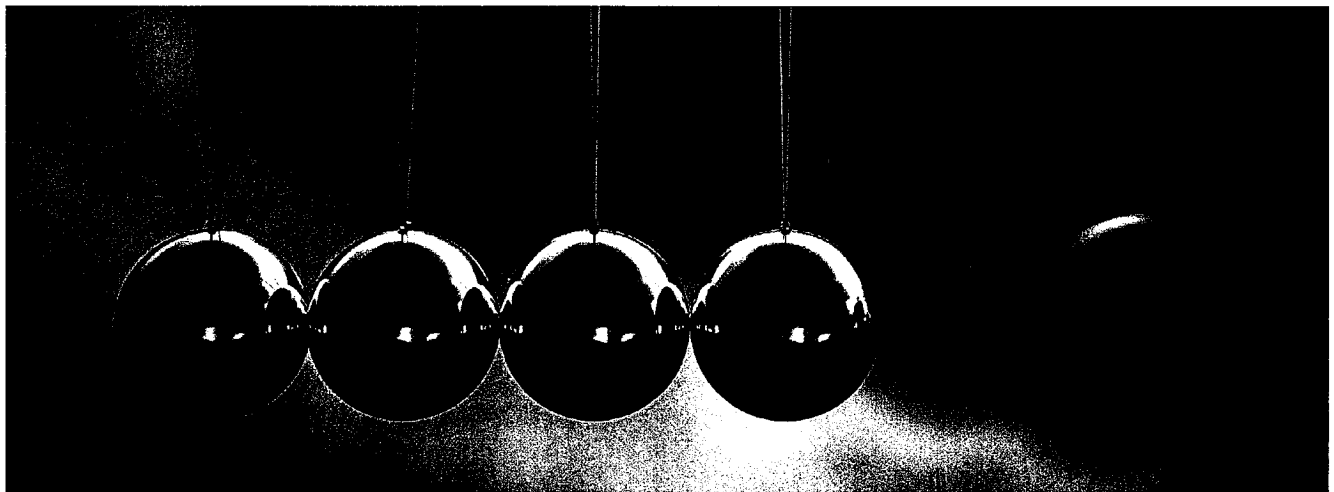


MALLESONS STEPHEN JAQUES

The latest law and tips on IP licences



Scott Bouvier
IPSANZ Victoria
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mallesons.com

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Outline

- Exclusive trade secrets/TM licences
- Managing downstream use
- Arbitration of licence issues
- TM licence = Franchise Agreement?
- TM licences – controls?
- Royalties and withholding tax
- Is it an IP licence?
- Royalty over what?
- Section 145 Patents Act
- Royalties in global licences
- Novation & Assignment 101
- Consent not unreasonably withheld
- Registering IP licences
- Performance standards
- Insolvency
- Relief against forfeiture
- Licences and enforcement damages

Exclusive trade secrets and TM licences

Painaway Australia v JAKL Group [2011] NSWSC 205

- Painaway was granted an exclusive licence to use secret formulas and trade marks to manufacture, market and distribute arthritis and sports creams and sprays.
- The licence was challenged but was found to be effective
 - ⇒ An exclusive licence is a licence to do a thing and a contractual promise by the licensor not to do the same thing or give permission to anybody else to do the same thing.
 - ⇒ While the licensee could not sue the licensor for TM infringement (see s20 TMA), they could rely on contract law to obtain an injunction to stop the licensor using the mark and trade secrets, and also seek damages.
- Lesson – you can grant exclusive trade secrets and TM licences!

Exclusive trade secrets and TM licences

Painaway Australia v JAKL Group [2011] NSWSC 205

- Trade secrets are not a form of property.
 - ⇒ A characteristic of property was its ability to be enforced against the world without the need to establish a pre-existing relationship between the rights owner and the defendant. Trade secrets are protected by obligations of confidence either under a contract or under equity i.e. they generally depend on a pre-existing relationship.
- Because trade secrets are not property, you can't assign them.
- However, the licensee could still assign the contractual rights it had under the IP licence which obliged the IP owner to keep the secret formulas confidential.
- Lesson – to transfer the value in trade secrets, you assign related contract rights as well as any copyright

