

# **Top 10 Mistakes Commonly Made When Drafting and Negotiating Patent License Agreements**

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# Disclaimer

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# **1. Conducting Inadequate or Incomplete Due Diligence**

## 1. *Syscan v. Plustek*, 2009 WL 2044685 (N.D. Cal. 2009)

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- Syscan brought suit against Plustek alleging breach of a patent license agreement
- Syscan alleged that Plustek stopped paying royalties that were owed under the agreement
- The patents covered under license agreement included three U.S. patents and the “**corresponding China patents** and any of its reissue, extension or addition to said patents”
- “**Territory**” under the agreement **includes** “the United States of America and **China**”
- Royalties were to be paid for each unit sold or distributed in the Territory

## 1. *Syscan v. Plustek*, 2009 WL 2044685 (N.D. Cal. 2009)

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- It was later discovered that **Syscan didn't own any patent or patent applications in China**
  - The Chinese rights were owned by an Affiliate - Shenzhen Syscan Technology Co.
- **Plustek therefore sought to tear up the agreement**
  - **Plustek moved for summary judgment that the agreement was void and unenforceable on the grounds of mutual mistake**
- **The issue was whether the license to use the Chinese patents was an essential term of the License Agreement**
  - **Plustek had to show that it would not have entered into the License absent the provisions concerning the Chinese patents**
  - **Court could not decide it on summary judgment**

## **2. Thinking There's No Real Difference Between U.S. Laws and The Laws of Other Countries**

## For Example: Status of “No Challenge” Clauses Around the World

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Country	Current Status
Australia	Unsettled; “no challenge” clauses are typically included in a license
Brazil	Brazilian law is silent on this issue; common to include such a clause
Canada	Licensee estoppel applies (does not apply if licensor sues licensee for infringement for acts outside scope of license)
China	Unenforceable; considered to impede technological progress
Germany and Japan	May give rise to antitrust concerns; if antitrust law is applicable, a no-challenge clause is invalid; a clause allowing for termination if there is a challenge is permissible
UK	Likely to be invalid under UK competition law; there’s an exception for know-how; you can prohibit a challenge as to whether the know-how disclosed pursuant to a license is secret, substantial and identifiable
U.S.	Unenforceable except in the context of a litigation settlement agreement

## **3. Using Ambiguous Language**

### 3. *Boyce Thompson Inst v. Medimmune, Inc.*, 2009 WL 1482237 (Del. Super. 2009)

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- Boyce alleged breach of a patent license agreement
- The parties disputed the interpretation of “Licensed Product”
- The Agreement defined “Licensed Product” in pertinent part, as “any product or part thereof, the manufacture, use or sale of which is **covered by** a valid claim of an issued, unexpired Licensed Patent.”
- “Remarkably, when all is said and done (after full briefing, supplemental briefing and a lengthy oral argument) both parties agree that **this dispute comes down to the proper interpretation of a single word** contained within a single provision of the Agreement”
- “Covered” is that single word
- BTI argued “covered” means “applicable to”
- Medimmune and Glaxo argued “covered” means “infringed”

### 3. *Boyce Thompson Inst v. Medimmune, Inc.*, 2009 WL 1482237 (Del. Super. 2009)

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- Court concluded that it wasn't clear whether the parties intended the royalty obligation to be triggered only when the product "infringes" a Licensed Patent
  - "The Agreement easily could have said that but it did not."
- "And while defendant's argument that the license is necessary only if Cervarix® infringes a BTI patent intuitively makes sense, and may well ultimately prevail as the correct construction of the Agreement, it is not entirely clear from the Agreement that this was the parties intent."
- Court noted that other courts have interpreted "covered by a patent" to include only products that require a license to avoid infringement

## **4. Including Inconsistent Provisions**

#### **4. *Levi Strauss & Co. v. Aqua Dynamics Systems, Inc.*, 2016 WL 1365946 (N.D. Cal. Apr. 6, 2016)**

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- **“Aqua recently initiated an arbitration against Levi for alleged breach of a license agreement”**
  - **failure to pay royalties to Aqua’s alleged predecessor-in-interest for the use of certain processes relating to the colorization of fabrics and garments**
- **“Levi responded by filing this lawsuit, seeking declaratory judgment that (1) Aqua, as a nonsignatory to the license agreement, lacks standing to enforce its arbitration provision; (2) Aqua waived its rights, if any, to enforce the arbitration provision; and (3) Levi has not breached the license agreement.”**
- **“Aqua . . . asks that the case be dismissed or stayed in light of the pending arbitration.”**
- **The Court denied Aqua’s motion to dismiss or stay the case pending arbitration.**

