WHEN AN EXCLUSIVE LICENSE IS NOT EXCLUSIVE

by Debbie Spranger, JD, Chair of Business Finance, Saul Ewing LLP

An exclusive patent license gives the licensee the exclusive right to make, use, sell, offer to sell and import products covered by the patented technology and the right to exclude others from doing so. Exclusivity may be limited to a particular territory or field of use. In its broadest form, an exclusive license is akin to an assignment of the underlying patent. However, there are several situations where an "exclusive" license may not, in fact, be exclusive. These include:

WHEN THE LICENSOR DOES NOT OWN ALL OF THE LICENSED RIGHTS

Shoring up ownership before licensing may seem obvious, but it is amazing how often ownership issues arise after a license is granted. Sometimes these issues originate from a failure of the licensor to obtain necessary assignments from all inventors on the patent. More often, they crop up when a third party (often the employer or funder of one of the inventors) asserts ownership over that inventor's work product. These third party rights may be a function of a written agreement or institutional policy or may arise by operation of law. In these cases, an assignment signed by the inventor is not effective, because the inventor did not own the rights (s)he purported to assign.

Even if the license agreement includes representations and warranties with respect to ownership of the intellectual property, these contractual provisions give rise only to a cause of action for damages against the licensor. In order to have exclusive rights in the invention, the licensee will still need to negotiate a separate license or assignment from a third party claiming rights in the technology. In order to protect itself against these types of claims, licensees should conduct comprehensive due diligence on each patent to be licensed, including tracing inventorship and inquiring about the employment and other affiliations of each inventor at the time of the invention.

IN JURISDICTIONS THAT IMPLY A RETAINED RIGHT IN FAVOR OF THE LICENSOR

In the U.S., it is generally understood that an exclusive license is exclusive even as to the licensor. However, some jurisdictions will imply retained rights to practice the invention in favor of the licensor absent express language to the contrary. For this reason, the grant language in an exclusive license should always include a savings clause (i.e., "Licensor hereby grants to Licensee an exclusive license, even as to Licensor"). Note too that

WHEN AN EXCLUSIVE LICENSE IS NOT EXCLUSIVE (CONT.D)

a "sole" license is typically construed to include a licensor's retained rights. To avoid ambiguity on this point, agreements should never include a "sole and exclusive" license.

WHEN GOVERNMENT FUNDING WAS USED IN THE DISCOVERY PROCESS

The U.S. government retains rights to practice inventions made using federal funding under the Bayh Dole Act. The government also has rights to step in and force a third party license of the technology if the patent owner and/or its licensees are not making satisfactory efforts to commercialize the technology. State governments and non-profit foundations may have similar rights. As a result, it is important for a licensee to inquire about the source of funding for all licensed technologies.

IN ENFORCEMENT ACTIVITIES

Some jurisdictions require that the patent owner(s) join in any action to enforce the underlying patent. If the license is limited to a particular territory or field, license holders in other territories or fields may have a vested interest in such actions as well. For this reason, licensees should include in their license agreements a contractual commitment on the part of the licensor to join in any law suit to enforce the licensed patent. Licensees may also want to receive notice of, or even a right of first refusal on, licenses of the subject technology for other territories or fields of use.

In many ways, a broad exclusive license is akin to an assignment of the underlying IP. Appropriate due diligence and careful drafting can ensure that a licensee is actually getting the level of exclusivity it desires.