

Ownership Issues in Licensing

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Australian law affects patents and know-how licensing rights; some issues are common to both countries.

Whether you are seeking a license, buying a car or licensing technology it will be of paramount importance to ensure that you are able to exercise the rights you acquire (or from infringement by third parties). Central to this issue will be ensuring to the greatest extent possible that the licensor, vendor or licensee has the power to grant the rights that are the subject of the relevant transaction.

This paper briefly discusses the importance of making appropriate inquiries to this end in the context of the licensing of patents and know-how.

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Section 189 of the Australian Patents Act 1990 provides that a patentee is able to deal with a patent as the absolute owner of it when dealing with a purchaser in good faith for value and without notice of any fraud on the part of the patentee subject only to the rights of any third party that appear on the Register. Since the Patent Register is a public register, everyone is deemed to have notice of the particulars that appear on the Register. Thus, in order to take advantage of Section 189 a prospective licensee must conduct searches of the Register to ensure that the prospective licensee is in fact the patentee, and that there are no registered interests of third parties that might conflict with the rights to be granted and/or which the prospective licensee will be deemed to have constructive knowledge.

If a search of a patent reveals that

the prospective licensee is not the patentee, the prospective licensee must make further inquiries of the prospective licensee to determine the basis on which the prospective licensee proposes to grant rights. It may be that the prospective licensee is the assignee of the patent under an assignment that has not been registered. In that case the prospective licensee may well require the assignment to be registered before entering into the proposed license. On the other hand, through these inquiries, the prospective licensee may establish that another party should be the licensee under the proposed license.

If the search reveals that the patent is jointly owned, a prospective licensee should consider Section 189(1)(c) of the Patents Act 1990 of Australia which provides that no one joint patentee can grant a license under the patent or assign an interest in it without the consent of the others. In such a situation a prospective licensee may well require the other patentee or patentees to be parties to the license agreement, at least to the extent of giving consent to the grant of the license or the assignment of the interest in the relevant patent. Where an exclusive or sole license is being granted the prospective licensee should require that the other patentee or patentees are prohibited from granting further licenses under the patent.

If the search reveals the interest of a third party, the prospective licensee will need to consider whether the consent of that third party is required to the proposed license. As the actual document giving rise to the interest of the third party noted on the register may not itself be on the register, the prospective licensee may have to register for the production of the relevant

agreement, giving rise to the registered interest.

If the patent search reveals that the subject matter of the proposed license is still in the application stage, it will not be appropriate for the proposed transaction to be structured as a license. A license is permission to do something that would otherwise be unlawful. Prior to the grant of a patent, an applicant has no right against the world-at-large to prevent the exploitation of the invention that is the subject of the application. In order to prevent the exploitation of the invention that is the subject of the application, the applicant would be forced to rely on ancillary rights such as those given by the law of confidential information, the law of copyright or the law of contract. Subject to any right of action in copyright, the granting of a license in respect of unpatented information and the subsequent disclosure of that information pursuant to the agreement without appropriate terms of confidentiality may well mean that if a patent is not subsequently granted, the "licensee" has free control of the licensed technology. Where rights are being granted in respect of technology which is still the subject of a patent application, it is appropriate to include obligations of confidentiality together with either an agreement to grant a license in the event that a patent is subsequently granted or a non-assignment provision.

► Disclosure ►

If a transaction involving the disclosure of information that is the

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subject of a patent application is construed as a license per se, there are at least two difficulties that may present themselves. In the first place, it may be that no consideration is given as to what will happen in the event a patent is not granted. This is illustrated by facts in the American case of *Ames v. Quick Point Prod Co.*, 98, 14 14 296. The second matter of concern is that the agreement may not deal with the effect of termination of the agreement on the ability of the "licensee" to continue to use the information where no patent is subsequently granted. The difficulties thus raised are illustrated in *Regina Glass Fibre Limited v. Rover Schuller* (1973) 87C 229 and *National Brush & Machine Co v. Chevrolet Gear Machine Limited* (1967) 87C 99.

In *Ames v. Quick Point Prod Co.*, 98, 14 14 296, the United States Supreme Court was asked to decide whether the failure of Mrs. Ames to obtain a patent on a key ring that had been exclusively licensed to Quick Point in the application stage resulted in the license becoming terminable. The terms of the license were that Quick Point would pay a 7% royalty provided that a patent was not granted within five years. Quick Point could reduce the royalty to 2.5%. No patent was obtained and the royalty was reduced. After making sales in excess of \$750,000 and paying royalties in excess of \$200,000 to Mrs. Ames, Quick Point, in the face of competitive key rings coming onto the market, argued that the contract was governed by federal patent law and unenforceable. The unenforceability was said to arise from the strong federal policy of allowing the free use of ideas in the public domain and by analogy with the legal result were a patent to have been granted but subsequently ceased to have effect. The court held that federal law did not apply and that Quick Point was obliged to pay the lower royalty fee as long as it produced the key ring notwithstanding that the means of producing the key ring was in the public domain and freely available to its competitors.

The case illustrates the dangers of not considering the consequences of a failure of a patent application

to mature to grant and the circumstances under which an obligation to pay royalties can be brought to an end.

