

Client Alert

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Survive or be Terminated

A Look at the Fate of Sublicenses After the End of the Main License in Germany, France and the UK

Recent developments in Germany concerning the survival of sublicenses after termination or expiration of the main license should alert licensors to re-evaluate their licensing models and to take additional steps to ensure they retain sufficient control of their intellectual property. These developments also warrant a look at other important European licensing jurisdictions, in particular France and the UK.

Germany's Unique Position — Surviving, Undead?

In 2009, the German Federal Supreme Court (*Bundesgerichtshof* – BGH) addressed whether a sublicense could survive the termination of the main license granted to the sublicensor. In its decision “Reifen Progressiv” of March 26, 2009,¹ the BGH held that a sublicense requiring the sublicensee to pay the licensee a one time license fee remained in effect after the main license had terminated on notice due to lack of use by the main licensee/sublicensor pursuant to Section 41 German Copyright Act (*Urheberrechtsgesetz* – UrhG). However, this decision only addressed the specific situation and licensing structure and it was unclear to what extent it could be generalized.

More recently, in the two decisions “M2Trade” and “Take Five” dated July 19, 2012,² the BGH held that sublicenses which required a payment of running royalties or which allowed the licensee to share in the revenue of the sublicensee, could also survive the termination or expiration of the main license granted to the sublicensor, irrespective of the reason for termination or expiration.

One of these decisions (“M2Trade”) concerned an exclusive license in a computer program which was sublicensed for payment of a running royalty and then sub-sublicensed. The holder of the exclusive license terminated the first sublicense agreement for not receiving the royalty from the sublicensee/sub-sublicensor and claimed that the sub-sublicensee was therefore no longer entitled to use the computer program and liable for damages for unauthorized use.

The other case (“Take Five”), concerned publication rights in a musical composition. The exclusive licensee of the composer granted an exclusive sublicense to a music publisher and the latter sub-sublicensed the publication rights for a certain territory to a sub-sublicensee. The first two parties mutually agreed to terminate the license agreement between them and the exclusive licensee of the composer claimed that the (legal successor

“After the German Federal Supreme Court’s ruling on the survival of sublicenses through main license termination, licensors should reconsider licensing and sublicensing conditions.”

of the) sub-sublicensee was no longer entitled to exercise the sub-sublicensed publication rights.

In both cases, the BGH held that the (sub-)sublicense remained intact and unaffected by the termination or dissolution of the main license agreement.

The BGH based its decisions on the principle of "*Sukzessionsschutz*" (protection from succession) as codified in Section 33 UrhG, Section 30 para. 5 German Trademark Act (*Markengesetz* – MarkenG), Section 31 para. 5 German Design Rights Act (*Geschmacksmustergesetz* – GeschmMG), Section 15 para. 3 German Patent Act (*Patentgesetz* – PatG) and Section 22 para. 3 German Utility Model Act (*Gebrauchsmustergesetz* – GebrMG). This principle effects that licenses granted remain unchanged when the licensed item of intellectual property is assigned and transferred to a new owner. It is intended to protect the licensee's position who may have made substantial investments in connection with the license. The BGH considered the licensor's interests as well but found that typically, the (sub) licensee's interest overrides the former since the licensor can demand that the main licensee and (former) sublicensor assign any claims for sublicense fees against the sublicensee to the main licensor. The BGH did state that a licensee paying running royalties has less of an interest in survival of the license than a licensee who has paid a one-time fee but still found the (sub)licensee's interest in survival of the license more compelling than the licensor's interests. Since the (sub)licensee generally has no control over the subsistence or termination of the main license or the reasons for which it might be terminated, the BGH found that he would be at an undue disadvantage if the sublicense were to automatically terminate or expire with the main license as a matter of law. In summary, if a licensee is permitted to grant sublicenses, such sublicenses will generally survive the termination of the main license. The main licensor cannot prevent the sublicensee from exercising the sublicensed rights and can only demand that the main licensee assign his claims for license fees to the main licensor in order to then claim payment of the sublicense fee from the sublicensee.

The BGH decisions "M2Trade" and "Take Five" give sublicensees legal certainty and offer them protection of their investment in the sublicense or in connection therewith.

