

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.



Drafting Patent License Agreements, Fifth Edition, by Brian G. Brunsvold and D. Patrick O'Reilley.

The Bureau of National Affairs, Inc., Washington, D.C.,
ISBN 1-57018-424-0

This “manual” on drafting license agreements by two high contributing long standing members of LES (Pat O’Reilley is the current president of LES (USA and Canada)) will be better appreciated by those who have three plus years licensing experience (including some of us with thirty-five plus years of practice). It is not a primer on intellectual property rights. It may be easier to describe this book by saying what it is not.

- It is not “Patent Licensing for Dummies;” it assumes that you have some foundations to work from. It assumes you understand the intellectual property basics. Its “patent primer” is an Appendix A, and is only five pages long (pages 341-345).

- It is not merely a catalogue of precedents. It provides precedents (even provides a CD of those precedents). But the authors recognize that precedents have to be used with discernment. So they provide commentary and then sample precedents to illustrate the points made—an excellent way of teaching.

- It is not a compendium of the law. It develops legal principles, but not to the depth of other books where you might get lost in the detail and lose the principle being illustrated due to information overload. Instead it “attempts to provide systematic guidelines on which sound forms may be based” (p. 1).

The authors’ philosophy can best be summarized by adapting their section 6.02 (which is on drafting definitions but the principles apply to all parts of a license agreement):

Work devoted to the designing of [precise agreements] is, on the part of the legal drafter, an obeisance to the gods of humility. If, in the words of Holmes, it is the mark of an educated man to have questioned his own first principles, it is equally the mark of the perceptive drafter to have questioned the semantic adequacy of each of the crucial terms of the drafter’s work piece. Vagueness and ambiguity must be sought out with craft

and guile and, where discovered, eliminated or minimized by choice of new words, rearrangement of the preselected words, or as a final resort, by adoption of definitions. Then the terms used ... must be studied for their own degree of indeterminacy and the process continued until the residuum of uncertainty is thought to be small enough for the parties to live with.

On the other hand, ...drafting is largely an aesthetic enterprise. The objective is to produce an agreement that is as compact, readable, and understandable as skill can make it. The choice and orderly arrangement of [the words used in the agreement are equivalent to] the fine brush strokes of the artist.

Unexpected eloquence from drafters of patent licenses. Perfection is not achievable. You need to know when to accept imperfection and stop refining the agreement (p. 52).

It takes courage and insight to say, “I use this word for lack of a better one, but I really cannot know for certain what it means.” It is the aim of this discussion, however, to suggest that contract drafters may frequently mislead both themselves and their clients if they shrink from this admission.

Although they emphasise the need for aesthetics in the agreement, the authors show their defined phrases in BLOCK CAPITALS, which I find BLOCKS the reading flow and violates the e-mail rule that BLOCK CAPITALS indicate SHOUTING. But they do suggest that some drafters will prefer just initial capitals for definitions (like some Canadians known to be reticent and almost apologetic in their mannerisms) rather than full BLOCK CAPITALS (like some Americans known to be BOLD and BRASH).

It is hard to review a book that is so comprehensive and so good. My job as reviewer reminds me of a great lecturer that gave *seven*, three hour lectures on the biblical chapter “Jonah,” which is approximately two and one-half pages long. Just think what I could do, following that precedent, with this 400-plus page book! Why you would wish that I was swallowed up by a whale and belched up on some foreign shore (preferably where there were no LESI members)! So my review will focus on issues that are important to me at the moment. There are simply too many good principles developed here to do a more comprehensive review.

After setting out “some premises, limitations and legal principles” in Chapter 1, the authors take you through the drafting issues in the same order they would appear in an agreement (Chapters 2 through 20), then a chapter

on agreements concerning the sale or other transfer of unpatented technological values (Chapter 21), foreign patent licenses—i.e., foreign to these U.S. authors (Chapter 22), selected competition law issues, misuse situations and multi-patent licensing (Chapter 23), implied licenses (Chapter 24), collaboration agreements—new to this edition—(Chapter 25) and seventy pages of appendices with sample agreements.