Managing downstream use of patented products

Quanta v LG Electronics 553 US (2008) (9 June 2008, 06-937)

- LGE licensed patents to Intel for use only in Intel products by Intel and its customers. Quanta purchased patented products from Intel and combined them with non-Intel products. Court found that Quanta did not infringe LGE's patents.
- Exhaustion - once a patentee/licensee sells a patented product, the presumption is that the purchaser is entitled to use the product as they wish.
- Without terms, purchasers of patented products/processes from field limited licensees are **not** limited to only use in the field.
- Lesson - To manage downstream use:
 - ⇒ The licensee should be specifically restricted from selling licensed products outside the field.
 - ⇒ To set up the potential to sue downstream users for infringement, licensees need to impose field limited licence restrictions on end users.

Arbitration of licence issues

Larkden v Lloyd Energy Systems [2011] NSWSC 268

- Larkden granted exclusive licence of patents to Lloyd
- Larkden owns any “*modifications or improvements*” to the Larkden patents which are developed by Lloyd
- Larkden claimed ownership of certain patents acquired/developed by Lloyd
- Lloyd commenced arbitration pursuant to the Licence Agreement
- Larkden contended that the matter was not arbitrable as it concerned patents (those matters being exclusively within the jurisdiction of the Commissioner of Patents or the Federal Court).

Arbitration of licence issues

- While some IP disputes cannot be determined by arbitration eg validity of a patent, the Judge decided that the matter could be arbitrated
- The dispute as to transfer of patents under the contract related to the strictly contractual question of whether or not the patents are “modifications or improvements”
 - ⇒ *“Neither the Commissioner nor the Federal Court is the sole repository of power to determine, in a binding manner, whether particular persons are in a relationship which would meet one of the descriptions in s 15.”*
 - ⇒ s 15 (1)(b)– *“Subject to this Act, a patent for an invention may only be granted to a person who...would, on the grant of the patent for the invention, be entitled to have the patent assigned to the person”.*
- Lesson – arbitration clauses can be used to determine many contractual IP questions.

TM licence = Franchise Agreement?

Franchise Code

- Applies to “Franchise Agreements”
- Mandatory disclosure requirements, dispute resolution, restrictions on certain terms and permitted assignments
- If franchisors do not comply, they are in breach of s51AD of the *Competition and Consumer Act 2010*:
 - ⇒ injunctions
 - ⇒ compensation and damages
 - ⇒ setting aside or varying relevant contracts
 - ⇒ corrective advertising

TM licence = Franchise Agreement?

Key elements of a “Franchise Agreement”

- agreement under which a person (the franchisor) grants to another person (the franchisee) the right to carry on the business of offering, supplying or distributing goods or services in Australia under a system or marketing plan substantially determined, controlled or suggested by the franchisor
- under which the operation of the business will be substantially or materially associated with a trade mark, advertising or a commercial symbol owned, used or licensed by the franchisor



TM licence = Franchise Agreement?

“system or marketing plan substantially determined, controlled or suggested”?

“Rafferty v Time 2000 West Pty Ltd (No 4) [2010] FCA 725 (under appeal)

- Required to comply with directions of T2SA as to quality control in the design, manufacture and marketing of MAUs and policies and procedures as required by T2SA
- Manufacturers of units were to be approved and licensed by T2SA
- Required to promote and sell the MAUs in particular ways, using the TMs and subject to sales targets (with termination consequences)
- Ability to scrutinise proposed sales on a project by project basis
- Prepare and maintain proper financial records in specified ways



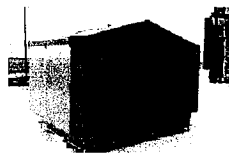
TM licence = Franchise Agreement?

“system or marketing plan substantially determined, controlled or suggested”?

“Rafferty v Time 2000 West Pty Ltd (No 4) [2010] FCA 725 (under appeal)

- Sufficient that there is a power to impose such a plan - the actual details do not need to be set out or incorporated into the agreement or even be in existence at the time the agreement is reached
- The plan does not need to cover the whole of the business
- The use of the word “suggested” means that the system or marketing plan need not be one which is imposed on the franchisee by the franchisor

Federal Court appeal heard February 2011.



TM licence = Franchise Agreement?

