Recent Developments

&

Emerging Issues

Ronald B. Coolley

RONALD B. COOLLEY

Ron is a shareholder of Arnold, White & Durkee in its Chicago, Illinois office.

Ron holds degrees in Aerospace Engineering from Iowa State University, a J.D. with distinction from the University of Iowa, and an M.B.A. from the University of Iowa.

Ron is a member of the bars of the State of Illinois, State of Texas, Northern District of Illinois (member of trial bar), Court of Appeals for the Seventh Circuit, Court of Appeals for the Federal Circuit, Supreme Court of the United States, and is a registered attorney in the United States Patent and Trademark Office.

Ron was president of the Patent Law Association of Chicago, a member of council of the ABA Patent, Trademark & Copyright Section, a member of the Board of Directors of the American Intellectual Property Law Association, and a member of the Board of Trustees of the Licensing Executive Society.

Ron has authored over 50 published articles and for legal writing has received the John Marshall Law School Gerald Rose Memorial Award and the Rossman Memorial Award presented by the Patent and Trademark Office Society.

RECENT DEVELOPMENTS IN LICENSING

Ronald B. Coolley
Arnold, White & Durkee
Chicago, Illinois

ARBITRATION CLAUSE

The parties in this case entered into a master license agreement that included a narrow arbitration clause providing that either party could submit any payment dispute to arbitration according to the Commercial Arbitration Rules. A dispute arose when the licensee argued that the licensor breached the agreement by increasing the licensee's annual sales quota in violation of a provision in the agreement that no more than a 20% increase in the sales quota could be made in one year. The licensor sought to have the dispute arbitrated in accordance with the narrow arbitration clause. The court, however, said that since the arbitration clause was limited to payment disputes and there was no payment dispute being raised between the parties, neither party could demand arbitration under the narrow arbitration clause. *Bradford-Scott Data v. Physician Computer Network*, 136 F.3d 1156 (7th Cir. 1998).

An arbitration clause in a patent license provided that if arbitrators determined that a third party was a necessary party to any dispute between the licensee and licensor, that dispute would not be governed by an arbitration clause in the license. The licensor, however, argued that the dispute between the licensor and licensee was not arbitrable under the arbitration clause because one or more third parties were necessary for the resolution of the dispute. The Court of Appeals for the Eighth Circuit said that the key question before it was whether a court or an arbitrator should decide if it was necessary for a third party to participate in the resolution of the dispute between the parties. The court noted that while federal policy requires referrals to arbitration, there must be clear and unmistakable evidence that the parties agreed to arbitration on the question that arose between them. Based on this statement, the court ruled that the parties had agreed both that an underlying dispute could not be arbitrated if a third party was necessary to the resolution and that the issue of whether a third party is necessary is for an arbitrator. The court stated that the wording of the arbitration clause in the license offered clear and unmistakable evidence that the parties agreed to arbitrate whether the condition that triggers the exception to arbitration applied. *Telectronics Pacing Systems, Inc. v. Guidant Corp.* 1998 U.S. App. LEXIS 8544 (8th Cir. 1998).

The parties to a license entered into an agreement that granted Techmedia the right to use the plaintiff/licensor's technology in exchange for royalties. During the life of the license, the parties came to a disagreement over the performance of the license and the licensor invoked the arbitration clause for consideration of the alleged breach by the licensee. The licensee, however, filed a lawsuit in federal district court and both the lawsuit and the arbitration proceeded simultaneously. Prior to a final decision in the district court, the arbitrator issued a ruling. The licensee argued that the later district court's decision had preclusive effect on the previously rendered arbitration decision. The court reviewed the arbitrator's award and determined that it was valid and enforceable and then turned to the question of what effect the court's subsequent summary judgment ruling had on the arbitration judgment. The court noted that whenever parties simultaneously litigate two actions based on the same claim or issue, judgment in one action does not preclude judgment in the other action if the defendant fails to object. According to the court, by failing to timely object to separate actions, a defendant is deemed to acquiesce in the plaintiff's simultaneous suits and the defendant waives any *res judicata* or collateral estoppel defense. The court noted that courts are not required to afford a previous unconfirmed arbitration award a preclusive effect on later federal proceedings. However, the court said, courts may impose such preclusion in appropriate cases. The court ruled that the case before it did not present any compelling reasons not to afford the unconfirmed arbitration judgment preclusive effect on the subsequent proceedings before the district court. The court said that the issues in the lawsuit did not implicate federally protected interests. The court also noted that both parties consented to resolve controversies arising out of the license agreement in arbitration. The license provided that claims for breach of the agreement would be finally settled by an arbitrator and that judgment upon the arbitration award shall be binding on the parties. Thus, the court ruled that the arbitration award takes precedent. *Stulberg v. Intermedics Orthopedics, Inc.*, 1998 U.S. Dist. LEXIS 3617 (ND Il. 1998).

