

# Licensing

*Contributing editor*  
**Bruno Floriani**



**2016**

GETTING THE  
DEAL THROUGH

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# Licensing 2016

*Contributing editor*

**Bruno Floriani**

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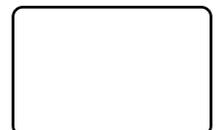


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# United States

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## Overview

- 1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

Foreign entities are generally not restricted from establishing entities within the United States, provided that they comply with state registration requirements.

Foreign entities are also generally not prohibited from entering into licence agreements, even if they do not establish an entity within the United States, provided that they are not subject to a trade embargo. However, the Bureau of Export Administration, Department of Commerce, Department of State, Nuclear Regulatory Commission, Department of Energy, Drug Enforcement Administration, Food and Drug Administration, Department of Agriculture, inter alia, regulate the exportation and importation of certain articles. For example, licence agreements with foreign entities must be in compliance with agency requirements. Further, licence agreements must also be in compliance with the tax provisions of the United States as well as any international treaties.

## Kinds of licences

- 2 Identify the different forms of licence arrangements that exist in your jurisdiction.**

The types of licensing arrangements that exist in the United States include technology transfer licensing, know-how and trade secret licensing, patent licensing, trademark licensing, trade dress licensing, industrial design licensing, copyright licensing, software licensing and right of publicity licensing. A right of publicity is the right to control commercial use of one's name, image, likeness or other use of one's identity.

Patents that are part of a standard, namely, standard essential patents (SEPs), may be subject to 'fair, reasonable, and non-discriminatory' licensing practices (FRAND/RAND licensing).

Licensing arrangements may be exclusive or non-exclusive (by area or technology), and may provide various forms of compensation, including monetary and non-monetary forms of compensation.

Monetary compensation may include lump sum payments or royalties, or both, while non-monetary compensation may include cross-licensing of technology or intellectual property, an equity interest in property or technology sharing, or any combination of these. Further, technology may be licensed individually or, under certain limited circumstances, collectively in pools.

## Law affecting international licensing

- 3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Generally, terms of an international licensing relationship are not governed by legislation. For instance, legislation does not impose any limitations on the fee that may be charged by a licensor. Additionally, the duration of the contractual term is generally not controlled by legislation. For instance,

there is no limit on the duration of a licence for some types of intellectual property, such as trademarks. However, where the intellectual property has a limited life, for instance a patent, licences that require royalty payments after the patent has expired are generally considered unenforceable (see question 9).

With respect to inventions made in the performance of work under a government contract, federal law requires that the government shall have at least a non-exclusive, non-transferable, irrevocable, paid-up licence to practise, or have practised for or on behalf of the United States, any subject invention throughout the world; that no exclusive licence be granted to anyone who does not manufacture in the United States; and that the government may have additional rights to sub-licence any foreign government or international organisation pursuant to existing treaties or agreements identified in the contract, or to otherwise effectuate such treaties or agreements. In the case of long-term contracts, government contracts may also provide rights with respect to treaties or agreements to be entered into by the government after the award of the contract.

There are no general requirements relating to an international licensing relationship that certain products be purchased locally. However, it is common practice that state-funded public universities license their intellectual property to local businesses within the state to stimulate the local economy.

- 4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

Generally, there are no pre-contractual disclosure requirements in the United States imposed on a licensor in favour of a potential licensee. A licensor is expected to act in good faith and not misrepresent any material facts; this obligation includes disclosing that a patent is part of a 'standard', and that it is subject to FRAND/RAND licensing. With respect to standards and FRAND/RAND licensing, an owner of SEPs is typically required to offer FRAND/RAND licensing rates to third parties, and the SEP owner should do so before filing any suit. Additionally, in most cases, there is no requirement to register a grant of international licensing rights with any authorities in the United States. However, certain contracts may require registration with a governmental agency, such as contracts relating to certain nuclear or hazardous materials. Additionally, any manufacturer or exporter of articles or services found on the United States Munitions List of restricted articles and services is required to register with the US State Department's Directorate of Defense Trade Controls.

- 5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

Yes. Parties to a contract are expected to act in good faith. Also, the present trend is that SEPs are subject to FRAND/RAND licensing, which creates a contractual obligation to offer such licensing rates and terms to third parties (see, for instance, question 4). A contract that has been obtained through fraud is voidable. An example of where fraud may come into play is where the potential licensor does not disclose that the patent or patents to be licensed are part of a standard (see, for instance, question 12). Further, a

contract of adhesion, namely a contract that is so imbalanced in favour of one party over the other that there is a strong implication it was not freely bargained for, may be held unenforceable if found to be unconscionable, unduly oppressive or against public policy.

With respect to ambiguity in a contract, the ambiguity is usually construed against the drafter. To avoid this, a drafter can include a section in the contract that states that each party to the contract assisted in drafting the contract, or that each party has been represented by counsel of its choice in negotiating the contract. A drafter may also include a statement in the contract that the contract shall be deemed to have been negotiated at arm's length, with the advice and participation of counsel, and prepared at the joint request, direction and instruction of the parties, and shall be interpreted in accordance with its terms without favour to either party.

