NAVIGATING THE SHIFTING LANDSCAPE OF LICENSES: TIPS AND TRICKS

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I. Introduction

Entering into a license agreement may be the best way an owner of intellectual property can unlock the value within, possibly even while retaining the rights of greatest value to the owner. A license agreement is a contract under which the holder of the IP (*i.e.*, licensor) grants permission for another person (*i.e.*, licensee) to use its IP within the limits set by the contract.

In the patent context, this requires thinking of patent filings as more than a mere commodity task. By obtaining the right sort of patent, one crafted to capture more than a narrow commercial embodiment, a licensor can retain ownership of the patent and the rights to use the patent(s) in its own arena—even exclusively— while receiving compensation to authorize use of other rights covered by the patent with one or more licensees. By retaining ownership and some control of the patent, as distinguished from an assignment, the licensor retains title and typically has an easier time reversing the transfer of rights if the licensee fails to live up to its end of the bargain.

Recent developments in intellectual property law, particularly regarding patents, include the use of sovereign immunity as a defense against post-issuance review of a patent by the Patent Trial and Appeal Board (PTAB) and the use of patent exhaustion as a defense against patent infringement. This article discusses the case law surrounding each defense, and analyzes their implications on licensing. In addition, a few provisions that are favorable to a licensor and a licensee are examined.

II. PTAB Sovereign Immunity Defense

As public universities continue to conduct the basic research that many for-profit companies have ignored, they continue to obtain more and more patents. Federal law incentivizes those universities to transfer that technology into private hands for commercialization, but generally requires that the rights be licensed and not assigned. Naturally, with more agreements come more disputes, which has led to issues of sovereign immunity. Sovereign immunity is the doctrine that shields the federal government, as well as state and tribal governments, from certain lawsuits. Sovereign immunity can be waived, either by consent of the governmental party, or abrogated by Congress.

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A. State Sovereign Immunity

The Eleventh Amendment to the U.S. Constitution grants sovereign immunity to states. The Eleventh Amendment limits the "Judicial power of the United States" so that it does not "extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State."

State sovereign immunity protects states from federal court action, as well as federal adjudicative administrative proceedings. State sovereign immunity extends to state agencies, including public universities, medical schools, and research centers.

In five recent proceedings at the PTAB, the patent owner (or co-owner) raised the sovereign immunity defense in an effort to seek dismissal of an *inter partes* review (IPR) proceeding regarding state university patents.

In the dispute leading up to *Covidien LP v. University of Florida Research Foundation Inc.*, Case No. IPR2016-01274, -01275, -01276, patent owner University of Florida Research Foundation (UFRF) filed an action in Florida state court against Covidien for breach of a license involving U.S. Patent No. 7,062,251 ("the '251 patent").[2] Covidien responded with a counterclaim seeking a declaratory judgment that it did not infringe the '251 patent, and on this basis the suit was removed to the U.S. District Court for the Northern District of Florida.[3] Separately, Covidien also filed petitions requesting IPR of the '251 patent.[4]

First, the PTAB determined that the IPR and civil patent litigation proceedings are sufficiently similar so as to implicate sovereign immunity.[5] Second, the PTAB decided that UFRF, as an arm of the State of Florida, is entitled to sovereign immunity.[6] The PTAB ultimately dismissed the IPR proceeding based on sovereign immunity of UFRF.[7]

In *NeoChord, Inc. v. University of Maryland, Baltimore*, Case No. IPR2016-00208, NeoChord filed a petition requesting IPR of U.S. Patent No. 7,635,386 ("the '386 patent").[8] Patent Owner University of Maryland, Baltimore ("the University") did not file a Preliminary Response, which was optional. The University did, however, file the mandatory notice representing that it is the patent owner and that Harpoon Medical, Inc. is the exclusive licensee of the '386 patent.[9] The PTAB instituted IPR, the University filed a Response to the Petition,

[2] Paper 21 at 3 (PTAB, Jan. 25, 2017).
[3] *Id.* The suit, of course, was promptly remanded to state court by the District Court on the immunity defense, and is now awaiting a hearing on appeal at the U.S. Court of Appeals for the Federal Circuit (Appeal No. 16-2422).
[4] *Id.* at 4.
[5] *Id.* at 4-24.
[6] *Id.* at 27-39.
[7] *Id.* at 39.
[8] Paper 28 at 2 (PTAB, May 23, 2017).
[9] *Id*.

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