Licensing

Contributing editors
Fiona Nicolson and Claire Smith

2019

GETTING THE DEAL THROUGH

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Contributing editors

Fiona Nicolson and Claire Smith

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Preface

Licensing 2019

Eleventh edition

Getting the Deal Through is delighted to publish the eleventh edition of *Licensing*, which is available in print, as an e-book and online at www.gettingthedealthrough.com.

Getting the Deal Through provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique **Getting the Deal Through** format, the same key questions are answered by leading practitioners in each of the jurisdictions featured.

Getting the Deal Through titles are published annually in print. Please ensure you are referring to the latest edition or to the online version at www.gettingthedealthrough.com.

Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

Getting the Deal Through gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. We would like to thank the contributing editors, Fiona Nicolson and Claire Smith of Bristows LLP for their assistance with this volume. We also extend special thanks to Bruno Floriani of Lapointe Rosenstein Marchand Melançon LLP, who contributed the original format from which the current questionnaire has been derived, and who helped to shape the publication to date.

GETTING THE
DEAL THROUGH

London
December 2018

United States

Bruce H Bernstein, Michael J Fink and P Branko Pejic

Greenblum & Bernstein, PLC

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 in 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 in 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.

Also, the Committee on Foreign Investment in the United States (CFIUS) reviews certain transactions involving foreign investment in the United States to determine the effect of such transactions on the national security of the United States. On 13 August 2018, the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) was signed into law and expands the jurisdiction of CFIUS to cover four new types of transactions:

- a purchase, lease, or concession by or to a foreign person of real estate located in proximity to sensitive government facilities;
- 'other investments' in certain US businesses that afford a foreign person access to material non-public technical information in the possession of the US business, membership on the board of directors, or other decision-making rights, other than through voting of shares;
- any change in a foreign investor's rights resulting in foreign control of a US business or an 'other investment' in certain US businesses; and
- any other transaction, transfer, agreement or arrangement designed to circumvent CFIUS jurisdiction.

Additionally, the President of the United States can block the acquisition of a US company, although such occurrences are rare.

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. Additionally, licensing arrangements in intellectual property may relate to the entire IP right, or can be limited, for example, to a specific field of use or for a limited time period.

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. For example, agreements that tie a staple good to a patent, or that 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 anticompetitive in nature may be found to violate antitrust law. Additionally, violations of a standard body's rules can result in patent unenforceability, and 35 USC 271 (d) sets out five specific actions that will not prevent a patent owner from obtaining relief for infringement or be found guilty of patent misuse or illegal extension of its patent.

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-license 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 terms 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 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 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.

Termination or non-renewal of a licence agreement will be controlled by the terms of the agreement. Although parties to a contract are expected to act in good faith, an agreement can provide that for termination at will, or under prescribed conditions agreed to by the parties, good faith or (more often) reasonableness is required. Most states have laws making any agreement that is silent as to duration terminable at will whether written, oral or implied. One exception concerns termination of transfers and licences granted by an author of a copyrighted work. See 17 USC 203. Under section 203, a non-exclusive licence agreement that does not specify the duration of the agreement is not terminable at will; rather, it can be terminated by the author only during a period of five years beginning at the end of 35 years from the date of execution of the grant; or, if the grant covers the right of publication of the work, the period begins at the end of 35 years from the date of publication of the work under the grant or at the end of 40 years from the date of execution of the grant, whichever term ends earlier, section 203(a)(3).

Intellectual property issues

6 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 to all three.

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

There is no distinction in this regard between domestic and foreign licensors. In 2007, the United States Supreme Court in *MedImmune v Genentech*, 549 US 118 (2007) held that a patent licensee can challenge the validity of a patent while still a licensee, thus preventing the patent licensor from counterclaiming for patent infringement, and 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. 'No challenge clauses' to a patent's validity entered into prior to litigation have been held unenforceable. However, such 'no challenge clauses' included in an agreement settling litigation have been upheld, presumably because the parties had explored the merits of the patent's validity prior to or as part of their settlement discussions; although, the PTAB has held in one instance that even such a contractual 'no challenge' clause is not effective to prevent the filing of an inter partes review (IPR) by a party to a settlement agreement. See, for example, IPR 2014-01197 (2015).

8 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 United States 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)). The United States Supreme Court reviewed this issue and affirmed the *Brulotte* decision, in *Kimble v Marvel Entertainment, LLC*, 135 SCt 2401 (2015), holding 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 3. The United States Supreme Court, however, observed that careful licence drafters could work around *Brulotte*; '*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).

