Traps and tips in intellectual property transactions

A UK perspective

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Today’s topics

1. “Left in the lurch” – can a sub-licence live on when the master licence has terminated?

2. “So near and yet so far” – is a promise to assign IP rights enough to transfer legal title?

3. “Together forever” – what are the downsides in jointly owning IP rights and how can you overcome them?
LEFT IN THE LURCH
Left in the lurch

• **QUESTION:** What happens to a sub-licence when the head licence comes to an end?

• **ANSWER:** The sub-licence *may* survive, if (a) the head licence and sub-licence say so or (b) there are special circumstances.
Usual situation:
Austin Baldwin v Greenwood & Batley, and v Magnetic Car Co. (1925)

- Magnetic failed to pay royalties, so Austin terminated head licence
- Greenwood had spent £20K on its sub-licence
- Licence did not provide for survival of sub-licences
- Held: sub-licence terminated along with the head licence
Special circumstances: inequitable conduct
Fomento v Refill Improvements (1963)

Fomento

Surrendered in part

Stephens

Conspiracy etc. may mean did not terminate

Shaw companies

• Fomento and Stephens negotiated a surrender of part of the head licence (i.e. the right to “have made”) when Fomento realised lower royalties were due on sub-licences, without telling Shaw

• At interim stage, no injunction against Shaw because inequitable (and none on appeal, because patent was due to expire in 4 months)
Special circumstances: parent and subsidiary
VLM Holdings v Ravensworth Digital Services (2013)

1. VLM Holdings (© owner, Irish)
   - Informal licence
   - VLM Holdings (© owner, Irish)
   - Licence in exchange for guaranteed volume of business
   - Spicerhaart (estate agency)

2. New exclusive licence plus conditional assignment
   - Ravensworth
   - Licence terminated
   - VLM Holdings
   - Licence terminated
   - VLM (UK) (wound up following insolvency)
   - Spicerhaart
   - Spicerhaart
   - Direct licence
Special circumstances: VLM v Ravensworth – the decision

• There is no single answer to the question “does a sub-licence survive the ending of the head licence?” It depends on the terms of the two licences and on the scope of termination/what was terminated.

• The key is: what authority did the rights-owner give the head licensor?

• Here, the common directors, common aim, VLM Holdings’ knowledge of the sub-licence etc., all meant that VLM Holdings impliedly consented to the grant. VLM (UK) acted as VLM Holdings’ agent. So the licence to Spicerhaart was also granted by VLM Holdings.
Principles from these cases:

- Termination of the head licence will in most cases bring an end to a sub-licence...
- unless both licences say the sub-licence survives...
- and unless there are special circumstances which e.g. may make this inequitable,
- but you need to construe the two licences to work out what the rights-owner authorised.
- So to be 100% sure, the sub-licensee should check the head licence and make sure it is protected by the drafting.
How to avoid the termination trap – option 1

In the head licence, say that sub-licences survive beyond termination of the head licence (and explain clearly who receives which royalties).

Head licence terminates but past sub-licences survive

C continues to pay royalties to B (or to A?)
Drafting suggestions – sub-licences continue

• “Sub-licences validly granted [e.g. only if on approved terms] by the Licensee shall remain in force on their terms notwithstanding the expiry or termination of this Agreement [or: only certain kinds of termination] and the Licensee shall continue to be entitled to royalties under them and to pay royalties to Licensor under Clause X.

• Clause X [calculation and payment of royalties, audit rights, interest etc.] shall survive [such] expiry or termination in respect of

  (a) royalties accrued due as at expiry or termination, and

  (b) royalties accruing to Licensor pursuant to those sub-licences.”

• Rights owner could have the right to direct head licensee to terminate sub-licence if sub-licensee breaches (and sub-licence could be expressed to end if this happens).