#### 4. *Levi Strauss & Co. v. Aqua Dynamics Systems, Inc.*, 2016 WL 1365946 (N.D. Cal. Apr. 6, 2016)

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- “The [FAA] establishes that, as a matter of federal law, any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration.”
- “Nevertheless, so-called ‘**questions[s] of arbitrability**,’ which include certain gateway matters, such as whether parties have a valid arbitration agreement at all or whether a concededly binding arbitration clause applies to a [particular] controversy, **are presumptively for courts to decide.**”
- “Although gateway issues of arbitrability presumptively are reserved for the court, the parties may agree to delegate them to the arbitrator.” . . . In other words, **parties can “agree to arbitrate” questions of arbitrability.**”
- **“Courts should not assume that the parties agreed to arbitrate arbitrability unless there is clear and unmistakable evidence that they did so.”**

#### 4. *Levi Strauss & Co. v. Aqua Dynamics Systems, Inc.*, 2016 WL 1365946 (N.D. Cal. Apr. 6, 2016)

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- “The Agreement includes an arbitration provision [paragraph 15.2] stating that:  
all disputes, differences of opinion, or controversies which may arise between the parties hereto out of or in relation to or in connection with this Agreement or the breach thereof, shall be finally settled by arbitration in Chicago, Illinois . . . by a panel of three (3) arbitrators in accordance with the Rules of the American Arbitration Association.”
- “A subsequent amendment to the arbitration provision states as follows:”  
“ . . . The Parties agree that paragraph 15.2 of the Agreement shall be modified only to the extent that the place of arbitration, if any shall take place, shall be San Francisco, California, and such arbitration shall be conducted before a JAMS panel of three neutral arbitrators and pursuant to “JAMS Comprehensive Arbitration Rules & Procedures,” effective July 1, 2014.”
- “The Agreement’s severability provision states that in relevant part that “[i]f **any part of this Agreement** shall be declared invalid or unenforceable by a **court of competent jurisdiction**, it shall not affect the validity of the balance of this Agreement.” Agreement ¶ 16.7.”

#### 4. *Levi Strauss & Co. v. Aqua Dynamics Systems, Inc.*, 2016 WL 1365946 (N.D. Cal. Apr. 6, 2016)

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- “Aqua contends that the parties clearly and unmistakably agreed to delegate questions of arbitrability to the arbitrators by agreeing to amend the Agreement to provide for arbitration under the JAMS Comprehensive Arbitration Rules & Procedures (the “JAMS Rules”).”
- **“Rule 11(b) of the JAMS Rules provides in relevant part:  
. . . The Arbitrator has the authority to determine jurisdiction and arbitrability issues as a preliminary matter.”**
- “Viewed in a vacuum, the incorporation of the JAMS Rules might be sufficient to establish a clear and unmistakable delegation. Viewed holistically, however the Agreement is ambiguous on this point.”
- “The Agreement’s severability provision states that that “[i]f any part of this Agreement shall be declared invalid or unenforceable *by a court of competent jurisdiction*, it shall not affect the validity of the balance of this Agreement. **The parties do not dispute that by referring to “any part of this Agreement,” the severability provision extends to the Agreement’s arbitration provision.**”

#### 4. *Levi Strauss & Co. v. Aqua Dynamics Systems, Inc.*, 2016 WL 1365946 (N.D. Cal. Apr. 6, 2016)

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- “A number of courts have held that contracts including similar evidence of delegation, as well as similarly worded severability provisions, fail to evince a clear and unmistakable agreement to delegate questions of arbitrability to the arbitrator.”
- These courts have reasoned that “[a]s a general matter, where one contractual provision indicates that the enforceability of an arbitration provision is to be decided by the arbitrator, but another provision indicates that the court might also find provisions in the contract unenforceable, there is no clear and unmistakable delegation of authority to the arbitrator.”
- “In line with these cases, **I find that the parties did not clearly and unmistakably agree to delegate questions of arbitrability to the arbitrators.**”