- Newtech deal
 - ⇒ Shareholders agreement VCs, Inventco and Newtech
 - ⇒ Technology agreement between Inventco and Newtech
 - ⇒ TM Licence between Inventco and Newtech
- Franchise agreement elements
 - ⇒ operation of the business associated with a trade mark licensed by Inventco
 - ⇒ amounts were payable (royalties)
 - ⇒ did Inventco grant the right to carry on the business of offering, supplying or distributing goods or services in Australia under a system or marketing plan substantially determined, controlled or suggested by Inventco
 - ← system determined by licence/technology?
 - ← in Technology agreement, sub licence controls, minimum performance requirements, general performance standards
 - ← in Shareholders agreement, Inventco power to block business plan etc

TM licence = Franchise Agreement?

A franchise fee?

- under which, before starting business or continuing the business, the franchisee must pay or agree to pay to the franchisor or an associate of the franchisor **an amount** including, for example (i) an initial capital investment fee, (ii) a payment for goods or services, (iii) a fee based on a percentage of gross or net income whether or not called a royalty or franchise service fee or (iv) a training fee or training school fee;
- **but excluding:** (v) payment for goods and services at or below their usual wholesale price; (vi) repayment by the franchisee of a loan from the franchisor; (vii) payment of the usual wholesale price for goods taken on consignment; or (viii) payment of market value for purchase or lease of real property, fixtures, equipment or supplies needed to start business or to continue business under the franchise agreement.

TM licence = Franchise Agreement?

before continuing the business, the franchisee must agree to pay to the franchisor - if you don't pay under a clause = breach = termination right

<u>an amount</u>	<u>Exceptions</u>
<ul style="list-style-type: none"> ▪ Royalty/Licence fee – yes ▪ Training – yes ▪ Use of telephone/computer systems - yes ▪ Purchase of stationary/advertising materials - yes ▪ Audit/inspection costs – licensor (yes); direct to auditor (no) ▪ Other third party costs – licensor (yes); direct to third party (no) (eg transport, advertising) ▪ Under an indemnity?? 	<p>payment for goods and services at or below their <u>usual wholesale price?</u></p> <p>payment of <u>market value</u> for purchase or lease of real property, fixtures, equipment or supplies needed to start business or to continue business under the franchise agreement (this does not include services)</p> <p>No exceptions just because it is a small payment or it has never been actually levied!</p>

TM licence = Franchise Agreement?

What is “their usual wholesale price”?

- **Alpha Centauri Enterprises v Mortgage House of Australia [2010] NSWCA 188** - stationary - no limit was set on the price that the respondent might require for the goods, and there was no requirement that the goods be supplied at a wholesale price or market value; so the exceptions did not apply
- **ACCC v Kyloe Pty Ltd [2007] FCA 1522** – training fees based on estimated costs – if you charge services at below out of pocket costs with no time recovery, there is force in the submission that the fees are less than at their usual wholesale price
- Is there a wholesale market? Does the potential franchisor sell goods at wholesale? EM – not an artificially set price
- Can true services be wholesaled? Is wholesale the same as B2B?

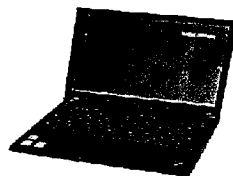
TM licences - what controls do you need?

- Commercially (to enhance your brand)?
- Legally? The TM must still indicate a connection in the course of trade between the goods bearing the mark and the registered owner
- Cancellation risk if use of the TM becomes confusing or deceptive
 - ⇒ risk if the TM no longer indicates a connection in the course of trade between the goods bearing the mark and the registered owner
 - ⇒ slight actual control may be enough eg selection of goods, or some form of quality control will suffice
 - ⇒ licensors need entitlement to control, capacity to control and then show some actual control
- Non use risk - the use by the licensee must be “authorised use”
 - ⇒ High Court in Gallo suggested joint control was enough (and not much evidence was needed)

Royalties and withholding tax

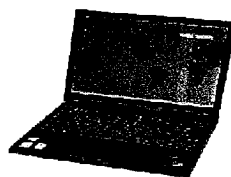
IBM v Commissioner of Taxation [2011] FCA 335

- Software Licence Agreement dated 1 April 1987 between IBM and IBMA (SLA)
- What level of withholding tax was payable on payments by IBMA to IBM?
 - ⇒ 1987 – 2002 IBMA paid the full amount 10%
 - ⇒ 2003 - 2004 IBMA paid at reduced rate of 5% per a binding private ruling
 - ⇒ After 2004 IBMA continued to pay 5%
- IBMA sought a refund for 1997 to 2002. ATO rejected and asserted that IBMA should be liable on the full amount from 2005 to 2009.
- At all material times, IBMA acted as IBM's Australian distributor of computer software protected by IP owned by IBM pursuant to the SLA.