**6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?**

Yes. Generally speaking, a franchise is a licence where the licensor controls the licensee and benefits from that control. Franchises are governed by federal and certain state laws and regulated by the Federal Trade Commission and by the states in which the franchise does business. Whether the federal franchise rules apply to a particular business relationship depends upon whether the relationship meets the rules' definition of a 'franchise' and whether an exemption or exclusion applies. Under the rules, a commercial business arrangement will be considered a 'franchise' if it satisfies three definitional elements, namely, the franchisor must promise to provide a trademark or other commercial symbol, promise to exercise significant control or provide significant assistance in the operation of the business and require a minimum payment of at least US\$500 during the first six months of operations.

**Intellectual property issues**

**7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?**

Yes.

**8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?**

In 2007, the US Supreme Court overruled the Federal Circuit's requirement that there must be a reasonable apprehension of an imminent suit and held that a patent licensee may challenge the validity of a patent while maintaining good standing under the patent licence agreement (*MedImmune v Genentech*, 549 US 118 (2007); see also *Medtronic Inc v Boston Scientific Corp*, 695 F3d 1266 (Fed Cir 2012)). The holding in *MedImmune* allows a patent licensee to challenge the validity of a patent while preventing the patent licensor from counterclaiming for patent infringement, thereby shifting the balance of power in a patent licence agreement towards a patent licensee. In order to recapture some of that power, patent licensors may attempt to receive greater compensation up-front and may further include provisions that, when the validity of a licensed patent is challenged, provide for increased compensation for the licensor, include a right for the licensor to terminate the patent licence agreement, include a right to reduce the scope of a licence agreement (ie, an exclusive licence may be converted to a non-exclusive licence) or require the patent licensee to bear the costs of litigation. Most of these alternatives have not yet been subject to judicial scrutiny.

**9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?**

After a patent expires, the subject matter disclosed therein enters the public domain. As such, there can no longer be an exclusive right, licence or privilege to use the subject matter. In this regard, the US Supreme Court has held that royalty agreements that extend beyond the expiration of the term of a licensed patent are unlawful per se (*Brulotte v Thys*, 379 US 29 (1964)). As discussed in question 12, the Supreme Court reviewed this issue and affirmed its prior decision, in *Kimble v Marvel Entertainment, LLC*, 135

S.Ct 2401), but also noted that *Brulotte* did not prevent a careful contract drafter from contracting around the prohibitions of *Brulotte*. (See *Kimble*, 135 S.Ct at 2408.)

For example, if a royalty agreement includes know-how, in addition to a licensed patent, post-expiration royalties may be collected. Further, when multiple patents are lawfully and collectively licensed, royalties can be levied until the expiration of the term of the last patent.

In the United States, trademark rights derive from actual use in commerce. Therefore, trademark rights are valid as long as the mark is used in connection with the relevant goods or services, regardless of whether the mark is registered. Consequently, as long as the mark is used in the relevant territory, trademark rights may be licensed and levied. However, it is highly advisable to register and maintain trademark registrations in the United States Patent and Trademark Office (USPTO), as this provides, inter alia, nationwide notice to third parties as well as a presumption of validity in the event of a trademark dispute.

With regard to copyright registration in the United States, there are specified terms of a number of years following creation or publication to perfect an ownership in a registered US copyright, after which the work will fall into the public domain. For example, a work created on or after 1 January 1978, lasts for the life of the author and 70 years after the author's death. For a joint work prepared by two or more authors for a work that is not a work made for hire, the copyright lasts for the life of the last surviving author and 70 years after the surviving author's death. For works made for hire, the copyright lasts for 95 years from the year of its first publication, or 120 years from the year of its creation, whichever expires first. Therefore, once a copyright registration lapses, the work falls into the public domain and as such cannot continue to be levied.

If, however, all of the intellectual property rights underlying the licence are found invalid or expire, there would be no extant right to exclude others from practising the intellectual property requiring a licence. As such, a former licensee may freely compete with the former licensor at that point.

**10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?**

A US trademark application may be based upon actual use in the United States, or a corresponding non-US registration, if the applicant's country of origin is a party to a treaty such as the Paris Convention or an agreement with the United States that provides for registration based on ownership of a foreign registration. The corresponding non-US registration must be for the same mark, for the same goods, and owned by the same owner.

For US applications based upon non-US registrations, although the original non-US registration is not required to be submitted with the application, a true copy of the corresponding non-US registration must be submitted to the USPTO before the US registration will be issued. Further, it is not necessary to demonstrate use in the United States prior to registration for applications based upon non-US registrations. Also, the USPTO will not require proof of use in the country of origin. However, in order to maintain the US trademark registration, the owner will be required to submit a declaration of use and specimen of use between years five and six following the US registration and every 10 years thereafter from the registration date.

With regard to copyrights, the United States is a member of the Berne Convention. Consequently, registration is not required for protection for non-US works created in other member countries. However, it has been held in US courts that statutory damages and attorneys' fees are only available for works registered in the United States.

