

ACPC 2023 SUMMER MEETING

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CHICAGO



ACPC

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TAX AND IP – A PROFITABLE BUT CHALLENGING CROSSOVER

- “Silicon Valley giants accused of avoiding \$100B in taxes” – CNBC
- “Pinning down Apple’s alleged 0.0005% tax rate” – Bloomberg
- EU attacks Apple, Amazon, Starbucks, Nike and others on taxes
- The “Double Irish” structure
- The “Dutch Sandwich” structure
- “Global tax agreement will set 15% minimum tax rate” - NYT
- IP as the common denominator in international tax planning

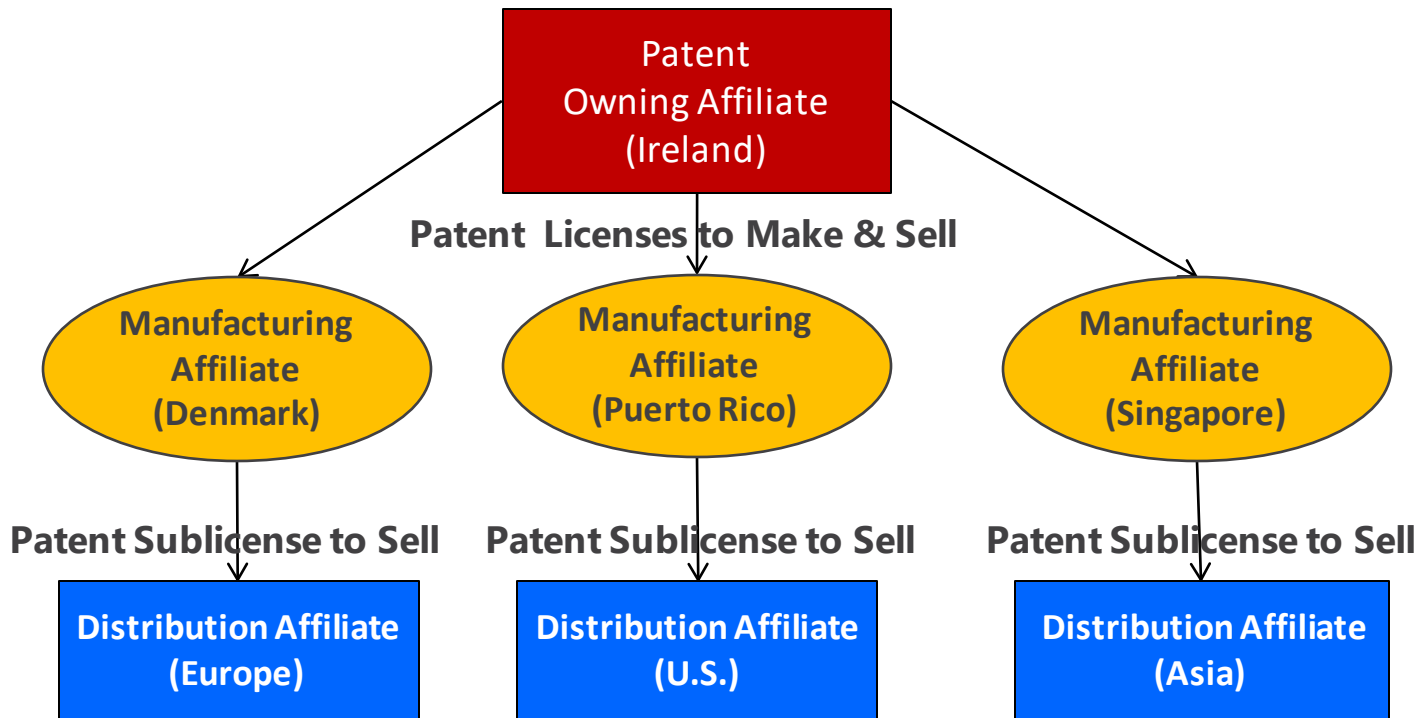
IP as a Tax Value Driver

- By its very nature, IP is easiest function to relocate
- Planning objectives:
 - Isolate and value IP
 - Transfer to lower tax jurisdiction at minimal tax cost
- IP is central to most industries:
 - Life sciences
 - Technology
 - FinTech