General IP licence – clause 2

- “IBM, insofar as it may lawfully do so and for the term of this SLA *grants to IBMA under IBM’s Copyrights, Mask Work Rights, and Patents the non-exclusive rights*
 - (i) to license and distribute copies of IBM Programs for their ultimate use by customers,
 - (ii) to use such IBM Programs in revenue producing activities,
 - (iii) to use such IBM Programs internally,
 - (iv) to make or have made copies for the purposes described above, for distribution to affiliated companies, and for translation or modification of such IBM Programs, and
 - (v) to allow IBMA’s customers to use, make copies of and modify IBM Programs pursuant to the terms of IBMA’s agreements with its customers.”



Payment – clause 6

- “In consideration of the licenses and other rights granted to it hereunder, [IBMA] agrees, insofar as it may lawfully do so, to pay in lawful money of the United States of America to IBM or its designees:
 - (I) a fee of forty percent (40%) of all revenue, including discounts and other allowances, billed or accrued during each calendar month by IBMA for each copy of an IBM Program which IBMA authorized, licensed, or distributed to any non-affiliated party;
 - (II) a fee of forty percent (40%) of the unit of one price that IBMA would bill a third party for the licensing or authorizing to use IBM Programs for each copy of an IBM Program that IBMA uses internally.”

IBMA's arguments

- SLA is a distributorship agreement under which the principal right granted to IBMA is the right to “use, distribute and market” IBM computer programs.
- The SLA grants such rights, including IP licences, as are necessary for IBMA to carry out its function of use, distribution and marketing.
- Clause 2 contains rights which are not IP rights:
 - ⇒ a right to distribute copies
 - ⇒ the right to use IBM Programs in revenue producing activities
 - ⇒ the right to use IBM Programs internally
 - ⇒ the right to allow IBMA's customers to use, make copies of and modify IBM Programs
- Clause 2 is not limited to the grant of IP rights - IP rights may no longer apply to programs or where business practices change (eg copies are not made and distributed to customers or used internally)

Decision – not a mixed grant

- The words “under IBM’s Copyrights, Mask Work Rights, and Patents” in cl 2 describe the umbrella of IP rights owned by IBM.
- Clause 2 then provides that “under” those rights, IBMA has the non-exclusive rights to do the matters set out in limbs (i)–(v).
- Clause 2 does not grant two separate and severable rights only one of which involves the use of IP rights. The SLA grants to IBMA such IP rights as are necessary for distribution of the relevant products by IBMA. It is not a distribution agreement which confers distribution rights independently of the grant of IP rights.

Lessons

- Split distribution rights from the IP rights necessary to support that distribution.

Decision – unnecessary rights

- IBMA argued that IBMA could distribute or use an IBM Program without infringing any IP rights.
- “That is not the point of cl 2. Clause 2 purports to grant to IBMA whatever IP rights may be necessary. If such a right is not required to enable an activity — so be it.”

Lessons

- Don't grant IP rights that the distributor doesn't need!
- Don't turn a distribution agreement into an IP licence.

Decision – patent rights

- IBMA argued certain uses under clause 2 did not infringe any copyright held in the IBM Programs.
- “However, taking into account the generality of the rights asserted and the fact that cl 2 refers not only to copyright but also to patent rights, the insertion of (ii) and (iii) is consistent with the possible infringing use of a patent right.”

Lessons

- The rights that derive from TMs, copyright and patents all differ
 - ⇒ Copyright – right to use or distribute is not an IP right
 - ⇒ Patents – right to use or distribute is an IP right
 - ⇒ TMs – selling goods under TMs – not clear whether this is trade mark use
- Don't expressly licence IP use rights when you don't need them
 - ⇒ What IP rights need to be expressly granted to a distributor?
 - ⇒ Is an implied right sufficient?