An original registration or evidence of use is not necessary to obtain a patent. However, if a patent application is filed in a foreign jurisdiction, an application must be filed in the United States within 12 months of the filing date in the foreign jurisdiction.

**11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?**

Yes. In the United States, trademark rights derive from actual use in commerce. Therefore, trademark rights are valid as long as the mark is used in connection with the relevant goods or services, regardless of whether the mark is registered. However, the owner's rights in an unregistered mark are limited to the geographical area within which it has been used or the areas into which it may be reasonably expected to expand. Therefore, the licensor may not license rights to use the mark beyond its scope of geographical use. Consequently, it is highly advisable to register and maintain

trademark registrations in the USPTO as this provides nationwide notice to third parties as well as a presumption of validity in the event of a trademark dispute. In the United States, there is no legal requirement that a trademark licence be recorded.

In addition, a trademark may be registered at the state level in the United States. However, each state's laws concerning trademark registration and rights differ, meaning that the protection provided by a trademark registration in one state may differ from that provided by another.

Likewise, copyright rights may be licensed without a registration. Under US law, an original work fixed in a tangible medium of expression is automatically protected upon creation. However, registering the work provides several legal benefits and registration is a prerequisite to filing an infringement suit in a US federal court for works of US origin.

**12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?**

An intellectual property licence must not violate antitrust law or involve patent misuse. Agreements that tie a staple good to a patent, or which effectively extend the term of a patent, thereby requiring royalty payments after expiration of the patent, are patent misuse per se, while agreements that are anti-competitive in nature may be found to violate antitrust law. Additionally, violations of a standard body's rules can result in patent unenforceability.

In *Kimble v Marvel Entertainment, LLC*, 135 S Ct 2401, the United States Supreme Court recently declined to overturn *Brulotte v Thys*, 379 US 29 (1964), which held that a patentee's use of a royalty agreement extending royalty payments beyond the expiration date of the patent is unlawful per se as noted in question 9. The Supreme Court, however, noted that careful licence drafters could work around *Brulotte*; for example, the Court noted that '*Brulotte* poses no bar to business arrangements other than royalties - all kinds of joint ventures, for example - that enable parties to share the risks and rewards of commercializing an invention' (*Kimble*, 135 S Ct at 2408).

In order to render an intellectual property licence opposable to a third party, the third party must have standing to challenge the validity of a licence agreement, that is, demonstrate actual or imminent injury, a causal connection between the injury and the licence agreement, and that a favourable decision will provide redress.

In order to protect an ownership interest in intellectual property against subsequent purchasers and mortgagees for value, an assignment or other documents should be filed with either the USPTO or Copyright Office. (See, eg, 35 USC section 261.) In order to perfect a security interest in a patent or trademark against future lien creditors or owners, a state filing should be made in accordance with the Uniform Commercial Code. In order to perfect a security interest in a registered copyright, it should be recorded in the Copyright Office (*In re Peregrine Entertainment Ltd*, 116 Bankr 194 (CD Cal 1990)).

**13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?**

Whether a foreign owner or licensor of intellectual property can bring proceedings must be answered by first determining which party has 'standing', namely, who may bring suit. A foreign owner or licensor of intellectual property has standing to institute a proceeding against a third party for infringement without joining the licensee provided that the foreign owner did not grant an exclusive licence of all rights in the intellectual property. Typically, all joint owners of the intellectual property are required to join together to institute proceedings against a third party for infringement.

A licensee can institute an action against an infringer without the consent of the licensor or owner only if the licensee is an exclusive licensee of all rights in the intellectual property, and has the right to sue for patent infringement. In this regard, a right-to-sue clause, taken alone, generally does not entitle a non-exclusive licensee with the right to sue. Further, an exclusive licensee can be denied the right to sue when that right, or any other right in the intellectual property, is retained by the owner or licensor,

namely, the licence is not, in fact, 'exclusive' in that it is an assignment of less than all rights.

The Federal Circuit has held, in *Azure Networks LLC v CSR PLC*, 771 F3d 1336 (Fed Cir 2014), vacated on different grounds, 135 S Ct 1846, that, a patent owner lacked standing to join a suit for patent infringement brought by its licensee against an accused infringer even though the patent owner retained the right to royalties, right to practice the patent, right to terminate the agreement, and a future reversionary interest in the patent. In so holding, the court noted that the patent owner had transferred substantially all of its patent rights to the licensee and therefore lacked standing to join the patent-infringement suit. The court focused on the fact that the patent owner completely transferred control over litigation and licensing of the patent to the licensee in ruling that the patent owner lacked standing to join a patent-infringement suit. The Federal Circuit has also recently held, however, in *Alps South, LLC v Ohio Willow Wood Co*, 787 F3d 1379 (Fed Cir 2015), that an exclusive licensee in a field of use having the right to exclude, transfer, and enforce the patents did not have standing to maintain an infringement action without the patent owner.

Under US trademark law, 'any person who believes that he or she is or is likely to be damaged(...)' by the false or misleading use of a trademark, may bring an action under the Lanham Act, 15 USC section 1125(a). Therefore, unless contractually prohibited, a trademark licensee may bring an action against an infringer under this section of the Lanham Act without the consent of the owner or licensor.