In this case the licensee contended that a software license was void due to the licensor's fraud in the inducement and/or the licensor's unreasonable delay in performance. The licensee argued that because the software license was void, the arbitration clause that was provided in the license must be unenforceable and that the dispute between the licensor and licensee must be decided by the district court. The district court referred to the Supreme Court decision in *Prima Paint Corp. v. Flood & Conklin Manufacutring Co.*, 388 U.S. 395, 18 L.Ed.2d 1270, 87 S.Ct. 1801 (1967) in which the Court held that a party seeking to avoid arbitration by claiming fraud must specifically link the claim of fraud to the arbitration clause in the license. The Court ruled that because the plaintiff did not claim that it was fraudulently induced to enter into the arbitration agreement, the arbitration clause is enforceable. *Advanced Technology Associates, Inc. v. Seligman*, 1997 Dist. LEXIS 19474 (D. Kansas 1997).

AUTOMATIC TERMINATION

The parties had entered into a license that provided that the license would automatically terminate if for any reason the use of the license should come under the control or use by parties other than the parties to the original license without the consent of the licensor. Later, the licensor learned of the proposed sale of the licensee to one of the licensor's direct competitors. As a result, the licensor immediately sued seeking a declaration that the license would be automatically terminated if the transaction occurred. The licensor argued that the purchaser of the licensee was not a party to the original license and the sale of the licensee to the purchaser would permit the purchaser to control or use the patents that were licensed and this triggered the automatic termination clause. The court ruled that if control of the licensee were to move to someone not a party to the license, the consent of the licensor was necessary to avoid automatic termination under the appropriate clause in the license. Since the licensor did not give consent when asked, automatic termination must occur. *Paramont Technical Products v. GSE Lining Technology, Inc.*, 112 F.3d 942 (8th Cir. 1997).

BEST EFFORTS

The parties in this case, Intervisual and Mr. Volkert, entered into an exclusive license. Under the license, Volkert granted Intervisual the exclusive right to use and market Mr. Volkert's patents. After a period of time, Mr. Volkert served notice to Intervisual asserting that they were in breach of the exclusive license agreement because Intervisual had failed to use its best efforts to sell products under the licensed patents. The court noted that the license did not include an express term requiring Intervisual to use its best efforts. According to the court, a party is not required to use its best efforts where an explicit best efforts term is absent from the contract. Nor could there be an implied best efforts clause in this case because the licensor was receiving advance royalties. According to the court, advance royalties provide a sufficient incentive for the licensee to aggressively market the licensed patent. Because Mr. Volkert had negotiated for a substantial advance royalty and had failed to include an express best efforts provision in the license, the court said that a best efforts provision could not be implied and Intervisual could not be found to be in breach of the agreement for failure to exercise best efforts. *Intervisual Communications, Inc. v. Volkert*, 975 F.Supp. 1092 (ND Il. 1997).

COPYRIGHT LICENSE

A grant of perpetual distribution rights under the 1909 Copyright Act is a license that applies not only to the first term, but also to the renewal term of the copyright. *P.C. Films Corp. v. MGM/UA Home Video, Inc.*, 138 F.3d 453 (2nd Cir. 1998).