Decision – drafting

- IBMA submitted that the SLA does not “look like a pure copyright licence”. However it is also fair to say that it does not “look like a distributor licence”.
- IBMA’s submission that the SLA provides for a separate “right to distribute” is not sustained by the language of cl 2 or by the SLA as a whole.
- The subject matter is the grant of IP rights rather than the grant of use, distribution and market rights.

Lesson – This could have been drafted as more of a distribution agreement.

Is it an IP licence?

Global Coal v London Commodity Brokers [2010] EWHC 1347 (Ch)

- “globalCOAL hereby grants to the Licensee on the terms set out in this Agreement, a non-exclusive, non-assignable license (the “Licence”) under its Intellectual Property Rights in the globalCOAL Products to use the globalCOAL Products and the Trade Marks”
- “globalCOAL Products means any instrument, data, standard, price, graph, product, index, contract, agreement, methodology or quality specification developed and published by globalCOAL and intended to facilitate the trading of coal (whether in physical form or by means of a financial instrument)”
- Held
 - ⇒ This is not a licence to use the IPRs but a licence to use the Products.
 - ⇒ The grant is made by Global Coal under its IPRs but it is not a grant of them.

Royalty over what?

Oxonica Energy v Neuftec [2008] EWHC 2127; appeal [2009] EWCA Civ 668

- Licensed Products defined as “*any product, process or use falling within the scope of claims in the Licensed Application or Licensed Patent*”.
- Reference to “Application”?
 - ⇒ the legal state of affairs that is constituted when a person requests the competent authority to grant him a patent and that request is still outstanding
 - ⇒ the content of the document which that person filed with a view to initiating the above; most pertinently, a description of the invention together with at least one claim purporting to define it.

Royalty over what?

Oxonica Energy v Neuftec [2008] EWHC 2127; appeal [2009] EWCA Civ 668

- “The more I read the document, the more I think: “A little learning is a dangerous thing”. It contains a number of malapropisms: they cause me to believe that the draftsman was not very familiar with patent practice and terminology. It conveys an impression that he was not always clear in his own mind about that he was doing and, when not clear, allowed his word processor to do his thinking for him. Bits of legal phraseology have been lifted from I know not what precedents and assembled in a strange way.”
- Lesson - clearly draft the Licensed Product to be defined by:
 - ⇒ the content of the PCT/application or
 - ⇒ by the applied for or granted patents on a country by country basis

Royalty over what?

- Royalty base often more important than the royalty rate
 - ⇒ How will the technology be exploited down the use chain?
 - ⇒ Cover sales by sublicensees, distributors etc?
 - ⇒ Do they cover related services?
 - ⇒ Bundled products?

Section 145 Patents Act

Beware s145 Patents Act

- “A contract relating to ... a licence to exploit, a patented invention may be terminated by either party, on giving 3 months' notice in writing to the other party, at any time after the patent, or all the patents, by which the invention was protected at the time the contract was made, have ceased to be in force.”
- This section creates risks for licences of several inventions. Options:
 - ⇒ Draft separate licence for each invention?
 - ⇒ Or, for broad licence relationships: “For the purposes of s145 Patents Act 1990 only, this agreement operates as a separate agreement in relation to (a) each Invention in each country in the Territory and (b) the Licensed IP that is not the subject of a Patent, such that if a party terminates this agreement pursuant to that section, that termination will operate with respect to the Invention that ceased to be protected by Patents in force, without affecting the continued operation of this agreement in relation to all remaining Inventions, and Licensed IP that is not the subject of a Patent.”

