

AVOIDING LITIGATION IN LICENSING NEGOTIATIONS

**Presentation to the Boston
Entrepreneurs' Network**

by Brian T. Moriarty
December 4, 2007

Licensing Negotiations: Why?

- Out-License: to earn money
- In-License: to gain access to product-critical technology
- Licensing a necessary part of business
 - Need to be aware of patent landscape for Freedom to Operate purposes

Licensing Negotiations: Who?

- Established companies with products
 - Usually an out-license of your technology
- Other small companies with technology
 - Usually an in-license for Freedom to Operate
- Lawsuits can arise in either scenario

Licensing Negotiations: What?

- Pure licensing deal
 - License to use patent
- Covenant to not sue or be sued
 - Peace treaty to avoid litigation
 - Both sides need "ammo" – a patent or technology
- Business collaboration/asset purchases
 - Extensive business development deals
 - Usually have milestones
 - Usually have 'dispute resolution' and 'venue' provisions

Licensing Negotiations: **When?**

- Friendly negotiations with someone you know
- Requests to or from strangers
 - Including patent assertion companies
- Both situations require savvy approach to avoid litigation

The Old School Way to Avoid Litigation

- Act respectable
- Do not threaten people
- No one gets sued



The Old School anti-Litigation Dance

- A carefully orchestrated dance to avoid conveying any actual threats
- But worded in such a way to 'motivate' the target
- Bottom Line: if you made someone uncomfortable, they sued



The Old School Way to Get Sued

- Threaten to sue unless the target takes a license
- If target has a "reasonable apprehension" of being sued, target could file a pre-emptive suit
- Called a Declaratory Judgment Action or a "DJ"

New School

Supreme Court in Medimmune case in 2007
overruled "reasonable apprehension" of
litigation test

Now much easier to bring DJ action to claim
patent invalidity or non-infringement

Licensing negotiations can quickly turn into
litigation

INTELLECTUAL PROPERTY LAW ALERT

March 29, 2007

New “Hair Trigger” Can Turn Licensing Negotiations into Litigation

By Brian T. Moriarty

The U.S. Supreme Court’s January 2007 decision in *MedImmune* clarifying the power of federal courts to hear patent licensing disputes has already had an immediate and dramatic impact. This week, in *Sandisk v. ST Microelectronics*, the Federal Circuit reversed decades of precedent and has now made it substantially easier for a prospective licensee to gain a tactical advantage by filing a lawsuit rather than negotiating a license. Because of this fundamental change, the tactics used to make or respond to unsolicited licensing offers will now change.

THE NEW RULE

Under the new rule, a company that receives an unsolicited request to take a patent license can bring a lawsuit against the patentee where the company is left

Fed. Circuit Makes Patent DJ Suits Much Easier: *Sandisk* (2007)

- A company that receives an **unsolicited** request to take a patent license and pay a royalty by a patentee
- Can bring a lawsuit against the patentee where the patentee gives the target the option of either:
 - 1) potentially infringing the patent or
 - 2) abandoning its business plan in fear of the patent.
- This “sweeping change” in the law can turn any run-of-the-mill licensing negotiation into a patent litigation.

Easier to Bring Suit for Solicited Offers



- Any aggressive salesmanship can result in litigation
- If you assert target infringes your patent ...
- ...and they disagree,
- a lawsuit can be brought

An Offer You Can't Refuse

- Refusal to take a license can lead to lawsuit
- If you affirmatively tell licensor you do not infringe or patent is invalid, may leave patentee with no choice but to sue
- Be careful in your response



How To Avoid Litigation

- Be Aware
- Know Your Target
- Do Not Threaten
- Enter into "No Suit" Agreement



Step 1: Be Aware

- Be Aware
 - DJ lawsuits are easy to file and costly to defend
 - Companies use lawsuits as a negotiating tactic
 - Companies fear
 - Patent assertion companies
 - Texas and maybe Wisconsin

Step 2: Know Your Target

- Know Who You Are Dealing With
 - Provide reassurance that you are a legitimate potential business partner
 - Provide assurance that you are not seeking to set up a lawsuit

Pocket County Sheriff Department

WANTED

'Tornado' Johnson

Description
Age: 35-45
Height: 6' 1"
Weight: 210 lbs
Hair: Brown
Eyes: Gray
Tattoos: None
Scars: None

Characteristics
Described as a charming, sophisticated womanizer and confidence man. No known associates, usually works alone. May change hair length and beard to change appearance.

Considered dangerous to pocketbook and womenfolk.
Potentially armed!

For FRAUD!

Suspect is wanted for defrauding the Widow Parker and other members of Pocket County out of their life savings in a 'rain making' scam.

Suspect has a record of prior arrests for fraud in Arkansas, Iowa, Illinois, Arizona, Colorado, Ohio, and Pennsylvania.

Known aliases include: 'Tornado' Johnson, Bill Harmony, Bill Smith, 'Lightning' Smith, 'Hurricane' Wesson, 'Deluge' Owens, 'Thunder' Jones, and 'Typhoon' McAfee.

\$1500 REWARD for Capture

Less Said, the Better



- Do not "motivate" target to negotiate by suggesting it "might" infringe your patent
- Target is usually sophisticated and can "figure" it out themselves

Enter Into A "No Suit" Agreement

- Before any serious negotiations take place
 - Reach an agreement that neither party will sue based on what is said at the negotiations
 - Agree that no statements can be used as evidence against you or in court for any reason
 - **Get agreement in writing**
 - If in e-mail form, make sure there is clear stated agreement to terms

The New Way to Avoid Litigation

- Act respectable and
- Do not threaten people
- Do not 'motivate' target by explaining why they 'might' infringe your patent
- Reach a "no suit" agreement before negotiating



But, if You Want to Assert Patent ...

- If your business model is to develop revenue through patent licensing
- As a "patent assertion" company, then . . .
- Need to develop a litigation strategy



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