August, 2007

License to Sue?

Lorelei Ritchie de Larena, Florida State University
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By Lorelei Ritchie de Larena

ABSTRACT

Courts, commentators and practitioners have for too long viewed intellectual property law as a discrete discipline, without putting it into the proper theoretical context of general jurisprudence. Intellectual property law cannot and must not exist on its own, outside the normative framework of overlapping legal institutions. Even within the rubric of intellectual property, courts have overlooked the potential for cross-applying relevant doctrines between patent, copyright, and trademark law. Certainly, when intellectual property disputes touch on other disciplines, such as civil procedure, contract, or tort law, courts have tended to overlook their synergies, focusing instead on only one of several important policies or principles. The result has gone beyond missed opportunities. It has led to judicial mistakes, including in the very recent, and broad-based 2007 U.S. Supreme Court case of MedImmune v. Genentech. The Court’s errors have far-reaching implications for the future of the law and its practice.

This article examines the intersection of normative values between intellectual property and contract law. Utilizing graphic illustrations in tables and diagrams, the article proposes a more appropriate interdisciplinary framework for cases involving intellectual property licensing. Courts, litigants, and license negotiators may employ this matrix in order to reach more rational and informed decisions.

* Assistant Professor, Florida State University School of Law; Former Intellectual Property Manager UCLA; J.D. Columbia University School of Law; B.A. Stanford University.
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I. Introduction

Courts, commentators and practitioners have for too long viewed intellectual property law as a discrete discipline, without putting it into the proper theoretical context of general jurisprudence. Intellectual property law cannot and must not exist on its own, outside the normative framework of overlapping legal institutions. Even within the rubric of intellectual property, courts have overlooked the potential for cross-applying relevant doctrines between patent, copyright, and trademark law. Certainly, when intellectual property disputes touch on other disciplines, such as civil procedure, contract, or tort law, courts have tended to overlook their synergies, focusing instead on only one of several important policies or principles. The result has gone beyond missed opportunities. It has led to judicial mistakes, including in the very recent, and broad-based 2007 U.S. Supreme Court case of *MedImmune v. Genentech*. The Court’s errors have far-reaching implications for the future of the law and its practice.

This article examines the intersection of normative values between intellectual property and contract law. Utilizing graphic illustrations in tables and diagrams, the article proposes a more appropriate interdisciplinary framework for cases involving intellectual property licensing. Courts, litigants, and license negotiators may employ this matrix in order to reach more rational and informed decisions.

The analysis begins by addressing parties’ “right to license.” What may appear to be a straight-forward question of contractual authority however, has actually not been treated as a contractual matter at all. Part II of this article therefore discusses the various issues that must be examined in order to determine the ability and authority of private parties to enter into a license agreement. First, Part II(A) examines the commonalities between patent, copyright, and trademark law. This section shows that while each of the three main branches of intellectual property has unique qualities to consider, their underlying normative values are substantially similar and may be addressed together. Next, Part II(B) provides a normative analysis of each of these three main branches of intellectual property, including a representation (Table I) of the competing interests of creators, their competitors, and the public, as these vary between patent, copyright, and trademark doctrine.

The article goes on to examine the normative values of contract law in Part II(C), presenting a graphic illustration of the competing interests between the private right to contract and the need for limitations (Table II). The article then draws on these illustrations to provide an interdisciplinary framework for properly viewing the convergence of contract and intellectual property law, showing that there is substantial overlap in their normative values. This analysis is set forth in Part II(D), with a

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2 A prior article discussed the intersection of normative values between intellectual property and a particular area of civil procedure, declaratory judgment standards. *See* Lorelei Ritchie de Larena, *Re-evaluating Declaratory Judgment Jurisdiction in Intellectual Property Disputes* 83 Ind. L. J. __ (forthcoming 2007)(hereinafter “Re-evaluating Declaratory Judgment”). This article examines the intersection of normative values between intellectual property and contract law in the realm of intellectual property licensing.
descriptive diagram (Diagram A) that demonstrates the many areas where contract and intellectual property law converge. The article proceeds to discuss the perceived divergence between contract and intellectual property law, a red herring that has led courts to overlook the importance of weighing contract doctrine in the balance for cases involving intellectual property licensing. As this section suggests, and Diagram B illustrates, the perceived “divergence” between contract and intellectual property law is actually no more than a recasting of the actual convergence of contractual illegality -- a particular area that fits within standard contract doctrine -- and intellectual property law.

The article then utilizes the proposed framework from Part II to analyze the phenomenon of the “adverse contract.” The discussion includes an examination of U.S. Supreme Court decisions from various points in time, up through the current term, and examines how the Court has repeatedly reached incorrect legal conclusions by overlooking the importance of taking an interdisciplinary approach to cases involving intellectual property licensing. Part III(A) discusses the legend of “licensee estoppel,” wherein the Court actually cast aside relevant contract law entirely, thereby setting up a confusing and untenable framework for future licensing decisions. Part III(B) explains the importance of taking an interdisciplinary approach in cases involving intellectual property licensing. This includes, where relevant, adding civil procedure to the balance of normative values, rather than casting aside an important area of law in favor of just one perhaps valuable, but not necessarily dominant, doctrine. Diagram C graphically illustrates, and Table III further analyzes, the convergence of values between contract doctrine, intellectual property law, and civil procedure.

By overlooking this important interdisciplinary approach, the Supreme Court has created utter confusion regarding the rights of licensing parties, as examined in Part III(C). The outstanding issues are analyzed in Table IV. The Supreme Court had an opportunity to correct its earlier mistake by providing a more comprehensive framework in the 2007 case, MedImmune v. Genentech. Unfortunately, as discussed in Part IV, the Supreme Court again missed the mark, by again casting aside the normative values of contract law instead of properly weighing them in the balance. Therefore, Part V draws on the matrix proposed in this article and accompanying tables to more accurately answer outstanding questions regarding intellectual property licensing, as well as to provide courts, litigants, and license negotiators with an appropriate interdisciplinary framework for addressing issues that are truly at the convergence of contract and intellectual property law. The results are summarized in Table V.

II. The Right to License

A. Examination of Commonalities in Intellectual Property

The normative values of intellectual property law are subject to ongoing debate amongst Congress, courts, and commentators. Generally, intellectual property law must balance
various incentives between creators, their competitors, and the public. The balance is calculated using slightly different indicia in each of the three major branches of intellectual property. On the whole, though, the underlying values are essentially equivalent for patent, copyright, and trademark law.

Indeed, patent and copyright law derive from common Constitutional origins. For this reason, courts are apt to apply useful doctrines--such as third party liability, misuse, licensee estoppel and remedies--from one to the other. The U.S. Supreme Court has made the case for sharing doctrines several times, including in the landmark 1984 case of *Sony Corp. v. Universal City Studios,* and in the more recent 2006 case of *eBay Inc. v. MercExchange.* The eBay court considered the viability of presumptive injunctions in patent law. The Court did not simply stop at an analysis of patent law however, but turned also to copyright law for persuasive analogy. The Court observed that although patent owners are given a presumption of injunctive relief, copyright owners are instead subject to the traditional 4-part inquiry used in general jurisprudence to determine whether an injunction should issue in a particular case. Reasoning that patent law has a

3 The U.S. Supreme Court has stated the competing objectives of patent law, which are similar to those of copyright and trademark:
   First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public. *Aronson v. Quick Point Pencil Co.*, 440 U.S. at 262.

4 Where relevant, this article also examines issues as they occur or differ in trade secret law.

5 U.S. Const. art. I, § 8, cl. 8 (“The Congress shall have Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”).

6 See Maureen A. O’Rourke, Toward a Doctrine of Fair Use in Patent Law, 100 Colum. L. Rev. 1177 (2000); see also Lorelei Ritchie de Larena, What Copyright Teaches Patent Law About “Fair Use” and Why Universities Are Ignoring the Lesson, 84 Or. L. Rev. 779 (2005); cf, a current article by Professors Menell and Nimmer cautions against blanketly applying patent law principles to copyright law. Peter Menell and David Nimmer; Unwinding Sony, SSRN (Sept. 30, 2006), UC Berkeley Public Law Research Paper No. 930728, available at SSRN http://ssrn.com/abstract=930728. They dispute the wisdom of the *Sony* court’s famous application of patent law to a copyright case, since they argue that direct copyright principles and law should have been considered more relevant. At 60. The argument is interesting, but applies mainly to liability, and to issues where there is strong precedent within the direct law – as they state was the situation with copyright and vicarious infringement liability. At 57. In fact though, there are various issues where it is entirely appropriate to cross-apply patent and copyright doctrines in order to standardize them appropriately. (Menell and Nimmer refer to one-off situations as “cross-overs” and do not necessarily advocate even those – at 79 – although Professor O’Rourke and other commentators have pointed out that beyond *Sony,* there is indeed other “historic kinship” between patent and copyright law.

7 *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984), which extended the doctrine of vicarious infringement from patent to copyright, stating: “The closest analogy is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law.”

8 *eBay Inc. v. MercExchange,* 126 S.Ct. 1837, 1840 (2006), which considered the then-current presumption of injunctions in patent cases, and ultimately dismissed the presumption in favor of applying the standard 4-factor injunction test as applied in copyright cases. What the Supreme Court may not have realized is that while copyright holders may not enjoy a legal presumption of injunction, in practice, courts routinely grant the injunctions.
similar development and grant of rights to copyright law\textsuperscript{9} and that furthermore both use the same terminology regarding remedies,\textsuperscript{10} the Court determined that patent owners should be equally subject to the 4-part inquiry, and should no longer be granted presumptive injunctions. In so stating, the Supreme Court neatly discarded nearly a century of patent precedent in favor of an apparently better standard articulated in copyright law.\textsuperscript{11}

Trademark law, which has different origins but some common issues,\textsuperscript{12} is frequently included in the cross-pollination of intellectual property law. Courts have, for example, applied the doctrine of first sale (rights exhaustion) equally to trademark law, as an analogue to patent and copyright.\textsuperscript{13} Furthermore, as a basic administrative setup, the U.S. government combines patent and trademark grants and administration into one agency, the U.S. Patent and Trademark Office. Finally, Congress has recently considered consolidating the Lanham Act, governing trademark rights and infringement, into patent’s Title 35.\textsuperscript{14} It is therefore useful to consider trademark law alongside patent and copyright law when considering their normative values.

\section*{B. Normative Analysis of Intellectual Property Law}

In patent law, there is a precarious balance that easily topples with the addition of misguided legislation by Congress as much as with muddled interpretation by courts. Inventors -- and more frequently their assignees -- must be rewarded with patents for their protectable ideas, as an incentive to create and invest in technology development. The public must then be rewarded with full disclosure of the inventive steps, and of course with the assurance that only truly patentable inventions will receive the exclusionary patent grant. Finally, competing inventors -- and companies -- must be

\begin{itemize}
  \item \textsuperscript{9} Id. (exclusivity).
  \item \textsuperscript{10} Id. (injunction “may” issue)
  \item \textsuperscript{11} Since a 1908 Supreme Court decision, injunction had been the presumed remedy in patent law. \textit{Continental Paper Bag Co. v. E. Paper Bag Co.}, 210 U.S. 405, 430 (1908). In overruling that standard, supposedly to align patent with copyright law, the Supreme Court failed to observe that injunctions are actually the norm in copyright law as well, even without a clear legal presumption guiding that trend. Interestingly, the Supreme Court has also shown a recent trend toward keeping patent law aligned with general jurisprudence. \textit{See Merck v. Integra}, 125 S.Ct. 2372 (2005); \textit{EBay Inc. v. MercExchange}, 126 S.Ct. 1837, 1840 (2006); \textit{MedImmune v. Genentech}, 127 S.Ct. 764 (2006). This is important since patent appeals do not benefit from the competitive nature of regional circuit courts, but rather are all funneled through the Federal Circuit Court of Appeals. It has been argued that patent law, too, might benefit from more competition between courts, with the addition of at least one other circuit hearing patent appeals. \textit{See Craig Allen Nard and John F. Duffy, Rethinking Patent Law’s Uniformity Principle}, Sept. 5, 2006, Case Legal Studies Research Paper, No. 06-17, Available at SSRN http://ssrn.com/abstract=928498.
  \item \textsuperscript{12} It is generally accepted that trademark law derives from commonlaw and that, on the federal level, Congress’ power to regulate trademarks stems from the Commerce clause. \textit{See Trade-Mark Cases}, 100 U.S. 82 (1879); \textit{Bonito Boats, Inc. v. Thunder Craft Boats, Inc.}, 109 S.Ct. 971 (1989)
  \item \textsuperscript{13} \textit{Allison v. Vintage Sports Plaques}, 136 F.3d. 1443, 1448 (11\textsuperscript{th} Cir. 1998).
  \item \textsuperscript{14} Recently, Congress considered a bill to recodify the Lanham Act from Title 15 to Title 35. The bill was introduced to the House Judiciary Committee of the 2d Session of the 109\textsuperscript{th} Congress in 2006 by Representatives Sensenbrenner and Conyers. The bill expresses “conformity with original intent” to consolidate patent and trademark law, and states an objective to “reflect the emergence of intellectual property law as a distinct field of law” and a “cohesive unit.”
\end{itemize}
rewarded with their own opportunities to obtain patents on improvements and work-around technology. Of course, that all begs the question of how these countervailing balances should be weighed.