While the Copyright Act requires that exclusive licenses be evidenced by a writing, no such writing requirement applies to nonexclusive licenses. Section 101 of the Copyright Act defines transfer of copyright ownership to include exclusive licenses, but expressly excludes nonexclusive licenses. Under federal law, a nonexclusive license may be granted orally or may be implied from conduct. An implied nonexclusive license arises when (1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes the particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requester copy and distribute his or her work. *Lulirama Ltd., Inc. v. Axcess Broadcast Services, Inc.*, 128 F.3d 872 (5th Cir. 1997).

In this case the party Surfers entered into an agreement with the defendant Rusk which authorized Rusk to manufacture, record and sell recordings of the Surfers' musical performances.

This agreement was never reduced to writing. Later, Surfers decided to pursue other alternatives to manufacture and distribute their recordings and Surfers allegedly terminated the license with Rusk. Rusk, however, argued that the alleged termination of the license by Surfers was ineffectual because a nonexclusive copyright license granted orally cannot be terminated at will by the licensor. The court noted that nonexclusive licenses are expressly excluded from the statutory definition of transfer of copyright ownership and therefore nonexclusive licenses, which do not transfer ownership to the licensee, may be granted orally. According to the court, under Section 203 of the Copyright Act, licensing agreements are not terminable at will from the moment of creation. Instead, they are terminable at the will of the author only during a five year period beginning at the end of 35 years from the date of execution of the license unless the parties explicitly specify an earlier termination date. The court said that Section 203 of the Copyright Act is designed to protect authors and allow them to profit from their work and thus sets a maximum lifespan for the licenses, rather than a minimum. The court found that Section 203 is not at odds with any state law that would allow copyright holders to terminate nonexclusive licenses at will. Thus, the court said under Illinois law, the license agreement was terminable at will. *Walthal v. Corey Rusk*, 1998 U.S. Dist. LEXIS 998 (N.D. Il. 1998).

Graham marketed CD-ROM disks. James wrote software for Graham. James wrote a second version of a program he wrote for Graham. James atttributed authorship and copyright ownership of the second version to himself. Graham and James argued over ownership of the second version and Graham filed suit. The Court ruled that James was an independent contractor, the second version was not a work for hire, and James owned the second version. James counterclaimed for damages resulting from Graham infringing the copyright. Graham contended there was an oral nonexclusive license and there could not be an infringement. The Court agreed and ruled that James waived his right to sue for copyright infringement by granting the license. *Graham v. James*, 56 BNA PT&C Journal Vol. 6, No. 1378, p. 114 (2nd Cir. 1998).

COVENANT NOT TO COMPETE

Tauman was the Chief Executive Officer of Hydron Technologies. Hydron made and sold cosmetic and personal care products. QVC and Hydron had entered into a licensing agreement to sell Hydron products through QVC's nationally distributed direct response television programs. Hydron designated Tauman to be the principal spokesman for Hydron and QVC invested significant resources creating several half hour infomercials and an on-air persona for Tauman the viewers eventually called Hydron Harvey. Later Hydron fired Tauman and Tauman formed Greyson in competition with Hydron. QVC then filed a lawsuit in order to enforce a noncompetition provision of its license agreement. The court said that a post employment restrictive covenant is valid and enforceable when it is incidental to an employment relation between the parties to the covenant, the restrictions are reasonably necessary for the protection of the employer, and the restrictions are reasonably limited in duration and geographic extent. The court concluded that the license agreement which Tauman signed personally provided that Tauman intended to be legally bound and in consideration of the promises and agreements made by QVC, Tauman agreed to be bound. The license agreement provided a salary raise to Tauman which was sufficient consideration for the services to be performed and constituted sufficient consideration to support the validity of the restrictive covenant. *QVC, Inc. v. Harvey Tauman*, 1998 U.S. Dist. LEXIS 4383 (E.D. Pa. 1998).

