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Does a License to "Make" a Patented Product Inherently Include a Right to Have a Third Party Make the Product or Its Components?

Sophie (Lu) Yan*

In this article, the author explains that patent license agreements should not only clearly define the rights that are granted, but should expressly state the rights that are not being granted, such as the "have made" rights. In the author's opinion, the mere reliance on a broad "reservation of rights" provision or the assumption of no implied licenses should be avoided.

The rapid adoption of artificial intelligence has generated a surging need for advanced chips and cutting-edge semiconductor manufacturing. The foundry model, which refers to outsourcing certain aspects of a company's manufacturing processes to specialized third-party chip manufacturers (foundries), revolutionized the semiconductor industry by restructuring chip manufacturing. Potential disputes can arise when a company has a foundry make certain products that are covered by a patent license agreement.

A grant clause of a license agreement can often grant a licensee rights to "make, use, sell or offer for sale" licensed products covered by the licensed patents throughout a defined territory, without referring to "have made" rights. This can result in ambiguity regarding whether and under what conditions the licensee possesses the right to have a third party make the licensed products on its behalf.

Therefore, both the licensor and the licensee need to carefully consider whether and how to expressly address "have made" rights to avoid potential disputes.

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Background

The U.S. patent statute grants a patent owner rights to exclude others from "making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States."[1] Patent licensing allows a patent owner to monetize their invention by allowing others to use or commercialize it while retaining ownership of the patent. Patent licensing can be beneficial for both parties involved: the patent owner can generate revenue without directly manufacturing or marketing the product, while the licensee can gain access to valuable technology or innovation without the need to invest in research and development.

Licensing agreements typically address issues such as licensing fees, royalty rates, duration of the license, intellectual property rights, sublicensing terms, and dispute resolution mechanisms. Because the license grant is at the heart of any patent license agreement, the grant clause should express precisely what rights the licensor is granting to the licensee and clarify what rights are not being granted. Thorough and well-drafted patent licensing agreements are crucial to ensure that both parties' rights and obligations are clearly defined and protected, and potential risks are minimized.

With rapid advancements in electronic devices, there is an insatiable demand for advanced chips and related semiconductor manufacturing. For cost-saving and efficiency purposes, it is common that certain semiconductor companies focus on designing the most advanced chips and then license out or cross-license their designs.[2] The design companies or the licensees then have specialized third-party manufacturers (foundries) to make the products for them.[3] Disputes can arise when the patent license agreements do not clearly define whether the grant clause includes such "have made" rights or not.

Inherently Included "Have Made" Rights

The U.S. Court of Appeals for the Federal Circuit, in *CoreBrace*, held under the facts at issue in the case that "a patent licensee's right to 'make' an article includes the right to engage others to do all of the work connected with its production."[4]

In this case, plaintiff CoreBrace LLC owned a patent on braces used in the fabrication of earthquake-resistant steel-framed buildings, and entered into a license agreement with the defendant Star Seismic LLC.[5] The license agreement granted Star Seismic a right to "make, use, and sell" the braces covered by the licensed patent.[6] While the license agreement did not explicitly provide a right to have the licensed product made by a third party, it did state that Star Seismic may not "assign, sublicense, or otherwise transfer" its rights to any party except an affiliate, parent, or subsidiary.[7] The license agreement also reserved to CoreBrace "all rights not expressly granted to" Star Seismic.[8]

CoreBrace claimed that Star Seismic's use of third-party manufacturers amounted to a breach of the license agreement, as the license grant did not include a "have made" right and it reserved "all rights not expressly granted."[9]

Star Seismic asserted that the right to "make, use, and sell" a patented product inherently encompasses the authority for a third party to manufacture the product on behalf of Star Seismic, unless the "have made" rights have been explicitly excluded from the license agreement.[10]

The Federal Circuit agreed with Star Seismic.