• A direct relationship is simpler, and better for rights owner.
Head licence (or a later deed) **between A and B** obliges A to take over sub-licences, or to grant replacement direct licences. Under English law, C can enforce this:

1. by being given “third party rights” in the head licence (i.e. A-B), or

2. by entering into a separate agreement directly with A (i.e. A-C) containing this commitment. This means both **rights and obligations** can be enforced.
Drafting suggestions – IPR owner commits to entering into direct licences

“Rights Owner undertakes [see 3rd party wording on next slide] that, upon the expiry or termination of this Agreement [for any reason / under Clause X],

it shall with immediate effect enter into a licence directly with [name(s) / description(s) of protected sub-licensee(s)]

on the same terms as those set out in this Agreement, except that the field of use, territory, exclusivity, royalty provisions and [other] shall be as set out in the relevant sub-licence.

Following [such] expiry or termination, each [such] sub-licence shall terminate but only once Rights Owner has complied with this undertaking.”
Third Party Rights Act clause – main contents

X.1 Except as provided in Clause X.2, the parties do not intend any term of this Agreement to be enforceable pursuant to the Contracts (Rights of Third Parties) Act 1999 (the “Act”)

X.2 Subject to the remainder of this clause, [name(s) or description(s) of protected sub-licensee(s) e.g. only named ones or include future ones] have the benefit of and may enforce Clause Y [clause obliging head licensor to take over sub-licence(s)] pursuant to the Act. The parties may not vary or rescind Clause Y without the consent of [protected sub-licensee(s)].

X.3 Except as provided in Clause X.2, this Agreement may be varied from time to time or rescinded without the consent of [protected sub-licensees] and s2(1)(a) to (c) of the Act shall not apply to this Agreement.
Third Party Rights Act clause – other points to consider in the drafting

• The head licensor may want a clause avoiding double recovery against it (e.g. claims by the licensee and the sub-licensee for the same breach)

• If there are limits on the head licensor’s liability, it will want these to extend to the promise to the 3rd party

• Can the 3rd party sub-licensee assign the benefit of the promise which the head licensor has made to him?

• Think about the jurisdiction clause, especially if the 3rd party is / may be outside the UK
How to avoid the termination trap – other options

To provide more protection for the rights owner:

• Rights owner merely agrees to **negotiate in good faith** with former sub-licensees of terminated licensees (rather than committing 100% to take them on).

• Rights owner makes taking over sub-licences **conditional** on the sub-licensee taking on all the financial terms of the head licence, and/or on its approving the sub-licensee.

• Rights owner only makes commitments for sub-licensees who are **not in breach** at the time of termination (so licensee must undertake to keep rights owner informed of breaches).
Drafting suggestions – IPR owner merely agrees to consider/discuss granting direct licences

“Rights Owner undertakes that, upon the expiry or termination of this Agreement ....

it shall enter into **good faith discussions** with [protected sub-licensees] with a view to entering into direct licences with them on **substantially the same terms** as those in their respective sub-licences.

[However, in any case where no binding direct licence has been entered into with such a sub-licensee within X days of such expiry or termination, the sub-licence granted by Licensee shall immediately **terminate** at that time.]”
Conclusion

- Before entering into a sub-licence, check the terms of the head licence to see what happens to sub-licences on termination
- Consider a direct undertaking from the rights owner, if practicable

A

B

C

A agrees to take over sub-licence (and C agrees to comply with the sub-licence terms)
SO NEAR AND YET SO FAR
“So near and yet so far” – is a promise to assign IP rights enough to transfer legal title?

• “Assignor irrevocably and absolutely hereby assigns and agrees to assign to Assignee all its right, title and interest in any future intellectual property.”

  – Applied in relation to the assignment of inventions
  – Does this clause mean that the Assignee is the owner of any future inventions?
  – Does this clause mean that the Assignor cannot sell any future inventions to any third party?
Facts – Stanford v Roche

- 1985:
  - Inventor joins Stanford as employee
  - Inventor conducts research at Cetus
  - Assignment 2
  - Stanford and Cetus collaborate

- 1991:
  - Roche acquires Cetus

- Today:
  - Roche’s HIV kit is sold worldwide
  - Stanford obtains 3 patents
  - Roche’s HIV kit is sold worldwide

