

# Friendly Licensing in the Aftermath of *MedImmune*

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## Introduction

Recent caselaw such as *MedImmune*<sup>1</sup> and *Sandisk*<sup>2</sup>, have redefined the use of declaratory judgments<sup>3</sup> in the current marketplace. With an increase in innovation and rapid growth in technology, companies have resorted to using declaratory judgments as a tool to protect their intellectual property (“IP”), and at times sacrificing business development and their industry reputation. As this form of aggressive licensing continues to create battles in the courtroom, among companies where simple invitations to license have triggered declaratory judgment reactions, companies should adopt a less expensive and less aggressive strategy before racing to the courthouse.

“Friendly licensing” offers companies an opportunity to protect and strengthen their intellectual property portfolio while maintaining a favorable industry-wide reputation and expanding their business development in the marketplace, regardless of the industry or size of their IP portfolio. By taking positive precautionary measures before, after, and during licensing negotiations, companies can adopt strategies that don’t require them to use aggressive measures to police the marketplace as a means to protect their intellectual property.

NOTE: In the pursuit of friendly licensing, we started this paper eight months ago and held onto it to actively “test” our guidelines when pursuing friendly licensing. Since our pursuit, new interpretations have been handed down by the courts and we have found that nothing has heavily impacted these guidelines.

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<sup>1</sup> *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007): By broadening the ability of potential licensees to race to the courthouse and file a DJ upon contact by a licensor, this case paves the path for licensors to be cautious and file a lawsuit first then approach potential licensees to negotiate.

<sup>2</sup> *Sandisk Corp. v. STMicroelectronics, Inc.*, 480 F. 3d 1372 (Fed. Cir. 2007): Approaching potential licensees with talks of licensing is enough to trigger “reasonable apprehension” in the hearts of potential licensees even if the patent holder claims they have no intent to sue. Although *MedImmune* did away with the reasonable apprehension requirement, the Court in *Sandisk* states that it was done in the context of patent licenses that already existed and not in pre-licensing negotiations.

<sup>3</sup> Declaratory Judgment Act (28 U.S.C. 2201-2): In order to bring a claim for declaratory judgment, the claimant must (1) have a basis in federal subject matter jurisdiction in the claim and (2) establish that an actual controversy exists.

## ***Our Top 8 Guidelines to “Friendly Licensing”***

**Here are the Top 8 guidelines to follow when pursuing “friendly licensing;” details of each guideline are further explained within this paper.**

### **Pre-Licensing:**

1. Examine your internal space or processes to determine your company’s “philosophy” to licensing.
2. Examine the external space of the potential licensees your company plans upon approaching.

### **During Licensing Negotiations:**

3. Enter into confidentiality agreements before substantive discussions begin between the licensor and potential licensee that incorporate specific provisions such as pre-commitment between both parties *not* to file a declaratory judgment; “lock-up” provisions to build faith, trust, and confidence during negotiations; and “break-up” fees when negotiations fail, creating an incentive to continue negotiations.
4. As substantive negotiations proceed, a licensor should consider whether to sell or license the patents at interest.

### **Post-Licensing Negotiations:**

5. Being aware of any changes in the way a licensee may alter their method of doing business (i.e. becoming more litigious, filing more declaratory judgments, etc);
6. Contacting legal counsel to amend existing licensing agreements to incorporate specific clauses related to arbitration, termination, pre-suit notification, and/or royalty rates if they haven’t been addressed.
7. Maintain an industry reputation.
8. Contamination: Be aware that once you have exposed your claims to a potential licensee and you attempt to license but fail, the starting clock of “willful and knowingly infringing” begins from the day you have “contaminated” them with the knowledge of your patents.

## ***Pre-Licensing***

Pre-licensing communication with potential licensees is an important preparatory step in creating a licensing opportunity. The foundational work done to establish communication before negotiations begin sets the tone and foundation of future relationships. Processes can be put into place to ensure that friendly licensing is

being used as an opportunity to build associations with companies within the industry. However, before setting out to communicate with potential licensees, companies should examine their internal space or processes to determine their company's "philosophy" to licensing.