Royalties in global licences

- It is challenging for global patent licences to comply with the different laws around the world relating to competition law and patent misuse.
- The risks are often exaggerated by licensees to reduce royalties.
- Issues in patent licences:
 - ⇒ sales in countries where no patents or outside reduced claims?
 - ⇒ sales prior to granted patents?
 - ⇒ royalties after the patent has expired/not been granted or invalidated?
- Strategies to manage:
 - ⇒ add meaningful knowhow licence and transfer
 - ⇒ show business rationale and good faith negotiation
 - ⇒ scaled royalties (next slide)
 - ⇒ flexible severability clause
 - ⇒ NSW as the governing law (*NSW Restraints of Trade Act 1976*)
 - ⇒ exclusive dealing

Royalties in global licences

Scaled royalties in mixed patent and knowhow licences

- base the royalty on the final product
- distinguish between pre-expiration and post-expiration royalties
- categorise the post-expiration royalties as deferred royalties for use of the patents during the term
- use scales - e.g.:
 - ⇒ within active patent claim in patent country - X% for life of patent
 - ⇒ within confidential knowhow - Y% for lesser of XX years or duration of secrecy
 - ⇒ within active patent claim in non patent country, within PCT content or non confidential knowhow - Z% (being less than X and Y) for XX years in recognition of springboard opportunity

Novation & Assignment

***Pacific Brands v Underworks* (2006) 149 FCR 395**

- TMs and TM Licence assigned as part of business sale
- Continued dealings and negotiations on changes
- Licence silent on novation and assignment



Novation

- A course of continued dealing “under” the original agreement is not enough. For a novation, it is necessary to find:
 - ⇒ Agreement to discharge the original agreement
 - ⇒ Agreement to enter into a new licence on substantially the same terms.
- Unless there is a meeting of all 3 minds, there is no novation.
- Need:
 - ⇒ separate tripartite agreement; or
 - ⇒ prospective consent (i.e agreement in original agreement to permit novation) then old and new party agreement.
 - ⇒ Eg Leveraged Equities Ltd v Goodridge (2011) 274 ALR 655 “The Bank may assign, transfer, novate and otherwise grant participations or sub-participations in ... all or any part of the benefit of this agreement ... *without the consent* of the Borrower”

Assignment

- Generally contractual rights are choses in action and assignable (Conveyancing Act 1919 (NSW) section 12; Property Law Act 1958 (Vic) section 134)
- Personal rights are not assignable without an express clause - having regard to the nature of the contract and the subject matter of the relevant right, is the identity of the obligee material to the contractual relationship itself?
- While TM licences are not inherently personal, in this licence Sara Lee's identity was important:
 - ⇒ Sara Lee was specifically named in some instances
 - ⇒ Sara Lee not defined as Sara Lee and its assigns (cf permitted assigns only)
 - ⇒ Obligations included provision of production/other business information
 - ⇒ Co-operation required – Sara Lee had to approve products and facilities
 - ⇒ Sara Lee agreed to provide assistance
 - ⇒ Sara Lee did not compete with Underworks – Pacific Brands did.

Novation & Assignment

Licensor lessons

- Negotiate rights to novate the licence in the licence agreement, with prospective consent as part of the IP or business
- Novation rights are more important than assignment rights
 - ⇒ assignment only transfers rights not obligations
 - ⇒ licensors can't be left with the licence obligations without the IP to fulfil those obligations!

Consent issues

- **“consent not to be unreasonably withheld”**
- Potential applications: assignments; sub-licences; change in control; business plans etc
- What if:
 - ⇒ your business plans have changed?
 - ⇒ you have a better licensee which would pay more royalties or would facilitate more adoption of your worthy invention?
 - ⇒ the assignor has been difficult?
 - ⇒ the other licensees in different fields won't like the new licensee?

Consent issues

***St Hilliers (Developments) v Radmanovich* [2002] NSWSC 524**

- Consent was sought to the assignment of a contract where the assignee would have continuing obligations to perform.
- Key elements:
 - ⇒ The purpose of consent is to protect the non-assigning party from having to accept performance from a party with whom they did not choose to contract and whose performance or capacity may be unsatisfactory. i.e. it's about the assignee.
 - ⇒ The non-assigning party may not refuse consent for a purpose which has nothing to do with protection against unsatisfactory performance. Eg consent may not be refused simply in order to extract some premium from the proposed assignee, or in order to place the non-assigning party in a strong bargaining position to negotiate an amendment to the contract beneficial to it but to which it is not otherwise entitled.
 - ⇒ Subject to the above, in deciding whether to consent, the non-assigning party is entitled to have regard to their own interests under the contract.