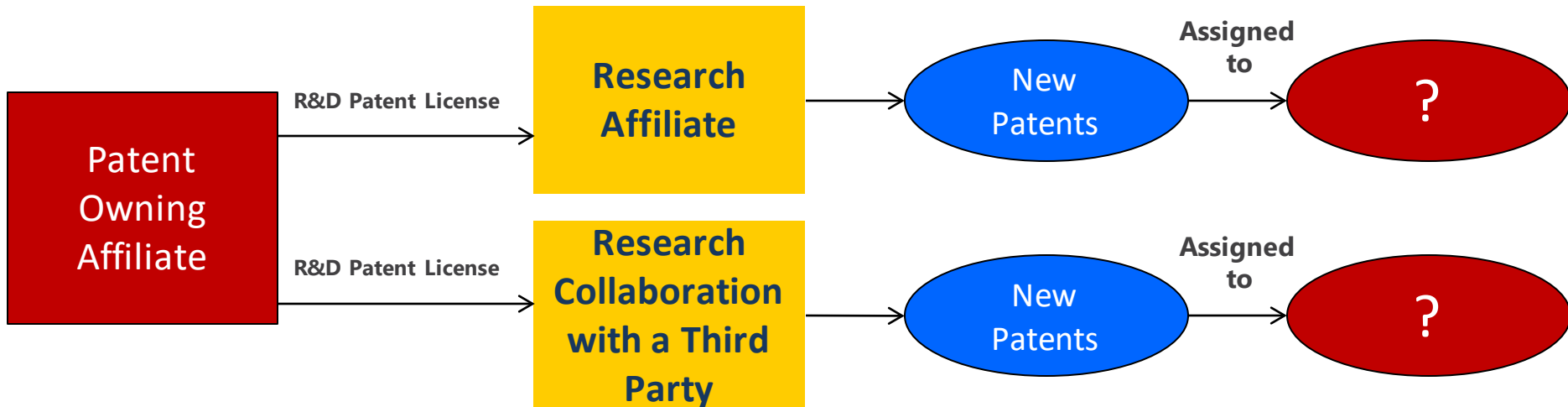
IP Planning Challenges

- IP is usually the crown jewel asset of a company
- Moving IP for tax purposes creates numerous IP risks
- Legal vs. economic ownership
- Exclusive vs. non-exclusive licenses
- Coordination between Tax and IP is critical
- Australia's public country by country reporting may require disclosure of ownership/location of intangible assets