In Chapters 1 and 2, they discuss the difference between a licence (some significant rights are reserved to the licensor), an assignment (no significant rights are reserved), and a non-assertion agreement (merely an agreement not to sue, and likely personal to, and not assignable by, the beneficiary of the covenant). There are significant differences between licenses and assignments for tax and bankruptcy purposes. I wish they had emphasized that one of the differences resulting from bankruptcy is the ability of the licensor to terminate the license for failure to pay royalties, in contrast to the assignor's unsecured position for unpaid "royalties."

Concerning non-assertion agreements, they suggest at p. 19 that:

A common use for nonassertion agreements is in an agreement licensing certain specified patents. A nonassertion agreement is used to reassure the licensee that the licensor has no other patents relevant to the licensed subject matter. If the licensor's portfolio is a limited one, such assurance may readily be given by a covenant against the existence in the licensor's portfolio of additional pertinent assets. In other cases, however, particularly where complex patent holdings are involved, the problem may be dealt with by a non-assertion clause. [And then they provide an example, which is typical of the value of this book—tell us the problem and then give us one or more sample clauses that illustrate solutions.]

They point out that an exclusive license may only mean that there is a prohibition against the granting of future licenses and there is no implied warranty that there are no existing licenses already granted. But how about future licenses in a crowded patent area where a license could be granted inadvertently. In Chapter 8, they suggest the following clause in form 8.01C at p. 96:

1. While ABC recognizes that its grant of exclusive rights to LICENSEE in the present Agreement involves a commitment on its part not to grant other licenses in derogation of these rights, LICENSEE on its part recognizes the extraordinary diversity of ABC's business activities and patent licensing arrangements and agrees that inadvertent inclusion by ABC of limited rights in the patents exclusively licensed hereunder in any future grant by ABC to others of general or field licenses shall not be deemed to be in derogation of LICENSEE'S rights or a breach of this Agreement provided such limited rights:

(a) Do not impinge directly on the field of this Agreement; and

(b) Do not tend in any substantial way to diminish the value of the rights extended to LICENSEE under the terms of this Agreement.

In Chapter 7 we get into the analysis of a "Grant" clause. They provide seven concepts to follow on p. 76:

Grant Clause Setting Forth the Seven Concepts to Cover

GRANT TO LICENSEE

A. The LICENSOR grants (or grants and agrees to grant) to the LICENSEE;

B. And its subsidiaries, affiliates, and controlled companies;

C. Under the LICENSED PATENTS;

D. And for the lives of such PATENTS;

E. A license (state character);

F. To (statutory rights granted)

1. make, use, offer to sell, sell, and import products embodying the inventions thereof; or

2. practice the methods and to make, use, offer to sell, sell, and import the products therein described and claimed; or

3. make, use, offer to sell, sell, and import machines embodying or for operation in accordance with the inventions therefore; or

4. make, have made, use, offer to sell, sell, import, lease, or otherwise dispose of products embodying the inventions thereof; or

5. make and use but not to offer to sell, sell, or import products embodying the inventions thereof; or

6. make, use and sell _____ embodying the inventions thereof; or

7. make in its plant at _____ and use, offer to sell, and sell products embodying the inventions thereof;

G. Throughout the United States, its territories, and possessions.

You are not licensing an invention (p. 9); you are licensing only the exclusionary rights existing as a result of the claims for that invention (p. 5). Thus, it is important to "consider the scope of the patent claims in constructing a patent license" (p. 3). Although in practice we "license" patent applications, what we are really doing is granting an option to license the resulting patents (p. 130). Their excellent material in Chapter 10 provides guidance for the design of royalty payments where there are patent applications being licensed. In the end, whether it be a license of a patent or a patent application, it is the *allowed and subsisting* claims that matter, not disclosures in a patent application, not the claims in a patent application, nor the allowed claims where some claims subsequently have been held to be invalid.

"Foreign equivalents" or "foreign counterparts" are not the preferred words to be used. Although they may have business meaning, they do not have clear legal meaning. The authors suggest it is better to refer to "patents and patent applications anywhere in the world that, at any time, claim priority from any or all of the foregoing patent applications."