Further, if a royalty agreement includes know-how, technology or trade secrets, in addition to a licensed patent, post-expiration royalties may be collected. Similarly, 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.

When, all intellectual property rights underlying the licence are found invalid or expire, there is 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.

9 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 (foreign) registration, if the applicant's country of origin is a party to a treaty such as Paris Convention for the Protection of Industrial Property 1883 or an agreement with the United States that provides for US applications based on ownership of a foreign registration. The Lanham Act defines the applicant's country of origin as 'the country in which he has a bona fide and effective industrial or commercial establishment, or if he has not such an establishment, the country in which he is domiciled, or if he has not a domicile in any of the countries described in paragraph (b) of this section, the country of which he is a national' (15 USC 1126). 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 foreign registrations, although the original foreign registration is not required to be submitted with the application, a true copy of the corresponding foreign registration, along with a verified English translation, 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 prove use of the mark in US commerce by submitting 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 for the Protection of Literary and Artistic Works 1886. 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.

10 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 the broadest protection, including 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 a copyright infringement suit in a US federal court for works of US origin.

11 Are there particular requirements in your jurisdiction to take a security interest in intellectual property?

In the United States, a security interest in a patent, trademark or copyright must be recorded with the proper federal and/or state authorities in order to be 'perfected' and thus enforceable. In order to protect an ownership or security interest in intellectual property against subsequent purchasers and mortgagees for value, an assignment or other document should be recorded with either the USPTO or Copyright Office. (See, eg, 35 USC 261.) However, recording a security interest with the USPTO alone is not effective to perfect the security interest and in order to perfect a security interest in a patent or trademark against future lien creditors or owners, a filing should be made in the appropriate state jurisdiction in accordance with the law applicable in that state; often the Uniform Commercial Code (UCC). 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)).

12 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 in the United States 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 convey a non-exclusive licensee 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 a transfer of less than all rights.

The Federal Circuit held, in *Azure Networks LLC v CSR PLC*, 771 F3d 1336 (Fed Cir 2014), vacated on different grounds, 135 SCt 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 practise 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 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 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.

13 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. See *In re Trump Entm't Resorts, Inc*, 526 BR 116, 127 (Bankr D Del 2015). (The general prohibition against the assignment of trademark licences absent the licensor's consent is equally applicable to both exclusive and non-exclusive trademark licences. A trademark licensor would have the same concerns with respect to the identity of the licensee and the quality of products bearing its trademark whether the trademark licence is exclusive or non-exclusive).

14 If intellectual property in your jurisdiction is jointly owned, is each co-owner free to deal with that intellectual property as it wishes without the consent of the other co-owners? Are co-owners of intellectual property rights able to change this position in a contract?

In the United States, each co-owner is free to deal with that intellectual property as it wishes without the consent of the other co-owners. We address trademarks, copyrights and patents in turn.

Unless prohibited by contract, a co-owner in a trademark is generally free to assign its trademark rights provided that the assignee is subject to all the obligations of such a co-owner, and that all goodwill is transferred. However, consumers may expect the source of the product or service to be the original co-owners and the transfer by one co-owner could lead to consumer confusion, particularly when the co-owner objects to the transfer. Therefore, in examining the ability of a co-owner to transfer a trademark, courts have employed a test balancing the parties' contractual expectations with consumer expectations. *Ligotti v Garofalo*, 562 F Supp 2d 204, 222-23 (DNH 2008) (quoting *T & T Mfg Co v A T Cross Co*, 587 F2d 533, 538 (1st Cir 1978)('Courts have traditionally . . . weighed the public interest concerning trademarks against the interest in contract enforcement'); see also J Thomas McCarthy, McCarthy on Trademarks and Unfair Competition section 16:40, at 16-68-16-68.1 (4th ed 1992 & 2007 supp) ('the determination of trademark joint ownership issues should be resolved by a balancing of these two policies').

Further, the authors of a joint work are co-owners of copyright in the work (17 USC 201(a) – ownership of copyright provides: 'the authors of a joint work are co-owners of copyright in the work.'), and, as described in the House Report accompanying passage of the Copyright Act, are to 'be treated generally as tenants in common, with each co-owner having an independent right to use or license the use of a work, subject to a duty of accounting to the other co-owners for any profits.' *Davis v Blige*, 505 F3d 90, 98 (2d Cir 2007) (quoting HR Rep No. 94-1476, at 121 (1976)); see also *Thomson v Larson*, 147 F3d 195, 199 (2d Cir 1998) ('joint authorship entitles the co-authors to equal undivided interests in the whole work – in other words, each joint author has the right to use or to license the work as he or she wishes, subject only to the obligation to account to the other joint owner for any profits that are made').