**14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?**

Yes, however, under the Lanham Act, in the United States a trademark licensor must supervise and control the licensee's use of its mark in order to protect the public's expectation that all products sold under a particular mark are from a common source and of like quality. Where a licensor does not exercise reasonable quality control over a licensee, the mark may be deemed abandoned owing to the 'naked licensing'. *Tumblebus Inc v Cranmer*, 399 F3d 754, 764-65 (6th Cir. 2005); see also *Dawn Donut Co v Hart's Food Stores, Inc*, 267 F2d 358, 367 (2d Cir. 1959).

The majority of US case law has held that a trademark licensee may not sub-license a mark to a third party without first obtaining the licensor's express consent. Therefore, generally the right to sub-license must be granted contractually.

**15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?**

The America Invents Act of 2011 changed the United States' patent system from a first to invent to a first to file 'plus' system, which applies to all patent applications filed in the United States that have an earliest effective filing date on or after 16 March 2013. The Act also eliminated interference proceedings and inter partes re-examination and created additional post-grant proceedings (Inter Partes Review and Post Grant Review) to challenge issued patents before the USPTO, but leaves ex-parte re-examination as an option. Derivation proceedings were also created, in which the USPTO can decide if one inventor derived the invention in his or her application from another inventor. Post-grant review applies to patent applications having an effective filing date of 16 March 2013 or later; and inter partes review (which replaced inter partes re-examination) became effective 16 September 2012 and applies to all patents regardless of filing date. More than 2,400 such proceedings have been filed to date, with a large number of patents being invalidated as a result of such proceedings; USPTO statistics show that about 70-80 per cent of requests for IPR are granted, and that about 70-80 per cent of the challenged claims are declared invalid in an IPR.

Patent applications can be licensed in the United States. In this regard, since a patent application has not removed any property rights from the public domain, courts have found that a patent application does not provide as much leverage as a patent. Accordingly, courts have held that federal patent law does not pre-empt state contract law, and thus that the term of a patent licence agreement may continue if the patent application fails (see *Aronson v Quick Point Pencil Co*, 440 US 257 (1979)).

**16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?**

The United States Supreme Court has long held that the execution of a physical process, even when controlled by a computer program, is patent-eligible subject matter. Mathematical formulae and abstract ideas, in and of themselves, are not patentable. However, the mere presence of software does not render an otherwise patentable process unpatentable (*Diamond v Diehr*, 450 US 175 (1981)). In 2010, the US Supreme Court reaffirmed that processes, such as business methods and software, are patentable (*Bilski v Kappos*, 561 US 593 (2010)). The Court held that a process is surely patent-eligible subject matter if it satisfies the ‘machine or transformation test’, namely, if it is tied to a particular machine or apparatus, or transforms a particular article into a different state or thing. The Court, however, rejected the machine or transformation test as the sole test for determining patent-eligible processes. In *CLS Bank International v Alice Corp Pty Ltd*, 134 S Ct 2347 (2014) the Supreme Court held invalid computerised method and system claims directed to a method of reducing settlement risk via trading with a third party. The Supreme Court stated that because the claims at issue were drawn to the abstract idea of intermediated settlement, the inclusion of generic computer implementation (ie, a data storage unit, controller and processing system) did not make such an idea patentable.

Shortly thereafter, the Federal Circuit held, in *Digitech Image Technologies LLC v Electronics for Imaging*, 758 F3d 1344 (Fed Cir 2014), that device claims directed to ‘an “improved device profile” that describes spatial and color properties of a device within a digital image processing system’, even though the device profile was described as a collection of information with two data sets (one for colour and one for spatial information), were invalid as non-statutory subject matter under 35 USC section 101; and with respect to the method claims, the Court held them invalid under section 101 because, although the asserted method claims recited a process, they were nevertheless directed to non-statutory materials. The Federal Circuit followed similar reasoning in several later decisions in 2014, and the USPTO has been following such decisions during ex parte examination of applications.

The Supreme Court has further held that ‘anything under the sun that is made by man’, including a living, human-made organism, is patent-eligible subject matter (*Diamond v Chakrabarty*, 447 US 303 (1980)). In *Association for Molecular Pathology v Myriad Genetics, Inc*, 133 S Ct 2107 (2013), the Supreme Court held that ‘isolated’ DNA molecules are products of nature and, thus, not eligible for patent protection, whereas some cDNA molecules are eligible. In *Prometheus Laboratories, Inc v Mayo Collaborative Services*, 132 S Ct 1289 (2012), the Supreme Court held invalid claims directed to administering a drug and determining the level of a metabolite. Both were considered to be directed to laws of nature and, thus, not patentable subject matter under 35 USC section 101.

However, section 33 of the America Invents Act of 2011 (see, eg, 35 USC section 101 advisory notes) now provides that no patent may be issued on a claim directed to or encompassing a human organism. This preclusion applies to any application for a patent that is pending on, or filed on or after, the date of the enactment of the Act, but does not affect the validity of any patent issued before the date of the enactment of the Act.