Economic efficiency demands the availability of patent protection as much as it requires that such protection be subject to legal challenge. On the one hand, patents are necessary to encourage investment in various industries that bring products and processes of great value to the consuming public.\footnote{Patents are more likely to incentivize innovation in industries where research and development costs are highest.} On the other hand, weak and invalid patents must not be permitted to overshadow the marketplace. To that end, the U.S. Supreme Court has mandated that while patents are given a presumption of validity,\footnote{\textit{Blonder Tongue Laboratories, Inc. v. University of Illinois Foundation}, 402 U.S. 313, 350 (1971).} once invalidity is proven in court, the patent is rendered unenforceable against even third parties.\footnote{\textit{Id.}}

As a normative value, predictability is of prime importance both to the patentee and to potential infringers who must make business decisions based on the validity and enforceability of the patent. This is becoming difficult in the current political and legal climate, where, interestingly, each of the three branches of federal government is concurrently pursuing patent reform, and not all in the same direction. In \textit{Merck KGaA v. Integra} in 2005, the Supreme Court expanded the interpretation of statutory fair use in patent law, in cases where the purported infringement may lead to drug discovery and development.\footnote{\textit{Merck KGaA v. Integra Lifesciences, Ltd.}, 125 S.Ct. 2372, 2380 (2005). 35 USC §271(e) reads, in relevant part: “It shall not be an act of infringement to make, use, offer to sell, or sell . . . solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs.”} In \textit{eBay v. MercExchange} in 2006, the Supreme Court modified the nearly century-old presumption of injunction in patent cases, thereby tipping the scales toward compulsory licensing.\footnote{\textit{EBay Inc. v. MercExchange}, 126 S.Ct. at 1840.} Congress, meanwhile, has been up in arms over the past couple of years, with different congressmen endorsing half a dozen different patent reform bills, any of which might significantly affect the practice of patent law in the United States.\footnote{The latest round of proposed patent reform legislation, currently pending as of June 2007 consists of provisions aimed, again, at including a post-grant opposition, as well as some damages reapportionment and broader rulemaking authority for the USPTO. The Senate bill is S.1145 (Leahy/Specter/Hatch), and the corresponding House bill is H.R. 1908 (Berman/Smith).} Within the executive branch, the U.S. Patent and Trademark Office is pursuing various methods of increasing quality and timeliness of patent applications.

Everyone, from business owners to scholars, agrees that the current patent system has significant problems, but even within the typical dividing lines, there is no clear agreement on solutions. In the January 2007 Supreme Court decision involving licensee estoppel, various law professors and industry experts filed briefs in support of petitioner (licensee)\footnote{See Brief of Three Intellectual Property Law Professors as Amici Curiae in Support of Petitioners, \textit{MedImmune v. Genentech}, 2006 WL 1355595.} and others filed in support of respondents (licensors),\footnote{\textit{Id.}} demonstrating the
differing interests in this debate. Following recent precedent, the Supreme Court again favored user rights by lowering the bar for validity challenges by active licensees. As discussed in Part IV of this article, infra, the ruling in this particular case was misguided, and based on the Supreme Court’s misunderstanding of patent law and licensing practice. Nevertheless, it evidences the trend toward user rights.

In copyright law, the incentive structure is generally similar, although the competing interests are somewhat differently aligned. In copyright law, the main interests less frequently include competitors who develop similar ideas, and more frequently substitute users, including technology companies charged with third-party liability. Since copyrights are obtained simply by registration rather than by a governmental review process, they are not given the same presumption of validity as are issued patents. This slight distinction has some repercussions in the equities considered for licensing. The lower bar to challenge copyright compared with patent validity would seem to favor users’ rights. The relatively long duration of copyrights compared to patents, however, weighs in the other direction. On the whole, while the specifics are different (see Table I infra), the overall balancing factors are similar in patent and copyright law.

Trademark law, meanwhile, is more similar to patent law in some key aspects, and more similar to copyright in others. With commonlaw rights that do not necessarily require registration, trademark more closely follows copyright’s automatic grant upon creation (or in trademark law, use). In its more rigorous agency review before federal grant, trademark is closer to patent law. Meanwhile, trademark law is different from either patent or copyright in that it is not pre-empted by federal jurisdiction in the Lanham Act, but may also be conferred by the states.

Trade secret law shares some legal characteristics of trademark law, although in practice it is generally viewed as an alternative to patenting a technology. Being based in the common law, trade secret misappropriation is a state, not federal, claim. Like most torts,
trade secret liability can vary greatly by state, although most have eradicated that disparity by enacting the Uniform Trade Secrets Act, which serves to standardize the elements.\footnote{The UTSA has been enacted in 45 states, plus two U.S. territories, including the District of Columbia, as of June 2007.}

The balance of normative factors between the respective stake holders in patent, copyright, trademark, and trade secret law is illustrated graphically in Table I, infra, in Appendix (Tables).

\section*{C. Normative Analysis of Contract Law}

Contracts are legally enforceable agreements.\footnote{See NEC Corp. v. Dept. of Commerce, 74 F.Supp.2d 1302 (Ct. Intl. Trade 1999)(“a promise or set of promises for breach of which the law gives a remedy, or the performance of which the law in some way recognizes as a duty); Restatement (Second) of Contracts, §1; in some cases, contracts may be said to constitute legally recognizable rights; See E. Allan Farnsworth, Contracts, §1.1 (Aspen Law and Business, 3rd Ed; 1998))} Of course the basics of first year Contracts courses teach us that not all agreements are enforceable as contracts.\footnote{Contracts courses discuss the many and varied ways that parties can avoid enforcement of their agreements.} The agreement may be overly ambiguous,\footnote{Wood v. Lucy, Lady Duff-Gordon, 222 N.Y. 88, 118 N.E. 214 (1917)(wherein courts may impute intent by the parties if possible)} illusory,\footnote{See U.S. v. Winstar Corp., 518 U.S. 839 (1996).} lacking consideration,\footnote{See Hamer v. Sidway, 124 N.Y. 538, 27 N.E. 256 (Ct. App. 1891).} or disputed as to its very existence.\footnote{See Petterson v. Pattberg, 248 N.Y. 86, 161 N.E. 428 (Ct. App. 1928), as well as the classic “Blackacre” case examples where acceptance is tendered too late.} Contracts may also be rescinded, or provisions struck, on the basis of illegality, including unconscionability, duress, or fraud.\footnote{See Sherwood v. Walker (mistake); Austin Instr., Inc. v. Loral Corp., 29 N.Y.2d 124, 272 N.E.2d 533 (Ct. App. 1971)(duress); Woollums v. Horsley, 93 Ky. 582, 20 S.W. 781 (Ct. App. 1892)(unconscionability).}

Overall, contract law is geared toward implementing the reasonable expectations of parties.\footnote{See Tymshare Inc. v. Covell, 727 F.2d 1145 (D.C. Cir. 1984).} Another major goal of contract law is to ensure the right of private parties to design their future interests by assigning present value to probabilities of future outcomes based on the information and belief of the parties – or in some cases on the actual, sometimes even superior, knowledge of one or the other.\footnote{See Drennan v. Star Paving Co., 51 Cal.2d 409, 333 P.2d 757 (Cal. Supr. Ct. 1958); Batsakis v. Demotis, 226 S.W.2d 673 (Tx. Ct. Civ. App. 1949).} In this way, contract law encourages the resolution and settlement of disputes that have arisen or that may arise.\footnote{See Brian Contr. & Devlpmt Co. v. Brighenti, 176 Conn. 162, 405 A.2d 72 (1978); Marton Remodeling v. Jensen, 706 P.2d 607 (Utah Sup. Ct. 1985).}
These important normative values of contract law must be balanced with the countervailing duty of good faith and fair dealing. The resulting balance of normative factors in contract law is illustrated graphically in Table II, infra, in Appendix (Tables).

D. The Convergence of Contract and Intellectual Property Law

The intersection of contract and intellectual property law reveals substantial overlap in their normative values. They share the general value of satisfying the reasonable expectations of the parties involved, as well as a balance of interests between the relevant stake holders, including the public. Moreover, intellectual property, like contract, rights are primarily commercial. For these reasons, intellectual property rights combine easily with contracts. Specifically, intellectual property rights may be contracted ex ante (before creation), or ex post (post-creation). The ex post contract may be a full assignment or a license of varying degrees. Each of these contracts has separate, corresponding issues.

Employers commonly require new employees to sign contracts agreeing in advance that the employee will assign rights in any invention or other creation made during the term of employment. Savvy employers use substantially similar forms for independent contractors, including those hired via purchase order, in order to ensure that they do not get stuck paying full value for creation and ending up with just a copy, rather than a copyright (or patent), particularly where the purchaser believes that the creator has already captured the full value in the initial sale. These contracts are often applied to trade secrets, and are especially well-utilized in states like California where covenants not to compete are unenforceable by law.

Where copyrights are involved, these ex ante agreements to assign may be styled as an alternative to a “work for hire” arrangement. This is key to situations where the creation

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43 In intellectual property law that presents a more fluid question as to identification of the relevant “parties.” Accordingly, Part II(B), supra, and Table I lay out the major stake holders in the three main branches of intellectual property law (plus trade secret), including, where relevant, the rights holder, competitors, users, and the public (a multi-facted group of taxpayers, consumers, and fellow citizens).
44 While many rationales may be posited for the protection of intellectual property rights, the government grant of rights in patent, copyright, and trademark law are all oriented toward commercial use by the rights holder. This is clear from the remedies, which are oriented toward damages, as per their torts origins (and sometimes injunctions, deriving from their oft characterization as property rights). See Mark A. Lemley and Phil Weiser, Should Property or Liability Rules Govern Information (2007)(available at http://ssrn.com/abstract=977778, last visited June 24, 2007)(hereinafter “Property or Liability Rules”).
Trade secret law is by its very definition commercial, since it governs only that which “derives independent economic value” from its secrecy. See UTSA; for example Cal. Civ. Code § 3426.1(d)(1).
45 Most sophisticated companies require such ex ante agreements, and increasingly research universities do as well. See, UC Patent Acknowledgement Form, which all new University of California employees are required to sign. (available at: http://www.ucop.edu/ott/genresources/patentac.html, last visited June 21, 2007).
46 Cal. Bus. & Prof. Code § 16600. Interpretation of the statute is currently under submission by the California Supreme Court in the case of Edwards v. Arthur Anderson LLP, Case No. WS147190.
may not fit into one of the 9 categories necessary for establishment of a work for hire. Although Title 17 limits what may be considered a “work for hire” -- with corresponding repercussions on duration of copyright and of assignment -- Title 17 does not limit the rights of parties to privately enter ex ante contracts that will govern the ownership of the future copyright creations.

Overall, parties need to ensure that their intellectual property contracts -- whether ex ante or ex post -- match the normative values of contract as well as of intellectual property law, by fitting the requirements described in Part II(C) of this article, supra (consideration, legality, etc.). For example, agreements to assign in the future are sometimes deemed to lack present consideration. As such, assignments of already-existing rights -- or at least rights that are in good faith believed by the parties to exist -- fall nicely into the intersection of normative values of contract and intellectual property law, and are generally not problematic as long as the proper requirements of contract law are followed.

Licensing presents the quintessential intersection of contract and intellectual property law. More so than with any other contract governing intellectual property rights, licensing pushes the normative values of each to the test, requiring a very careful balance of interests. The U.S. Supreme Court has recently recognized that need for balance in the realm of intellectual property licensing. As will be examined further in Part IV however, the Court unfortunately veered off course and failed to really contemplate contract law in the balance.

The convergence of normative values between contract and intellectual property law is illustrated graphically in Diagram A, infra.

[Text continues on next page]

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47 17 USC § 101. Often these are styled as either/or contracts, including language along the lines of: “The parties agree that this work is and will be deemed a work-for-hire under Title 17 of the United States Code. To the extent the work is not deemed a work-for-hire by a competent court of law, the parties agree that Creator will, and hereby does, assign all right, title, and interest in Work to Commissioning Party for good and valuable consideration.”