In reaching this decision, the Federal Circuit relied on *Carey*, where the Court of Claims "held that a license to 'produce, use, and sell' a product inherently includes the right to have it made by a third party."[11] The court further explained that "a license to produce, use and sell 'is not restricted to produce by the licensee personally or use by him personally or sales by him personally,'" but it "permits him to employ others to assist him in the production, and in the use and in the sale of the invention."[12]

While CoreBrace argued that *Carey* was distinguishable due to the exclusivity of the license and the inclusion of sublicensing rights, which inherently encompass the authority for product manufacturing, the court determined that *Carey*'s reasoning did not rely on exclusivity or sublicensing rights.[13] According to the court, "[t]he 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," and "[a] grant of a right to 'make, use, and sell' a product, without more, inherently includes a right to have a third party make the product."[14]

Similarly, in *LaserDynamics*, the Federal Circuit acknowledged such "have made" rights and made a distinction with a "sham" transaction intended to be covered by the "have made" right.[15]

Plaintiff, LaserDynamics Inc. licensed its patent, which was directed to a method of optical disc discrimination that essentially enables an optical disc drive (ODD) to automatically identify the type of optical disc inserted into the ODD, to Phillips and Sony/NEC/Optiarc "to make and sell ODDs within the scope of the patent."[16] The license granted a "have made" right permitting Phillips and Sony/NEC/Optiarc to retain third-party companies, such as the defendant, Quanta Storage Inc. (QSI), to assemble ODDs for them.[17] The assembled ODDs were then sold by Phillips and Sony/NEC/Optiarc to customers, including Quanta Computer Inc. (QCI), a parent company of QSI.[18] LaserDynamics asserted that QCI and QSI infringed its patent by selling ODDs made by the claimed method.[19]

QCI argued that it had an implied license to assemble laptops that include the accused ODDs assembled by QSI for Phillips and Sony/NEC/Optiarc, pursuant to Phillips' and Sony/NEC/Optiarc's "have made" rights under their patent license agreements with LaserDynamics.[20]

The Federal Circuit distinguished this case with what had been held to be a "sham" transaction in *E.I. du Pont de Nemours & Co.*, where the licensee had a third-party manufacturer make the licensed product and then immediately sell back the product to the third-party manufacturer.[21]

Here, QCI purchased ODDs directly from Phillips or Sony/NEC/Optiarc under separate agreements and had no knowledge of which entity assembled the ODDs.[22] The court determined the case "presents no 'sham' transaction" because "QSI made the ODDs at issue here to fulfill bona fide orders from licensees Phillips and Sony/NEC/Optiarc" and the "ODDs were then sold to QCI by the licensees."[23]

Therefore, "[b]oth the manufacture and sale of the ODDs were a valid exercise of the 'have made' and 'sell' rights, respectively, under the license agreements."[24]

Conclusion

In light of these two Federal Circuit decisions, precise drafting of parties' rights within a patent license agreement is critical. The license agreement should not only clearly define the rights that are granted, but expressly state the rights that are not being granted, such as the "have made" rights. The mere reliance on a broad "reservation of rights" provision or the assumption of no implied licenses should be avoided.

Notes

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1. 35 U.S.C. § 154 (a)(1).
2. Rosemarie Ham Ziedonis, Patent Litigation in the U.S. Semiconductor Industry, https://nap.nationalacademies.org/read/10770/chapter/8.
3. Timothy Chu, The Foundry Model: Round two is Engineering, https://www.accenture.com/us-en/blogs/high-tech/semiconductor-engineering-design.
4. CoreBrace LLC v. Star Seismic LLC, 556 F.3d 1069, 1071 (Fed. Cir. 2009).
5. *Id.* at 1070.
6. *Id.*
7. *Id.*
8. *Id.*
9. *Id.*
10. *Id.* at 1071.
11. *Id.* at 1073 (citing Carey v. United States, 164 Ct.Cl. 304, 326 F.2d 975 (1964)).
12. *Id.*
13. *Id.* at 1073-74.
14. *Id.*
15. LaserDynamics, Inc. v. Quanta Computer, Inc., 694 F.3d 51 (Fed. Cir. 2012).
16. *Id.* at 56, 59.
17. *Id.*
18. *Id.*
19. *Id.*
20. *Id.* at 71.
21. *Id.* at 72 (citing E.I. du Pont de Nemours and Co. v. Shell Oil Co., 498 A.2d 1108 (D.Del. 1985)).
22. *Id.* at 59.
23. *Id.* at 73.
24. *Id.*