In *Regina Glass Fibre Limited v. Rover Schuller*, Lord Denning M.R. was required to consider the effect of the termination of an exclusive license under a number of patents in manufacture and sell glass fibres. The license contained a provision that any improvements made by Schuller "shall forthwith be communicated to the company and if required to do so ... shall [be] granted] to the company for its own use only." Where the agreement expired by effluxion of time, *Regina Glass Fibre Limited* claimed that it was entitled to an irrevocable exclusive royalty-free license in respect of any improvements. Schuller argued that all rights under the agreement ceased with the expiration of the agreement. Lord Denning held that there was no general proposition in law that when confidential information is given under an agreement and that agreement comes to an end so does the right to use the confidential information. In reaching this conclusion, Lord Denning distinguished the *National Brush & Machine Co.* case in which the House of Lords construed a patent license with a five-year term and which included the disclosure of know-how as requiring the use of the know-how to terminate with the expiration of the agreement.

Notwithstanding that Section 89 of the Australian Patents Act 1990 provides some security for a prospective licensee in dealing with the patentee it would be usual for a patent license to also include warranties. While warranties are almost always the subject of negotiation, a prudent licensee would endeavor to include in a license warranties by the licensee that:

1. The licensee had the requisite power to grant the license.
2. The licensee was the absolute owner of the licensed patent and that the grant of the license would not constitute any contractual or other obligation owed by the licensee to any third party.
3. The licensee is not aware of any matter that would impair the valid-

ity of the patent.

4. That the licensee will have quiet enjoyment of the rights granted without challenge or interference from any third party.

Finally, a prospective licensee should conduct a company search in respect of the licensee where appropriate, to ensure that the licensor has power to grant the rights and to ensure that the rights of any mortgage or charge will not be infringed by the grant.

KNOW-HOW

In the case of know-how there is no right to search in order to establish any of the matters referred to above.

A recipient of know-how cannot be guaranteed exclusivity if one of the parties may sell independently developed know-how and use it in competition with the recipient. Similarly, no guarantee can be given that the know-how is not already in use by a third party.

Even a recipient who has given valuable consideration for a disclosure of technical information in ignorance of the fact that the disclosure is in breach of obligations of confidentiality owed to a third party is not necessarily protected against action by the third party.

In *Whalley v. B&S* (1982), 156ALR 548, the NSW Supreme Court granted an application for interlocutory relief against "innocent" third parties. In that case, the alleged confidential information was a system of localized advertising by the creation of trailers already containing entries of the numbers of local tradesmen. The information was disclosed in confidence to a potential franchisee in Perth who immediately took the idea to Sydney and commenced to exploit it. The applicant sought injunction against the Sydney "franchisee" and its proposed franchisees who knew nothing of the misuse of the information disclosed in confidence. The respondent franchisees argued that they were bona fide purchasers for value without notice and that injunctive relief not issue against them in that regard. Hebban C.J. dismissed this argument. He con-

mented. "I am satisfied that the analogy which has been drawn in some of the American cases and by some of the best writers, of the situation of the innocent defendants to a bona fide purchaser for value without notice, is not the correct way of approaching the question of whether the separation should go in present circumstances or not. The defense of bona fide purchaser for value is an equitable defense directed toward the resolution of priorities in relation to property rights."

The lack of certainty and lack of exclusivity incidental to the disclosure of know-how affects the value of know-how as compared to the value which it would have were it to be the subject of a patent or patents.

Before entering into an agreement providing for the disclosure of know-how, the prospective recipient should make inquiries both of the prospective discloser and third parties within the industry in an effort to determine the extent to which the know-how might be known, or is otherwise already

being used.

A prospective recipient should also have patent infringement searches made against the know-how to be disclosed to ensure so far as possible that the use of the know-how will not be called into question by a third party holding a relevant patent. Such a search might also reveal that the know-how is already publicly available.

A prospective recipient should also analyze the know-how and the way in which it is presented to determine whether any other rights (such as copyright, design rights or trademark) can be used to strengthen the rights that are to be granted and so ensure a measure of exclusivity.

As in the case of patent licenses, a prospective recipient should conduct a company search in respect of the discloser, where appropriate, to ensure that the discloser has power to make the disclosure and to ensure that the rights of any mortgagee or chargee will not be infringed by the disclosure of the know-how.

Finally, a prospective recipient should insist on warranties being

given by the discloser in relation to the know-how. As with patent licenses, these warranties are likely to be the subject of negotiation. However, a prospective recipient should consider the following warranties in any negotiation.

1. That the discloser has the power to disclose the know-how.
2. That the discloser is entitled to disclose the know-how and that the disclosure of the know-how would not contravene any contractual or other obligation owed by the discloser to any third party.
3. That, to the best of the knowledge, information and belief of the discloser, the recipient will be able to use the know-how without challenge from any third party.

Conclusions

As a result of the foregoing it can be seen that proper investigations are important for a number of reasons. Not only do they enable the appropriate parties to be identified and necessary consents to be obtained, but they also lead to a consideration of some of the appropriate issues for each party to consider.