48 Although if not a statutory work for hire, even an ex ante contractual assignment will be limited in time by the terms of 17 USC § 203.

49 Therefore, parties may opt for present tense language such as “X agrees to assign, and hereby does assign, any and all right and interest in such inventions as may be created . . . “)(emphasis not necessary).

E. The Perceived Divergence of Contract and Intellectual Property Law

Despite their generally smooth intersection of normative values, contract and intellectual property law may appear to diverge in certain key respects. Specifically, while contract law typically allows parties to devise their own arrangements, there are certain overriding normative restrictions in intellectual property law, primarily involving misuse, antitrust, estoppel, and consumer protection. These restrictions are driven by the exclusive nature of most intellectual property rights, including the exclusionary nature of patents, and the similarly expansive nature of copyright. Due to the strength of the intellectual property grant, together with the extraordinary right to injunction as a (generally presumed) remedy, and the fact that they are essentially government-

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51 Provided full and fair access to information; see Tymshare Inc. v. Covell, 727 F.2d 1145 (D.C. Cir. 1984); Austin Instr., Inc. v. Loral Corp., 29 N.Y.2d 124, 272 N.E.2d 533 (Ct. App. 1971).
52 35 USC § 101
53 17 USC § 101
54 In the 2006 eBay case, the U.S. Supreme Court dismissed the automatic presumption of injunction in patent law, but it continues to be the norm in most cases. For further examination on the proper rights and
conferred rights, such restrictions are necessary to maintain the precarious balance between the stake holders, as illustrated in Table I of this article, infra, in Appendix (Tables).

Policy exceptions to free contracting in intellectual property law may be attributable to a fundamental belief that intellectual property owners have more leverage, and hold greater bargaining power, than their licensees. This mistaken generalization has led to some inconsistency in recent decisions by the U.S. Supreme Court, including in its January 2007 decision MedImmune v. Genentech, discussed in Part IV of this article, infra. In reality though, misuse, antitrust, and other restrictions in intellectual property licensing do not at all present a divergence with contract law, but rather fit well within standard contract doctrine, which limits illegal contracts.

Misuse occurs when a patentee tries to overreach the scope, term, or extent of its patent grant. In the licensing context, misuse may be found where a patentee attempts to bind a licensee to contractual obligations beyond the legal term of the patent. In that case,
of course, the normative values precluding misuse must override the contractual right of parties to voluntarily enter a willing bargain. On the other hand, accepting that parties to a license agreement may take a gamble on the ultimate enforceability of the subject patent claims, especially if the license agreement is completed in advance of the patent grant, the Supreme Court has also found it acceptable for parties to set a date certain for the term of the license agreement, regardless of whether a pending patent ultimately issues. Thus, a would-be patentee may bind a licensee to pay royalties on a patent that never issues, as long as the licensor does not also attempt to bind a licensee beyond the actual term of an issued patent.

The normative values of antitrust are also somewhat at odds with those of intellectual property law. This provides for a constant and ongoing normative debate amongst Congress, courts, and commentators. While antitrust law seeks to avoid barriers to competition, intellectual property rights are built on the premise of exclusivity. The Federal Trade Commission issued a report in October 2003, alleging, among other things, that patents provide a potential antitrust risk. This is of course true, but only when patents are misused, abused, or otherwise taken out of context.

There are several additional areas of tension between the private right of contract and the strictures of intellectual property ownership. Generally, these arise in other contexts where, as with misuse or antitrust violations, the intellectual property owner attempts to engage in some improper or illegal activity. Consumer protection laws, for example, may limit the ability of intellectual property owners to lock unwitting buyers into adhesion contracts. These laws do not really present a normative conflict however, since they are

911 F.2d 970 (4th Cir. 1990)(license provision barring licensee from developing competing software was misuse); SSG Communications v. DGI Technologies, 81 F.3d 597 (5th Cir. 1996).
59 Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979)(also okay for the parties to contract for lower royalties in the event no patent issues).
61 A good example of this controversy is the recent case of In re Tamoxifen Citrate Antitrust Litigation, 466 F.3d 187 (2nd Cir. 2006)(cert. denied; Joblove v. Barr Labs Inc., US No. 06-860 6/25/07), challenging the practice of “reverse payments” whereby a pharmaceutical patentee pays a generic company with first rights to stay off the market. For more on reverse payment schemes and their legality, see Christopher M. Holman, Do Reverse Payment Settlements Violate the Antitrust Laws? 23 Santa Clara Computer & High Tech. L.J. 489 (March 2007).
62 Software licenses present the common tension in the apparent “divergence” between contract and intellectual property law. Again, though, what appears to be a “divergence” is generally just applications of contractual protections, such as commonlaw principles of adhesion contract and overriding statutory consumer protections. Accordingly, although courts generally allow broad contractual leeway, even in
typically aligned with general commonlaw contract principles of good faith and fair
dealing. Estoppel also, which would (and should) be governed by standard contractual
principles, has instead been taken up by the U.S. Supreme Court as a matter of
intellectual property policy. The resulting confusion is examined in Part III of this
article, infra. Overall, it is unfortunate that courts have repeatedly latched onto the red
herring of a perceived “divergence” between contract and intellectual property law, and
thereby based their decisions on somewhat false pretenses, when instead they should be
looking at this as just an overlap between intellectual property norms and the proscription
against illegality in contract doctrine.

The normative values in the perceived “divergence” between contract and intellectual
property law (that is to say, in the convergence of intellectual property and contractual
illegality) are illustrated graphically in Diagram B, infra. Diagram B shows what is not
enforceable under the principles of relevant contract and intellectual property doctrine.

[Text continues on next page]

“clickwrap” and “shrink wrap” licenses, parties must, of course, abide by standard contractual requirements
of “good faith and fair dealing.” See, for example, ProCD v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996)
(“shrinkwrap licenses are enforceable unless their terms are objectionable on grounds applicable to
contracts in general”); Hill v. Gateway, 105 F.3d 1147 (7th Cir. 1997)(opportunity to read terms online
sufficient, even if terms not discussed by representative on phone purchase). Even cases that have taken a
very negative view of clickwrap licensing have typically relied on commonlaw contract principles to thwart
the clickwrap provisions; see, for example, Specht v. Netscape, 306 F.3d 17 (2d Cir. 2002)(arbitration
provision not disclosed upfront in clickwrap license not binding, based on commonlaw principles of
contract); Bragg v. Linden Research Inc., E.D. Pa, No. 06-4925 (May 30, 2007)(denying enforcement of
clickwrap license based on contractual theories of adhesion and unconscionability).
III. The Adverse Contract

A. The Legend of Licensee Estoppel

Once upon a time, it was decreed across the land that a licensee of a patent could not challenge its validity, now or evermore.\textsuperscript{63} The concept was referred to as “licensee estoppel,” and the rationale was essentially that one cannot both benefit from a right and simultaneously challenge it. In the much-cited case of \textit{Lear v. Adkins}, however, the U.S. Supreme Court cleanly abolished the doctrine of licensee estoppel in patent law.\textsuperscript{64} While the effect of the \textit{Lear} decision was sweeping, the Court’s analysis in reaching its ultimate conclusion was even more revealing, both for its high points and for its flaws.

\textsuperscript{63} \textit{See Automatic Radio Mnf’g Co. v. Hazeltine Research, Inc.}, 339 U.S. 827 (1950)(applying the doctrine of licensee estoppel to patent law).

\textsuperscript{64} \textit{Lear, Inc. v. Adkins}, 395 U.S. 653, 674 (1969).
Interestingly, the Lear Court recognized licensee estoppel as being at the intersection of patent and contract law. The Court did not, however, see a possibility of balancing the laws’ competing normative values, but instead came up with a disappointingly black and white analysis. The Court focused on patent law in a vacuum, and even within patent law, the Court failed to consider the complex and competing demands of patent doctrine, including the important incentives created by patents. Instead, the Court basically held fast to the singular principle that “all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent.” While true, this is only one piece of a larger puzzle both within patent law and between patent and contract doctrine. Therefore, the Court missed an opportunity to find common ground at the intersection of contracts and intellectual property, instead opting to say, simply, that the importance of challenging weak patents overrides the importance of upholding general principles of contract law. This was an unfortunate and unnecessary conclusion. In fact, the Court could -- and should -- have reached the same holding, abolishing the doctrine of licensee estoppel as an automatic bar to patent validity challenges, by examining the convergence -- rather than the perceived divergence -- of contract and patent law.

In particular, the Court glossed over a few important doctrines of contract law that could be used to address this very issue. Already, under standard principles of contract law, a licensee who seeks to challenge the validity of the licensed patent could rightfully rely on some of the contract doctrines discussed in this article at Part II(C), supra. The licensee could claim that the contract lacked consideration, and go on to establish that by showing the licensed patent to be invalid and thereby unenforceable. The licensee could also claim that the licensor lacked the necessary “good faith and fair dealing,” and perhaps engaged in fraud, if the licensee can show that the licensor procured the patent with inequitable conduct. Even in a case where the licensor can equally show its good faith in having believed a patent to be valid, the licensee could invoke the contract doctrine of mistake, where the very basis of the contract is a patent that both parties may have had reason to believe was valid, but when subject to challenge was found not to be.

Contract doctrine would supply a sufficient -- and preferable -- basis for abolishing the doctrine of licensee estoppel as an automatic bar to patent validity challenges.

65 Id. at 668.
66 The Lear decision has been criticized for adding to a mismatched incentive system, whereby licensees have an unnaturally low bar to challenging patent validity, whereas non-licensees have an unnaturally high bar for such challenges. See Rochelle Dreyfuss, Dethroning Lear, 72 Va.L.Rev. 677, 758 (1986). Indeed since that article was published, these incentives have been thrown further afoul by the Federal Circuit, and then by the U.S. Supreme Court in the January 2007 MedImmune v. Genentech.
67 For more on the complex and competing interests of intellectual property law, and the need to balance them, see Part IIA, supra.
68 Id.
69 Lear, 395 U.S. 684 at 668.
70 Id. at 670-671. The Court did at least profess to seek “an acceptable middle ground” between the “two different worlds of contract and patent.” At 668. However, the Court missed an important opportunity to do so, instead basing its conclusion on its expressed belief that patent law is simply more important.
71 See Court’s cursory -- but generally dismissive -- discussion on possible contractual defenses at 395 US 669.
Recognizing that licensee estoppel may be managed within the standard confines, and convergence, of contract and patent law, would also leave open the possibility that in some cases the licensee would simply not be able to satisfy the necessary standard to challenge a licensed patent via the appropriate contractual vehicle. This result would present a true balance of interests both in the patent realm, and between patent and contract law.

**B. Adding Civil Procedure to the Normative Balance**

Certainly, allowing a licensee to sue at anytime for anything at all is an entirely illogical conclusion that does not at all flow from Lear. The Lear doctrine cannot be construed as per se conferring standing or ripeness where they would not otherwise lie. Indeed the Lear doctrine, while important in allowing more open access to challenging patents, does not and should not be interpreted to do anything more than remove one specific bar to patent litigation. Prior to Lear, some courts held that a licensee, just by virtue of taking a license, was forever estopped to deny the validity of the subject of that license. Now, in post-Lear jurisprudence, a former licensee, or one in breach of its obligations, may challenge the validity of the patent (or perhaps the copyright/trademark) if the party otherwise satisfies jurisdictional requirements. Certainly, it would be as misguided to allow a licensee to sue just based on that status as it was to estopp it for that reason.

This issue highlights the importance of adding civil procedure to the balance at the intersection of normative values between contract and intellectual property law, as discussed in Part II and illustrated in Diagrams A and B, supra. At its core, civil procedure seeks to ensure that proper jurisdiction is established in order to afford parties...
fair access to courts without requiring parties to be hauled into court inappropriately. In general, *in personam* jurisdiction is somewhat negotiable, and therefore tends to fit well with the principles of contract law and the private right of parties to willingly bargain away their rights. This is demonstrated by contractual clauses regarding choice of law and forum, which are generally permitted as a right of contractual negotiation. However, there are exceptions, including where intellectual property (or other) norms conflict. In California, there is a strict statutory policy against employee non-compete agreements. Therefore, at least one California court has invalidated a choice of law clause that would opt for another state, in favor of promoting California’s strong interest in enforcing its statute.

