

Open Book

A recurring feature

by John T. Ramsay, Q.C.



A review of current publications relating to the field of Intellectual Property licensing, transfer and tools therein.

THE NEW COMPANION TO LICENSING NEGOTIATIONS

Licensing Law Handbook
2000-2001 Edition

by Robert Goldscheider
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One of the core tools of the trade of licensing practitioners is a volume of precedents prepared by an experienced practitioner such as Bob Goldscheider. Goldscheider may be one of the most long-standing active members of the LES (USA and Canada) and LESI. His text, The New Companion to Licensing Negotiations is the fourth version of his "Companion" series and is the outcome of many other works that he has written.

The Companion provides 127 pages of commentary, 172 pages of sample forms, 162 pages of model clauses and an 82-page glossary of terms, with an additional three-page glossary of online terms. It is a solid, practical, one-volume text, easily carried as a "companion" when negotiating licenses. No disk is provided for the model clauses or the forms, and this is a deficiency that one might hope will be remedied in the next edition.

Goldscheider does not develop the law to any detailed extent; he assumes that the reader comes with the requisite legal knowledge but needs suggestions when drafting clauses. The *Companion* is not for the beginner; it will be more helpful to the intermediate and experienced practitioner.

The text is written in a user-friendly manner and does not suffer from dreadful drafting. The precedents do not use block capitals, which are intrusive to the reader, for defining phrases, although it may have in a previous version since there are leftovers of block capitals in some of the model clauses and the text. These could be removed in future editions. Goldscheider drives home the need for simplicity in §1.3 of his text, and the design of his clauses reflect that. Simplicity is not stupidity; it is

complex. It is usually harder to draft with simplicity rather than with verbosity and Goldscheider is to be commended for his drafting style. Perhaps he could stop using the word "said" even inside defined phrases as it is an unnecessary legal affectation.

I approached the *Companion* with a bias against form books on the basis that they provide the result of the drafter's thinking process but not the benefit of the process itself. I also have a problem dealing with model clauses because often they are out of context. Often model forms and model clauses do not apply to my facts and it is difficult to comprehend how the clauses interact and which ones I should use or adapt. Precedents by themselves are almost dangerous if the practical advice is not closely available or readily understandable. After reading Goldscheider's *Companion*, I may have to revise my biased position. It has attained a balance that I find impressive and the forms and model clauses define issues very well.

I chose three topics that I consistently struggle with to see how well Goldscheider provides the resources: grant clauses, warranties as to ownership and infringement issues.

GRANT CLAUSES

Chapter 7 sets the stage for the grant clauses, not by providing the requisite intellectual property law, but by discussing the different types of patent licenses. He informs us that the grant clause will be influenced by the licensing strategy: Is the license to resolve an infringement claim; is it part of a general cross-licensing strategy that may or may not be part of a corporate policy to avoid any suggestion of anti-trust activities; or is it for core or essential technology?

Goldscheider helpfully points out that the field of use definition might be more extensive than the scope of the license grant, but may be designed to cover automatic inclusions in the licensed subject matter as future tech-

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nology is developed, as well as grant backs (see his §7.23). Forms 15 and 16 draw the distinction between a grant related to a product that is covered by a patent, and a perhaps more extensive grant related to all clauses in a specific patent. Goldscheider develops the scope of the claims in the licensed patents and gives helpful model clauses, even addressing the possibility of two courts issuing conflicting judgements on invalidity.

Goldscheider provides several model definitions of “licensed patents,” but has not discussed foreign equivalents as well as one might expect. Interestingly he picks up “clinical data” in one of the definitions of licensed patents, perhaps an inclusion that might later cause the drafter some problems since clinical data does not have an exclusionary characteristic but is the subject of the license, and inherently may have privacy or reuse limitations.

Goldscheider’s grant clause in §7.20 of the text properly separates the patent rights from copyrights, both of which are exclusionary in nature, and again from trade secrecy rights, which involve disclosure in exchange for restricted use and confidentiality obligations. That is an excellent clause but unfortunately it is buried inside the text in §7.20 rather than in one of the model clauses. Perhaps in a future edition, this excellent clause can be included in the model clauses to make the Companion that much more readily useable.

WARRANTY OF OWNERSHIP

The text does not directly develop the issue of ownership, an area that causes negotiators some difficulty since it is not clear what “own” means. Is it a warranty as to ownership, a warranty of title, a warranty of quiet enjoyment as that phrase is used in the real estate world, a warranty of exclusivity, a warranty of validity of patents, or a warranty against infringement? To some, each of those is included in the concept of ownership. The text could address this more extensively.