PATENT LICENSING STRUCTURE: SALE OF PATENTED PRODUCTS

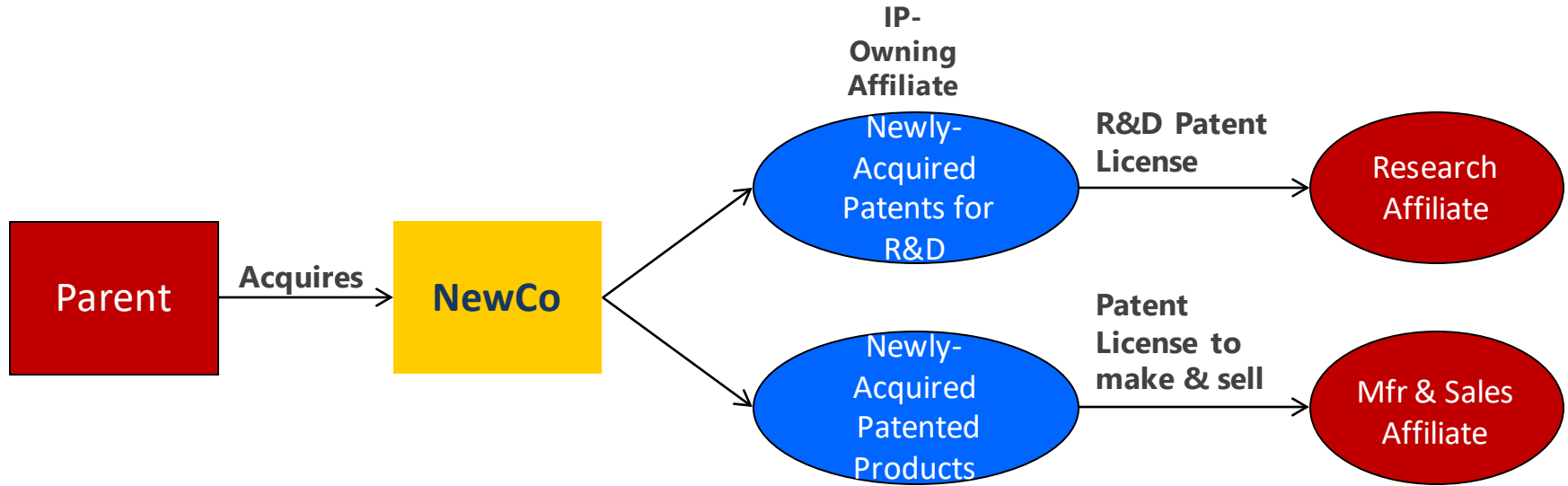


PATENT LICENSING STRUCTURE: DEVELOPMENT OF NEW INVENTIONS



Issue: Which affiliate will own the new patents?

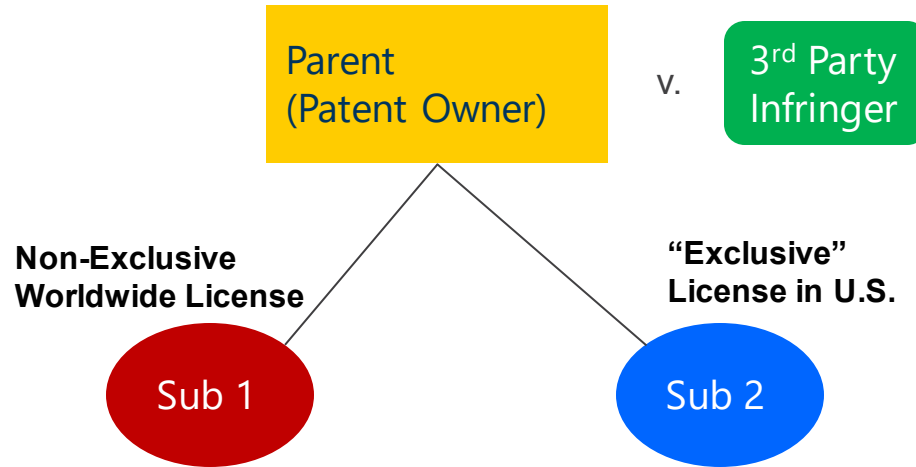
INTER-AFFILIATE PATENT LICENSE STRUCTURE ACQUIRING NEW COMPANIES



Issue: Which affiliate will own and license the newly acquired IP?

STANDING TO SUE

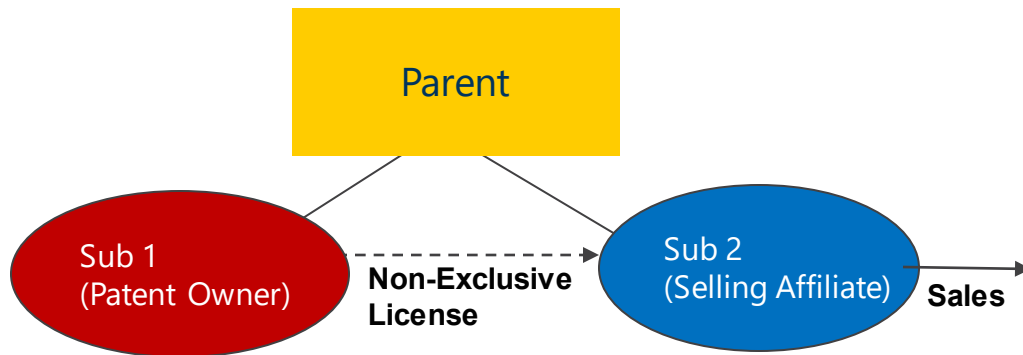
Case 1: No Exclusive License If Another Sub Has Worldwide Rights



