

## Can a Licensor Warrant that it Owns the IP it Licenses?

All IP licenses need to address the questions of warranties. Amongst the warranties that a licensee may expect is a warranty by the licensor that it owns the IP that is being licensed. From the licensee's perspective, but for such a warranty that the licensor owns the IP, why would the licensee pay royalties or other remuneration to the licensor? But, can a licensor actually warrant that it owns the IP being licensed?

### 1. Warranty of ownership in relation to patent applications

Let's consider a license granted at the time that there is a pending patent application. The patent has not been granted yet. A warranty therefore cannot be made that the patent is owned, since it doesn't exist yet. A licensee may seek warranties that:

1. the licensor owns the inventions and discoveries encompassed in the patent application,
2. the licensor will own the patent that eventually is anticipated will be granted.

Can a licensor make these warranties?

Consider:

1. The licensor grants a license for an up-front payment of \$100,000 and a royalty of 5%. After the date of the license it emerges that another patent applicant has applied for a patent over the same invention or discovery, and that application has an earlier priority date. The result is that the competing patent applicant will be granted the patent, not our licensor.

The licensee has spent \$5 million in further development of the licensed IP. If the licensor had warranted that it owned the inventions and discoveries in the pending patent application, they having turned out to be owned by the competing patent applicant, the licensor would be in breach of the warranty, and will now be liable to the licensee for its loss of \$5 million.

Would the licensor have granted the license warranting that it owned the IP, given that risk?

2. Again, the licensor grants a license for an up-front payment of \$100,000 and a royalty of 5%. This time, in the course of the prosecution of the patent application, the patent examiner discovers prior art and the patent is not granted.

Again, the licensee has spent \$5 million in further development of the licensed IP. Again, if the licensor had warranted that it owned the inventions and discoveries in the pending patent application, they having turned out not to be novel, with therefore nothing being owned, the licensor would be in breach of the warranty, and will now be liable to the licensee for its loss of \$5 million.

3. Again, the licensor grants a license for an up-front payment of \$100,000 and a royalty of 5%. This time, the patent is granted. However, in post grant opposition proceedings, or in revocation proceedings, prior art is discovered, and the patent is revoked.

Again, the licensee has spent \$5 million in further development of the licensed IP. As well, the licensor anticipates lost profits for the expected remaining life of the patent, had it not been revoked, of \$50 million.

Again, if the licensor had warranted that it owned the inventions and discoveries in the pending patent application, they having turned out not to be novel, the licensor would be in breach of the warranty, and will now be liable to the licensee for its loss of \$5 million, and possibly liable for the additional \$50 million of loss as well.

These scenarios are not remote.

In each case, the licensor will be shocked by its prospective liability arising from its breach of its warranty that it owned the inventions and discoveries encompassed in a patent application. Indeed, such a licensor might rather have preferred not to grant the license, than having the prospective liability for breach of warranty.

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  - basic
  - intermediate
  - advanced
  - master class.

## Can a Licensor Warrant that it Owns the IP it Licenses?

A licensor negating warranties, that is, stating that it makes no warranties, does not manage its risks. Courts may imply terms into a license, and will have no difficulty implying warranties. The risk of negating warranties is that a court may imply warranties that are broader than a licensor might have agreed to. The issue of warranties therefore needs to be squarely addressed in a license.

Addressing the issue first requires that there be an allocation of risk, as between the licensor and the licensee. Who is best placed to take the risks in our three examples? Who is best placed to make commercial decisions to expend monies knowing those risks? Corresponding to these questions, would a licensor be expected to run the risk, on our example, of a \$5 million liability, if its upside was \$100,000, and the prospect of future royalties. A licensor in those circumstances might have been deterred from running those risks, and therefore deterred from granting the license at all. Commercially, these are risks that are better able to be handled and managed by a licensee. The licensee already runs the commercial risk of having a freedom to operate impediment, and the need to license-in a third party's patent. That commercial risk is no greater than the commercial risks in our three examples.

But a licensee expects a warranty that the licensor is not knowingly licensing someone else's IP. That is not unreasonable. This is why warranties about ownership of IP are typically framed as being made to the best of the licensor's actual knowledge. If the licensor's (and its employees) actual knowledge is that the licensed IP was actually developed by someone else, the warranty will be breached. In that case, the potential liabilities to the licensor are deserved. But if to their actual knowledge they developed the IP, and it was not developed by another person, the making of a warranty by the licensor that to the best of its actual knowledge it owns the licensed IP, will not involve the risks of liabilities in our three examples.

If a licensor has knowledge of a competing patent applicant, for example, by its knowledge of the scientific literature, then it would be prudent to disclose this, and to make the best of actual knowledge warranty subject to that disclosure.

### 2. Warranty of ownership in relation to granted patents

Can a licensor warrant, without qualification, that it owns a granted patent? The patent has issued. It is an asset. If the warranty is made, without qualification, would the licensor be in breach of the warranty if the granted patent was later revoked, having been found invalid?

That risk to the licensor suggests that the warranty should similarly be made with the best of actual knowledge qualification. Risk mitigating strategies for the licensor are for the warranty to be made only as at the date of the license and that the licensor has no liability should the patent later be revoked.

### 3. Warranty of ownership in relation to software code

For the reasons described in relation to patent applications, should a licensor warrant that to the best of its actual knowledge it owns the copyright in software code? Such a warranty would not be acceptable to a licensee.

The nature of copyright is quite different to the nature of an invention or discovery. You can never know whether another person is working on the same science, and making the same invention or discovery. That is the nature of science. But that is not the case for copyright. No other person can reproduce the same software code. In fact, for copyright to subsist, the copyright work must be original. That is invariably another warranty that a licensor customarily makes when licensing a copyright work – that it is an original work.

It therefore cannot follow that a licensor warrants that to the best of its knowledge it owns a copyright work. That is tantamount to saying that "To the best of my knowledge I have not copied this copyright work from another person". That would be an unacceptable warranty for a licensee to accept. Customarily therefore, a warranty by a licensor that it owns copyright is made in absolute terms, and is not made on a best of actual knowledge basis.

### 4. Warranty of ownership in relation to a software patent

So, how should warranties be framed in relation to software patents being licensed?

If the subject matter of the license are both:

1. patents, then all the remarks in sections 1 and 2 are relevant, and the warranties, so far as they relate to the patents, should be made on a best of actual knowledge basis, and
2. computer code, then all the remarks in section 3 are relevant, and the warranties, so far as they relate to a copyright work, should be made on an unqualified basis.

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