Subject matter jurisdiction, meanwhile, is a much more rigid value of civil procedure, and one that courts do not allow parties to privately contract. In particular, courts have observed that parties may not waive or confer subject matter, as they do *in personam*, jurisdiction, since it is not within the right or ability of the parties to create jurisdiction by the court. In the realm of intellectual property, this is illustrated by the example that a patent claim brought under Title 35 presents a federal question, while claims brought under any given state’s codification of the Uniform Trade Secrets Act are not. The rationale is that either a dispute fits the subject matter jurisdiction of a court or it does not -- at least in principle.

In reality, there is a great deal that parties can do, whether by contract or unilaterally, to garner subject matter jurisdiction. Diversity and supplemental jurisdiction create statutory exceptions allowing federal courts to hear state claims. Similarly, declaratory judgment actions confer subject matter jurisdiction on federal courts where the putative

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77 Actual negotiation is generally unnecessary, since the ability of the parties to negotiate is presumed absent some illegality as described in Diagrams A and B, supra, and Table II in Appendix (Tables), *infra*. *Carnival Cruise Lines, Inc. v. Shute*, 111 S.Ct. 1522 (1991)(public policy favors “predictability” for parties – per Table II, *infra*); *The Bremen v. Zapata Off-Shore Co.*, 92 S.Ct. 1907 (1972)(forum selection clauses are *prima facie* valid).

78 Cal. Bus. & Prof. Code § 16600. Interpretation of the statute is currently under submission by the California Supreme Court in the case of *Edwards v. Arthur Anderson LLP*, Case No. WS147190.

79 Application Group, Inc. *Hunter Group, Inc.*, 61 Cal.App.4th 881, 71 Cal.Rptr.2d 73 (1st Dist. 1998; Restatement (Second) of Conflict of Laws §187; cf *Advanced Bionics v. Medtronic, Inc.*, 29 Cal.4th 687, 59 P.3d 231 (2002). See also *Dix v. ICT Group Inc.*, Wash. No. 77101-4 (Wash. Supr. Ct. July 12, 2007)(rejecting forum selection clause that would have state law consumer protection statute adjudicated in a jurisdiction that does not permit class-action suits in such cases). The latter court noted: “Although forum selection clauses are *prima facie* valid, a forum selection clause may be invalid if it violates the public policy of this state.”

80 F.R.C.P., Rule 12(h)(3) *requires* a courts to dismiss an action at any time where it appears that subject matter jurisdiction is lacking, since it cannot be waived by the parties. The defense may be raised by the parties or by the court at any time, even on appeal. Parties cannot contract to invoke subject matter jurisdiction before or during litigation, since it raises the very question of the court’s authority to hear their case. See *Neirbo Co. v. Bethlehem Shipbuilding Corp.*, 60 S.Ct. 153 (1939).

81 28 USC § 1338, which also confers federal jurisdiction on copyright claims brought under Title 17 or trademark claims brought under Title 15. Of course intellectual property rights brought under state statutes or commonlaw must be brought as state law claims.

82 28 USC § 1332 (diversity); 28 USC § 1367 (supplemental).
plaintiff chooses not to initiate suit, but the dispute is otherwise ripe.\textsuperscript{83} Between these various exceptions, there is an emerging framework whereby parties may actually be able to create subject matter jurisdiction in apparent contrast to the stated values of civil procedure, yet entirely within the bounds of the law. This could occur even by contract in an intellectual property license agreement. For example, while federal courts will not allow parties to simply state by contract that disputes will be covered by federal law, the parties can arrange diversity jurisdiction. Similarly, while federal courts would not accept a contractual provision that there exists a “case or controversy,” parties could state factors that would be considered hostile to the license -- and that thereby would likely create at least baseline declaratory judgment jurisdiction.\textsuperscript{84} That particular issue was not present before the Supreme Court in the 2007 \textit{MedImmune} case, and so it adds to the array of murky questions surrounding the intersection of contract and intellectual property law, and, as on this issue, their convergence with the normative values of civil procedure, analyzed in Table III, \textit{infra}, in Appendix (Tables), and graphically illustrated in Diagram C.

\textbf{[Text continues on next page]}

\textsuperscript{83} 28 USC § 2201. The issue of declaratory judgment in the licensing context was examined by the U.S. Supreme Court in the January 2007 \textit{MedImmune v. Genentech}, 127 S.Ct. 764 (2007). The decision is examined further in Part IV of this article, \textit{infra}.

\textsuperscript{84} On oral argument, Justice Stevens asked “whether the parties could agree to create a case or controversy.” \textit{MedImmune v. Genentech}: (Case No. 05-608; Transcript of argument Oct. 4, 2006)(34:13-14). This is an interesting question because even where baseline declaratory judgment jurisdiction is established, the courts have discretion whether to hear a case. Certainly jurisdiction must lie as a baseline matter, but of course it is the parties who create the controversy by their words or actions.
C. The utter confusion

Although the U.S. Supreme Court sought to create a simplified system with *Lear*, the decision instead created vast gaps in the ability of licensing parties to predict outcomes for varying behaviors. The confusion results from the *Lear* Court’s incorrect rationale. Instead of relying on contract law to reach its decision -- as it could and should have done, the Court stated that its decision was actually based on what it deemed the preemption of federal patent law over commonlaw contract principles. A proper decision based on contract doctrine would reasonably have allowed licensing parties to guide their future behaviors by the principles of contract law. Instead though, the misguided rationale of the Supreme Court in *Lear* has left licensors and licensees alike uncertain of the proper boundaries of their transactions. The result has been utter confusion as to what exactly is acceptable behavior by the parties to a contract, if the contract happens to be a license for intellectual property. Circuit splits have ensued, leading to the creation of the Federal Circuit Court of Appeals in 1982. The Federal Circuit, which now hears virtually all patent appeals, should have been able to clarify the

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confusion, yet the court has unfortunately taken an overly-formalistic, and sometimes narrow tact, further adding to the disarray.

When the U.S. Supreme Court finally granted cert. on a licensing case this past term, there was some hope that the Court would shed light on the undecided issues in licensing practice. This call for action is demonstrated by the amicus brief filed by the Licensing Executive Society (LES). The LES represents thousands of domestic and international company representatives, consisting of both licensors and licensees. Tellingly, the LES filed its brief “In Support of Neither Party,” simply seeking the certainty necessary to properly settle the economic expectations on all sides.\(^{86}\) In particular, the brief provides the following background in its plea to the Supreme Court for firm guidance:

Licensees and licensors now often do not know prior to entering into a license agreement whether, when, or how licensees will be permitted to challenge patent validity. Similarly, licensees and licensors often do not know to what extent licensors can prevent, hinder, or ameliorate the impact of such validity challenges.\(^{87}\)

This is important to the valuation of a business deal as well as to the expectations of parties after they have entered into the contract. Although the U.S. Supreme Court’s January 2007 MedImmune decision did not directly address any of the issues raised by LES, a careful reading -- and a proper interpretation -- of the Court’s decision may provide some guidance on how the issues can be resolved, as proposed in Part V of this article, infra.

The most salient issues causing confusion among licensing parties can generally be fit into the following five categories: 1. Does Lear’s abrogation of licensee estoppel (at least for former licensees) apply to contractual covenants not to sue, if the covenant was reached by a consent decree or legal settlement? If so, does the timing of the agreement (pre-discovery for example) matter? 2. Can parties contract around the abrogation of licensee estoppel by providing for differential royalties based on the outcome -- or even the filing -- of a patent invalidity challenge? 3. Must a licensee continue to pay royalties during the pendency of a patent validity challenge? 4) Should the abrogation of licensee estoppel be applied also to copyright and trademark licenses? and finally 5) Can a licensee in good standing to an active license invoke the Lear doctrine to sue for patent invalidity without termination or breach?


\(^{87}\) Id. at 2.
1. Does Lear’s abrogation of licensee estoppel (at least for former licensees) apply to contractual covenants not to sue, if the covenant was reached by a consent decree or legal settlement? If so, does the timing of the agreement (pre-discovery for example) matter?

Appellate courts have differed in their opinions as to whether a consent decree acts as estoppel to challenging patent validity, or on the other hand, if such estoppel would be contrary to the Lear doctrine. During the decade following Lear, three different circuit courts considered the question and came to different conclusions. The Third and Sixth Circuit Courts of Appeal held that a consent decree acts as binding estoppel.88 The Seventh Circuit, however, found that it would be antithetical to the tenets of Lear if a licensee could be estopped from challenging patent validity, simply because the “license” were couched as a consent decree.89 The Federal Circuit has, since its creation in 1982 disagreed with the Seventh Circuit and repeatedly allowed consent decrees to act as estoppel.90 With no further Supreme Court guidance, there has been a lingering question for licensing parties as to whether the Federal Circuit would some day be overturned on this issue though, in favor of the Seventh Circuit’s reasoning that the policy of Lear is too strong to allow estoppel to flow from any type of agreement.

Similarly, there is a remaining question as to whether a settlement agreement can be used as estoppel to bar a party from challenging patent validity or whether that, too, may be considered contrary to the Lear doctrine. Prior to creation of the Federal Circuit, at least one appellate court refused to enforce estoppel from a settlement agreement that was signed in the absence of litigation.91 The rationale was, again, that it would be too easy to disguise licensing agreements as pre-litigation settlement agreements and thereby improperly skirt the Lear doctrine abrogating licensee estoppel. Without directly disputing that holding, the Federal Circuit declined to extend it to post-litigation settlement agreements.92 Hence, there has been some concern that licensors have an incentive to file litigation first and invite a license later, thereby invoking licensee estoppel despite Lear’s abrogation.

In fact, none of these questions are truly novel to contract law. Although they have mistakenly been treated -- including by the U.S. Supreme Court -- as patent issues, all are

88 Interdynamics, Inc. v. Firma Wolf, 653 F.2d 93, 97-98 (3d Cir. 1981); Schlegal Mfg. Co. v. USM Corp., 525 F.2d 775, 779-81 (6th Cir. 1975).
91 See Massillon-Cleveland-Akron Sign Co. v. Golden State Adver. Co., 444 F.2d 425, 427 (9th Cir. 1971)(distinguishing a settlement agreement from a license is tricky since a license agreement could easily be couched as a pre-litigation settlement).
92 Flex-Foot, Inc. v. CRP, Inc., 238 F.3d 1362, 1369-70 (Fed. Cir. 2001)(settlement agreement that settles litigation acts as estoppel to licensee’s challenge of patent validity); see also Warrior Lacrosse Inc. v. Brine, Inc., 2006 WL 763190 (E.D. Mich., March 8, 2006) at 25 (applied contract doctrine to find preclusive effect of settlement that occurred early in litigation). Actually, there is no clear policy reason why consent decrees should be treated as less binding res judicata than settlement agreements, since the consent decree actually involves the court and is a “judicial act.” U.S. v. Swift & Co., 286 U.S. 106 (1932).
actually contract issues, and can be dealt with by the basic principles of contract law, at
the convergence with patent law, as described in Part II(D) and (E) and illustrated in
Diagrams A and B of this article, supra. Employing the same rationale that the Court
should have implemented in Lear, these persisting issues should simply be addressed
using standard contract doctrine of consideration (including the settlement of good faith
disputes), mistake, and, where necessary, illegality.93 In most cases, a settlement
agreement with proper consideration should act as estoppel. Of course there could be
exceptions, obtained through contract challenge, including mistake where the patent is
shown to have been obtained by inequitable conduct, or is proven invalid by a third
party.94 As to the supposed incentives of licensors to file litigation first and invite a
license later, that assumption overlooks the rational patentee’s distaste for a multi-million
dollar litigation likely to result in a final determination of patent invalidity.95

2. Can parties contract around the abrogation of licensee estoppel by
providing for differential royalties based on the outcome -- or even the
filing -- of a patent invalidity challenge?

One way that parties might be able to skirt the abolition of licensee estoppel is to allow a
licensee to sue for patent validity, but with contractually-specified consequences. So, the
parties may agree upfront in the license itself that if the licensee brings an action for
patent invalidity (or, for that matter, for noninfringement or unenforceability), then the
terms of the license will change. The license may provide for an increase in royalties if
licensee brings suit. The license may even provide for resulting termination or event of
default — i.e., termination at licensor’s option if licensee does not promptly “cure” the
default by dismissing the litigation.