Additional Notes:
- Roche acquires Cetus in 1991
- Inventor continues to work on the HIV measurement technique

MAYER • BROWN
Dispute

• In 2005, Stanford filed an infringement suit against Roche

• Roche - it was co-owner of the HIV measurement technique based on assignment to Cetus
  – The Inventor had separately assigned the invention to each of Stanford and Cetus

• Whose assignment prevailed?
  – The lower courts - Roche
  – The Supreme Court was not asked to reconsider the issue
Assignments relating to the HIV measurement technique

First in time

Inventor → Stanford

"agreed to assign" his right, title and interest in "inventions resulting from his employment"

Second in time

Inventor → Cetus (later acquired by Roche)

"will assign and does hereby assign" his "right, title and interest in each of the ideas, inventions and improvements" made as a consequence of his access
Effecting a legal assignment of future inventions

• do hereby assign
  – Legal title to the rights accruing thereunder once the invention comes into existence, acts to automatically transfer legal title *(FilmTec Corp v Allied-Signal, Inc 939 F.2d 1568 (1991))*

• agree to assign/will assign
  – Mere promise
  – Requires a further step comprising either a reduction to possession or a further assignment of the right when the invention came into existence
Overview of position in the US

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<thead>
<tr>
<th>Pre-invention assignment</th>
<th>Date of invention</th>
<th>Post-invention assignment</th>
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<tbody>
<tr>
<td>Pre-FilmTec</td>
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Effective legal assignment
The position under English law

• Assignments for value of "future choses in action" are only effective in equity

• Once the assignor has received valuable consideration **and** become possessed of the property
  
  – The equitable interest (notably not the legal interest) in the property passes to the assignee immediately

Snell principle

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<tr>
<th>Pre-Invention assignment</th>
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<th>Post-invention assignment</th>
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<tbody>
<tr>
<td>No title passes</td>
<td>Beneficial interest</td>
<td>Legal title</td>
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<td></td>
<td>Assignee</td>
<td>Assignee</td>
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</table>
The position under English law

• KCI Licensing v Smith & Nephew [2010] All ER (D) 207
  – Assignment clause - "I hereby assign and agree to assign to the Company [assignee] all right, title and interest in all confidential information, inventions ..."
  – Arnold J - "it must be possible to assign the legal title (and not just the beneficial interest) in an invention before it is made."
  – s7(2)(b) UK Patents Act: "A patent for an invention may be granted ...to any person or persons who...by virtue of an enforceable term of any agreement entered into with the inventor before the making of the invention, was or were at the time of the making of the invention entitled to the whole of the property in it (other than equitable interests) in the United Kingdom"
Overview of position under English law

Pre-invention assignment  Date of invention  Post-invention assignment

Snell principle
"will assign"/
"hereby assign"

KCI Licensing
"will assign" and
"hereby assign"

Effective legal assignment
US and UK comparison – “agrees to assign and hereby assigns”

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<td><strong>US</strong></td>
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<td>Pre-FilmTec</td>
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<td>[Roche]</td>
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<tr>
<td><strong>UK</strong></td>
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<tr>
<td>Snell principle</td>
<td></td>
<td>[Stanford]</td>
</tr>
<tr>
<td>KCI Licensing</td>
<td></td>
<td>[Roche? Stanford?]</td>
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Effective legal assignment
Different position under English law for copyright and design rights

- UK legislation does not require the equivalent of a “post-invention assignment” for:
  - Copyright – section 91(1), UK Copyright, Designs and Patents Act 1988
  - Database rights – regulation 23, UK Copyright and Rights in Databases Regulations

- These sections enable parties to enter into an agreement to assign future works/design rights/databases - legal title will vest in the assignee as soon as the future works/design rights/databases are created
Is there wording to safeguard against an invention vesting in a subsequent purchaser?

• Typical clause
  
  – "Assignor irrevocably and absolutely hereby assigns and agrees to assign to Assignee all its right, title and interest in any future intellectual property."

  – "To the extent that the foregoing is not effective to assign legal title to such intellectual property, Assignor shall assign to Assignee, or procure the assignment to Assignee, of any such intellectual property as and when requested by Assignee by executing any assignment documents requested by Assignor."