The co-owning authors or collaborators may allocate the rights and duties of the work of authorship among themselves, and may contractually regulate, modify or otherwise limit the exploitation of the work.

Regarding patents, 35 USC 262 – joint owners provides: 'in the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other owners.' The co-owners may contractually limit or allocate the rights.

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 created additional post-grant proceedings (inter partes review and post grant review) to challenge issued patents before the USPTO, and left 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 patents having an earliest 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 9,100 such proceedings have been filed as of the end of September 2018, with a large number of patents being invalidated as a result of such proceedings; USPTO statistics currently show that 60 per cent of requests for post-grant proceedings are granted, and in those proceedings where trial has been completed and a final written decision reached, 64 per cent all of the instituted claims were found unpatentable and in another 16 per cent of the instituted proceedings some of the instituted claims were found unpatentable.

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)). Often, such licenses also include a transfer of technical information as well.

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, but 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 United States 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 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*, 573 US 2347 (2014) the United States Supreme Court held invalid computerised method and system claims directed to a method of reducing settlement risk via trading with a third party. The United States 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.

In 2016, the Federal Circuit court rendered several decisions to reiterate that '[s]oftware can make non-abstract improvements to computer technology just as hardware improvements can.' *Enfish, LLC v Microsoft Corp*, 822 F3d 1327 (Fed Cir 2016). The Federal Circuit held that if claims at issue recite unconventional rules or specific processes that result in a specific technological improvement, the claims are non-abstract and patent eligible. See, for example, *McRO, Inc v Bandai Namco Games Am Inc*, 837 F3d 1299 (Fed Cir 2016) and *Enfish v Microsoft*. In contrast, claims are patent-ineligible if they recite a process 'for which computers are invoked merely as a tool'. See, for example, *Enfish v Microsoft and RecogniCorp, LLC v Nintendo Co, Ltd*, 855 F3d 1322 (Fed Cir 2017). The Federal Circuit also held that even if claims are not directed to a specific improvement of technological operation or functionality, claims reciting an unconventional arrangement of claim elements to solve a technology-based problem are patent-eligible. See, for example, *Bascom Global Internet Services, Inc v AT&T Mobility LLC*, 827

F3d 1341 (Fed Cir 2016); *Amdocs (Israel) Ltd v Openet Telecom, Inc*, 841 F3d 1288 (Fed Cir 2016); and *Thales Visionix, Inc v United States*, 850 F3d 1343 (Fed Cir 2017). In these decisions, the Federal Circuit relied on the patent's written description to identify the resulting technological improvement or solution in finding for patent-eligibility. See, for example, *Amdocs v Openet*; and *Enfish v Microsoft*. The Federal Circuit also relied on the manner and extent to which the resulting technological improvement or solution is claimed to determine an extent to which alternative improvements or solutions would be pre-empted. See, for example, *McRo Inc v Bandai Namco Games America Inc*, 837 F3d 1299 (Fed Cir 2016).

The United States 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)). However, naturally occurring organisms, other products of nature, and laws of nature are not patent-eligible. In *Association for Molecular Pathology v Myriad Genetics, Inc*, 569 US 576 (2013), the United States 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*, 566 US 66 (2012), the United States 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 101. In 2014 the Federal Circuit held that a genetic copy of a naturally occurring sheep is not patent-eligible because the cloned sheep did not possess markedly different characteristics from sheep found in nature. *In re Roslin Institute (Edinburgh)*, 750 F3d 1333 (Fed Cir 2014).

Section 33 of the America Invents Act of 2011 (see, eg, 35 USC 101 advisory notes) 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, eg, 35 USC 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 United States, 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 101, and more than 420 covered business method petitions have been filed so far.

Finally, the USPTO continues to provide guidance on examination of patentable subject matter under 35 USC 101 in view of the recent court decisions, and we expect more guidelines will be forthcoming. (See, eg, the 7 June 2018 update: Memorandum – Recent Subject Matter Eligibility Decision: *Vanda Pharmaceuticals Inc v West-Ward Pharmaceuticals* at www.uspto.gov/sites/default/files/documents/memo-vanda-20180607.PDF; and the 19 April 2018 update: Memorandum – Revising 101 Eligibility Procedure in view of *Berkheimer v HP Inc* at www.uspto.gov/sites/default/files/documents/memo-berkheimer-20180419.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.