These issues again, are neither entirely new nor entirely unanswerable if courts properly
look to the intersection of contract and intellectual property law. Already, almost since
the time of Lear, the U.S. Supreme Court has allowed parties to base the royalty rate for a
pending patent on the ultimate disposition by the U.S. Patent and Trademark Office. In

93 See discussion of Lear in Part II(A), supra for more on how these standard contractual doctrines could be
applied to bar licensee estoppel in most cases.
94 Id. On this point, the Federal Circuit has correctly stated: “Consent judgments [and here, it could have
added, “settlement agreements”] are interpreted according to general principles of contract law.” Diversey
Lever, 191 F.3d at 1352 (citations omitted). As such, consent decrees should be given the presumptions of
contract law — and, in turn, should be subject to the same challenges as other contracts, keeping in mind the
strong principle of res judicata on judicial actions. In that regard, the Federal Circuit also has
acknowledged the need to consider the preclusive effect of consent decrees “narrowly.” Foster, 947 F.2d at
481.
95 A group of scholars has undertaken empirical research on patent litigation trends, finding: “Total direct
litigation costs for the median patent case with between $1 million and $25 million at stake were $2 million
per side in 2003.” John R. Allison, Mark A. Lemley, Kimberly A. Moore, R. Derek Trunkey, Valuable
Patents, 92 Geo. L.J. 435, 441 (emphasis added)(hereinafter “Valuable Patents”). Another empirical
sampling found that despite the statutory presumption of validity, nearly one half of patents are adjudged
invalid in final court decisions, primarily for obviousness. See John R. Allison and Mark A. Lemley,
Empirical Evidence on the Validity of Litigated Patents, 26 AIPLA Q.J. 185, 205-208 (1998)(46% found
invalid)(hereinafter “Litigated Patents”).
short, the Court allowed parties to contract for a lower royalty in the event no patent ultimately issues on the licensed technology.\textsuperscript{96}

Furthermore, it has been and continues to be common practice in intellectual property licensing for parties to provide for milestone payments, and in some cases increased royalties, contingent on the outcome of the technology in the patent office and in the marketplace. This is particularly common practice for university licenses, which typically involve early-stage discoveries that are have not yet been proven either as legally patentable or as commercially viable. University licenses most often require the licensee to take the full financial risk on pursuing a patent application and of developing and marketing the technology. In exchange, the university offers the license at low cost, with royalties and milestone payments to kick in only if the patent is issued and the technology becomes lucrative for the licensee.

It is logical to extend this same reasoning to the reverse scenario. So, whereas many licenses already require a licensee to pay increased fees if a patent issues or becomes commercially lucrative, so should licenses also be enforceable if they provide that a licensee pay decreased fees if a patent does not issue, or is not commercially viable. Certainly, there is nothing in standard contract doctrine to blanketly prevent this. Nor is there really any overriding public policy reason in patent law to block it. Even a court taking a strict view of patents as potential antitrust concerns would need to come up with a perverse round of reasoning to justify that a licensor who never even receives a patent is still somehow tying up technology from the public by locking a licensee into paying for a right that the licensor may not actually own.\textsuperscript{97} Instead, contract law would provide adequate protections for a licensee to potentially show failure of consideration or mistake, or -- more likely, to allow the gamble made willingly by informed parties.

3. Must a licensee continue to pay royalties during the pendency of a patent validity challenge?

In the landmark \textit{Lear} decision, the U.S. Supreme Court discussed the question of whether (at least former) licensees, now permitted to challenge patent validity, must pay royalty

\textsuperscript{96} \textit{Aronson v. Quick Point Pencil}, 440 U.S. 257 (1979). This willingness by the Court to enforce a gamble on whether a patent will or will not issue is not to be confused with the Supreme Court’s refusal to enforce a license provision extending royalties beyond the term of an issued patent. \textit{See discussion of Brulotte, supra}. While this may seem inconsistent with the notion that only valid patents should command exclusivity, it can generally be reconciled by referring to trade secret licensing, which validly allows a licensor to charge royalties for a process that is never disclosed and never expires yet is nonetheless subject to certain legal protections.

\textsuperscript{97} Additionally, courts should consider that, as with the trade secret scenario, the licensee may obtain information, or perhaps services, from the licensor that otherwise would not be accessible to the public. Courts should generally allow parties to make freely negotiated contracts for potential patent rights that may not materialize as much as they allow contracts for a price certain on oil futures, whose value could not yet be fully known to either party. Meanwhile, licensing parties can also justify ongoing royalties that are based on exchanges beyond just the patent right, by including trade secrets or other non-expiring services under the guise of the license agreement. This same reasoning may be applied to copyright and trademark licenses.
payments until validity is finally determined by the courts.\textsuperscript{98} As the Court stated: “The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.” Although the question might seem to be a literal one, the Court did not decide it that way. While decreeing that a final adjudication of invalidity should avoid royalty payments due after issuance,\textsuperscript{99} the Court did not say whether royalties must be paid -- and if so, to whom -- during the pendency of the suit. In fact, the Court made two slightly inconsistent remarks on the topic. First, the Court indicated that a licensee who stops paying royalties -- and thereby repudiates the contract -- should be absolved from further payment provided it obtains a final judgment of invalidity.\textsuperscript{100} Next, however, the Court stated specifically that “Lear must be permitted to avoid the payment of all royalties accruing after Adkins’ 1960 patent issued if Lear can prove patent invalidity.”\textsuperscript{101} This could be interpreted either of two ways. First, it could mean that all royalties -- perhaps even ones already paid -- must be disgorged to the licensee once invalidity is proven. Or, it could refer back to the first remark, which in the \textit{Lear} case would have the same effect since the licensee stopped paying royalties before, not after, the patent issued.

The right of the licensor to demand payment of royalties during a validity challenge has been discussed by various courts,\textsuperscript{102} with varying conclusions.\textsuperscript{103} In truth, a court properly employing contract principles would find that this needs to be decided on a case by case basis. It is rather specific to any particular contract as to whether royalties should continue to be paid, and whether payment to an escrow account constitutes breach. Under the schematic matrix proposed by this article and set forth in Table V, \textit{infra} in Appendix (Tables), contract doctrine is the main determinant of outcome for licensing

\textsuperscript{98}\textit{Lear} 395 US at 673.
\textsuperscript{99}\textit{Id.} at 674; The Court left it for the state courts on remand to make a decision on royalties accrued pre-grant.
\textsuperscript{100}\textit{Id.} at 674.
\textsuperscript{101}\textit{Id.}

\textsuperscript{102} \textit{Warner Jenkinson}, 567 F.2d at 188 (licensee may make royalty payments during validity challenge and then recoup them if successful); \textit{Atlas Chem. Ins., Inc. v. Moraine Prods.}, 509 F.2d 1, 7 (6th Cir. 1977)(licensee may make payments into escrow account during validity challenge); \textit{Cordis Corp. v. Medtronic, Inc.}, 780 F.2d 991, 995 (Fed. Cir. 1985)(licensor may terminate agreement where licensee is paying royalties to escrow instead of to licensor).

\textsuperscript{103} The final word to date comes from the Federal Circuit Court of Appeals in an October 2006 decision. Although this decision predates the Supreme Court decision on \textit{MedImmune v. Genentech}, the Supreme Court did not consider this particular issue in that case since the licensee was still paying royalties. In the case of \textit{Go Medical Industries Pty. Ltd. v. Inmed Corp.}, 1271 F.3d 1264, 1273 (Fed. Cir. 2006), the Federal Circuit stated that while a licensee need not pay royalties during a patent invalidity challenge (but would still be liable for those past due if the challenge is unsuccessful), the licensee may not invoke this protection until it (i) actually ceases payment of royalties; and (2) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid. This decision is consistent with prior Federal Circuit jurisprudence on the issue, such as \textit{Studiengesellschaft Kohle Gm.b.H. v. Shell Oil Co.}, 112 F.3d 1561 (Fed. Cir. 1997). The Supreme Court in \textit{MedImmune} noted its interpretation of \textit{Lear} as stating that no royalties need be paid during challenge by a repudiating licensee; \textit{at} 769. In so stating, the \textit{MedImmune} Court may have missed the nuances of \textit{Lear}, as discussed in this section of this article however. Furthermore, the \textit{MedImmune} majority acknowledged that it did not directly face that issue, since the petitioner in \textit{MedImmune} was a nonrepudiating licensee who was still paying royalties.
challenges. Therefore, this individual question should turn on the particular factors of a given challenge, such as whether the challenge is based on lack of consideration, mistake, or other contractual mechanism.

4) Should the abrogation of licensee estoppel be applied also to copyright and trademark licenses?

There remains a question as to just how far Lear’s abrogation of licensee estoppel can -- or should -- be pushed. The Lear doctrine has been applied by analogy to copyright licenses, although not uniformly. In trademark cases, too, there have been varying judicial determinations. The confusion results from Lear itself. Specifically, the Lear court based its decision on the precarious presumption that patents dominate a market. That presumption is incorrect. Congress specifically repudiated the presumption of patents as automatic antitrust or misuse concerns, via the 1988 amendments in PL100-703. Furthermore, it is factually untrue that anyone who holds a patent automatically dominates a market. Rather, in many industries patent owners vie with one another simply to tread water in the marketplace.

Following the reasoning of Lear, there is some question as to whether copyrights fit the characterization of market dominance. Indeed, the decisions following Lear would indicate that a court’s opinion on that issue is determinative of its decision on the respective rights of the parties. One court opined that copyrights simply do not enjoy the market dominance of patents, and therefore should not be subject to the same policies blankety encouraging validity challenge. A later court, however, criticized that statement, pointing out that in certain industries, a limited number of copyright owners enjoy enormous market share. The later (Twin Books) court therefore held true to Lear’s abolition of licensee estoppel on the theory that copyright licensees do not have

104 Twin Books Corp. v. The Walt Disney Co., 877 F.Supp. 496 (N.D. Cal. 1995). As a further restriction, the Lear doctrine has not been extended to assignor estoppel, which rests on the distinguishable premise that one cannot both act in good faith to sell a right and then turn around and claim that the right sold was a useless one. See Diamond Scientific Co. v. Ambico, Inc., 848 F.2d 1220 (Fed. Cir. 1988); Mentor Graphics Corp. v. Quickturn Design Systems, Inc., 150 F.3d 1374 (Fed. Cir. 1998).
105 Saturday Evening Post Co. v. Rumbleseat Press, Inc., 815 F.2d 1191 (7th Cir. 1987)(enforcing covenant not to sue in copyright license agreement).
106 The doctrine of licensee estoppel has been applied to trademark licensees, even post-Lear. See Seven-Up Bottling Co. v. The Seven-Up Co., 561 F.2d 1275 (9th Cir. 1977). But other courts have refused to enforce express covenants not to sue in a trade certification license. See Idaho Potato Comm’n v. M&M Produce Farm & Sales, 335 F.3d 130 (2d Cir. 2003).
107 See examination of Lear decision in Part III(A) of this article, supra.
108 This added to the statutory list of nonobjectionable conduct for a patentee, codified in 35 USC § 271(d).
110 Twin Books Corp. v. The Walt Disney Co., 877 F.Supp. 496. Certainly with trademarks, it would be more difficult to make a case that a trademark owner dominates an industry, since trademarks are by their nature only as good as their associated secondary meaning and their avoidance of “consumer confusion.” Trade certification marks have a stronger presumption of market dominance in areas where consumers are likely to identify a particular source as better, such as “Idaho potatoes,” “Washington apples,” or “Florida oranges.” Switching the geographical indicators between those goods would not likely be alluring to a consumer.
sufficient leverage with the copyright owners/licensors to obtain a fair negotiating position.

In fact it simply cannot be a generalized conclusion that patents command more market power than copyrights. There are fewer players, with much greater dominance, in the area of movie production (copyright), for example, than there are in biotechnology (patent), where typically each of many players holds a limited patent on an incremental innovation. Accordingly, if the Lear court had relied on standard contract principles -- as it should have -- instead of on generalizations about patent owners, it would be easier to apply the doctrine to other scenarios both in patent law and in the related fields of copyright and trademark. Meanwhile, although the Lear court did not base its decision on contract principles, certainly courts hearing current disputes on the topic would be perfectly correct in doing so. Courts should thoroughly review claims at the convergence of contract and intellectual property law, such as failure of consideration, mistake, and illegality. Where undue market dominance is a possible issue, courts may consider misuse or antitrust violations under the doctrine of contractual illegality. This can properly be done only on a case by case basis however, and not as a generalized presumption about a particular industry or branch of intellectual property law.

5) Can a licensee in good standing to an active license invoke the Lear doctrine to sue for patent invalidity without termination or breach?

