



## Case Digest:

*CoreBrace v. Star Seismic*, No. 2008-1502 (Fed Cir. May 22, 2008).

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On May 22, 2009, the Federal Circuit decided that “absent a clear indication of intent to the contrary,” an agreement licensing the right to “make, use, and sell” a patented product “inherently includes the right to have it made by a third party ...”<sup>1</sup> Thus, under *Corebrace v. Star Seismic*, a patent license agreement giving rights to “make, use, and sell” must explicitly *exclude* “have made” from its list of rights, or risk having the unintended addition read in.

### Background

CoreBrace owns U.S. Patent 7,188,452 (“the ‘452 patent”), which is directed to a brace for use in the fabrication of earthquake-resistant steel-framed buildings.<sup>2</sup> However, before the original inventor transferred his interest to Corebrace, Star Seismic (“Star”) and the inventor of the ‘452 patent entered into a non-exclusive license agreement (“License”).<sup>3</sup> Under the terms of the License, Star had the right to “make, use, and sell” licensed products. Star also retained rights to any technological improvements made “by a third party whose services have been contracted by [Star].”<sup>4</sup> However, Star was not permitted to “assign, sublicense, or otherwise transfer” its rights.<sup>5</sup> Finally, the agreement expressly reserved “all rights not expressly granted to [Star].”<sup>6</sup>

### Star Braces for Suit

Standing on its rights, Star used third party contractors to manufacture licensed products for its own use. In response, CoreBrace sent a letter to Star stating that the License was terminated. On the same day they sent the letter, CoreBrace sued Star; alleging that Star’s use of third party contractors constituted a terminal

breach of the License – and that Star’s use of patented products under the terminated License constituted patent infringement.

In dismissing the suit, the district court made three holdings. First, it held that “Star did not breach the License by having third-party contractors make the licensed products”<sup>7</sup> because “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.”<sup>8</sup> Second, the court held that “even if Star had breached the License, Corebrace did not properly terminate it because CoreBrace failed to follow the License’s termination provision.”<sup>9</sup> Finally, “because the License was neither breached nor terminated, Star could not have infringed the patent under which it was licensed.”<sup>10</sup>

### Federal Circuit Affirms Seismic Activity

On appeal, the Federal Circuit affirmed; holding that “Star did not breach the License by contracting with third parties to have the licensed products made for it,” because “[t]he 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.”<sup>11</sup> In support of its decision, the Federal Circuit noted that “one of our predecessor courts and the California Supreme Court have both persuasively held that a ‘have made’ right is implicit in a right to make, use, and sell, absent an express contrary intent.”<sup>12</sup> Still, the court considered these decisions as only persuasive authority because “[t]he appropriate law for construing the terms of a contract is the law of the jurisdiction identified in the contract, in this case Utah Law.”<sup>13</sup> Nevertheless,

since “[n]o Utah Supreme Court case has addressed the scope of a right to ‘make, use and sell’ a product,”<sup>14</sup> the Federal Circuit felt confident that “the Utah Supreme Court would ... likely arrive at the same conclusion were it to consider the issue.”<sup>15</sup>

### CoreBrace Crumbles

The court went on to clarify its holding in light of CoreBrace’s counterarguments. CoreBrace first sought to distinguish the holding of *Carey v. United States*,<sup>16</sup> one of the persuasive authorities relied upon by the Federal Circuit, on the grounds that the license in *Carey* was exclusive and included a right to sublicense – two factors not present in *Star Seismic*. However, the Federal Circuit made clear that “the logic of the holding in *Carey* is not limited to exclusive licenses or licenses that include a right to sublicense.”<sup>17</sup> As the court explained: “a right to have made is not a sublicense,” and “[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.”<sup>18</sup>

Alternatively, CoreBrace argued that “the reservation of rights clause in the License precludes an interpretation that the License includes ‘have made’ rights.”<sup>19</sup> In response, the Federal Circuit said simply: “[w]e disagree.” The court explained that “[b]ecause the right to ‘make, use, and sell’ a product *inherently* includes the right to have it made, ‘have made’ rights are included in the License and not excluded by the reservation of rights clause.”<sup>20</sup>

## Aftermath

While, under *CoreBrace*, “[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,” the court went to great lengths to make crystal clear: parties who show “clear intent . . . in a contract to exclude ‘have made’ rights can negate what would otherwise be inherent.”<sup>21</sup> It just so happened that “[i]n this case . . . CoreBrace has failed to show a clear intent to exclude ‘have made’ rights from the license.”<sup>22</sup>

Additionally, concerned readers should be cognizant of the jurisdictional law that controls in their own contract. As the court was quick to point out, “[t]he appropriate law for construing the terms of a contract is the law of the jurisdiction identified in the contract.”<sup>23</sup> Thus, although *CoreBrace* may control in the absence of any jurisdictional case law on point – as was the case in the Tenth Circuit – some jurisdictions may have contract case law that is both directly on point and contrary to *CoreBrace*. Prudent licensees should make sure to expressly include the right to “have made” in their license agreements; and pragmatic licensors may consider expressly *excluding* the same right – just to be safe.

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<sup>1</sup> *Corebrace, LLC v. Star Seismic, LLC*, No. 2008-1502, slip op. at 6 (Fed Cir. May 22, 2008).

<sup>2</sup> *Id.*, slip op. at 1.

<sup>3</sup> *Id.*, slip op. at 2.

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*, slip op. at 3.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*, slip op. at 4.

<sup>11</sup> *Id.*, slip op. at 6.

<sup>12</sup> *Id.*, slip op. at 7. *See also Carey v. United States*, 326 F.2d 975 (Ct. Cl. 1964) (holding 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); *Advanced Micro Devices, Inc. v. Intel Corp.*, 885 P.2d 994 (Cal. 1994) (reasoning that, even when a license prohibits sublicensing, “have made” rights are granted unless expressly prohibited).

<sup>13</sup> *Corebrace*, slip op. at 6 (citing *Rash v. J.V. Intermediate, Ltd.*, 498 F.3d 1201, 1206 (10<sup>th</sup> Cir. 2007)).

<sup>14</sup> *Corebrace*, slip op. at 6.

<sup>15</sup> *Id.*, slip op. at 7.

<sup>16</sup> *Carey v. United States*, 326 F.2d 975 (Ct. Cl. 1964). *See also* n.12 *supra*.

<sup>17</sup> *Corebrace*, slip op. at 8.

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*, slip op. at 10.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*, slip op. at 6 (citing *Rash v. J.V. Intermediate, Ltd.*, 498 F.3d 1201, 1206 (10<sup>th</sup> Cir. 2007)).