Additionally, the Defend Trade Secrets Act (DTSA) was signed into law on 11 May 2016 and amends the Economic Espionage Act, 18 USC 1831 et seq. The DTSA creates a federal civil cause of action for trade secret misappropriation. While the DTSA does not replace the various state trade secret laws, it provides a uniform federal system for litigation of trade secret misappropriation or theft as an additional cause of action. The DTSA enables plaintiffs to seek an ex parte seizure order, permitting an aggrieved party to seek relief from the court to seize misappropriated trade secrets without providing prior notice to the alleged wrongdoer. A seizure order may only be issued in 'extraordinary circumstances' after a plaintiff establishes that other remedies, including an injunction, would be inadequate. To address concerns about abuse of seizure orders, the DTSA permits defendants to seek damages for a wrongful seizure.

In addition to issuance of an ex parte seizure order in extraordinary circumstances, the DTSA provides that a court may grant an injunction to prevent any actual or threatened misappropriation or award monetary damages or both. Further, the court may grant either:

- 'damages for actual loss caused by the misappropriation of the trade secret' and any additional 'unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual lost'; or
- 'a reasonable royalty for the misappropriation's unauthorised disclosure or use of the trade secret' (18 USC 1836(3)(B)).

The court may also award exemplary damages (up to double damages) and reasonable attorney's 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 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 audiovisual 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 audiovisual 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 106-122.

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 of the date of first publication will constitute prima facie evidence in court that the copyright is valid.

Software licensing

20 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. Use of perpetual software licensing, however, appears to be declining and subscription-based licencing is becoming more prevalent. Subscription-based licencing typically has lower initial costs and can be more flexible. Differences between a perpetual or subscription-based licence include ownership of the software, scalability in number of users, costs (upfront payment or periodic), and access to newest releases, latest technology and updated security.

21 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 (EAR) 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. Unless a 'license exception' under the EAR is applicable, the export of computer software may require a licence. Violation of US Export Regulations is punishable by a fine or imprisonment or both. An overview of the United States export control system is available at www.state.gov/strategictrade/overview/.

22 Are there are legal restrictions in your jurisdiction with respect to the restrictions a licensor can put on users of its software in a licence agreement?

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.

In the US, parties are generally free to agree to software licence terms, provided that they are not illegal or contrary to public policy, and unilateral shrink-wrap licences have been held valid and enforceable. A software licence agreement can include restrictions such as field of use restrictions, geographic use restrictions, restrictions on the number of concurrent users, restrictions on the hardware used to run the software, and restrictions on the transferability of the software licence.

Software companies often include provisions that the licensee will not reverse engineer, decompile, decode, decrypt, disassemble or in any way derive source code from, the licensed software, although the court rulings are not unanimous. Specifically, there is case law in the United States that hold that copyright law permits reverse engineering of software in certain situations as 'fair use', and as such, a blanket contractual prohibition may not be enforceable. See *Vault Corporation v Quaid Software Ltd* 847 F2d 255 (5th Cir 1988); see also *Atari Games Corp v Nintendo of America Inc*, 975 F2d 832 (Fed Cir 1992); *Sega Enterprises Ltd v Accolade, Inc*, 977 F2d 1510 (9th Cir 1992). On the other hand, the Court held, in *Bowers v Baystate Technologies*, 320 F3d 1317 (Fed Cir 2002), that the Copyright Act does not pre-empt contractual constraints on copyrighted articles, holding enforceable a shrink-wrap licence that expressly prohibited reverse engineering. In any event, the Copyright Act, 17 USC 117, permits a user to make a copy of software for backup or archival purposes.

Royalties and other payments, currency conversion and taxes

23 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, 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 United States 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 terms to third parties. (See *Microsoft Corp v Motorola, Inc*, 795 F3d 1024 (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 (*Mentor Graphics Corp v EVE-USA, Inc*, 851 F3d 1275 (Fed Cir 2017); *VirnetX, Inc v Cisco Systems, Inc*, 767 F3d 1308 (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.

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

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

Subject to the tax withholding issue discussed in question 25, 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 6050I and 31 USC 5331.

25 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.

Competition law issues

26 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 27). 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.