EFFECT OF INVALIDITY ON UNPAID ROYALTIES

According to a license agreement, Shell agreed to pay SGK a running royalty on the sale of polypropylene. The licensee, Shell, breached the license by producing polypropylene under a process called the Seadrift process and did not pay royalties or report the production because Shell contended the Seadrift process was outside the license. The patent was found to be invalid. Nothing in the license agreement made the payment of the royalties contingent on the validity of the patent. The court noted that contract law governed the enforcement of the license, and enforcement of the terms of the license was not contingent on the validity of the patent. The court found that there was no significant frustration of federal patent policy by enforcing the license to the extent of allowing SGK to recover royalties until the date Shell first challenged the validity of the patent. The court noted that Shall enjoyed the protection of the license from its inception until SGK became aware of the Seadrift process. Upon SGK's discovery of the Seadrift process, Shell suddenly sought the protection of the policies under the *Lear* decision that it had flaunted for many years. The court said that a licensee such as Shell cannot invoke the protection of the *Lear* doctrine until it (1) actually ceases payment of royalties, and (2) provides notice to the licensor that the reason for seeking the payment of royalties is because it has deemed the relevant claims to be invalid. Accordingly, the court ruled that enforcement of the license according to its terms, even if that entailed a determination of whether the Seadrift process infringed the now invalid patent, does not frustrate federal patent policy. *Studiengesellschaf Kohl, M.B.H. v. Shell Oil Co.*, 112 F.3d 1561 (Fed. Cir. 1997).

FORUM SELECTION CLAUSE

A forum selection clause in a license provided that "any dispute arising between the parties hereunder will be determined in the District Court for the Southern District of Mississippi." Terra, the licensee, contended that the word "hereunder" modified the word "arising" instead of the word "parties" indicating that the cause only applies to claims arising under the license agreement. Terra asserted that its tort claims that were being asserted did not arise under the agreement but were independent of that agreement. The court ruled that the placement of "hereunder" directly after the words "parties" could reasonably suggest that it modifies "parties" which would give the clause a very broad scope covering any dispute arising between the parties. The court also found that Terra's interpretation was reasonable, because the court was persuaded that, at least in the contractual context, "herein" typically signifies "under the agreement," while "hereto" most often refers to the parties to the agreement. Thus, the court found that the clause was ambiguous and had to be interpreted in accordance with outside sources. *Terra International, Inc. v. Mississippi Chemical Corp.*, 119 F.3d 688 (8th Cir. 1997).

Inso executed a software license with Dekotec whereby Inso would license its technology to Dekotec for a royalty payment. Inso later alleged that Dekotec breached the agreement by failing to pay the required royalties and filed a lawsuit. Dekotec moved to dismiss the complaint arguing that personal jurisdiction did not lie under the Massachusetts long arm statute since Dekotec neither transacted business there nor supplied services in that state. In addition, Dekotec contended that it did not have sufficient minimum contacts with the state to permit the court to exercise jurisdiction. Inso argued that review under the long arm statute and application of a minimum contacts test were unnecessary because Dekotec consented to personal jurisdiction by signing the license. The license clause in question, unlike forum selection clauses where the parties explicitly consent to personal jurisdiction, did not explicitly address the issue of personal jurisdiction. Instead, the clause simply stated that the parties stipulated that the proper forum shall be the United States District Court for the District of Massachusetts. After reviewing previous decisions, the court ruled that a contractual stipulation to a particular forum implies consent to personal jurisdiction in that forum. Thus, the forum was proper in the District Court of Massachusetts. *Inso Corporation v. Dekotec*, 1998 U.S. Dist. LEXIS 3953 (D. MA. 1998).

FUTURE TECHNOLOGIES

Boosey & Hawkes was the assignee of Stravinsky's copyrights for the music "The Rite Of Spring". Boosey & Hawkes sued Walt Disney for its foreign distribution in video cassette and laser disk format of the film Fantasia featuring Stravinsky's work arguing this infringed Boosey & Hawkes' rights under the copyrights. In 1939 Stravinsky had licensed Disney for the distribution of the use of the music "The Rite Of Spring" in the motion picture. Boosey and Hawkes, however, contend that the license did not authorize distribution in video format. The original agreement between Stravinsky and Walt Disney granted unto Walt Disney a nonexclusive revocable license to record in any manner, medium or form and to license the performance of the musical composition. The right to record the musical composition was conditioned upon the performance of the musical work in theaters having valid licenses from the American Society of Composers (ASCAP). Boosey & Hawkes argued that the license did not authorize distribution of the motion picture in video format in view of the absence of an expressed provision in the license for "future technologies". The court noted that whether a licensee may exploit licensed works through new marketing channels made possible by technologies developed after the licensing contracts are often called "new use issues". The court said that the original agreement between Stravinsky and Walt Disney conveyed the right to record the composition in any medium, manner or form for use in a motion picture. The court believed that this language was broad enough to include distribution of the motion picture in video format. *Boosey & Hawkes Music Publishers, Ltd. v. The Walt Disney Company*, 1998 U.S. App. LEXIS 8329 (2nd Cir. 1998).