Consent issues: tips to manage

- Make consent “absolute discretion”.
- Set standards for the assignee.
- Define what may be reasonable considerations
- Make the rights non-assignable if the licensee has not met particular performance standards (eg, has breached agreement, even if breach has been cured).

Registering IP Licences

- s22, Trade Marks Act –The registered owner of a trade mark may, subject only to rights appearing in the Register to be vested in another person, deal with the trade mark as its absolute owner and give in good faith discharges for any consideration for that dealing.
- Similar provisions: Patents Act s 189; Designs Act s12
- Benefits
 - ⇒ “subject only to rights appearing in the Register”? (who is subject? vested?)
 - ⇒ TMs - Licensee gets notice of any assignments and 2 months to obtain a Federal Court injunction; notice also given of proposed revocation/cancellation
 - ⇒ Patents - Exclusive licensee must consent to any amendments to specification and gets notice of amendments of register
- Licensees should include a term requiring licences to be recorded:
 - ⇒ needs IP owner’s co-operation to sign the form
 - ⇒ the licence agreement is not filed (just described)

Specific performance standards are important

Framish Holdings P/L vs Force Industries P/L [2007] VCC 680

- Best efforts is an objective test, having regard to what is reasonable in the circumstances and the defendant's capability. It is not a question of considering each moment or decision.
- "Downing tools" is not best efforts

Biota v GSK (settled after several years)

- Biota claimed GSK breached obligation to use its best endeavours to develop and commercialise Relenza worldwide
 - ⇒ GSK restricted Relenza to its proprietary Diskhaler system and, did not adequately pursue alternative or improved inhalation systems.
 - ⇒ GSK withdrew support for crucial post-approval clinical studies
 - ⇒ GSK failed to properly launch Relenza in a number of countries where the product was registered, and allowed registrations to be stopped, cancelled or scheduled for cancellation etc

Specific performance standards are important

- Mere reliance on either “best” and “reasonable” endeavours provides a licensor with little comfort except if the licensee “downs tools”.
- Use specific minimum performance standards and activities which should be achievable and have consequences such as loss of the licence if they are not met.
- In addition, have a more ambitious business plan and targets but the failure to achieve them does not necessarily result in the loss of the licence

Can I terminate licences for insolvency?

- No Corps Act right to stop termination – potential but unlikely s447A application:
 - ⇒ *“The Court may make such order as it thinks appropriate about how this Part is to operate in relation to a particular company”.*
- Butters v BBC Worldwide [2009] EWCA Civ 1160
 - ⇒ Anti-deprivation rule - “there cannot be a valid contract that a man’s property shall remain his until his bankruptcy, and on the happening of that event shall go over to someone else, and be taken away from his creditors.”
 - ⇒ A provision in an IP licence entitling the licensor to terminate the licence in the event of the licensee’s insolvency is in principle unobjectionable
 - ⇒ Such a termination clause does not infringe the anti-deprivation rule as its invocation does not involve what has been the property of the insolvent party becoming vested in a third party. It merely involves a limited interest being brought to an end in accordance with its terms.

Relief against forfeiture

What it is?

- Mainly used with leases of land and chattels (with proprietary interest). A lessee may be relieved of forfeiting its proprietary interest as lessee notwithstanding that it has breached the lease and the lessor has a right to terminate the lease and take possession of the property.
- In order to obtain the relief a lessee must remedy all existing breaches of the lease.
- It was necessary for the purchaser, to show unconscientious use by the vendors, of their legal right to terminate
 - ⇒ Did the conduct of the vendor contribute to the purchaser's breach?
 - ⇒ Was the purchaser's breach (a) trivial or slight, and (b) inadvertent and not wilful?

Relief against forfeiture

Application to IP:

- The principle extends beyond real property. The court also has jurisdiction to grant relief against forfeiture in cases where contracts involve the transfer or cessation of proprietary or possessory interests.
- In **BICC plc v Burndy Corpn [1985] 1 All ER 417** relief would have been granted under a commercial agreement which included an agreement providing for the assignment of patent rights in certain circumstances.
- The possibility of such relief for an IP transfer was recognised in **Sigma Pharmaceuticals v Nuc-One Enterprises [1998] VSC 204** and in even broader circumstances (deprivation of licence rights) in **Prendergast v Daimlerchrysler [2005] NSWSC 131**.
- However, it should only be granted in exceptional circumstances in relation to a commercial contract.

