

The hard issues in an exclusive Field license – Part 2

In the last edition of IP Bits we considered the implications of an exclusive field licensee being treated as a non-exclusive licensee by patent laws around the world, with that licensee as a result lacking the standing to bring proceedings against an infringer. We also looked at the tension that is typical in a negotiation between an exclusive licensee in a field and the licensor. The licensee not unnaturally seeks to have all the usual rights that are conferred upon an exclusive licensee, and the licensor, retaining important rights outside the field, wants or even needs to retain rights that normally would have been granted to the exclusive licensee.

This edition of IP Bits continues to look at these hard issues in a field limited exclusive license, and these tensions between a licensor and licensee.

Patent prosecution and decision making

An exclusive licensee that has rights to all fields of application of the licensed IP, without any field restriction, will often seek to have the carriage of the prosecution of patents, as well as seek the freedom and discretions to make all decisions in relation to the prosecution of patents, including the scope of claims to be pursued, the negotiation of claims with examiners, the countries in which to pursue the grant of patents, as well as the conduct of opposition proceedings.

An exclusive licensee in a field will expect the same rights. This may conflict with the licensor's interests. The licensor retains rights to the IP outside the field. The licensor will therefore want patent prosecution decision making to be responsive to its own needs outside the field.

An exclusive licensee in a field that controls the prosecution of patents will primarily be motivated to make decisions having regard to its own interests in the licensed field. It will be less sensitive to the needs outside the field that are retained by the licensor. It may even not recognise that decisions it makes in relation to its own interests in its own field, impact negatively upon the licensor's interests outside the field.

So, how is this dilemma resolved?

Prosecuting patents jointly, and jointly making decisions does not work. Patent prosecution "by committee" presumes that the parties will always have consensus on what is to be done, but that is unlikely. This would not normally be an acceptable option to either the licensor or the licensee.

One party will have to solely prosecute the patents, and will have to solely make decisions. Which party that will be will largely be determined by the relative bargaining strengths of the licensor and the licensee. The other major factor influencing the negotiation will be the comparative value of the IP in the licensed field and the value of the IP outside the field. If the greater value is represented by the field that is licensed, the licensee may have the superior bargaining power to persuade that it should prosecute the patents and make decisions. If the licensor's retained rights outside the field have the greater value, it should be in the stronger position to negotiate retaining the right to prosecute patents and make decisions.

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Either way, the risk of decisions being made that prejudice the other party can be lessened by the other party receiving all patent correspondence at the same time as the party having carriage, as well as being included in all phone conferences and meetings where patent strategies are decided and all other decision making take place, so that it has the ability to influence the decision to be made.

Patent prosecution costs

Patent prosecution costs can be significant. If there are opposition proceedings, the cost of the proceedings can make the prosecution cost look modest.

A field licensee that is prosecuting patents will recognise that the benefit of the prosecution, and the costs incurred, accrue not just to the licensee, but to the licensor as well. It may want patent costs to be shared equally, with the licensor reimbursing to the licensee one half of the costs. If the IP lent itself to three fields, the licensee might seek reimbursement of two-thirds of the costs.

If the licensor is prosecuting the patents, the issue is in the same, in reverse. The field licensee may be unwilling to contribute more than 50% of the patent costs. Or, if more fields of possible licensees are identified, only one third, or even a smaller fraction, depending on how many fields and potential licenses are identified.

From the licensor's point of view the issue has another wrinkle. While multiple field licensees may be anticipated, the reality is that there may only ever be one license ever granted. In that event, the field licensee being the only beneficiary of the patents, it should pay the whole of the patent prosecution costs.

There is a solution: the first field licensee pays or reimburses 100% of the patent prosecution costs incurred, recognising that this first field license may be the only license ever granted. If a second field license should subsequently be granted, the licensor pays back to the licensee 50% of the past expenses, which the licensor would have to recoup from the second field licensee. From that time, patent prosecution expenses, as well as patent maintenance expenses, are then shared 50% by the two field licensees. If a third field license should be granted, another similar adjustment would be made.

Of course, a 50% split, or a split by another percentage is arbitrary, and it bears no relationship to the different values of the IP in the different fields. But being arbitrary for what is after all a relatively modest cost in the whole scheme of things, does not necessarily produce an unfair result.

Concluding comments.

Field licenses are special licenses, with special and unique issues which do not always have straightforward solutions. So many of the outcomes on these special issues will depend upon the relative bargaining strengths of the parties in their negotiation. Like all the other issues in a negotiation, the best prepared party with a mastery of the issues, will be likely to achieve the better outcome.

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