IMPLIED COVENANT OF GOOD FAITH AND FAIR DEALING

Camp Creek entered a license agreement with Sheraton to operate and establish a Sheraton Inn franchise near the Atlanta airport. After some difficulties in the arrangement, upon completion of the construction of the Inn, Camp Creek sued Sheraton for enforcement of the license agreement and argued that although Sheraton's conduct may not have contradicted the express terms of the license, Sheraton nevertheless violated the covenant of good faith and fair dealing by establishing and operating a competitive hotel near the Atlanta airport. The court noted that a covenant of good faith and fair dealing requires the parties to a license to deal honestly and in good faith in the performance and enforcement of their license and to refrain from impairing the other party's right to receive the fruits of the license. The covenant of good faith, however, may not be used to rewrite or override the express terms of a license and in this case the court said that Camp Creek could not use the covenant of good faith to prevent Sheraton from licensing the Sheraton name to additional franchises beyond the specific site of Camp Creek hotel. *Camp Creek Hospitality Inns, Inc. v. Sheraton Franchise Corporation*, 1998 U.S. App. LEXIS 8337 (11th Cir. 1998).

IMPLIED LICENSE

Hewlett-Packard filed a lawsuit against Pitney-Bowes for patent infringement caused by the sale of Pitney-Bowes envelope printers. Pitney-Bowes asserted a third party claim against BOSX, a printer supplier for Pitney-Bowes. BOSX denied the allegations and filed a declaratory judgment against Hewlett-Packard. Both Pitney-Bowes and BOSX claimed an implied license from Hewlett-Packard to practice the invention. Hewlett-Packard manufactured and sold ink jet printers that could be used in various printer applications including envelope printers and printing calculators. Hewlett-Packard obtained patents on these printers. BOSX approached Hewlett-Packard during the development by BOSX of an ink jet printer. Hewlett-Packard and several people at Hewlett-Packard provided documents and information to BOSX to help in the development of their printers. In addition, Hewlett-Packard and various individuals provided a list of suppliers of various products to put together the BOSX printer. During the development of the BOSX printer, several Hewlett-Packard employees visited the facilities of BOSX and knew that BOSX was going to use Hewlett-Packard cartridges to produce envelope printers for Pitney-Bowes. Some Hewlett-Packard employees helped BOSX by referring BOSX to various companies that could provide large supplies of Hewlett-Packard cartridges and other Hewlett-Packard products. Eventually, BOSX publicly showed its printer at a trade show and Hewlett-Packard employees saw the printer at the show and knew that the printers used Hewlett-Packard ink jet cartridges. Upon obtaining an agreement to be provided the BOSX printers, Pitney-Bowes contacted Hewlett-Packard to arrange for a supply of Hewlett-Packard ink jet cartridges to be used in the printers. Hewlett-Packard had a firm policy of consistently communicating to customers to whom it did not wish to extend a license that Hewlett-Packard does not authorize the unauthorized use of Hewlett-Packard's patented ink jet technology. However, because Hewlett Packard did not consider envelope printers direct competition and in fact wanted to encourage such printers that made use of Hewlett-Packard's ink jet cartridges, it did not communicate this warning to either BOSX or Pitney-Bowes. Although Hewlett-Packard never discouraged Pitney-Bowes and BOSX from manufacturing or selling envelope printers and, in fact, actively encouraged them, Hewlett Packard eventually sued them for infringement of the ink jet patents. With regard to an implied license, the court said that no formal granting of a license is necessary in order to give it effect. Any language used by the owner of the patent or any conduct on his or her part exhibited to another from which that other may properly infer that the owner consents to the use of his patent constitutes a license and a defense to an action for a tort. According to the court, an implied license signifies that a patent holder has waived its right to exclude a certain person or company from making, using or selling the patented invention. The court said that implied licenses can result from several kinds of circumstances including acquiescence, conduct, equitable estoppel or legal estoppel. Most commonly, however, the court said implied licenses arise as a result of the entire course of conduct between the patent holder and the alleged infringer. With regard to equitable estoppel, the court noted that the Federal Circuit has recently clarified its equitable estoppel emphasis and a license's factual predicates by upholding a finding of implied license when a jury found that: (1) a relationship existed between the two parties; (2) within that relationship, the patent holder granted to the alleged infringer a right to use the patented invention; (3) the patent holder received valuable consideration for that grant of right; (4) the patent holder denied that the alleged infringer had an implied license; and