Relief against forfeiture

- IP licence example
 - ⇒ termination for failure to reimburse \$5000 in patent prosecution fees (30 days overdue)
 - ⇒ on termination, licensee to assign back any improvements made to the licensed IP and any other IP in the products created using the IP
 - ⇒ IP licence = the main foundation of the licensee's business
- The remedy is discretionary and in exercising its discretion, a court will look at matters such as the following:
 - ⇒ any improvements that the licensee has made to the IP
 - ⇒ whether the licensor may receive a windfall if it is allowed to repossess the IP
 - ⇒ the seriousness of the licensee's breach – were they were negligent (as opposed to wilful)

Licences and enforcement damages

- Context
 - ⇒ To preserve value, you need to enforce IP through litigation.
 - ⇒ But litigation involves risks to the IP and reputation issues, so IP owners seek to manage the initiation of litigation (even if costs are covered).
- Standing
 - ⇒ IP owners, exclusive licensees of copyright and patents and authorised TM users
 - ⇒ Field limited patent licensees are unlikely to be able to enforce by themselves
 - ⇒ If no standing, you need the involvement of the IP owner to enforce
- Remedies
 - ⇒ Injunctions - benefit both
 - ⇒ Account of profits – IP owner and licensee can agree to share

Licences and enforcement damages

- Remedies

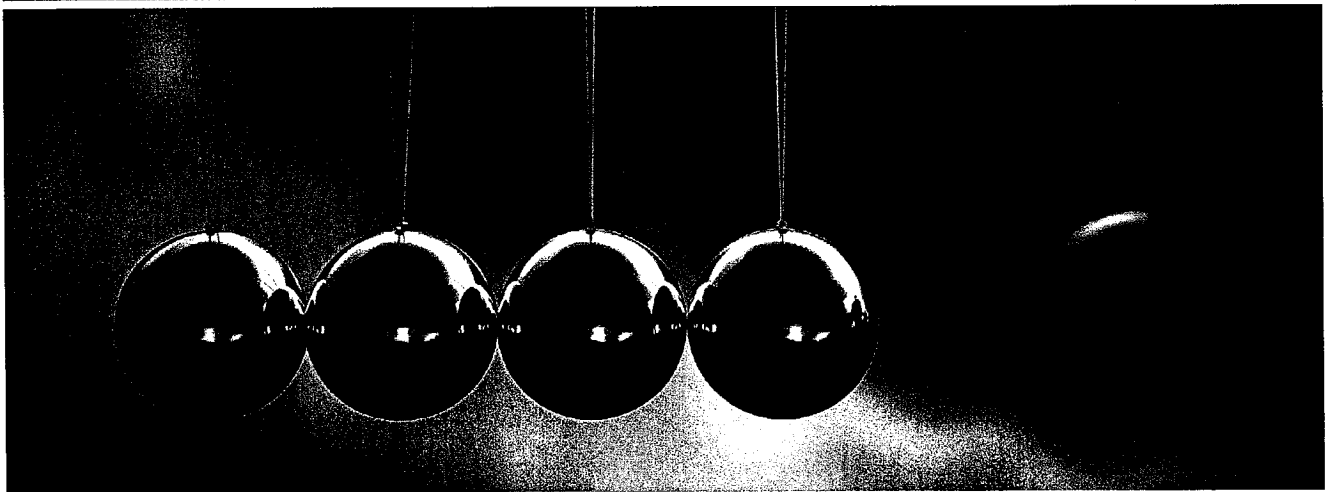
- ⇒ Damages of IP owner – lost royalties
- ⇒ Damages of licensee with no standing? Licensee loses sales to infringing product
 - ↳ Loss to IP owner = royalties on those lost sales.
 - ↳ Lost profit of licensee ≠ recoverable damages

- Manage risks?

- ⇒ Avoid field limited licences
- ⇒ Use licence back to achieve similar purposes, where narrow exceptions (eg research licence back)
- ⇒ Novate pre-existing licences to exclusive licensee (based on prospective consent)

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The latest law and tips on IP licence terms



Scott Bouvier
IPSANZ Victoria
24 October 2011

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