The issue has long been one of whether a licensee can be permanently barred from challenging patent validity, or if not,111 what steps a licensor may take to protect itself from such suit.112 Recently, the inquiry has expanded. In a trilogy of cases at the Federal Circuit over the past three years, licensees have challenged patent validity while still paying royalties, and otherwise remaining in good standing under the license agreement. The interesting question was thus raised as to whether a licensee must somehow be either a former licensee, or at the very least, a licensee in breach, in order to invoke the Lear doctrine encouraging patent validity challenges. One of the three, MedImmune v. Genentech, was heard on cert. by the U.S. Supreme Court. The Court rendered its decision in January 2007. Although the Court could -- and probably should -- have limited its holding to the viability of declaratory judgment jurisdiction,113 instead it opened up quite a can of worms in licensing with a broad, and misguided decision that flouted the practice of intellectual property licensing, and unnecessarily disregarded relevant contract doctrine. Meanwhile, the Court did not shed light on the many open issues in licensing practice and law, which are analyzed in Table IV, infra, in Appendix (Tables).

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111 As determined by Lear for patents (see Part III(A), supra), and sometimes extended to copyright and trademark, as discussed in Part III(C)(iv) or this article, supra.
112 These were the inquiries addressed in Part III(C)(i),(ii), and (iii) of this article, supra.
113 The proper standard for invoking declaratory judgment jurisdiction in patent disputes is discussed more fully in Re-evaluating Declaratory Judgment, supra, note 2.
IV. The *MedImmune* Conundrum

A. The Federal Circuit’s Misguided Standard

In the past three years, the Federal Circuit Court of Appeals has decided a trilogy of cases involving the right of a licensee to sue for patent invalidity without first breaching or terminating the license agreement. In each case, the Federal Circuit applied its self-styled declaratory judgment standard requiring that a DJ plaintiff have “reasonable apprehension” of a lawsuit by the patentee before a DJ suit can be ripe. In doing so, the Federal Circuit rendered its own -- although perhaps not deliberate -- version of the intersection of the normative values of contracts, civil procedure, and intellectual property law. The Federal Circuit was incorrect in its rendition, though, and therefore applied an improper DJ standard, far outside the bounds of general jurisprudence.

The U.S. Supreme Court granted *cert.* on one of the cases this term, *MedImmune v. Genentech*. In its decision, rendered on January 9, 2007, the Court unsurprisingly -- and correctly -- scolded the Federal Circuit for using a misguided DJ standard. The DJ point should have been sufficient, since it was the basis for *cert.* The Supreme Court need not -- and, it turns out, should not -- have gone further. The DJ standard was a mere footnote for the Supreme Court however (literally, footnote 11), which went on to give its own interpretation of intellectual property licensing. Instead of considering and balancing the normative values of contracts, civil procedure, and intellectual property law, the Court dove into a confused discussion of the perils of weak patents, and the coercion supposedly pressed upon unwitting licensees by abusive patent owners.

B. The Underlying Issue

MedImmune licensed technology from Genentech via an agreement executed in 1997. The license agreement defined the licensed technology as including both an issued patent (known as “Cabilly I”), and one pending before the U.S. Patent and Trademark Office (known as “Cabilly II”). In 2001, after fighting various lengthy legal battles, Genentech finally obtained a patent grant from the U.S. Patent and Trademark Office on Cabilly II.

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115 *See MedImmune, Inc. v. Genentech, Inc. and City of Hope and Celltech R&D, Ltd.*, 427 F.3d 958 (Fed. Cir. 2005) Majority, written by Pauline Newman; Judge Mayer concurring, Judge Clevenger dissenting, but only on the refusal of the Federal panel to transfer the antitrust issues to the regional circuit.
116 Although it appears that the court did not consider it in such terms or it would more likely have reached the correct conclusion in the first place.
117 *See Re-evaluating Declaratory Judgment, supra note 2.*
Genentech advised MedImmune of the “good news” – and of Cabilly II’s purported application to MedImmune’s main product, Synagis®. MedImmune did not react by terminating its license agreement with Genentech. MedImmune did not stop paying royalties. MedImmune did not breach the license agreement. But neither did MedImmune wish to be obligated to Genentech for the full patent term of Cabilly II. Instead, MedImmune decided to test its luck with the courts. While still a licensee in good standing, MedImmune initiated a declaratory judgment suit to invalidate Cabilly II. Genentech opposed with a F.R.C.P., Rule 12(b)(1) motion to dismiss for lack of subject matter jurisdiction. The district court granted the motion based on Federal Circuit precedent. The Federal Circuit affirmed.

MedImmune declared that it must be allowed to bring suit, since, after all, licensee estoppel had been abolished by Lear. Genentech countered – and the Federal Circuit agreed – that Lear merely allowed a former licensee to sue after breaching or terminating a license agreement. A current licensee in good standing simply has no case or controversy under Article III. The Supreme Court granted cert.

C. The Supreme Court Decision

The Supreme Court rendered its decision in MedImmune v. Genentech on January 9, 2007. The decision made some progress in the area of declaratory judgment standards for intellectual property disputes by disapproving the Federal Circuit’s favored “reasonable apprehension” test. On the issue of licensee estoppel, however, the 8-member majority (and to some extent the Thomas dissent) evidenced a fundamental misunderstanding of the interdisciplinary approach necessary for intellectual property licensing. That mistake led to a misguided and incorrect holding.

Despite probing questions during oral argument, the Court’s decision did not properly frame the nature of the dispute. Disappointingly, the Court failed to appropriately

119 These were the facts as considered by the U.S. Supreme Court on cert., for purposes of determining the appropriateness of declaratory judgment jurisdiction on Genentech’s motion to dismiss for lack of subject matter jurisdiction. MedImmune v. Genentech, 127 S.Ct. at 767.

120 In particular, based on the earliest case of the trilogy which was decided by the Federal Circuit while this case was at the district court level. See Gen-probe, Inc. v. Vysis, Inc., 359 F.3d 1376 (Fed. Cir. 2004).

121 The Supreme Court stated the question in its January 2007 decision:

We must decide whether Article III’s limitation of federal courts’ jurisdiction to ‘Cases’ and ‘Controversies,’ reflected in the ‘actual controversy’ requirement of the Declaratory Judgment Act, 28 USC § 2201(a), requires a patent licensee to terminate or be in breach of its license agreement before it can seek a declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed.

MedImmune v. Genentech, 127 S.Ct. 764 (2007). Although framing the proper question, unfortunately the Supreme Court confused the issues and gave the wrong answer.

122 On oral argument, the justices properly placed a heavy focus on the terms of the contract at issue and how far a contract could go in restricting conduct by the patentee or by the licensee. However, the
characterize the issue as being at the intersection of contracts, civil procedure, and intellectual property law. Accordingly, the Court did not consider the apposite normative values of each of these legal doctrines in order to correctly balance them. Instead, the Court looked only briefly at contract law. Then, eerily like its predecessor Court in Lear, the Court cast aside the contracts analysis altogether, and instead clung to a specious understanding of patent law and licensing practice. Unfortunately but unsurprisingly, the Court’s misguided analysis led to an incorrect decision.

As with the Lear Court, the MedImmune majority first properly inquired as to whether the petitioner had alleged a contractual dispute. As with the Lear Court, the MedImmune majority then went on to ignore its own question. In doing so, as with the Lear Court, the MedImmune majority committed two fundamental errors. First, the Court overlooked the importance of balancing the normative values of contract law in its analysis, thereby relying exclusively on patent law as the basis of its decision. Second, the Court went further awry by failing to properly analyze the balance of interests within patent law. As a result, the Court’s rationale rested on a misguided understanding of patent law and of licensing practice.

First, in determining the propriety of declaratory judgment jurisdiction, the Court confused the petitioner’s claim of patent invalidity with its claims of noninfringement and unenforceability. Due to this confusion, the Court suggested that a claim of patent invalidity was equivalent to a claim of noninfringement in raising a justiciable claim under the licensing contract. That is not accurate. A licensee’s challenge to patent validity is a challenge to the very nature of the contract itself, the purported consideration. Certainly, this challenge can be brought during the term of the license, but it must be done as a contractual action on the standard grounds allowed by contract doctrine, at the convergence with patent law. Noninfringement, conversely, is actually a question of the scope of contractual obligations. So for example, in the MedImmune case, the licensee could certainly bring a declaratory action for noninfringement and/or unenforceability, on grounds of law (contract terms do not include Cabilly II) or fact (Cabilly II claims do not cover Synagis®). A challenge to the scope of the contract would not require breach or termination, but it would of course (as the Supreme Court should have recognized) be strictly a cause of action under applicable state contract law.

interesting questions raised by the justices seem unfortunately to have fallen by the wayside in their ultimate decision.

123 The majority simply inquired as to whether a contractual question had been presented, briefly concluded that it had been mentioned in the briefs, and then went on to say, “[h]aving determined that petitioner has raised and preserved a contract claim, we turn to the jurisdictional question.” Id. at 770.

124 The dissent did not even perceive a contract dispute. “As a threshold matter, I disagree with the Court’s characterization of this case as including a ‘contractual dispute.’” Id. at 779.

125 These are discussed in Part II(C) of this article, and are illustrated in Table II, supra, including failure of consideration, mistake, and illegality. Note that this could be brought as a state law cause of action during the term of the license. Patent validity could also be brought as a federal cause of action in a DJ suit by the licensee after termination or breach. Despite the Supreme Court’s misguided ruling to the contrary in MedImmune, an active licensee in good standing does not satisfy the federal DJ standard of “actual case.” See Re-evaluating Declaratory Judgment, supra note 2.
Second, the Court mistakenly characterized a licensing situation as inherently “coercive,” and akin to government regulatory action. This is incorrect. No one really believes that licensors on aggregate hold more power in licensing negotiations than the licensees who bring their products to market in return for a cut of the profit in upfront fees and/or royalties. Perhaps the Court was mistaking the “troll” phenomenon for one where all patentees are wildly outpacing technology users, but that is simply not the case, and certainly in many situations licensees have more power than their licensors.

Perhaps also, the Court was misled by one characterization of the facts of this case. In particular, the Court acknowledged that Petitioner had been confronted by its licensor with a letter expressing the licensor’s belief that Petitioner’s activities were covered by licensor’s newly issued continuation patent. The Court could have viewed the letter as a simple correspondence between two business partners, or as a friendly update. Instead, the Court’s opinion referred to this letter as a “clear threat.” That characterization may well have tipped the scale in favor of the majority’s view of licensing as a “coercive” action, but the Court was wrong to make that leap. There is nothing inherently

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126 Id. at 772-773. This really misses the mark, and demonstrates how the Court overlooked contract law in its analysis. The Court should have recognized that a license to use or practice intellectual property -- like any other contract -- is generally assumed to be a voluntary agreement, freely negotiated, between informed parties. If MedImmune believed it had been coerced into this particular licensing contract under duress, fraud, or some other illegality, it should invoke that defense to rescind the contract as a matter of state law. The MedImmune Court was mistaken in believing that such coercion should be assumed simply because the licensor holds a patent that is being used (voluntarily) by the licensee. Furthermore, in a correct conclusion, the Court acknowledged that the DJ standard previously used by the Federal Circuit for patent cases was overly restrictive and should be aligned with that of general jurisprudence. Id. at Bmt 11. Hence, the licensee could sue for patent invalidity under federal law but, -- as would be clear if the Court had taken the proper view of contract law -- that should be allowed only after the licensee has somehow repudiated the contract. Ultimately, the licensee has lots of valid legal choices on how to proceed without the Court having provided a false one by its failure to contemplate contract principles in its discussion of intellectual property licensing. The Court mistakenly relied for its conclusion on the earlier case of Altwater v. Freeman, 319 US 359 (1943), which allowed licensees to challenge a patent while still paying royalties. Altwater was based on a different premise though, since the royalties were compelled by an earlier court injunction, and not by a simple license agreement, or even consent decree or court settlement, between the parties.


128 Although inaccurate in this case, the U.S. Supreme Court’s characterization of licensing as coercive follows its recent spate of rulings favoring user rights in technology, and encouraging challenges to weak patents. See Merck KGaA v. Integra Lifesciences, Ltd., 125 S.Ct. 2372, 2380 (2005); eBay Inc. v. MercExchange, 126 S.Ct. at 1840; MedImmune v. Genentech, 127 S.Ct. 764 (2007); KSR Intern, Co. v. Teleflex, 127 S.Ct. 1727 (2007).

129 The newly issued continuation, known as “Cabilly II” had apparently been contemplated by the parties and included in the definition of “Licensed Products” that would be subject to royalty payments.