On the other hand, licensors lose a substantial amount of control over their intellectual property. They may want to retain such control over sublicenses to a greater extent for a variety of reasons, *e.g.*, because they may wish to terminate any licenses and sublicenses in case a (sub)licensee is acquired by a competitor or because a sublicense may negatively impact their ability to license to a third party after termination of the previous main license.

Keeping more control remains possible. The BGH did not rule out contractual restrictions on sublicensing in general or agreements that require a licensee to either only sublicense with the main licensor's prior consent or to only grant sublicenses that are coterminous with the main license and automatically terminate in the event the main license is terminated. In both of these cases, the sublicensee should not be at an undue disadvantage within the BGH's reasoning because he would already be aware of these conditions upon entering into the sublicense agreement. From the main licensor's perspective, a requirement that no sublicense be granted without his prior approval and/or to adhere to basic terms and conditions already specified in the main license agreement offers the greatest level of control because such approval can be withheld if the sublicense is not made dependent on the continued existence of the main license and the adherence to basic terms and conditions which may include a requirement to make sublicenses coterminous with the main license. Without an approval requirement, even if the main license agreement provides that sublicenses may only be granted if dependent on the continued existence of the main license agreement, the main licensee may be able to validly grant a sublicense without such restriction which may then survive the

main license agreement and leave the main licensor with a claim for assignment of royalty claims and possibly damages against the main licensee only, and such damages may be difficult to prove.

The decisions of the BGH create further difficulties for main licensors. The BGH did not address whether the main licensor would be able to terminate the surviving sublicense agreement for cause; whether for "important cause" as prescribed in Sec. 314 German Civil Code or for a cause defined in such sublicense agreement. Since the BGH stated that the main licensor can (only) demand to have claims for payment of sublicense fees assigned to him by the (former) sublicensor under Sec. 812 German Civil Code (unjust enrichment) and hence the sublicense agreement presumably remains intact between the sublicensor and the sublicensee despite the sublicensor no longer holding any rights in the sublicensed intellectual property, only these latter parties would be able to terminate the sublicense agreement between them, not the main licensor or, if not one and the same, the owner of the sublicensed intellectual property.

This consequence is problematic since it may lead to situations in which the sublicense could be terminated for cause but the main licensor/owner of the sublicensed intellectual property would not be able to effect such termination although he is factually the only party interested in exercising such termination right. Furthermore, if the sublicense agreement remains intact, it is entirely unclear how the sublicensor could still fulfill his obligations thereunder after termination of the main license. It remains to be seen whether the BGH will address these issues in future decisions since it apparently did not consider the interests of the main licensor in weighing the former against the sublicensee's interests in a survival of the sublicense.

The Position in England and Wales

In England and Wales, the general presumption is that a licensee cannot grant to a sublicensee rights that extend beyond those granted to it by the main licensee. The prospect that a sublicense could therefore outlive a main license is therefore not normally required to be considered. The English Law position is based on two doctrines: that of privity of contract in which only the parties to the contract have rights under it, and that a licensee cannot sublicense more widely than the rights granted under the license. The former doctrine may be weakened by the Contracts (Rights of Third Parties) Act 1999, which provides that third parties who are intended to benefit from contractual rights between the contracting parties may enforce those rights.³

That said, protection can be sought by a sublicensee in the sublicense to ensure that the sublicensee has a contractual claim against the (intermediate) licensee where the main license is lost, to require the main licensor to sign up to the sublicense and agree to step into the (intermediate) licensee's shoes upon termination of the main license. Some main licenses contain a contractual provision that in the event of termination of the main license, any sublicensees will become directly licensed.

There is little case law on point, although that which is available supports the contention that sublicenses do not generally survive termination of a main license.

In *Austin Baldwin & Co Ltd. v. Greenwood & Batley Ltd. and v. Magnetic Car Company Ltd.*,⁴ a patent licensor brought an action against two sublicensees to obtain an order to restrain the sublicensees from holding themselves out as such following termination of the main license (to which the defendants were not a party).

The defendants claimed equitable relief on the basis that: (1) they did not know the terms of the main license; and (2) they had expended large amounts of money working the relevant patents.

