved UC of most of its liability in entering into the license agreement or in accepting the Nycomed employee as a co-inventor without independent investigation. The present case involves possible liability of Nycomed for misrepresentation as to the inventorship status of Rocklage and the value of the invention, and possible liability of UC on a theory of breach of contract with the inventors. The decision in question involves summary judgement motions by all parties. The UC motion on its contract liability was granted. The court found a contractual duty but held that UC had met its obligations. The court dismissed the UC inventors' motion for correction of inventorship for lack of jurisdiction. Finally, the court found a genuine issue of fact regarding Nycomed's liability and denied its motion. Shortly thereafter, the partied settled. *John Kucharcyzk and Michael Moseley v The Regents of the University of California; Nycomed Salutr, and Nycomed Imaging AS,* 1998 U. S. Dist LEXIS 20214; 1999 U. S. Dist LEXIS 6905, 7782 (N.D. Cal 1998, 1999).

PATENT LAW

The University of Minnesota (UM) exclusively licensed Glaxo Wellcome (GW) under certain United States patents claiming pharmaceutical compounds and methods of their manufacture. The relevant compound is called Ziagen and is used for treatment of AIDS. The agreement provided that GW would pay "royalties of 5 % on sales of a compound, based upon its method of manufacture, in the event that the compound was approved for sale and sold in the United States, or a royalty of 10% if the final compound as sold in the United States would infringe in the United States but for the license." UM asserts that GW intends to sell the compound only in the United Kingdom and thus pay UM no royalty. UM sued in Minnesota state court to compel GW to manufacture the compound in the United States and pay UM the applicable 10% royalty. GW sought successfully to have the case removed to Federal District Court on the ground that the issue of payment of royalties under a patent is a federal question. *Regents of the University of Minnesota v Glaxo Wellcome, Inc.*, 1999 U. S Dist. LEXIX 8627 (D. Minn 1999).

COPYRIGHT LICENSES

RENEWAL RIGHTS

A license to "perpetual and exclusive rights to distribute" a motion picture continues through the renewal period of the copyright. This question arose on an appeal by P. C. Films (the licensor's assignee in bankruptcy) from a decision of the District Court for the Southern District of New York denying its request for a declaratory judgement that the licensee's distribution rights to the film "The King of Kings" terminated on the expiration of the original copyright term. The Court of Appeals affirmed, finding that the language "perpetual and exclusive", even without any explicit mention of the renewal term, is sufficient to grant a license to the renewal term. *P. C. Films Corp. v MGM/UA Home Video Inc., et al.*, 138 F. 3rd 453; 1998 U. App. LEXIS 2835 (2nd Cir. 1998), Cert. Denied , 1998 U.S. LEXIS 7608 (2nd Cir. 1998).

CONFIDENTIALITY

The plaintiff in this action (Hogan) is the developer and owner of copyrighted data processing software used by banks under license from Hogan. The defendant (Cybresource) is a service company created by former employees of

Hogan. In 1980, Hogan entered into a license agreement with Norwest Bank (Norwest) permitting Norwest to use the software, which agreement was amended in 1988 and 1993 pursuant to an agreement between Hogan and IBM to allow IBM to market the software in North America. Thereafter, Cybresource was formed and entered into a services agreement with Hogan to support and maintain certain Hogan software. The services agreement required Cybresource to keep Hogan's trade secrets confidential. Shortly thereafter and without the consent of Hogan, Cybresource entered into a contract with Norwest to support Hogan's software at Norwest's facilities.

The issue in this appeal is whether the license agreement between Hogan and Norwest permitted access to the software by non-employees of Norwest. The District Court granted Cybresource's motion for summary judgement, which the Court of Appeals affirmed. The license provides that Norwest will not make the software available to anyone "except to [Norwest's] employees or [Hogan's] employees or to such other persons during the period such other persons are on Norwest's premises for purposes specifically relating to [Norwest's] authorized use of the licensed program." Despite Hogan's attempts to characterize this provision as relating only to janitorial or clerical staff, the Court found that it specifically authorized the very activity Cybresource was performing. *Hogan Systems, Inc. v Cybresource Int'l., Inc, et al.*, 158 F. 3rd 319; 1998 U. S. App. LEXIX 28104; 48 USPQ 2nd 1668 (5th Cir. 1998).

CHARACTER LICENSING

The exclusive license of rights to market toys based on Loony Tunes characters is not breached by granting a license to another company to market toys based on Tiny Toon characters, despite the related nature of the characters. *DCN Industries, Inc., et al. v Warner Brothers, Inc., et al.*, 1998 U. S. Dist. LEXIX 13073 (S.D.N.Y. 1998).

PENDING LEGISLATION /REGULATIONS

UCC ARTICLE 2B

The proposed new Uniform Commercial Code (UCC) section 2B, which is on the agenda for final vote at the July annual meeting of the National Conference of Commissioners on Uniform State Laws (NCCUSL), seeks to codify certain transactions relating to software and computer information. In particular, it would codify the industry practice of "shrinkwrap" license, would enhance the enforceability of restrictions on transfer of software, notwithstanding the "first sale" provision of the copyright law, and would abrogate a purchaser's "fair use" rights. The new law is tentatively named the Uniform Computer Information Transactions Act (UCITA).

The proposed uniform law is supported by the Business Software Alliance (representing mass market software publishers) and the Information Industry Alliance (representing, ie, the New York Stock Exchange and Dun & Bradstreet). The motion picture, recording, television broadcasting, cable television broadcasting, magazine publishing and newspaper publishing industries have asked NCCUSL to table this section because it interferes with their existing practices based on copyright law, but this action seems highly unlikely.

Although the focus of the new section is on software, its reach appears broad enough to cover all transactions relating to computerized information, with certain limited exceptions. Many transactions relating to science and technology may be affected.

For more information, see the March and June issues of LES Nouvelles.

NIH REQUEST FOR COMMENTS – MATERIALS LICENSES

The NIH has published (64 FR 28205) a request for comments on proposed guidelines for recipients of NIH research grants and contracts to follow when licensing biological materials (sometimes called "research tools") made under this support. Comments are requested from academic, government, and private sector participants in biomedical research and development. The deadline for submitting comments is August 23, 1999. This request for comments is stimulated by recent controversy regarding exclusive licenses for research tools.

The guidelines are based on four principles:

- Ensuring academic freedom and publication;
- Ensuring appropriate implementation of the Bayh-Dole Act;
- Minimizing administrative impediments to academic research; and
- Ensuring dissemination of research resources developed with NIH funds.

The bias of the guidelines is to promote free (or cost recovery) transfer of biological research tools and to discourage their patenting or exclusive transfer.