**5. Failure to Recognize that there's a Difference Between an "Assignment" and a "Change in Control"**

## **5. *White v. Hitachi*, 2007 WL 2725888 (E.D. Tenn. 2007)**

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- **A change in control does not violate a “no transfer” or “anti-assignment” provision**
  - **Courts will not imply a provision equating a stock sale with an assignment or a provision terminating a license upon a change of control where none exists in the agreement.**
  - **in a stock sale, the assets, including any licenses held by the corporation, do not transfer to anyone but remain with that corporation**

## **6. Limiting the Clauses that Survive Termination of the Agreement**

## 6. *BASF Plant Science v. CSIRO*, 2019 WL \_\_\_\_\_ (E.D. Va. May 7, 2019)

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- “On March 1, 2008, Commonwealth Scientific and Industrial Research Organization (“CSIRO”) and BASF entered into a Materials Transfer and Evaluation Agreement. (“MTEA”).”
- “Under the MTEA, the parties wished to collaborate and jointly evaluate each other’s genetic data on EPA and DHA producing plants. MTEA Recitals at B. The MTEA speaks to how the parties will share information and how they will respectively own resulting intellectual property.”
- “The MTEA was governed “by the law in force in The Australian Capital Territory” and the parties thereto agreed to “**submit to the exclusive jurisdiction of the courts of the Australian Capital Territory.**””
- “According to its “survival clause” clauses 1, 6, 8, 9, 10, 11.3, and 12 survived termination; **the choice of law and forum provision was not on that list.**”

## **6. *BASF Plant Science v. CSIRO*, 2019 WL \_\_\_\_\_ (E.D. Va. May 7, 2019)**

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- **“CSIRO asks this Court to enforce the forum selection clause. CSIRO argues that even though the forum selection clause is not listed in the provisions which survive the agreement, procedural clauses, including forum selection clauses survive termination of the agreement under both United States and Australian law.”**
- **“BASF cites the language of the contract itself. BASF argues that the “survival clause” lists all clauses which will survive termination, and that the choice of law and forum clauses are not on that list.”**
- **“The Court FINDS that the choice of forum clause here has not survived the contract’s termination.”**
- **“First of all, the Court finds it difficult to accept the proposition that legal professionals negotiating what clauses would survive a contract’s termination would go through the work of analyzing the contract for terms that they intended to survive and omit the choice of forum clause, unless they did not intend that it survive.”**

**7. Entering into a “New Agreement”  
rather than an “Amendment” to the  
Existing Agreement**

## ***7. G Vincent Ltd. v. Dux Area Inc., 2011 WL 62136 (W.D. Wash.)***

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- **G Vincent owns patents on spray gun technology and Dux Area is the exclusive licensee of those patents**
- **Several years after the agreement was executed, the parties modified it.**
- **But, instead of amending the agreement, they entered into a new agreement**
- **In a typical amendment, there would be a clause stating:**
  - **Example 1: Except as specifically modified or supplemented by the terms of this Amendment, the License Agreement shall continue in full force and effect.**
  - **Example 2: Except as expressly set forth herein, all other terms and conditions of the Agreement shall remain unmodified, in full force and effect and shall apply to this Amendment.**

## 7. *G Vincent Ltd. v. Dux Area Inc.*, 2011 WL 62136 (W.D. Wash.)

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- The Royalty provision stated:
  - “3.1.2 Royalties. Licensee will pay to Licensor a royalty fee of \$10.00 per Covered Spray Gun Product sold by the licensee and any sub-licensee under the terms of this Agreement (the “Royalty Fee” [sic]), **with a minimum total Royalty Fee of \$100,000.00 per year**, during the Term [of the license agreement.] Other Covered Products such as the component parts of the Covered Spray Gun Product may be subject to royalties and will be covered in separate agreements.”
- Dux Area introduced new spray gun models and the dispute was whether the \$100,000 minimum royalty was per model per year or total per year
- The Court stated:
  - “Were the court to rely solely on the royalty clause itself, it would conclude that it unambiguously requires a minimum royalty of \$100,000 per year regardless of how many different models of spray guns G Vincent made available to Dux.”