The High Court noted that the relationship was governed entirely by the relevant contracts (the various license agreements). The terms of the main license showed that none of the parties had contemplated that the main licensor should remain subject to the obligations created in favor of a sublicensee in the event of the termination of a sublicense under the main license. The sublicenses had therefore ceased to operate simultaneously with the termination of the main license, and the order restraining the defendants from holding themselves out as sublicensees was granted. Although the court emphasised that this was a matter of contractual interpretation, it seems to be the case that unless the continuation of sublicensee rights following termination of the main license is specifically provided for in the main license, such rights will be held to terminate on termination of that main license.

The Court of Appeal was invited to consider the issue again in *Fomento (Sterling Area) Ltd. v. Refill Improvements (RI-CO) Co. Ltd.*⁵ In that case, the main licensor granted a license, the terms of which allowed for further sublicensing (and a sublicense was subsequently created thereunder).

The main licensor then replaced the main license (in accordance with its terms) with an agreement with the (intermediate) licensee which did not allow for sublicensing. The licensor then sought an interim injunction (pending trial) to prevent the sale of goods under the sublicense. The court did not express a view on whether the termination of the main license: (1) caused the sublicenses to terminate; or (2) was subject, in law, to the continued right of the sublicensees to exercise their sublicense rights. The court proceeded on the assumption that the former interpretation was the correct one (on the basis that adopting the latter view would have led to automatic refusal of the application) but proceeded to deny the plaintiff licensor the requested injunction in any case on the basis that equitable relief would not be granted where its cause of action arose out of its own acts.

There is therefore no suggestion that the courts are or would be inclined to rebut the presumption that sublicenses must terminate along with their main licenses. The only way to address the issue as a concerned licensee is to seek contractual protection from the (intermediate) licensee in the sublicense agreement but better still to insist that the main licensor agrees to step in upon termination of the main license. This of course is not always practicable and its feasibility will depend on the commercial context.

There has been no case law under the Contracts (Rights of Third Parties) Act 1999 directly relevant to this sublicensing issue. The question would be one of fact; was there an intention to give third party sublicensees rights under the license, and if so, did it extend to a case where the main license was terminated, having regard to the fact that the normal rule is that sublicenses terminate upon termination of the main license. Where the main license contains a contractual provision that in the event of termination of the main license, any sublicensees will become directly licensed, absent a contractual disclaimer stating that the Contracts (Rights of Third Parties) Act 1999 does not apply, third parties should have enforcement rights against the licensor, even in the absence of privity of contract.

The Issue from the French Perspective

For a sublicense to be granted at all, French law — just as German law — requires the main licensor's authorization by contract. However, under French law, in contrast to German law, a sublicense generally cannot survive the termination of the main license, unless the parties have provided a clause to the contrary in the contract.

The situation is rather clear when the IP right that is the subject matter of the license and sublicense is annulled: in such circumstances French courts have held that the annulment automatically triggers the annulment of licenses and sublicenses granted over such IP rights since the owner has not fulfilled his/her obligation to grant a valid title.

Aside from this clear situation, there is no available case law where termination is not based on annulment of the IP right (*i.e.*, expiry or termination for cause). For such circumstances, the solution may however be found by analogy in French contract law applicable to lease contracts (C. civ., Art. 1798 and seq.). For lease contracts, the termination of the main lease leads to the termination of the sublease, including where the termination is based on a breach committed by the lessee⁶. Reasoning by analogy, it is likely that the French judge, upon termination of the license agreement, would proceed automatically to terminate the sublicense. This being said, as suggested above, a contract clause that would protect the sublicensee in the event of termination of the main contract could prevent this. The parties may agree contractually that the sublicense would continue in the event of termination of the main license, and as a result termination of the license would not affect the validity of the sublicense.⁷

Endnotes

¹ docket nr. I ZR 153/06, published in BGHZ 180, 344

² docket nrs. I ZR 70/10 and I ZR 24/11

³ Well drafted licenses under English law exclude the provisions of this legislation.

⁴ (1925) 42 RPC 454

⁵ [1963] RPC 163

⁶ Cour de cassation, Civ. 3ème, 19 June 1970, Bull. civ. III, n°434; Civ. 3ème, 10 October 1979, Bull. civ. III, n°173.

⁷ Lambot (Guy), « Données moi », Revue Lamy Droit de l'immatériel – 201062.

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