Specifically:

- Examining your company's approach to licensing and litigation. How often does your company choose litigation over licensing? What is the frequency of patent litigation? What is the company's frequency of sending cease and desist letters? What is the tone and context of the language used in cease and desist letters?
- What is your company's reputation within your respective industry?
- Whom in your organization has the strength or skill to contact potential licensees or conduct friendly licensing?
- How do you identify potential licensees and review them? Upon identifying licensees do you approach all of them simultaneously or do you contact them in succession?
- Do you maintain any form of record-keeping to determine whom you have contacted and the result of that engagement?
- What is the tone and context of the language being used when initially communicating with a potential licensee?
- How do you represent your patent(s), product(s), and/or patent application(s) when approaching a potential licensee?

After conducting an internal review of your company's licensing processes, it is just as important to examine the external space of the potential licensees your company plans upon approaching. Here are some questions to ask when researching a potential licensee:

- What is the company's "personality?"
- What is their reputation in the industry?
- How often do they respond in a litigious manner as oppose to licensing?
- What is the organizational structure within the company? It may be important to determine the roles of each company official in order to assess whom to approach.
- What are the strengths of the company? Do they spend more money in litigation? Do they believe in partnership opportunities? What is their licensing strategy?
- Will they be receptive to "friendly licensing" within the company, and if so, whom should you approach?

Incorporating all of these concepts when communicating with a licensee will demonstrate knowledge of the licensee's company and will show that an effort is being made to build a relationship and eventually license in friendly manner. A

company can build a trusting relationship by creating a “dome” of comfort and security during the initial approach to allow for open communication.

In an opening letter, a company must avoid stating the patent(s), the product(s) involved, or any implication of infringing activity. An opening letter should be a basic introduction of the licensor to the licensee as well as an offer or invitation to create an opportunity for business development. Although the letter should not specifically mention the patents, the tone and context of the letter should guide the licensee towards the benefits and opportunities that the licensor’s IP can provide for future company growth.

Once a potential licensee demonstrates an interest in conducting “opening” talks to learn about the opportunity, the company should present the IP in an interesting and neutral light. Neutrality is established when specific patents are not discussed but rather, a demonstration of the technology space and a description of the claims are shown in unique formats, i.e. pictorial depictions. A similar concept is known as the proof package concept where a company can use its claims and technology to tell the story and create the opportunity without mentioning the potential licensee’s claims. By describing the IP in a story format, both parties can continue to maintain open communication since there is no implication of infringement nor is their any direct connection being made between the licensor’s and the potential licensee’s IP.

Although many companies have licensing departments and processes in place, they should evaluate (1) their strengths and weaknesses when communicating with potential licensees, (2) the allocation of time spent when pursuing potential licensees, and (3) the allocation of company resources when assessing pre-licensing communications. In addition, they should seek unique methods of presenting the claims of their patents through IP stories. When taking all of these factors in consideration, a company may find that it is in its best interest to use neutral third parties such as consulting firms rather than law firms to contact potential licensees. Additionally, although the legal department in a company plays a significant role during licensing negotiations, using the legal department to communicate with potential licensees may create an undesirable defensive response and reaction. By using consulting firms, companies can lower the risk of shutting down communications before they even begin. Furthermore, since consulting firms do not engage in the practice of law it allows a company to contact potential licensees without the fear of legal ramifications.

Furthermore, by using non-legal third parties to communicate their IP, companies lower the risk of creating a hostile environment, thereby lowering the risk of declaratory judgments. This also has an overall effect of reducing the cost of legal fees and possibly the cost of litigation fees when consulting firms and friendly licensing methods are used.

## ***During Licensing Negotiations***

When entering into licensing negotiations, certain precautionary measures should be taken between parties to continue the friendly licensing atmosphere. Specifically, by entering into confidentiality agreements before substantive discussions begin between the licensor and potential licensee. A company may want to discuss the following issues with legal counsel when drafting provisions of the confidentiality agreement:

1. Pre-commitment between both parties *not* to file a declaratory judgment;
2. “Lock-up” provisions to build faith, trust, and confidence during negotiations; and
3. “Break-up” Fees when negotiations fail, creating an incentive to continue negotiations.

As substantive negotiations proceed, a licensor should consider whether to sell or license the patents at interest. If licensing is a better option, a licensor should determine whether to exclusively license the patent. This decision may contribute to the risk of a licensee pursuing declaratory judgment. For example, if a patent is exclusively licensed, then there is less risk of a licensee pursuing declaratory judgment. This is a result of a higher level of confidence established between the licensee and licensor, demonstrating the licensor’s intention to pursue friendly licensing.