(5) the patent holder's statements and comments created the impression that it had consented to the alleged infringer making, using or selling the patented invention. The court ruled that each of these factual predicates had been met. Hewlett-Packard, Pitney-Bowes and BOSX clearly had an ongoing relationship in which Hewlett-Packard supplied ink jet cartridges to both Pitney-Bowes and BOSX for use in their envelope printers. Hewlett-Packard had encouraged BOSX and Pitney-Bowes to develop complementary printer technologies, namely, the envelope printers, Hewlett-Packard made no efforts to protect the patents at issue and it freely granted licenses to all competitors of BOSX and Pitney-Bowes in this particular market. Hewlett-Packard supplied technical support and critical technical information to BOSX without any indication or warning that Hewlett-Packard was concerned about patent infringement. Several of the parts that BOSX purchased had no use except in the assemblies of the Hewlett-Packard patents and Hewlett-Packard provided unrestricted sale of bulk quantities of these parts far in excess of any quantity that could reasonably serve as replacement parts. Thus, the court ruled that Pitney-Bowes and BOSX each have an implied license by virtue of equitable estoppel arising out of Hewlett-Packard's entire course of conduct. *Hewlett-Packard, Co. v. Pitney-Bowes Corp.*, 46 U.S.P.Q.2d 1595 (D. OR 1998).

PATENT MARKING

Wokas served a Complaint on Dresser accusing Dresser of infringing a patent owned by Wokas. Dresser sought to limit the amount of damages by contending that a licensee under Wokas' patent failed to mark the products it manufactured and sold under the patent with the patent number as required by 35 U.S.C. Section 287(a). Pursuant to Section 287(a), when someone manufacturing for or under a patentee, which includes a licensee, fails to mark, a patentee may not recover from an infringer during that time period unless the patentee has given the infringer actual notice of infringement. Dresser contended that it did not receive actual notice of infringement until the Complaint in the lawsuit was filed. It was established at trial that between June 7 and September 4th of 1996, a licensee may have sold 261 licensed products and that it failed to mark any of these licensed products with the patent number. Wokas argued that even if it were found that no actual notice had been given to Dresser until the filing of the Complaint, Dresser was still liable for infringement up until the time the licensed product sold by the licensee were actually installed. Wokas' reasoning was that since neither he nor anyone else was manufacturing or selling under the patent up until the time of when the licensee was selling the product, there was no duty to mark under Section 287(a). The court noted that the marking and notice requirements of Section 287(a) are not applicable to situations where the patented item is not made or sold by the patentee or persons operating for or under the patentee. Wokas argued the duty to mark arises only when a product is made available to the public, not when it is simply manufactured without being distributed. The court ruled that Dresser could not be liable for infringement between the date the licensee began shipping the unmarked products and the date that Dresser received actual notice of the infringement unless it could be shown that actual notice occurred during that period. *Wokas v. Dresser Industries, Inc.*, 978 F.Supp. 839 (N.D. IN. 1997).

RETROACTIVE LICENSE

The grant of a license by one co-owner of a patent cannot deprive the other co-owner of the patent of the right to sue for accrued damages for past infringement. That would require a release not a license and the rights of a patent co-owner, absent agreement to the contrary, do not extend to granting a release that would defeat an action by other co-owners to recover damages for infringement. *Ethicon, Inc. v. United States Surgical Corp.*, 135 F.3d 1456 (Fed. Cir. 1998).