## **7. *G Vincent Ltd. v. Dux Area Inc.*, 2011 WL 62136 (W.D. Wash.)**

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- **But, because the Agreement was governed by California law, the Court couldn't stop there**
  - **Under California law, the Court had to look at the parties' extrinsic evidence to see if it revealed that they mutually intended a meaning different than the unambiguous meaning of the royalty clause**
- **“If the parties were still bound by their initial license agreement, the Court would likely rule that it could not determine as a matter of law the meaning of the royalty clause as applied to multiple spray gun products”**
  - **“This is because unlike the evidence of the negotiations of the amended agreement, **there is some evidence that Dux and G Vincent mutually intended that the original royalty clause be interpreted as G Vincent now urges.**”**

## **7. *G Vincent Ltd. v. Dux Area Inc.*, 2011 WL 62136 (W.D. Wash.)**

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- “The parties could, of course, have agreed to the extent they did not modify the original agreement, it remained in force, thus preserving the mutual intent of Mr. Butler and Mr. Robinson. “
- “But the parties did not agree to retain the original license, they expressly agreed to discard it.”
  - Sept. 2005 Agr. ¶ 14.4 (“**This Agreement and the Consulting Agreement contain the entire Agreement between the parties and supersede any previous agreement of the parties relating to the subject matter of this agreement . . . .**”).
- “No extrinsic evidence suggests that the parties agreed that their mutual intent in negotiating the first agreement was their mutual intent in negotiating the amended agreement.”

## **8. Treating a Choice of Forum Clause as Boilerplate**

## **8. *Fairchild Semiconductor v. Third Dimension*, 589 F. Supp. 2d 84 (D. Maine, 2008)**

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- Fairchild and Third Dimension are parties to a world-wide patent license agreement
- Fairchild has not paid royalties on a particular product (Fairchild's Super - FETTM devices)
- Third Dimension argues that the Fairchild product is “covered by” one of the licensed patents -- *Chinese Patent No. 91,101,845*
- Fairchild filed a DJ action in a *U.S. Court* seeking a declaration that the product it sells in China is not covered by the Chinese '845 patent
- Fairchild filed in the District of Maine because for any disputes:

“[T]he parties consent to the jurisdiction of the Federal Court for the District of Maine . . .”

## **8. *Fairchild Semiconductor v. Third Dimension*, 589 F. Supp. 2d 84 (D. Maine, 2008)**

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- **But, this could require a U.S. Court to interpret a Chinese patent**
- **Whether it's proper to do, was the question presented to the Court in a Motion to Dismiss filed by Third Dimension**
- **The Court began its analysis by noting that “the parties agreed explicitly in their License Agreement that the District of Maine could be used to resolve all their license disputes under the Agreement”**
  - **The Court also noted that there is a “vigorous line of authority” that a federal court should “recognize and enforce a consensual choice of forum”**
- **The Court then commented that if the clause specified Chinese Courts as the forum, “I would enforce it”**
  - **Fed. Cir. has enforced a clause sending the parties to the Courts of Italy**

## 8. *Fairchild Semiconductor v. Third Dimension*, 589 F. Supp. 2d 84 (D. Maine, 2008)

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- The Court then enforced the forum selection clause and denied the Motion to Dismiss:
  - In a globalized marketplace, intellectual property disputes can involve many countries' patent laws. Uncertainty and complexity in resolving those disputes can increase the cost of doing business and, as a result, the cost to the consumer. Private agreement that chooses in advance the forum that will be most convenient to the negotiating parties for resolving their later disputes seems a useful antidote where possible.
- “At the end of the day, this is a contractual dispute between two American companies licensing semiconductor technology, who voluntarily chose United States courts for their license disputes. **Their choice of forum should be honored.**”

## **9. Omitting Language To Address The Future**

## **9. *Discovision Associates v. Toshiba*, 2009 WL 1373915 (S.D. NY. 2009)**

- **“The case turns on whether certain business entities in which Toshiba has an interest are subsidiaries covered by the license agreement, and if so, the amount of royalties those entities owe to DVA.”**
- **The license granted to Toshiba included a license to Toshiba’s subsidiaries**
  - **“subsidiaries” were defined as any other corporation or business entity that Toshiba controls through beneficial ownership of more than fifty percent of the voting interests or rights to more than fifty percent of the entity’s income**