- Parent argued that it had given an “exclusive” license in the U.S. to Sub 2
 - The parent also granted a non-exclusive *worldwide* license to Sub 1
- Court held that Sub 2 did not have standing because it was not an exclusive licensee

RECOVERY OF LOST PROFITS

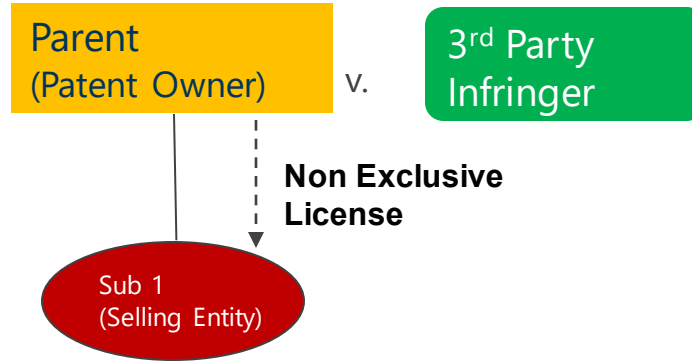
Case 2: No Recovery of Lost Profits if “Selling” Sub is a Non-Exclusive Licensee



- The patent owner (Sub 1) could not recover “lost profits” because it did not actually sell the patented product
- The selling subsidiary (Sub 2) could not be a co-plaintiff in the patent case because it was only a non-exclusive licensee
- **Result: No recovery of lost profits**

RECOVERY OF LOST PROFITS

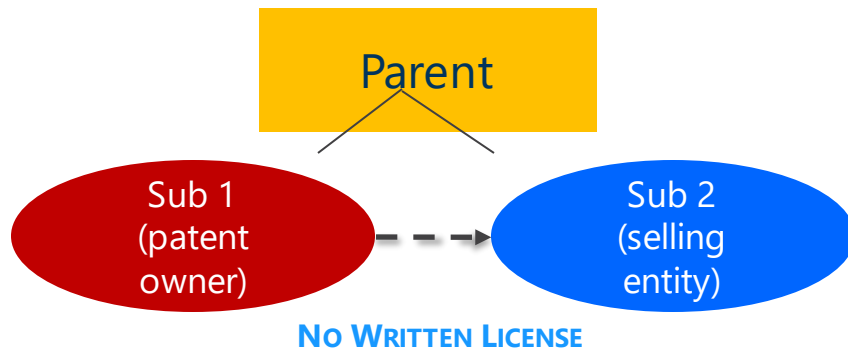
Case 3: Wholly-Owned Sub Not Enough to Show “Lost Profits” for Parent



- The selling subsidiary could not be a plaintiff because it was only a non-exclusive licensee
- The court rejected the parent’s claim that it “inherently lost” the profits of its wholly-owned subsidiary
- **Result: No recovery of lost profits**

RECOVERY OF LOST PROFITS

Case 4: Informal Corporate “Organization” Not Enough to Show Exclusivity



- Patent owner (Sub 1) could not recover “lost profits” because it did not actually sell the patented product
- Without a written license, the mere fact that Sub 2 was the only entity selling the patented product was not enough to show exclusivity
- **Result: No recovery of lost profits**