130 Id. at 768.

131 The characterization of the letter as a “clear threat” harkens back to the facts of a somewhat analogous copyright case. Hal Roach Studios, Inc. v. Richard Feiner & Co., 896 F.2d 1543, 1556, n23 (9th Cir. 1990). There, DJ jurisdiction was found appropriate by the 9th Circuit, even though, as in MedImmune, the license was still active. Incidentally, although the MedImmune Court did not cite Hal Roach for this point, the case had been cited by Petitioner in its brief, so it may well have affected the Court’s reasoning. It is worth noting that the Thomas dissent disagreed with this characterization of licensing, referring to it as “a
coercive about licensing negotiations, and if the Court had properly considered contract
docine in the balance, it would have observed that licensing is a form of contract like
any other, that simply happens to be at the convergence of contracts and intellectual
property law, and should be subject to the standard tenets of contract law, including,
where relevant, duress, unconscionability, or other illegality, as examined in Part II(D)
and (E) and illustrated in Diagrams A and B of this article, supra.

V. Reconciling Contract and Intellectual Property Law,
post-MedImmune v. Genentech

News of the MedImmune decision spread rapidly through the business community.
Reactions are not yet clear however. In reality, the greatest shock on all sides was simply
that the U.S. Supreme Court focused its attention on an obscure aspect of the case
(licensing negotiation), and based its decision on an incorrect assumption (that licensees
are coerced into unfair agreements). Certainly, the Court has caused confusion, and there
is a need for legal damage control. That said, the decision may -- and should -- be kept in
proper perspective by courts, litigants, and license negotiators.

The cloud left by MedImmune derives from the Court’s failure to openly characterize
(and perhaps failure to even recognize) intellectual property licensing as being at the
intersection of contract and intellectual property law. In that omission, the Court missed
a great opportunity to reconcile their convergence, 132 as well as their apparently diverging
doctrines (that is, the convergence between contract illegality and intellectual property
law). 133 If the Court had properly cast the issues, the proper doctrine would have
naturally followed. In the MedImmune case, that would have meant a denial of even
baseline DJ jurisdiction at this stage, 134 and silence on the question of whether the
licensee has a contractual claim under state law that may be invoked either now or
later. 135

The silver lining, though, is the reawakening to licensing as not solely a creature of
intellectual property. While the Court somewhat muddied the waters, it is consistent with
the MedImmune decision to characterize contract law as properly governing intellectual
property licensing disputes. Although the Court did not ultimately make that point clear,

132 See Part II(C) of this article and Diagram A, supra.
133 See Part II(D) of this article and Diagram B, supra.
134 There was no federal question presented in a “concrete dispute” as to patent validity where the licensee
and licensor were actively engaged in a license agreement in good standing. Although the Supreme Court
misunderstood this and granted baseline DJ jurisdiction, it at least left it to the district court on remand to
consider a denial of DJ jurisdiction on discretionary grounds. MedImmune v. Genentech, 127 S.Ct. 764,
777 (2007).
135 State law contract claims might include, for example, a possible claim of lack of consideration based on
an invalid patent, a possible claim of non-breach based on the scope of license as not including licensee’s
present activities; and possible claims of illegality – including duress, as the Supreme Court presumed in
this case, but which should have to be brought as a contract claim for rescission.
it did at least give some support for that proper conclusion, which can be carried forth by lower courts in future intellectual property disputes, or indeed in the final resolution of this one on remand.

Meanwhile, licensing parties remain largely unaware of the desirability, or the possibility, of simply following standard contract doctrine in their negotiations. Instead, they are struggling to understand the post-\textit{MedImmune} landscape without clear context. This has lead to some unnecessary apprehensions. The Licensing Executive Society presents a good barometer of the sentiment in the business community post-\textit{MedImmune} since the group represents both licensors and licensees, and therefore does not take a position favoring either side.\footnote{The LES brief in \textit{MedImmune}, which presented unresolved licensing issues (still unresolved today, but mostly put on the back burner since the Supreme Court raised new, more pressing issues), was filed, interestingly, “In Support of Neither Party.”} Just a few weeks after the January \textit{MedImmune} decision was announced, LES released results of a post-\textit{MedImmune} survey, revealing that 79\% of respondents (again, representing both licensors and licensees) believed that licensees would now be “more likely” to challenge patents after signing a license agreement.\footnote{See results at Press Report 2-22-07, posted at www.usa-canada.les.org/press/archives/3.15.07.asp (last visiting June 6, 2007). The 79\% includes those who say licensees would be “somewhat more likely” or “much more likely” to challenge patents after signing a license agreement. It is unclear from the press report how many of those responding were frightened licensors rather than prowling licensees.} Survey respondents also apparently expect licensors to insert lots of barriers into post-\textit{MedImmune} license agreements in order to avoid patent validity challenges, or at least to avoid being locked into a license while a challenge is litigated.\footnote{\textit{Id.}}

There are several reasons why this is a premature, and furthermore unnecessary, scare. First, the Supreme Court did not say that MedImmune will win its patent validity challenge. The Court did not even say that the substance of the claim will ever be litigated. In fact, on oral argument, the justices suggested that while the suit might survive a F.R.C.P., Rule 12(b)(1) challenge to dismiss on subject matter jurisdiction,\footnote{Which it has not yet, since the district court must now determine the appropriateness of granting jurisdiction on discretionary grounds.} it might not survive a Rule 8 challenge (or any other number of possible procedural challenges).\footnote{This issue was raised as a question by Justice Ginsburg on oral argument in the Oct. 4 hearings on \textit{MedImmune}, as to whether the licensee estoppel issue was really better addressed as a 12(b)(6) motion, or even an 8(c) defense. Oral Argument (8:8-16; and 40:6-9).} Second, even if MedImmune’s suit proceeds to verdict, it may be dismissed on substantive grounds under contract doctrine, such as estoppel.\footnote{Contractual estoppel might be found on the ground that a licensee cannot both enjoy the benefit of a license and litigate its validity simultaneously. This is distinguishable from licensee estoppel (abolished by \textit{Lear}), which would bar MedImmune from \textit{ever} pursuing a patent validity claim against its licensors. Contractual estoppel could act to bar the claim during the term of the license. Of course if a licensee were contractually bound by a license not to terminate for any reason during the term of a patent (which was not the case for MedImmune), then the proper remedy would be a contractual claim of illegality on the doctrine of patent misuse. It is arguable, though, whether such provision would constitute patent misuse, or simply savvy negotiating by the licensor. In either case, the licensee does have remedies available for rescission, but must elect its course of action.} Finally,
there are simply the realities of licensing negotiations that will face both frightened licensors and newly “empowered” licensees.

Certainly licensors will seek to include lots of litigation barriers in their post-MedImmune license agreements. Of course licensors already, pre-MedImmune, would include as many favorable clauses for themselves as they could skillfully negotiate into a license. That is simply the nature of negotiation. Licensors will try to include covenants not to sue in their new license agreements. Licensors will seek to include provisions where royalties rise if patent (or copyright/trademark) validity is challenged. Licensors will try to get more money upfront. Most already did that pre-MedImmune. After all, even pre-MedImmune, a bird in the hand was worth many more in that unpruned bush of patent litigation, where validity could be challenged by even a third party, thereby ending the nice stream of royalty income in any given license.

Licensees, meanwhile, will tend to fight for the diametrically opposing provisions that favor them instead. Licensees will negotiate for whatever provisions work in their interest. Licensees will negotiate against covenants not to sue, and instead try to negotiate covenants to sue, and perhaps royalties that go down -- or are owed in reverse by the licensor to the licensee -- if a suit is brought, and/or won by the licensee. Some licensees will actually bring suit, but probably not too many more than did pre-MedImmune since the Supreme Court did nothing to lower the costs, or to increase the certainties, of patent litigation.

Ultimately, the Supreme Court did not really change the balance of power in licensing negotiations. None of the potentially available devices (covenant not to sue, etc.) was squarely addressed by the Court in MedImmune. Therefore, all are of unclear legal status. In fact, they should all be allowed as a general rule under contractual law, and in any given case may be litigated under such contractual defenses as unconscionability, duress, misuse, or other illegality. These should be addressed on a case by case basis.

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142 On oral argument, Justice Scalia alluded that a licensee’s contractual covenant not to sue might be enforceable MedImmune v. Genentech: (Case No. 05-608; Transcript of argument Oct. 4, 2006) (4:19-23), although Justice Kennedy did not seem convinced (5:6-12).
143 Another possibility raised by Justice Roberts is a provision raising the royalty rate upon determination of validity. Oral Argument (7:9-12).
144 See Litigated Patents, supra note 95, finding that about 46% of litigated patents are held invalid in final judicial action.
145 A few variations on this theme were bandied about on oral argument by Justices Ginsburg and Stevens. Justice Ginsburg suggested the possibility of raising the royalty rate if a licensee sues with a validity challenge (10:16-18). Justice Stevens brought up the possibility of a provision allowing the licensee to sue and withhold royalty payments if it prevails (33:11-33). Both are very interesting possibilities.
146 See Valuable Patents, supra note 95, finding: “Total direct litigation costs for the median patent case with between $1 million and $25 million at stake were $2 million per side in 2003.” So, while some licensees might now choose to both license and litigate, the undertaking is expensive and risky. The Supreme Court’s MedImmune decision will more likely impact troll licenses – also impacted by eBay already. So, the confluence of MedImmune plus eBay probably will mean more licensing instead of injunctions by troll licensors, and then more declaratory actions brought by the licensee. Meanwhile, the Federal Circuit’s precedent that fees are still owed if challenge is dismissed is probably still the reigning law. See supra note 103.
147 See Part II(C) of this article, supra, and Table III.
though, and not as a generality in licensing law, since indeed every individual license and negotiation will vary in its power balance as well as its terms.

Interestingly, the Supreme Court may soon grant cert. on another intellectual property licensing case that may possibly bring some clarity. The issue raised in the *Quanta cert. petition is whether a sale of a product may be made conditionally, or whether that violates the well-established “first sale doctrine” also known as “patent exhaustion.” Unfortunately, as frankly disclosed by the *Lear majority on the issue of licensee estoppel, the lack of clarity on patent exhaustion has similarly been plagued by years of inconsistent Supreme Court and appellate rulings. Fortunately, there is an answer here -- and better yet, one that can be useful in resolving the remaining open issues in intellectual property licensing. Specifically, the Supreme Court may use the *Quanta case to fill in the gaps it left open after *MedImmune. While the Court naturally does not have the authority to rule on issues not present in the current case, the Court can simply state the overriding doctrine that it should have recognized in the *MedImmune case -- that is, that intellectual property licensing sits at the intersection of contract and intellectual property law, which can -- and should -- be resolved by applying the standard principles of contract doctrine.

Characterizing these -- and other licensing matters -- as contract disputes would still allow courts to take into account intellectual property doctrine, including antitrust and misuse issues that may arise when a patentee abuses its position in order to control the end market for its product or method. Such characterization would have the benefit, meanwhile, of leading courts to correct holdings using contract doctrine, instead of inconsistently trying to apply patent (or copyright/trademark) law in a vacuum.

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150 This is demonstrated by the confusion caused between the cases cited in note 103, *supra*, with different reactions by different courts purporting to apply the same doctrine of patent exhaustion. The Supreme Court has the opportunity to resolve this disparity if its grants cert. in the *Quanta* case.

151 See Part III(B) and Table III of this article, *supra*, regarding open issues in licensing.

152 U.S. Const. art. III.

153 *See Part II(C) of this article supra*. Note that Federal Circuit did somewhat acknowledge that this can be addressed by contract law, but quickly dropped the ball on that analysis. *LG Electronics, Inc. v. Bizcom Electronics, Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006)(rehearing and rehearing en banc denied).

154 Violations of such agreements, therefore should properly be prosecuted by intellectual property owners as contract, and not patent (or copyright/trademark) infringement, actions.
V, in Appendix (Tables), presents a compilation table, with an interdisciplinary approach to resolving issues in intellectual property licensing disputes.

VI. Conclusion

The U.S. Supreme Court has several times been remiss in its treatment of intellectual property as a separate and discrete discipline of law. In fact, intellectual property cannot and should not be siphoned off from the normative framework of general jurisprudence. In particular, the Court has misjudged cases involving intellectual property licensing. Several times the Court has mistakenly viewed these cases as involving pure intellectual property issues. This mischaracterization overlooks the importance of viewing licensing cases as being at the intersection of contract and intellectual property law, neither one to the exclusion of the other. By missing this important opportunity, and indeed need, for interdisciplinary analysis, the Court has failed to provide the proper legal framework for courts, litigants, and license negotiators to use in making rational and informed decisions.