STANDING

Loebach assigned to his employer, Motter, his rights in his invention of a printing press diverter. Shortly thereafter a patent issued on the invention and Motter granted a license to Harris Graphics Corp., the predecessor-in-interest of Heidelberg Harris, Inc., to design manufacture and test a machine incorporating the patented invention. Harris agreed to fund a project in exchange for an unrestricted license under the patent. Under the agreement, Harris was to pay Motter for Motter's design efforts and a prototype unit of the product. Motter would supply all of Harris' requirements for the patented machine providing that Motter charged a reasonable purchase price for the devices. When Motter was unable to produce the machines at a price acceptable to Harris, the parties negotiated a second agreement which took effect in 1985 and would run to 1990. Loebach learned that Harris was paying Motter a royalty for the right to manufacture machines and he sued Motter alleging that his patent assignment to Motter was void for failure of consideration. The District Court rescinded the assignment and vested title in Loebach. Prompted by Loebach's contacts with its customers, Harris filed suit against Loebach. The District Court ruled (1) that Loebach lacked standing to sue for infringement occurring before the date he obtained legal title to the patent via the rescission of the Motter assignment and (2) that Harris is a bona fide purchaser of a license under the patent and, therefore, was not subject to suit for patent infringement. Loebach challenged the holding that he lacked standing, arguing that the Districts Court's rescission was retroactive and made Motter's assignment void *ab initio*. The Federal Circuit said a plaintiff cannot sue for patent infringement prior to the time the plaintiff actually obtained legal title to the asserted patent. The court rejected Loebach's argument that a court can retroactively vest legal title in the plaintiff for purposes of standing. Loebach also challenged the District Court's holding that Harris was a bona fide purchaser for value of a license and that it was therefore not liable for infringement under the patent. The Federal Circuit said under the bona fide purchaser for value rule, one who acquires an interest in a patent for valuable consideration from a legal title holder is entitled to retain that interest free of any equitable encumbrance if the purchaser had no notice of an outstanding equitable claim or title. The court noted that the licenses created two distinct licensing periods. One, a conditional license for a seven year period if Motter was unable to supply Harris' requirements, and two, a subsequent unrestricted license. The agreement used the present tense to refer to both licenses thereby creating the inference that both vested immediately although the unrestricted license was not immediately operative. According to the court, the unrestricted license was not contingent upon any future event other than the passage of time. Thus, the court found that nothing in the agreement would divest Harris of its unrestricted license. According the court as a general proposition in order to defeat a bona fide purchaser defense on the basis of notice, the purchaser must receive the notice before he is paid the consideration or before he as performed his purchase obligation. Given that Harris paid its consideration and met its purchase obligatins under the agreement long before Harris first received notice of Loebach's claim on the patent, the court concluded that the District Court properly ruled in Harris' favor on this issue. *Heidelberg Harris, Inc. v. Loebach*, BNA PTC Journal, Vol. 56, No. 1379, p. 138 (Fed. Cir. 1998).

This case presented the question of whether a requirements contract for a patented product automatically converts the exclusive supplier into an exclusive licensee of the patent.

This issue was important because only a patentee may bring an action for patent infringement. Title 35 defines patentee as the party to whom the patent issued or any successors in title to the patent. A licensee is not entitled to bring suit in its own name as a patentee, unless the licensee holds all substantial rights under the patent. When the patent application for the patent in question was still pending, the parties, Textile and Mead, executed a license that included a covenant by Mead to purchase all of its requirements from Textile for products that were provided by Mead to a specific customer. The question was whether this requirement also restricted Mead's ability to license third parties to supply Mead to satisfy customers other than the customer named in the license with Textile. The court noted that the agreement was silent about Mead's ability to grant licenses to suppliers for non-Mead customers or to those who wished to make the invention for their own use. The court ruled that Mead did not promise that all others beyond Textile should be excluded from making the invention and Mead was allowed to license third parties. *Textile Productions, Inc. v. Mead Corp.*, 134 F.3d 1481 (Fed. Cir. 1998).