27 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 26, 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 271(d) states that:

> *[N]o 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.*

28 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

In the United States, reverse-payments or 'pay for delay' arrangements whereby the patentee pays (or provides other value to) the accused infringer to delay market entry, which for the most part arise only in the pharmaceutical field, may be considered anticompetitive and prohibited. Because an allegedly infringing commercial product being marketed, sold or offered for sale is typically a requirement for bringing a patent infringement action, pay-for-delay arrangements typically are not an issue. However, pay-for-delay arrangements can arise in the pharmaceutical field due to the Hatch-Waxman Act's (the Act) statutory framework that provides, inter alia, that submitting an Abbreviated New Drug Application seeking Food and Drug Agency (FDA) approval to market a generic drug is an artificial act of infringement. Under the Bolar Amendments to the Act, it is not an act of infringement (even though otherwise infringing acts) for a generic manufacturer to develop a formulation and seek FDA approval; the generic manufacturer, however, is not allowed to enter the market until it receives FDA approval, and the FDA will not provide final approval until resolution of the underlying patent infringement action or expiration of the 30-month stay even if the underlying litigation is still pending. See generally *King Drug Co of Florence, Inc v SmithKline Beecham Corp*, 791 F3d 388 (3d Cir 2015).

In 2013, the United States Supreme Court rejected the FTC's argument in *FTC v Actavis, Inc*, 570 US 136 (2013), that 'reverse payment settlement agreements are presumptively unlawful'. Rather, the United States Supreme Court held that courts 'reviewing such agreements should proceed by applying the "rule of reason", rather than under a "quick look" approach'. As such, the courts will have to find actual anticompetitive activities instead of a mere payment (monetary or otherwise) to hold a pay-for-delay arrangement in violation of the competition laws. While the various US Appeals Courts have addressed the issue to varying degrees, the United States Supreme Court refused to hear the *GlaxoSmithKline v King Drug*, 791 F3d 388 (Fed Cir 2015), cert denied 137 SCt 446 (2016) case. In that case, Teva sought to make a generic version of Lamictal and Glaxo filed an infringement action. The parties settled without Glaxo making a cash payment to Teva. Instead, Glaxo agreed to allow Teva to sell generic chewable and tablet forms of Lamictal before patent expiration. Glaxo also agreed not to sell its own competing 'authorized generic' version of the drug. The Third Circuit Court of Appeals did not find this arrangement to be anticompetitive, and the United States Supreme Court declined to hear the appeal. As such, whether a pay-for-delay arrangement is anticompetitive is still open and must be adjudicated on the entirety of the situation and not merely because there was a reverse payment.

Most recently, Congress has sought to introduce legislation making pay-for-delay arrangements per se anticompetitive, but there has been no substantial progress on these proposals. The FTC, further, sued Endo and a number of other generic companies alleging that various components of the settlement agreement between Endo and Impax in the *Opana ER* patent infringement action constituted impermissible pay-for-delay arrangements (see *FTC v Endo*, 2016 US Dist LEXIS 145329 (ED Pa 2016)), which was settled in January 2017. See generally *FTC v Endo*, 2017 US Dist LEXIS 149749 (ED Pa 2017). Civil liability can additionally attach to such pay-for-delay arrangements. In a series of settlements finally approved in July 2018, Medicis Pharmaceutical Corp agreed to pay slightly more than US$76 million to consumers, sellers and insurers to settle a class action law-suit based upon Medicis' settlements of Hatch-Waxman actions under which Impax Laboratories, Inc, Sandoz Inc and Lupin Limited/Lupin Pharmaceuticals, Inc were paid and agreed not to compete in the market for extended-release minocycline hydrochloride tablets, that is, Solodyn and its generic equivalents, in violation of the Sherman Act. See generally *In re Solodyn (Minocycline Hydrochloride) Antitrust Litigation*, US District Court, District of Massachusetts, No. 14-md-02503 (2018).

Update and trends

2018 saw the United States Supreme Court affirm the constitutionality of challenges to patentability at the USPTO; inter partes reviews and post grant reviews had been challenged as unconstitutional but the United States Supreme Court rejected the challenge. This continues a general trend in the US courts that has created a more challenging environment for licensing patents, and that highlights the need to improve the quality of patent applications to maximise the potential for monetisation.

On the other hand, the USPTO seems to be taking steps to try to strengthen intellectual property rights, which if effective will improve the environment for licensing and increase value. Specifically, changing the claim interpretation to the Phillips standard in post grant challenges after November 2018 means more patents should survive such challenges. Issuance of memos to examiners clarifying standards of rejections under 35 USC 101 should also make it easier to obtain patents in a variety of software and biotech technologies.