This article attempts to fill that gap by probing the legal doctrine, undertaking a normative analysis of the issues, and finally, proposing a comprehensive, interdisciplinary framework for examining cases involving intellectual property licensing. By recasting the issues, and properly viewing the need for an interdisciplinary approach, courts, litigants, and license negotiators may use the tools provided by this article and accompanying tables to reach the proper balance both within the branches of intellectual property, and between intellectual property and contract law.
### APPENDIX: (TABLES)

**Table I – Balance of Normative Values Between Patent, Copyright, Trademark, and Trade Secret.**

<table>
<thead>
<tr>
<th>IP RIGHT</th>
<th>GRANT</th>
<th>VALIDITY PRESUMPTION</th>
<th>DURATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>PATENT</td>
<td>Rigorous, lengthy application process.</td>
<td>Presumption of validity upon grant.¹⁵⁵</td>
<td>20 years from Effective Filing Date.¹⁵⁶</td>
</tr>
<tr>
<td></td>
<td>Favors competition.</td>
<td>Favors rights holder.</td>
<td>Somewhat favors competition.¹⁵⁷</td>
</tr>
<tr>
<td>COPYRIGHT</td>
<td>Simple, inexpensive registration.</td>
<td>Registration is <em>prima facie</em> evidence.</td>
<td>Life + 70/Publication +95.¹⁵⁸</td>
</tr>
<tr>
<td></td>
<td>Favors rights holder.</td>
<td>favors competition/user.</td>
<td>Favors rights holder.</td>
</tr>
<tr>
<td>TRADEMARK</td>
<td>Combination.¹⁵⁹</td>
<td>Registration is <em>prima facie</em> evidence;</td>
<td>10 years; renewable.¹⁶¹</td>
</tr>
<tr>
<td></td>
<td>Neutral.</td>
<td>“conclusive evidence” once mark deemed</td>
<td>Neutral.¹⁶²</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“incontestable.”¹⁶⁰</td>
<td></td>
</tr>
<tr>
<td>TRADE SECRET</td>
<td>Automatic, as long as proper restrictions</td>
<td>No grant; no presumption of validity.¹⁶³</td>
<td>Unlimited.</td>
</tr>
<tr>
<td></td>
<td>followed (secrecy).</td>
<td>Independent creation and reverse</td>
<td>Favors rights holder.¹⁶⁴</td>
</tr>
<tr>
<td></td>
<td></td>
<td>engineering as defense.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Favors rights holder.</td>
<td>Favors competition/user.</td>
<td></td>
</tr>
</tbody>
</table>

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¹⁵⁵ 35 USC § 282.
¹⁵⁶ 35 USC § 154(A)(2).
¹⁵⁷ Although a patentee is not required to use or license a technology in order to maintain the U.S. patent grant.
¹⁵⁸ 17 USC § 302 (copyright term is 70 years beyond authors death; but work for hire is earlier of 95 years from publication or 120 years from creation).
¹⁵⁹ A federal registration, with grant, is necessary to maintain a Lanham action, but is not necessary for a commonlaw trademark claim.
¹⁶⁰ 15 USC § 1057(b) (*prima facie* evidence); 15 USC § 1115(b) (“conclusive evidence” once mark becomes “incontestable” under 15 USC § 1056).
¹⁶¹ 15 USC § 1058.
¹⁶² The trademark may be renewed, but must always be in use. Also, since trademarks are granted by class, names may coexist in different industries or classes. 15 USC § 1052(d).
### Table II – Balance of Normative Values in Contract Law

<table>
<thead>
<tr>
<th>Normative Value</th>
<th>Private Right to Design Contract</th>
<th>Countervailing Policy Obligations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement the reasonable expectations of parties.(^\text{165})</td>
<td>Favors private right to contract.</td>
<td></td>
</tr>
<tr>
<td>Allow parties to set present values on probabilities of future outcome.(^\text{166})</td>
<td>Favors private right to contract.</td>
<td></td>
</tr>
<tr>
<td>Encourage settlement of past and future disputes.(^\text{167})</td>
<td>Favors private right to contract.</td>
<td></td>
</tr>
<tr>
<td>Avoid enforcement of illegal or otherwise unenforceable agreements.(^\text{168})</td>
<td></td>
<td>Disfavors free-reign on private right to set terms.</td>
</tr>
<tr>
<td>Require duty of good faith and fair dealing.(^\text{169})</td>
<td></td>
<td>Disfavors free-reign on private right to set terms.</td>
</tr>
</tbody>
</table>

\(^{164}\) A trade secret is only as good as its secrecy. A technology may be reverse engineered without legal repercussions, and may be used by others simultaneously.


<table>
<thead>
<tr>
<th>NORMATIVE VALUE</th>
<th>INTELLECTUAL PROPERTY</th>
<th>CONTRACT</th>
<th>CIVIL PROCEDURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SATISFY REASONABLE EXPECTATIONS OF PARTIES/STAKEHOLDERS</td>
<td>Fairly clear requirements for registration/litigation.(^{170})</td>
<td>Courts will enforce parties’ private contractual agreements.(^{171})</td>
<td>Parties generally allowed to contract choice of law/forum.(^{172})</td>
</tr>
<tr>
<td>ALLOW PARTIES TO PREDICT OUTCOMES</td>
<td>Both ex ante (e.g., agreements to assign) and ex post agreements (e.g., assignments and licenses) are encouraged.(^{173})</td>
<td>Parties may bet on future costs, likelihoods, etc.(^{174})</td>
<td>Parties may contract or waive IPJ.(^{175})</td>
</tr>
<tr>
<td>ENCOURAGE SETTLEMENT OF DISPUTES</td>
<td>Parties are encouraged to work out licenses with reasonable royalty.(^{176})</td>
<td>Parties are encouraged to work out settlements of past and future disputes.(^{177})</td>
<td>Parties may create a case or controversy.(^{178})</td>
</tr>
<tr>
<td>AVOID ILLEGALITY</td>
<td>Prohibition on misuse, antitrust, etc.(^{179})</td>
<td>Prohibition on unconscionability, duress, etc.(^{180})</td>
<td>Parties cannot bind court to SMJ without case or controversy.(^{181})</td>
</tr>
<tr>
<td>BALANCE INTERESTS BETWEEN PARTIES/STAKEHOLDERS/PUBLIC</td>
<td>Laws balance interests between creator, competitors, and public.(^{182})</td>
<td>Commonlaw and UCC provide missing or preferred construction; State laws provide consumer and other protections.(^{183})</td>
<td>Title 28 provides statutory exceptions on SMJ (e.g., diversity, supplemental jurisdiction), and declaratory judgment.(^{184})</td>
</tr>
</tbody>
</table>

\(^{170}\) See Table I, supra.
\(^{173}\) See Part II(D), supra.
\(^{175}\) See cites in note 172, supra.
\(^{176}\) Parties are especially incentivized to work out their differences post-\(eBay\), since the U.S. Supreme Court removed the presumption of injunctive relief. Parties are also more incentivized to work out a realistic and reasonable royalty post-MedImmune since there is now a lower bar to initiation of declaratory actions. Licensees may not actually be more likely to sue (see analysis in Part V, infra, but at least they are more likely to be able to invoke the option if they are unhappy with their licensing terms.
\(^{178}\) See cites in note 178, supra.
\(^{180}\) See cites in note 178, supra.
\(^{181}\) See Table I, supra.
\(^{182}\) See Part II(E), supra.
\(^{183}\) See Part II(E), supra.
\(^{184}\) See cites in note 178, supra.
Table IV: “The Adverse Contract” – Open Issues in Licensing

<table>
<thead>
<tr>
<th>IP RIGHT</th>
<th>LICENSEE’S RIGHT TO CHALLENGE VALIDITY</th>
<th>LICENSOR’S RIGHT TO COLLECT ROYALTIES DURING CHALLENGE</th>
<th>LICENSOR’S RIGHT TO OTHER PROTECTIONS</th>
<th>LICENSEE’S RIGHT TO CONTINUE LICENSE</th>
</tr>
</thead>
</table>
| PATENT            | Established by Lear’s abrogation of licensee estoppel 185 | Some dispute as to whether escrow is sufficient, but licensee must pay until abrogates license 186 | 1. Not okay to extend royalties beyond term; 187  
2. May be okay to bind licensee without grant; 188  
3. Raise royalty upon challenge? 189  | Licensee’s right to continue license during validity challenge was established by U.S. Supreme Court in MedImmune 190 |
| COPYRIGHT         | Disputed – may depend on licensor’s market dominance. 191 | Will likely follow MedImmune 192 |  |  |
| TRADEMARK         | Disputed – may depend on licensor’s market dominance. 193 | Will likely follow MedImmune 194 |  |  |
| TRADE SECRET      |  | Term may be indeterminate or infinite. 195  | Will likely follow MedImmune 196  |  |

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185 See Lear 395 US at 673.
186 See Go Medical Industries Pty. Ltd. v. Inmed Corp., 1271 F.3d 1264, 1273 (Fed. Cir. 2006); Studiengesellschaft Kohle Gm.b.H. v. Shell Oil Co., 112 F.3d 1561 (Fed. Cir. 1997).
188 See Aronson v. Quick Point Pencil Co., 440 U.S. at 262.
189 This was discussed by the U.S. Supreme Court justices on oral argument of the MedImmune case. Justice Roberts discussed the possible legality of raising the royalty rate upon determination of validity. Oral Argument (7:9-12); MedImmune v. Genentech: (Case No. 05-608; Transcript of argument Oct. 4, 2006) (4:19-23).
192 See comments in note 199, infra.
193 See Seven-Up Bottling Co. v. The Seven-Up Co., 561 F.2d 1275 (9th Cir. 1977); cf. Idaho Potato Comm’n v. M&M Produce Farm & Sales, 335 F.3d 130 (2d Cir. 2003).
194 See comments in note 199, infra.
196 See comments in note 199, infra.
### Table V: Compilation Table: An Interdisciplinary Approach to Resolving Issues in Intellectual Property Licensing Disputes

<table>
<thead>
<tr>
<th>Licensing Issue in Litigation</th>
<th>Intellectual Property Law Input</th>
<th>Contract Law Input</th>
<th>Convergence of Normative Values</th>
<th>Litigation Result</th>
</tr>
</thead>
</table>
| Patent/copyright/trademark/trade secret is invalid and/or unenforceable. (action by licensee) | Federal question established only if “actual case or controversy.”
|                               | Possible bases for contract action: 1. Lack of consideration; 2. Fraud (if inequitable conduct); 3. Lack of “good faith and fair dealing” (if should have known); 4. Mistake. | Contractual illegality as reason to rescind. | State law contract action. |
|                               |                                  |                    |                                 | No federal question, unless “actual case or controversy.” |
| Patent/copyright/trademark/trade secret is not infringed. (action by licensee) | Action on scope of the contract. | Implement the reasonable expectations of parties. | State law contract action. |
| Breach for nonconformance with license agreement: 1. Licensee sues despite covenant not to do so; 2. Licensee does not observe trigger event on increasing royalty. (action by licensor) | Not a federal question. | Standard state law contract action. | 1. Encourage settlement of past and future disputes. 2. Parties may contract to predict future | State law contract action. |

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197 See MedImmune v. Genentech, 127 S.Ct. 764 (2007). Trade secret claim, or a commonlaw trademark claim, would be determined under applicable state law.


199 In the recent MedImmune v. Genentech, 127 S.Ct. 764 (2007), the Supreme Court determined that baseline jurisdiction existed for a federal declaratory judgment action, even though the license was active and unbreached. Nevertheless, the Court acknowledged that the action might not proceed either due to discretionary DJ dismissal, or due to other procedural or substantive obstacles. See Part V of this article, supra, for a discussion on how to interpret the ruling. Meanwhile, the decision may be distinguishable anyway since the Court saw a “clear threat” by licensor to sue licensee if the contract were breached. So, it is possible to view the decision as being based on that narrow ground. The decision would probably be the same for a federally enforceable copyright or trademark. A trade secret claim, or a commonlaw trademark claim, again, would be determined under applicable state law.


201 See Lear, 395 U.S. at 661-662: “construction of [the] licensing agreement is solely a matter of state law.”

202 See comments in note 199.

203 See comment from Lear in note 201, supra. Moreover, despite the Lear Court’s apparent belief that patent law trumps contract law in licensing cases, this issue should properly be viewed as being at the intersection of contract and patent law, and generally standard contract rules, including the convergence of contractual illegality and intellectual property law (see Diagram B, supra), should guide the Court’s response.

<table>
<thead>
<tr>
<th>3. Licensor does not observe trigger event on decreasing royalty. (action by licensee)</th>
<th>Coercion to enter or renew license agreement (action by licensee)</th>
<th>outcomes.207</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misuse/ Antitrust.</td>
<td>Duress.</td>
<td>Contractual illegality as reason to rescind.208</td>
</tr>
</tbody>
</table>

205 See comments in note 203, supra.
209 See comments in note 199, supra.