Finnegan's monthly update on developments affecting licensing and other IP transactions

September 2015

Parties Bear Their Own Tax Consequences Unless Settlement Agreement Provides Otherwise

by John C. Paul, D. Brian Kacedon, and Christopher L. McDavid

A Michigan court recently ruled on the proper terms of a settlement agreement where the defendants sought to add provisions relating to tax consequences and the definition of "affiliates" to the agreement that were arguably consistent with the parties' intent as expressed in a settlement conference. The court found that the parties never raised the tax consequences of the settlement during the settlement conference, and if the receiving party wanted to ensure that they would receive the full settlement payment without regard to any withholding tax consequences, they should have negotiated that result into the agreement. The court also rejected a proposal to later define the term "affiliates" in the cross-license to include both present and future affiliates of the parties because that proposal would necessarily require including a "change of control" provision that was never contemplated by the parties.

Ninth Circuit Affirms RAND Rate and Damages for Breach of RAND Commitment

by John C. Paul, D. Brian Kacedon,and R. Benjamin Cassady

After discussions for a potential cross-licensing agreement broke down, Microsoft sued Motorola, alleging Motorola breached its obligation to offer its standard-essential patents (SEPs) on reasonable and nondiscriminatory (RAND) terms. Using patent damages law as guidance, the district court determined the RAND rate for Motorola's patents. Subsequently, the jury found that Motorola breached its RAND commitments and awarded Microsoft over $14 million in damages. The United States Court of Appeals for the Ninth Circuit affirmed the district court's RAND-rate analysis and found sufficient evidence supported the jury's verdict.

Court Denies Discovery of Evidence Regarding IRS' Views on License Agreements Between a Patent Owner and Its Affiliates

by John C. Paul, D. Brian Kacedon, and Chen (Jerry) Zhang, Ph.D.

A California court recently held that evidence regarding the IRS's opinion of whether royalty rates paid by a patent owner's affiliates to the patent owner were truly arms-length terms was not relevant to determining reasonable-royalty damages for the asserted patents because those rates were for technologies other than those found in the asserted patents.

Events

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LES Annual Meeting
October 25-28, 2015

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Lumping Parent-Subsidiary Defendants Together Is Fatal to Patent Infringement Claims Against Foreign Parent

by John C. Paul, D. Brian Kacedon, and Robert C. MacKichan, III

A Delaware federal district court recently ruled that the pleading requirements were not met in a patent infringement action where the patentee's complaint lumped its allegations of infringing acts against co-defendants, a foreign parent and its U.S. subsidiary. To adequately state its claim against the foreign parent based on an alleged parent-subsidiary relationship, the patentee should have provided facts demonstrating the parent's effective control over the subsidiary. The court also ruled that induced infringement claims were inadequately pled because the patentee failed to provide any factual support showing knowledge by the foreign parent of direct infringement by third parties.

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