Additionally, section 14 of the America Invents Act of 2011 (see, for example, 35 USC section 102 advisory notes) provides that tax strategies are deemed within the prior art, such that a strategy for reducing, avoiding or deferring tax liability, whether known or unknown at the time of the invention or application for the patent, shall be deemed insufficient to differentiate a claimed invention from the prior art. The section has two exceptions, such that the section does not apply to a method, apparatus, technology, computer program product or system, that is used solely for preparing a tax or information return or other tax filing, including one that records, transmits, transfers or organises data related to such filing or is used solely for financial management, to the extent that it is severable from any tax strategy or does not limit the use of any tax strategy by any taxpayer or tax adviser.

Further, although business methods remain patentable in the US, section 18 of the America Invents Act of 2011 provides for a ‘transitional post-grant review proceeding’ to review the validity of covered business method patents. This review proceeding makes it easier to challenge business method patents as not satisfying 35 USC section 101, and over 260 such proceedings have been filed so far.

Last, the USPTO continues to provide guidance on examination of patentable subject matter under 35 USC section 101 in view of the recent court decisions, and we expect more guidelines will be forthcoming. (See,

eg, the July 2015 Update: Subject Matter Eligibility at [www.uspto.gov/sites/default/files/documents/ieg-july-2015-update.pdf](http://www.uspto.gov/sites/default/files/documents/ieg-july-2015-update.pdf).)

**17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?**

Yes. In the United States there is a Uniform Trade Secrets Act (UTSA), which has been enacted, in one form or another, by most, but not all, of the states, as well as the District of Columbia. The UTSA defines a trade secret as information, including a formula, pattern, compilation, programme, device, method, technique or process, that derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

The states that do not follow the UTSA generally follow the First Restatement of Torts, which considers the following factors to determine whether information is a trade secret:

- the extent to which the information is known outside the holder’s business;
- the extent to which it is known by employees and others within the business;
- the extent of the measures taken to guard the secrecy of the information;
- the value of the information to the holder and its competitors;
- the amount of effort or money expended in developing the information; and
- the ease or difficulty with which the information could be properly acquired or duplicated by others.

Generally, remedies for misappropriation of a trade secret include damages and injunctive relief. Under certain circumstances, the UTSA permits enhanced damages (up to two times actual damages) and attorneys’ fees.

**18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?**

In the United States, generally, a licensor can restrict disclosure or use of trade secrets and know-how by the licensee or third parties both during and after the term of the licence agreement. Such terms are typical in a licence agreement relating to trade secrets and know-how. With respect to improvements, there is usually a contractual distinction between improvements and the underlying trade secret or know-how. As such, improvements and the underlying trade secret or know-how should be addressed separately in licensing agreements; however, it is not unusual for parties to agree to the same rights or obligations with respect to these items.

**19 What constitutes copyright in your jurisdiction and how can it be protected?**

Copyright protection automatically applies to ‘original works of authorship fixed in any tangible medium of expression’, 17 USC section 102. Works of authorship include literary works; musical works, including any accompanying words; dramatic works, including any accompanying music; pantomimes and choreographic works; pictorial, graphic, and sculptural works; motion pictures and other audio-visual works; sound recordings; and architectural works.

Copyright protection does not extend to any idea, procedure, process, system, method of operation, concept, principle or discovery, regardless of the form in which it is described, explained, illustrated or embodied in such work. Computer software code is subject to copyright protection as a literary work, whereas manifestations of the software, such as the visual display of the software, may be subject to copyright protection and registration as an audio-visual work.

Copyright protection also applies to compilations and derivative works, and restored works, but does not apply to any work of the US government. The exclusive rights in copyrighted works, and the limitations on the exclusive rights and scope of copyrights, are set forth in 17 USC sections 106 to 122.

Under US law, an original work fixed in a tangible medium of expression is automatically protected upon creation. However, registering the work provides several legal benefits. First, registration is a prerequisite to filing an infringement suit in US federal court for works of US origin. Registration also provides the opportunity to recover statutory damages and attorneys' fees in court. Additionally, a work that is registered within five years after the date of first publication will constitute prima facie evidence in court that the copyright is valid.

**20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?**

Yes. In the United States, exclusive rights in copyright are not transferrable absent a writing. Therefore, it is advisable to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works to which the licensee may have contributed. Additionally, a 'work made for hire' under the US copyright laws would be owned by an employer where a work was prepared by an employee within the scope of his or her employment, or in certain situations (ie, 'a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audio-visual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas') where the parties expressly agree in a written instrument that the work shall be considered a work made for hire. However, if the employee is to work as an independent contractor, the employer must claim ownership of the material created by the contractor via an assignment rather than relying on employer for hire status.

On the other hand, a non-exclusive licence may be granted orally, or may be implied from conduct.

### Software licensing

**21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?**

In the United States, a perpetual software licence would be valid.

**22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?**

Yes. US export control laws control the conditions under which certain information and technologies can be transmitted overseas to anyone, including US citizens, or to a foreign national on US soil. The laws are implemented through the Export Administration Regulations and International Traffic in Arms Regulations.