## **9. *Discovision Associates v. Toshiba*, 2009 WL 1373915 (S.D. NY. 2009)**

- **Section 3.4 provided in pertinent part:**
  - **“The license granted herein includes a license to [Toshiba’s] Subsidiaries”**
  - **“Licenses will be granted to additional Subsidiaries of [Toshiba], which are not existing as of the Effective Date . . . upon receipt by DVA of written notices from [Toshiba] setting forth the names and addresses of such additional subsidiaries to be covered by this Agreement.”**
  
- **About a year after the Effective Date, Toshiba and Samsung created a JV to develop, manufacture and sell optical disc drives**
  - **Toshiba owned 51% of the company created by the JV**
  - **Toshiba didn’t pay royalties on sales made by that company**

## **9. *Discovision Associates v. Toshiba*, 2009 WL 1373915 (S.D. NY. 2009)**

- In Toshiba's view, unless and until notice is provided to DVA, a newly created subsidiary isn't covered, no royalties are to be paid, and if the new subsidiary sells Licensed Products, the subsidiary is subject only to liability for patent infringement
- In DVA's view, the notice was simply a benefit to DVA not a precondition
- In the Court's view, **"the drafters could have expressly provided in the first sentence that the grant to Subsidiaries extends to both existing and future subsidiaries (and the instant litigation would likely have been avoided if they had)"**
- held that subsidiary is defined on the basis of control, not the date of an entity's formation

**10. Including a MFN Provision in  
a License with a Lump Sum  
Royalty**

## 10. *JP Morgan Chase Bank, N.A. v. Datatransury Corporation*, 79 F. Supp 3d 643 (E.D. Texas, 2015)

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- “The license agreement (License Agreement) governing that use contains a most favored license clause (MFL clause), granting JPMC the right to “any and all more favorable terms” in comparable later licenses of the patents.”
- “JPMC contends that DTC breached the License Agreement by . . . refusing to grant JPMC the benefit of the more favorable pricing made available in one or more of the later license agreements.”
- “Section 9 of the License Agreement contains the MFL clause at issue, which states:

### 9. Most Favored Licensee

If DTC grants to any other Person a license to any of the Licensed Patents, it will so notify JPMC, and **JPMC will be entitled to the benefit of any and all more favorable terms with respect to such Licensed Patents . . .**

## 10. *JP Morgan Chase Bank, N.A. v. Datatransury Corporation*, 79 F. Supp 3d 643 (E.D. Texas, 2015)

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- “on October 1, 2012, DTC entered into such a license agreement with non-party Cathay General Bancorp (Cathay). The **lump sum price** term for Cathay’s sole use (i.e., not extending to any after-acquired entities) **was \$250,000.**”
- “JPMC contends that **its \$70 million lump-sum price** term must be retroactively replaced with Cathay’s \$250,000 lump-sum price term and the balance refunded.”
- **“JPMC seeks reformation of the License Agreement to reflect a price term of \$250,000 for JPMC’s use of the patents and a refund of \$69,750,000 from the \$70 million it tendered as a lump-sum payment.”**
- “There would be no purpose to a most favored licensee clause in a lump-sum license if the most favored licensee could not obtain a more favorable, later-granted lump-sum rate.”
- “the only way to give meaning to the MFL clause is by retroactive substitution of the payment term. That is the outcome of the parties’ contract here.”

## 10. *JP Morgan Chase Bank, N.A. v. Datatransury Corporation*, 823 F.3d. 1006 (5th Cir. 2016)

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- “We agree with the district court that after comparing these two lump-sum license agreements, the later agreement is indeed more favorable, and **JPMC therefore is entitled to a refund from DTC for the difference between the amount it paid for its license and the lesser amount bargained for in the later license agreement.**”
- “The court also concluded that the only way to give effect to the MFL clause was to apply the new terms retroactively and refund the amount of overpayment”

## **Summary of Top 10 Mistakes**

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- 1. Conducting inadequate or incomplete due diligence**
- 2. Thinking there's no real difference between U.S. laws and the laws of other countries**
- 3. Using ambiguous language**
- 4. Including inconsistent provisions**
- 5. Failing to recognize there's a difference between an "assignment" and a "change in control"**
- 6. Limiting the clauses that survive termination of the agreement**
- 7. Entering into a new agreement rather than amending an existing agreement**
- 8. Treating a choice of forum clause as "Boilerplate"**
- 9. Omitting language to address the future**
- 10. Including a "Most Favored Licensee" provision in a license with a lump sum royalty**