

July 7, 2009

Rights to Have Licensed Products Made by a Third Party May Be Inherent in Patent Licenses Unless Those Rights Are Expressly Excluded

In *CoreBrace LLC v. Star Seismic LLC* (2009 U.S. App. LEXIS 10885), the U.S. Court of Appeals for the Federal Circuit found that “a patent licensee’s right to make, use, and sell a product inherently includes the right to have it made by a third party, absent a clear indication of intent to the contrary” (*CoreBrace* at p. 9). In doing so, the court upheld an order by the U.S. District Court for the District of Utah that dismissed a complaint filed by CoreBrace alleging breach of contract and patent infringement by Star Seismic.

CoreBrace is the assignee of U.S. Pat. No. 7,188,452 (the ‘452 patent), which is directed to a brace for use in the fabrication of earthquake-resistant steel-framed buildings. Prior to the ‘452 patent being assigned to CoreBrace, Star Seismic entered into a license agreement with the inventor of the ‘452 patent. The license grants Star Seismic a nonexclusive right to “make, use, and sell” licensed products based on the ‘452 patent. The license does not explicitly provide a right to have licensed products made by a third party. The license also reserves to CoreBrace as the licensor “all rights not expressly granted to [Star Seismic]” (*CoreBrace* at p. 2). When Star Seismic used third-party contractors to manufacture licensed products for its own use, CoreBrace terminated the license and sued Star Seismic for breach of the license and for patent infringement based on the use of patented products under a terminated license. Relying on *Carey v. United States*, 326 F.2d 975, 164 Ct. Cl. 304 (Ct. Cl. 1964), which states that a patent licensee’s right to “make” an article includes the right to engage others to do all of the work connected with the production, the district court dismissed the complaint for failure to state a claim.

On appeal to the Federal Circuit, CoreBrace argued that “have made” rights are not inherent in the right to make, use and sell, as a licensee can make the product itself rather than having it made by a third party. CoreBrace attempted to distinguish the *Carey* decision on the grounds that the license at issue in that case was an exclusive license that granted the right to sublicense, thereby including the right to have products made by others. The Federal Circuit disagreed with CoreBrace, arguing that the court in *Carey* did not base its conclusion on exclusivity or the right to sublicense, but instead on the right to produce, use and sell (*CoreBrace* at p. 11). The Federal Circuit followed *Carey*’s reasoning that a licensee having the right to produce, use and sell might be interested only in using or selling licensed products. In order to do so, the licensed products must be produced; therefore, the license permits the licensee to engage others to produce the products (*CoreBrace* at p. 11). Additionally, the Federal Circuit reasoned that a right to have made is not a sublicense, as the contractor who makes for the licensee does not receive a sublicense from the licensee. Accordingly, the Federal Circuit found that the distinction between an exclusive license and a nonexclusive license has no relevance to how a licensee obtains the product it is entitled to make, use and sell.

The Federal Circuit also disagreed with CoreBrace’s assertion that the reservation of rights provision in the license precludes a grant of “have made” rights, reiterating that the right to “make, use, and sell” a product inherently includes “have made” rights (*CoreBrace* at p. 15). The Federal Circuit recognized that a clear intent to exclude “have made” rights can negate what would otherwise be inherent; however, the court found that CoreBrace had failed to show a clear intent to exclude the “have made” rights (*CoreBrace* at p. 15). Instead, the Federal Circuit found that other provisions of the license appear to contemplate that Star Seismic may have the product made by a third party. For example, the license provides that Star Seismic owns any improvements to the technology by a third party whose services

© 2009 Sutherland. All Rights Reserved.

This communication is for general informational purposes only and is not intended to constitute legal advice or a recommended course of action in any given situation. This communication is not intended to be, and should not be, relied upon by the recipient in making decisions of a legal nature with respect to the issues discussed herein. The recipient is encouraged to consult independent counsel before making any decisions or taking any action concerning the matters in this communication. This communication does not create an attorney-client relationship between Sutherland and the recipient.

have been contracted by Star Seismic. As another example, the license also requires Star Seismic to allow an audit of its books and records relating to manufacturing and supply contracts. The Federal Circuit found that these provisions indicate that the parties contemplated that third parties might manufacture the licensed products and supply them to Star Seismic.

As a takeaway from the decision in *CoreBrace*, licensors that wish to prevent patent licensees from having licensed products made by third parties should explicitly exclude “have made” rights from the patent license grant. Failure to do so may lead to a finding that “have made” rights have been granted in the patent license. Such control over patent licensees may be beneficial for licensors concerned about licensed product quality and the proliferation of the licensed patent.



If you are interested in more information about these developments, please contact one of the following attorneys in Sutherland's Intellectual Property Group.

Malvern U. Griffin, III	404.853.8233	griff.griffin@sutherland.com
Christopher J. Chan	404.853.8049	chris.chan@sutherland.com
Rhett S. White	404.853.8037	rhett.white@sutherland.com