Export controls usually arise where the nature of the export has actual or potential military applications or economic protection issues; where the government has concerns about the destination country, organisation or individual; or where the government has concerns about the declared or suspected end-use or the end-user of the export.

**23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensee bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?**

Generally, the parties to a licence agreement negotiate who owns any improvements or modifications to licensed software. Open source software typically allows modifications and derived works, but requires that the modifications and derived works be distributed under the same terms as the licence of the original software. One should always determine whether the licence that accompanies or is packaged with purchased software prohibits modification.

A software licensee may obtain updates in the absence of a contractual provision to that effect; however, if there is a contractual provision that prohibits a licensee from obtaining updates that provision will govern.

**24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?**

Yes. In the United States, under certain circumstances, a software licensor can include a process or routine to disable automatically or cause unauthorised access to disable the licensed software. The most typical situation is a free trial, where a party is permitted to use the software for a limited time or with limited features. If the party does not purchase the product before the expiration of the trial period, the software is then disabled. However, a software licensor who wrongfully disables, erases or otherwise adversely affects the licensed software is liable for damages to the licensee.

**25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?**

Courts in the United States have recognised that computer software companies and their customers are inherently aware that software is not completely and totally error-free. However, it is common for software providers to expressly state in standard licence agreements that the provider does not warrant that the software will be 'error-free' or 'uninterrupted'.

**26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?**

Such restrictions are governed by the contract between the software licensor and the user (licensee). Generally, features such as implementation of updates and upgrades are addressed in a shrink wrap licence or click wrap licence. Software licences typically require prior consent by the user for implementation of updates and upgrades; however, certain licence agreements provide for the licensor to implement such changes without the users' prior consent. Further, certain agreements allow for the user to control the licensor's automatic updating settings, that is, the user may 'opt-in' and permit automatic updates or 'opt-out' and require manual installation of updates and upgrades.

**27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?**

In the United States, open source software is copyrightable subject matter, and public licences for open source software typically specify the extent to which 'copying' is permitted and under what terms and conditions.

To date, courts have not restricted the enforceability or applicability of terms and conditions of public open source software licences in any different manner than historical contract law, but rather have allowed parties to contract freely regarding restrictions of use and have enforced those restrictions.

### Royalties and other payments, currency conversion and taxes

**28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?**

Generally speaking, the United States does not have any legislation governing royalty rates, although there are rules and regulations relating to distribution of music copyright. The Federal Circuit in the US has held that as a matter of law, the 25 per cent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Further, any evidence relying on the 25 per cent rule of thumb is inadmissible (*Uniloc v Microsoft*, 632 F3d 1292 (Fed Cir 2011)). However, asserting patents in industry standards that are subject to FRAND/RAND licensing creates a contractual obligation to offer FRAND/RAND licensing rates to third parties. (See *Microsoft Corp v Motorola, Inc*, 795 F3d 1024, 1029 (9th Cir 2015); *Ericsson Inc v D-Link Systems, Inc*, 773 F3d 1201 (Fed Cir 2014); *Apple Inc v Motorola Inc*, 757 F3d 1286 (Fed Cir 2014).) Royalties should be

based on the contribution of the patents-in-suit to the standard-practising component and the contribution of that component to the accused product as a whole.

Also, cases have held that a patentee may assess damages based on the entire market value of the accused product only where the patented feature creates the basis for customer demand or substantially creates the value of the component parts. *Versata Software, Inc v SAP Am, Inc*, 717 F3d 1255, 1268 (Fed Cir 2013). In the absence of such a showing, principles of apportionment apply. The smallest saleable unit approach is intended to produce a royalty base much more closely tied to the claimed invention than the entire market value of the accused products (*VirmetX, Inc v Cisco Systems, Inc*, 767 F3d 1308, 1327 (Fed Cir 2014)). Where the smallest saleable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature, the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology (*idem*).

There are also limits (generally set by each state) against charging interest rates above a statutory limit called 'usury limits'.

### 29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

Subject to the tax withholding issue discussed in question 30, generally speaking, the United States does not have any restrictions on currency transfers, except that cash transfers in excess of US\$10,000 must be reported to the US Internal Revenue Service under anti-money laundering statutes. See 26 USC section 60501 and 31 USC section 5331.

### 30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

Generally speaking, foreign (non-US) companies are only subject to taxation on income from US business operations. The income subject to taxation generally includes any income from the sale of US real property, income connected with participation in an entity (eg, partnership) that engages in US business or income received as a beneficiary of an estate or trust so engaged. Under various tax treaties, a foreign company is taxable on a net basis only on income attributable to a 'permanent establishment' in the United States. All foreign companies are also taxed on a gross withholding basis on US-source portfolio income, for example dividends, interest, rents and royalties. This source portfolio income includes royalties derived from US patents and other such intellectual property. International tax treaties often reduce the withholding tax rate, and are in place to prevent double taxation on the same income.

### 31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor owing to currency exchange fluctuations be enforceable?

Yes. At least, courts in the Third, Fourth, Sixth and Eighth Circuit Federal Courts of Appeal have noted that there is no prohibition on awarding damages in foreign currency and have endorsed such practice in appropriate circumstances.