The use of the phrase "have made" could allow the licensee to become a "foundry" for others; where appropriate it might be better to use "have made solely for use or sale by licensee" (p. 49).

In contrast to the statutory exclusionary rights granted

by the *Patent Act*, there are rights to access and use proprietary information. At page 4 they write:

Its [proprietary information] value is in its possession to the exclusion of others. There is no statutory right to exclude others. Others are excluded through lack of knowledge or through secrecy maintained by those who possess the proprietary information. One breach in that wall of secrecy may destroy the value of the information. In licensing such information, therefore, the value of the information is preserved only by the terms of the contract and the licensee's compliance with those terms.

What is this “proprietary information” that is subject to a license: how do we avoid agreeing to license information that others can obtain for free? Their sample Confidentiality Agreements in Appendix G go into detail about what are the exceptions and who has the onus to prove that information fits within one of those exceptions. They also suggest that it may be appropriate to list documents containing proprietary information where that information is necessary to implement to exploit the licensed patent or technology. In Form 21.04A, they go on to require the Licensor to represent that it can provide a complete list of the requisite information, that the designs will be accurate to certain tolerance levels. Obviously not all proprietary information can be listed, but essential information can be listed and required to be provided, accurate and complete. In section 21.04 of their book, they state that the parties “should seek clarity as to the types, scope and form of information to be transferred and the timing and means of delivery (p. 244). It may depend on the nature of the technology involved or its state of development. But phrases such as “fundamental background technology” or “all technology in Licensor’s possession that is needed to make the Licensed Product” may not be sufficiently precise (p. 244). Much of the material on Proprietary Information is found in the definition part of the chapter on Execution of Agreements and not separately—they could only break the material down so much when they were following the progression of the agreement. However, you as the reader must scan the whole book to become familiar with the location of the jewels and not just read one section or chapter thinking you have it all.

The area of joint ownership (including improvements) is always complex. In chapter 1, they set out the basic rules. In the U.S. each owner can license without the consent of the other (in Canada this is not the case). Thus you need a covenant to prohibit licensing without the consent of the co-owner. (In Canada you need a covenant

to permit licensing without the consent of the co-owner). However, in the U.S. all co-owners have to be named as parties to an infringement suit. “Moreover, joint owners cannot be compelled to join in an enforcement action” unless there is an agreement to co-operate (p 329). This takes us to chapter 25, Collaboration Agreements. That chapter takes us through when there should be cross-licenses as well as enforcement co-operation agreements. If the intended applications of each party are separate and distinct, then cross licenses can be used to carve out those applications exclusively to the appropriate party, subject to anti-trust rules. I have been very opposed to joint ownership of IP until I read this chapter and may have to be more flexible. They provide many solutions for the reasons that caused me to oppose joint ownership, and they correctly point out:

Although an exclusive, defined field license may provide the other party with all the rights it needs, it remains difficult to convince lenders, including those handling venture capital, that a defined field exclusive license provides almost the same bundle of rights as ownership of a patent. Accordingly there is considerable resistance to allocating ownership to one party.

It becomes even more difficult in jurisdictions such as Canada where it still not certain whether the trustee in bankruptcy of the Licensor can reject an exclusive license—a defect cured by the U.S. bankruptcy statute.

This collaboration chapter is a great addition to their book and is essential reading for any one working on any sort of collaboration.

OK, I can see Jonah’s whale approaching—but just one more point. Their section on patent stacking is excellent—get an agreement on how much allowance for third party “stacked” payments is too much. Their section on “reach through royalties” is interesting but I wanted more—examples please. This is a tough area to understand what is fair.

In summary, a valuable book, properly on the list of recommended books for the LES professional development courses. No library copy will do—you have to have your own copy. Mine is all underlined, written on, stars where I need to change my precedents. The gods of humility were having a great time as I read this book and realised that I had so much more to learn and so many more of my precedents now qualify as Dreadful Drafting.

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