Geapag and Enzo had filed complaints and counter complaints against each other for patent infringement and patent invalidity and noninfringement. There was a question as to the ownership of the patents and it was clear that although Geapag had rights in the patent-in-suit, there was no writing transferring all substantial rights under the patent to Geapag at the time it brought suit. As a result, Geapag and its licensor, Spidem, sought to clear the chain of title to the patent retroactively. Thus, Geapag and Spidem entered into agreement through which previous licenses were canceled and an exclusive license was entered into between Spidem and Geapag. The court said that it must determine whether an oral exclusive license or a *nunc pro tunc* license executed after the lawsuit was brought or some combination of the two could confer standing on

Geapag. The court said that while it acknowledged that a license may be written, verbal or implied, if the license is to be considered a virtual assignment to assert standing, it must be in writing. The only exception conferring standing on licensees is restricted to virtual assignees. The court said that under 35 U.S.C. Section 261, applications for patents or any interest therein should be assignable in law by an instrument in writing. Geapag argued that the *nunc pro tunc* license rendered Geapag a virtual assignee for the purposes of standing but the court said that *nunc pro tunc* assignments are not sufficient to confer retroactive standing on the basis that as a general matter, parties should possess rights before seeking to have them vindicated in court. Allowing a subsequent assignment to automatically cure a standing defect would unjustifiably expand the number of people who are statutorily authorized to sue. *Enzo Apa & Son, Inc. v. Geapag A.G.*, 134 F.3d 1090 (Fed. Cir. 1998).

WAIVER

Chicagoland entered into negotiations with Time Warner to manufacture and market medallions bearing the World Cup logo for the World Cup. Chicagoland signed forms of exclusive license agreements. Later, Chicagoland learned of plans by the United States Mint to issue coins commemorating the tournament. Time Warner assured Chicagoland that the mint coins would be marketed only domestically and Chicagoland had a worldwide license. Later, Chicagoland also learned that several companies were marketing unlicensed medallions in Europe. After repeatedly trying to get Time Warner to take action or recognize Chicagoland's exclusive rights, Chicagoland sued Time Warner for breach of the license and alleged among other things, a fraudulent inducement claim on the basis that Time Warner made false statements of material fact to Chicagoland upon which Chicagoland relied when it entered into the license agreement. The court said the law is that a person who has been misled by fraud or misrepresentation is required, as soon as he learns of the truth, to disaffirm or abandon the transaction with all reasonable diligence. Time Warner sought to assert that Chicagoland waived its fraud claim by not disaffirming the license agreement. The court said, however, that waiver can be implied from conduct. Also, it is clear that an essential element of waiver is that the injured party intended to affirm the contract and intended to abandon his right to recover damages. If the intention to waive is implied from conduct, the conduct should speak the intention clearly. The court ruled that the implied conduct of Chicagoland was sufficient to overcome a motion for summary judgment and the matter would proceed to trial. *Time Warner v. Chicagoland Processing Corp.*, 974 F.Supp. 1163 (N.D. Il. 1997).

WHEREAS CLAUSE

Trecom filed a Complaint against Prasad for damages resulting from an alleged breach of an agreement wherein Trecom purchased the rights to computer software developed by Prasad. The parties entered into a contract providing that Prasad would convey his rights in certain software to Trecom. Trecom, in corroboration with Prasad, proceeded to attempt to improve, develop and market the software. Due to lack of success of the software, Trecom later made a business decision to abandon its efforts to market and further develop the software. Trecom then offered Prasad the rights and title to the software. Prasad alleged that Trecom breached the agreement by failing to comply with the clause that stated "whereas Trecom intends to modify and enhance the software". The court said a recital of intent in a whereas clause cannot create any right beyond those established by the operative terms of the license. An expression of intent in a whereas clause of a license between two parties may be useful as an aid in construing the rights and obligations created by the agreement, but it cannot create any right beyond those arising from the operative terms of the license. The court said that the license here did not contain any other language imposing a duty on Trecom to modify and enhance the software. Although Trecom did express its general intention to modify and enhance the software in the whereas clause, the court said such recital alone cannot create a contractual obligation. *Trecom Business Systems, Inc. v. Prasad*, 980 F.Supp. 770 (D. N.J. 1997).