Goldscheider does provide in MCL 27-4 to 27-6 a list of negative warranties that may clarify what he means by “own” in model clause 27-9, which list should appear in every drafter’s checklist. He does not develop the issue of the possibility of joint ownership, which could be rectified in a future edition. The December 2000 issue of *les Nouvelles* has a series of excellent articles on joint ownership developing the law in United States, Canada and other countries.

Section 401 of the model Uniform Computer Information Transactions Act (UCITA) discusses a warranty of quiet enjoyment or what is called an “interference Warranty,” which also suggests a warranty that there is not, and will not be in the future, any action by

the licensor that will diminish the grant by the licensor to the licensee. UCITA suggests in section 401(b)(1) “A license or warrant (1) for the duration of the license, that no person holds a right to, or interest in, information [note that is a defined phrase] which arose from an act or omission of the licensor, other than a claim by way of infringement, which will interfere with the licensee’s enjoyment of its interest.” This clause might become popular if drafters can convince their clients that quiet enjoyment does not mean that there will be quiet, nor that the interest will be actually enjoyed! But for trade secrets, it does seem to be a better phrase than trying to deal with “possession” or such other phrases that may add little to the debate as to what is ownership.

Additionally, the discussion notes for section 401 of UCITA bring up the issue of exclusivity as to ownership: for a U.S. license to grant exclusive rights, the licensor has to have exclusive ownership. One joint owner could defeat another joint owner’s exclusive license by granting licenses under its partial ownership interest. Thus, section 401 would require a warranty that there are no other owners; a warranty of ownership by itself is not sufficient. In Canada, unless permitted by contract, the freedom of one joint owner to license without the consent of the joint owner in Canada would not be possible.

INFRINGEMENT

In §7:41, Goldscheider provides a checklist of the legitimate differences that the parties may have about infringement warranties and indemnities. For examples of warranties concerning third party infringers of the licensed technology, §7:41 tells us that, in some cases, the infringement is too minimal to warrant a suit, and the licensor may want to implement its own strategy choosing its own defendants. On the other hand, the licensee does not want to see competitors use the technology royalty-free when it has to pay a royalty.

The text in §7:42 gives an interesting twist to the warranties of quality of information: it disclaims a warranty “as to the ability of Licensee to understand and utilize the patents . . .” Perhaps we dreadful drafters should start using a disclaimer for our documents!

The model clause section provides 14 pages of clauses relating to infringement and related indemnities reflecting Goldscheider’s acknowledged focus on these issues. Model clause 9-1 to 9-5 and 9-7 to 9-15 contemplates suits against third party infringers. Model clause 9:6 contemplates a proceeding for the revocation of the licensed patents. Model clause 9:16 gets into infringement of third party rights and states that none of the technology infringes third party right. A purist might suggest that the technology—and certainly the related

intellectual property rights—cannot infringe; it is only the making, using or selling of the technology that causes the infringement.

I note that the warranty in § 9:16 is a no-knowledge warranty, which seems more reasonable than an absolute warranty. Model clauses 9-17 to 9-20 address reduced royalties in the event the exploitation of the licensed patents infringes the rights of others. For example, clause 9-18 talks about “substantial proof” of “significant quantities” of sales of infringing products, and the licensee being relieved of further payments if the licensor does not take action within six months of notice from the licensee. This is a clause written in a lucid way to bring out the issues. I expect drafters to have a debate as to what is “substantial” proof and what are “significant” qualities, but, in the end, they may do little to improve the quantification of those standards since it is unlikely that they can foresee the events that will qualify. Model clause 9-21 gets back to defending third party claims and model clauses 9-22 and 23 talk about infringement by a third party. Model clauses 9-24 to 9-26 address expiration and invalidity of patents. Model clauses 9-27 and 9-28 go to patent markings and then model clauses 9-29 to 9-31 address disclaimers of warranties. Model clauses 9-32 to 9-33 are sample indem-

nity clauses; perhaps these would be better consolidated into the category of model clauses illustrated in §28 that covers indemnification in more detail. The reader must read all of the sections on infringement and indemnification to get all the thoughts and some might seem to be structurally out of order; however, any logic chosen is unlikely to please every reader. The material is easy to read and therefore, a review of all the clauses is no great burden even when the reader is in a hurry.

CONCLUSION

I do not want to overstate the noted deficiencies; it is very easy to point these out, but it has to be acknowledged that thought, skill and effort that went into the preparation of this text. Goldscheider is to be commended for his contribution to our knowledge and for his valuable “toolbox” of knowledgeable, useful and well-communicated discussions both in the text and in the forms and model clauses, and codified knowledge that can be rapidly deployed by the busy licensing practitioner.