## ***Post-Licensing Negotiations***

Finally, friendly licensing can continue after licensing agreements have been created. The goal is to continue to build a trusting relationship that contributes to the business development of both the licensor and the licensee. However, as both parties continue to work together, they should incorporate a few precautionary measures:

1. Being aware of any changes in the way a licensee may change their method of doing business (i.e. becoming more litigious, filing more declaratory judgments, etc);
2. Contacting legal counsel to amend existing licensing agreements to incorporate the following clauses if they haven’t been addressed:
  - a. Arbitration before litigation with forum selection clauses;
  - b. Termination provisions that allow a licensor to terminate the agreement in the event of a validity challenge to a patent licensed under the agreement;
  - c. Pre-suit notification clauses which allows the licensor to determine the licensee’s claim and then decide whether to renegotiate the license; and

- d. Royalty rates that increase in the event of a validity challenge.
3. Maintaining an industry reputation: An industry reputation can play a role in determining the likelihood of a potential licensee filing for declaratory judgment. If a company has the reputation to maintain an aggressive litigation strategy, then it is not advisable to pursue them as potential licensee. If a licensor is in negotiations with a potential licensee with an aggressive reputation, it is highly recommended to take precautionary measures to protect yourself. However, if you are a potential licensee that has an aggressive licensing strategy and would like to develop more licensing opportunities, then you may consider changing your strategy and reputation within your respective industry.
4. Contamination: Be aware that once you have exposed your claims to a potential licensee and you attempt to license but fail, the starting clock of “willful and knowingly infringing” begins from the day you have “contaminated” them with the knowledge of your patents. This may have the potential to lead to higher damages if litigation were to ensue. This should be addressed with legal counsel when discussing licensing negotiations. However, it may be thought of as a precautionary measure to avoid “tainting” the friendly licensing atmosphere.

Please remember that it is possible to create the initial story without citing to patent claims as discussed in the pre-licensing section of this paper. Furthermore, by using non-legal third parties to communicate their IP, companies lower the risk of creating a hostile environment, thereby lowering the risk of declaratory judgments. Thus, a stronger licensing process and improved licensor and licensee’s industry reputation is created by considering these factors after licensing agreements are in place. This results in attracting partnership or other advantageous business relationships.

## ***Conclusion***

In summary, initially we wrote this paper in response to our clients’ concern of declaratory judgment and its chilling effect on licensing negotiations. However, through our interpretation of this issue and after applying these guidelines in live negotiations, we are pleased to note that these guidelines have contributed positively to our licensing negotiations. Additionally, in consideration of the state of our current economy, many companies are choosing less litigious methods and pursuing other options to expand their IP. Friendly licensing and the guidelines provided in this paper offer an alternative to litigation and provide open communication between two companies that have an interest to grow their technology.

For quick reference, here is a list of the guidelines you should follow to improve friendly licensing negotiations:



- Examine your internal space or processes to determine your company's "philosophy" to licensing.
- Examine the external space of the potential licensees your company plans upon approaching.
- Enter into confidentiality agreements before substantive discussions begin that incorporate pre-commitment between both parties not to file a declaratory judgment; "lock-up" provisions to build faith during negotiations; and "break-up" fees when negotiations fail, creating an incentive to continue negotiations.
- As substantive negotiations proceed, a licensor should consider whether to sell or license the patents at interest.
- Be aware of any changes in the way a licensee may change their method of doing business (i.e. filing more declaratory judgments, etc).
- Amend licensing agreements to incorporate clauses related to arbitration, termination, pre-suit notification, and royalty rates.
- Maintain an industry reputation.
- Be aware that the starting clock of "willful and knowingly infringing" begins from the day you have "contaminated" a potential licensee with the knowledge of your patents.

With the use of friendly licensing methods, companies have the ability to protect and strengthen their intellectual property portfolio while maintaining a favorable industry-wide reputation and expanding their business development in the marketplace. Although precautionary measures must always be taken using legal counsel, companies can create many opportunities to expand their technology base by using neutral third parties such as consulting firms to establish open communication and assist in building a trusting relationship with potential licensees.