  – "Until such intellectual property is assigned to Assignee, Assignor shall hold such intellectual property on trust for the sole benefit of Assignee and Assignee shall have the exclusive world-wide royalty-free right to use and to sub-license the use of such intellectual property."

• Safeguards:
  
  – Assign early and often
  
  – Assignment on notice – for example, register equitable assignment on the Register of patents
  
  – Contractual safeguards – not just from the inventor/first owner
TOGETHER FOREVER
“Together forever”

• **Question:** What is the problem with jointly owned IP rights?

• **Answer:** Joint ownership can present logistical problems and challenges.
“Together forever” – Patents

• General rule for patents:
  – Joint owners may each use the patent “for his own benefit” without consent
  – Unless they agree otherwise, one owner may not assign or license without the other’s consent
“Together forever” – Trade marks

• General rule for trade marks:
  – Joint owners may each use the trade mark
  – May not assign or license without consent
“Together forever” – Copyright

• General rule for copyright:
  – Joint owners need consent of other owners for any act restricted by copyright (i.e. each co-owner must consent to the other’s exploitation of the work)
  – Cannot license without consent
  – May assign without consent
“Together forever” – Design right

• General rule for design right:
  – Joint owners must have consent for any act restricted by design right (i.e. each co-owner must consent to the other’s use and to licensing by the other)
  – Cannot license without consent
  – May assign without consent
### “Together forever” – General rules

<table>
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<tr>
<th>IPR</th>
<th>Without consent?</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td>Patents</td>
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</tr>
<tr>
<td>Trade marks</td>
<td>Yes</td>
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<tr>
<td>Copyright</td>
<td>X</td>
</tr>
<tr>
<td>Design rights</td>
<td>X</td>
</tr>
</tbody>
</table>
“Together forever” – problem areas

• Joint ownership is not as simple as it sounds. It can pose logistical problems:
  – One owner may sue 3rd parties for infringement without consent and risks triggering counterclaims
  – One owner cannot compel joint owner to sue for infringement
  – One owner may want to license, the other may not
  – One co-owner may want to sell or be taken over, e.g. by a competitor
  – Warranties typically require full ownership (so need adapting)
  – It may be harder to value jointly owned IP
  – Different rules apply to jointly owned IP across the globe
  – The rules for exploiting and enforcing the jointly owned IP have to be spelled out contractually, adding to costs, which may also be more costly to operate in practice
“Together forever” – alternatives

• Alternatives to jointly owned IP:
  – One party may own the IP generated by the collaboration and license it to the other party.
“Together forever” – alternatives

• Alternatives to jointly owned IP:
  – The parties’ differing business needs may create different IP needs. E.g. can the patent portfolio be divided between them, based on business objectives or to share costs, with cross-licensing where one needs access to the other’s patents?
“Together forever” – alternatives

• Alternatives to jointly owned IPR:
  – Consider an SPV to own the jointly created IP.
“Together forever” – check list

✓ Which party can use what IP, in what field?
✓ Who can license others?
✓ Who can sue others?
✓ Can an owner transfer its interest?
✓ Who pays renewal fees?
✓ Who controls the prosecution strategy for IP applications?
✓ Does one party want the right to terminate the other’s use/interest in the IP?
✓ If you’re a licensee, what happens if the licensor becomes insolvent?
In the pipeline: major changes to EU laws on tech transfer

• Commission is consulting on a replacement technology transfer block exemption regulation. See our alert at:
  http://www.mayerbrown.com/EU-technology-licensing-changes/

• The proposal includes an end to:
  – Termination on challenge clauses
  – Exclusive licences to licensor of licensee’s non-severable improvements
Link to the US webinar and topics covered

• Licensing of jointly owned intellectual property
• Issues in sublicensing
• Managing intervening rights
• Current versus future assignments
• Licensing of after-acquired intellectual property

• Available via the following link:
  http://www.mayerbrown.com/experience/Intellectual-Property/?section=multimedia