## Competition law issues

### 32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Practices that restrict trade are prohibited by both US antitrust and patent laws. Generally speaking, the antitrust laws prohibit a business with a monopoly over certain products or services from abusing its dominant position or market power. Examples of the types of prohibited practices include bid rigging, predatory pricing, price fixing, product tying and vendor lock-ins.

With respect to patent licence agreements, specifically, there is the concept of 'patent misuse', which would render the patent unenforceable (with the exception of certain activities, see question 33). While patent misuse is similar to antitrust, it addresses broader activities. That is, the key inquiry will be whether the patentee has impermissibly broadened the scope of the patent grant with 'anticompetitive effect' by imposing conditions that derive their force from the patent.

### 33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

Not all restrictions on competition from licence agreements are prohibited. That is, if the restrictions in the licence agreement do not violate the US antitrust laws, or constitute patent misuse, as discussed above in connection with question 32, they would be legal. Unlike the European courts, the US courts do not appear to have addressed the issue of 'internet sales prohibitions'.

US patent laws, however, specifically exclude certain activities from the ambit of patent misuse. Specifically, 35 USC section 271(d) states that:

*... no patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorised another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the licence of any rights to the patent or the sale of the patented product on the acquisition of a licence to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the licence or sale is conditioned.*

## Indemnification, disclaimers of liability, damages and limitation of damages

### 34 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are commonly used and are enforceable in the United States. Insurance coverage is also available for the protection of a foreign licensor against invocation of an indemnification provision.

### 35 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers of liability generally enforceable? What are the exceptions, if any?

Parties can generally contractually agree to waive or limit certain types of damages, and disclaimers of liability are generally enforceable. Sales of goods under article 2 of the Uniform Commercial Code are subject to a non-infringement warranty, unless explicitly disclaimed by contract.

## Termination

### 36 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Generally speaking, US law does not impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship, or require the payment of an indemnity or other form of compensation upon termination or non-renewal.

### Update and trends

A number of factors noted herein have contributed to make patent licensing significantly more challenging. Limitations on patentable subject matter are discussed in question 16; the success of challenges to patent validity using IPRs before the USPTO are discussed in question 15; and restrictions on SEP licensing are discussed in questions 4, 27 and 41. We also expect that the Supreme Court and Federal Circuit will issue decisions, and that the USPTO will continue to release guidance for examination, addressing issues that will affect licensing practices.

One of the issues that has limited patentee and exclusive licensee's attempts to monetise patents is the patent exhaustion doctrine. Under the doctrine, when a patentee authorises another party to sell a patented item, the patentee's right to exclude with respect to that item is exhausted, and the patentee thus cannot pursue the licensed device

down the stream of commerce to restrict subsequent parties from using the device for its intended purpose. In *Helperich Patent Licensing, LLC v New York Times Co*, 778 F3d 1293 (Fed Cir 2015), the court limited application of the doctrine. In *Helperich*, the patents-at-issue covered both wireless handsets as well as content, where the handset, but not content, claims were licensed; and the court held that the patent exhaustion doctrine did not apply to the unlicensed claims. As such, it appears that a licensor may be able to avoid the doctrine by licensing only certain patent claims covering a specific invention. The Federal Circuit has also recently held that the patent exhaustion doctrine is only applied when the sale is authorised by the patentee (*JVC Kenwood Corp v Nero, Inc*, 797 F3d 1039 (Fed Cir 2015)).

### 37 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue?

In the absence of a contractual provision addressing the termination or expiration of the sub-licence, the licence will no longer be in force.

If a licence agreement for intellectual property is terminated or expires, the licensee's rights in the licensed property cease to exist. As a result, the licensee may no longer convey those rights in any sub-licence agreements that may have been previously granted. Thus, absent any provisions to the contrary, the licensee may be liable for breach of the sub-licence agreements.

Many sub-licence agreements, however, provide for termination of the sub-licence agreement in the event that the sub-licensor no longer owns the property that is the product of the sub-licence agreement. Further, an agreement can be drafted that allows the sub-licensor to 'step into the shoes' of the licensee in the event that the original agreement with the licensee terminates.

### Bankruptcy

### 38 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

A bankruptcy of licensors in patent licence agreements is governed by the Intellectual Property Bankruptcy Protection Act of 1988 (IPBPA), and 11 USC, sections 101(35A), 101(39) 365(n) and 1502. Under the statute, one of two things can happen if the licence is executory, that is, performance is still required under the agreement, upon the licensor declaring bankruptcy: the debtor can either assume or reject the licence. Nevertheless, if there is a 'foreign main bankruptcy proceeding' (ie, a foreign proceeding pending in the country where the debtor has the centre of its main interests where the initial proceeding is), the US courts may apply the foreign law in the US bankruptcy proceeding in accordance with the United States' commitment to international cooperation with foreign insolvency proceedings. 11 USC section 1502(i).

If the licence is assumed, the debtor and the licensee essentially have the same relationship they had before bankruptcy. If, however, the debtor rejects the licence, it is terminated, and the licensee may make a claim for money damage, or choose to retain its licence rights under the patent that existed on the date of bankruptcy filing.