Indemnification, disclaimers of liability, damages and limitation of damages

29 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. Agreements can include a clause requiring a party to carry insurance and to agree to indemnify one party or another in the event of a lawsuit.

30 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations 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 or limitations 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

31 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.

32 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? Would a contractual provision addressing this issue be enforceable, in either case?

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

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.

Such provisions are enforceable, and many sub-licence agreements, for example, 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-licensee to 'step into the shoes' of the licensee in the event that the original agreement with the licensee terminates.

Bankruptcy

33 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that the 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?

In the United States, a bankrupt licensee may seek to assign the licence and the law does not require that the licensor consent (11 USC 365(a)), but it is typical that a licence either terminates automatically or is terminable if the licensee declares bankruptcy. Under this scenario, any sub-licences would be terminated to the extent that the licence to the licensee is terminated. On the other hand, a bankruptcy of licensors in patent licence agreements is governed by the Intellectual Property Bankruptcy Protection Act of 1988, and 11 USC 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 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 will be 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 SCt 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)).

However, in January 2018, the United States Court of Appeals for the First Circuit issued a decision holding that rejection of a licence terminates the trademark licensee's rights to use the previously licensed trademark(s). See *Mission Prod Holdings, Inc v Tempnology, LLC* (*In re Tempnology, LLC*), 879 F3d 389 (1st Cir 2018). With a split among the circuit courts, Mission Product Holdings filed a petition for a writ of certiorari with the United States Supreme Court in June 2018. Mission is requesting the United States Supreme Court to resolve the circuit split and determine the effect of rejection on a trademark licensee's rights.

34 What is the impact of the bankruptcy of the licensor on the legal relationship with its licensee; and any sub-licence the licensee has granted? Are there any steps a licensee can take to protect its interest if the licensor becomes bankrupt?

The impact of and impact on licensee or licensor relationship as well as protections for licensees in the event of the same is discussed above with respect to question 33.

Governing law and dispute resolution

35 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)).

36 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, as well as precluding collective (or class action) arbitration, instead of resorting to litigation in courts. Generally speaking, the US courts will not disturb the parties' agreement, and the arbitration may generally be held in any jurisdiction specified by the parties to the contract. With respect to patents, 35 USC 294 expressly provides that parties may contractually agree to arbitration in lieu of litigation; and that 'any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.'

37 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.

38 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? 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. There are no specific conditions other than the agreement of the parties for a contractual waiver to be enforceable. The parties can also waive their entitlement to claim specific categories of damages in an arbitration clause. Similarly, the parties can agree that injunctive relief is to be granted under predefined circumstances, but US courts are not required to grant an automatic injunction provided for in a contract. It is always within the judge's discretion whether to grant an injunction.

In general, there are two types of injunctions available in the US: preliminary injunctions and permanent injunctions. A patent owner seeking to obtain a preliminary injunction to stop the sale of infringing devices early in litigation must demonstrate:

- a likelihood of success on the merits;
- irreparable harm;
- that thebalance of the equities favour an injunction; and
- that public interest favours an injunction.

See, *Apple, Inc v Samsung Elecs Co, Ltd*, 678 F3d 1314, 1323 (Fed Cir 2012). Typically, a patent owner will be required to post a bond to reimburse the alleged infringer's costs or damages if the preliminary injunction is later found to have been improperly granted. A preliminary injunction is an 'extraordinary and drastic remedy, that should never be granted as of right', *Munaf v Geren*, 553 US 674, 676 (2008), and awarded only upon a clear showing that the plaintiff is entitled to such relief. See *Winter v Natural Resources Defense Council, Inc*, 555 US 7, 22 (2008).

A permanent injunction can be requested after a finding that the patent is infringed and not invalid. In *eBay, Inc v MercExchange LLC*, 547 US 388 (2006), the United States 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. In *Apple Inc v Samsung Elecs Co*, 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

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or predominant reason why consumers bought Samsung's products to find irreparable harm' 801 F3d 1352 (Fed Cir 2015); see also petition for en banc review granted and panel opinion to be modified and superseded on rehearing, 808 F3d 517 (Fed Cir 2015), petition for rehearing en banc denied, 808 F3d 518 (Fed Cir 2015). The superseding opinion on the permanent injunction is reported at 809 F3d 633 (Fed Cir 2015). The Federal Circuit has additionally stated that irreparable harm can be established when 'a sufficiently strong casual nexus relates the alleged harm to the alleged infringement', and subsequently stated that there must be some causal nexus between defendant's infringing conduct and patentee's alleged harm, the causal nexus linking the harm and the infringing acts.

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