OBTAINING INJUNCTIVE RELIEF

Case 5: No injunction if IP-Owning Entity Not Selling Product

Patent Owner

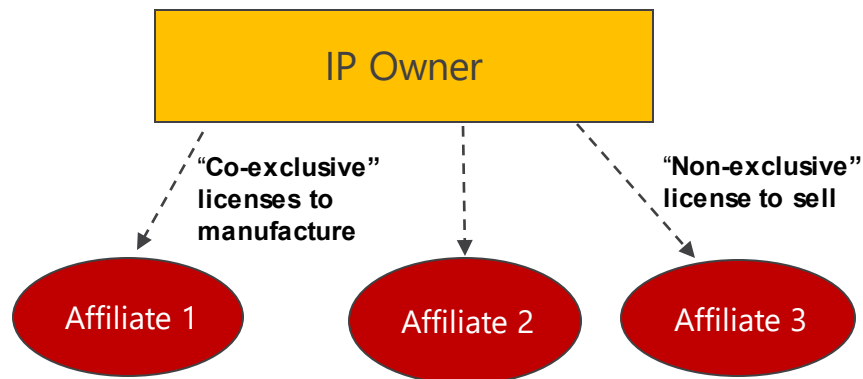
Unlicensed Use or
Non-Exclusive License

Manufacturer/
Seller

- If the “selling” subsidiary cannot be a co-plaintiff, the IP-owning entity may not be able to obtain injunctive relief
- Injunctive relief requires a showing of irreparable harm and inadequate legal remedies
- Courts are often reluctant to award injunctive relief to entities that do not sell the patented product

OBTAINING INJUNCTIVE RELIEF

Case 6: No Injunction if Plaintiff Is Not Selling the Product



- **After jury found patent valid and infringed, court held that Affiliates 1, 2, and 3 were not “exclusive” licensees and therefore did not have standing**
- **Court further held that IP Owner could not recover lost profits or obtain an injunction because it could not show “irreparable harm”**

Medtronic, et al. v. Globus Medical, Inc., 637 F. Supp. 2d 290 (E.D. Pa. 2009)

CONTRIBUTION OF IP TO AN AFFILIATE

Case 7: Avoiding an “Assignment” of IP

Patent Owner



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graph TD; PO[Patent Owner] -.->|Exclusive License| A([Affiliate])
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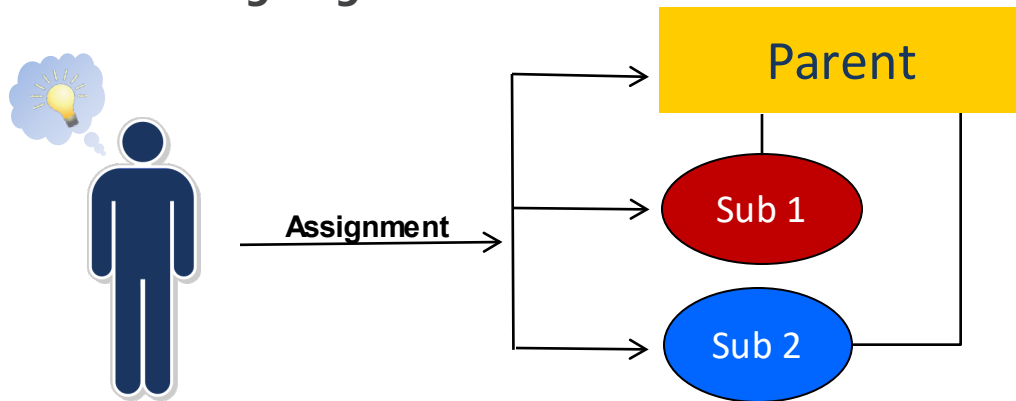
Exclusive License

Affiliate

- Patent Owner grants exclusive license to Affiliate to convey “all economic and beneficial rights and interest” in patents
- The goal is to ensure that legal title remains with Patent Owner
- As a matter of IP law, Patent Owner must retain some rights, such as the right to control infringement litigation and approve sub-licenses

EMPLOYMENT AGREEMENTS: PATENT ISSUES

Employee Agreements re Assigning Inventions



Employee-Inventor

- Employee “hereby assigns” all future patentable inventions to “Company”.
- Agreement defines “Company” as the Parent and all its subsidiaries.
- Assignment is effective the moment the invention comes into existence.
- Issue: Does every subsidiary become a co-owner of the patented invention?

Janssen Biotech, Inc. v. Celltrion, Case No. 1:17-cv-11008 (D. Mass.) (Oct. 31, 2017)