Should the debtor reject the licence, section 365(n) protects licensees, and licensees may treat the contract as terminated and become an unsecured creditor for any monetary damages caused by the licence termination under sections 365(g) and 502(g) of the Bankruptcy Code.

In the alternative, section 365(n) also allows the licensee to retain its rights under the licence, such that the licence essentially continues as if never terminated. In that case, the licensee must continue performance, for example making royalty payments. The licensor, however, is not obligated to continue performance.

Section 365(n) also provides the licensee with the additional right to enforce any exclusivity portion of the licence, such as, in the case of an exclusive licensee, preventing another party from infringing the licensed patent rights.

Despite the United States' commitment to international cooperation with foreign insolvency proceedings, the Fourth Circuit Court of Appeals has rejected application of foreign (German) law, where the foreign main bankruptcy proceeding was in Germany, when the foreign law conflicted with section 365(n). *Jaffe v Samsung Electronics Company Limited*, 797 F3d 14 (4th Cir 2013), cert denied, 135 S Ct 66 (2014). In that case, the Court rejected application of German law and applied US law to protect the rights of cross-licensees of a German debtor's American patents; the cross-licences are not enforceable under German law. The Court further noted, however, that the application of the US Bankruptcy Code, instead of foreign insolvency law, to protect a licensee in the Chapter 15 proceeding was within the sole discretion of the US Bankruptcy Court, such that this may not always be the result.

With respect to trademarks, the respective courts of appeal that have addressed the issue of whether the trademark licence could be rejected by the trustee in bankruptcy held, that a perpetual, royalty-free, exclusive trademark licence was not executory and, therefore, could not be rejected. See *In re Exide Tech*, 607 F3d 957 (3d Cir 2010). See also *Lewis Bros Bakeries Inc v Interstate Brands Corp*, 751 F3d 955 (8th Cir 2014). Both licences were entered into in connection with the sale of a business.

Similarly, the Seventh Circuit has held that a trademark licensee retained its rights to use a licensed trademark even after the bankruptcy trustee for the licensor rejected the licence agreement (*Sunbeam Products, Inc v Chicago American Manufacturing LLC*, 686 F3d 372 (7th Cir 2012)).

### Governing law and dispute resolution

### 39 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

There are no prohibitions on US courts applying a foreign law specified as a choice of law per se. A US court, however, may choose not to apply a foreign law if it is against public policy or if there is no connection to the parties (see *Riley v Kingsley Underwriting Agencies Ltd*, 969 F2d 953 (10th Cir 1992)).

### 40 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another?

Parties may contractually agree to arbitration instead of resorting to litigation in courts. The arbitration may generally be held in any jurisdiction specified by the parties to the contract.

### 41 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

A US court will enforce a foreign court's judgment provided the court is located in a jurisdiction (state) that has adopted the Uniform Foreign-Money Judgments Recognition Act.

The US is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and foreign arbitration awards are enforceable in the United States.

**42 Can a software licensee contractually waive the right to participate in class action proceedings relating to the licensed software?**

It appears that a software licensee has been contractually waiving the right to participate in class action proceedings relating to licensed software, but the issue has not yet been challenged in court. For example, certain US end user licence agreements forbid customers from suing or joining in class action suits against the corporate licensor.

**43 Is injunctive relief available in your jurisdiction? May it be waived contractually? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?**

Injunctions are available in the United States, but parties may contractually waive the right to seek an injunction and also waive categories of damages in an arbitration clause. In *eBay, Inc v MercExchange LLC*, 547 US 388 (2006), the Supreme Court made it more difficult for a patent owner to obtain injunctive relief. Before *eBay*, a prevailing patent owner was presumptively entitled to an injunction. However, post-*eBay*, for a prevailing patent owner to obtain an injunction, the prevailing patent owner must show that the patent holder has suffered irreparable harm, remedies available at law, including monetary damages, are inadequate to make the patent owner whole, the balance of hardships favour the patent owner and the public interest would not be harmed by issuing the injunction.

Also, in *Apple Inc v Motorola Inc*, 757 F3d 1286 (Fed Cir 2014), the Court stated that there is no per se rule that injunctions are unavailable for SEPs. The Federal Circuit held the following:

*[that the] framework laid out by the Supreme Court in eBay, as interpreted by subsequent decisions of this court, provides ample strength and flexibility for addressing the unique aspects of FRAND committed patents and industry standards in general (Citation omitted). A patentee subject to FRAND commitments may have difficulty establishing irreparable harm. On the other hand, an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.*

In *Apple Inc v Samsung Elecs. Co*, 801 F3d 1352 (Fed Cir 2015), the Federal Circuit held that the district court abused its discretion when it did not enjoin Samsung's infringement, finding that the district court 'erred when it required Apple to prove that the infringing features were the exclusive or predominant reason why consumers bought Samsung's products to find irreparable harm'. The Federal Circuit held that 'Apple does not need to establish that these features were the reason customers bought Samsung phones instead of Apple phones - it is enough that Apple has shown that these features were related to infringement and were important to customers when they were examining their phone choices'.



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