



Technology Breakfast Series
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presented by
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The Intersection *of* Law and Finance

Key Legal Issues to Consider When Licensing Technology



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Part I

Determine Scope of What Will Be Licensed to Licensee

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- **Intellectual Property can be licensed**
 - Patents
 - Copyrights
 - Trademarks
 - Trade Secrets/"Know How"

Determine Scope of What Will Be Licensed to Licensee

- **Clarify exact components of Technology that will be licensed to Licensee**
- **For patents:**
 - Make Invention
 - Use Invention
 - Sell Invention
- **For copyrights:**
 - Copy/reproduce Work
 - Distribute Work
 - Make derivatives of Work

Determine Scope of What Will Be Licensed to Licensee

- **Also, in addition to a patented invention, may include:**
 - Licensor's Technology in pending patent applications
 - Other Licensor "know how" that Licensee needs in order to properly use the patented Technology
 - Software programs
 - Databases
 - Written materials, such as manuals
 - Other "confidential info" of Licensor
- **Establishing the scope of the licensed Technology will impact the legal rights that need to be granted to Licensee**

Determine Scope of What Will Be Licensed to Licensee, *cont.*

- **Will Licensee be permitted to use the Technology for all possible uses?**
 - Or, will Licensee be limited to a certain “field of use?”
 - This is an important issue since Licensor may want to license Technology to another Licensee in other fields of use
- **Will there be any prohibitions on Licensee’s use of the Technology even within the agreed-upon field of use?**

For example:

 - Will there be specific Licensee “sites” at which it may use the Technology?
 - Can only specific employees of the Licensee use the Technology?

Part II

Precisely Identify Licensee

Precisely Identify Licensee

- Identify specific entities that will be Licensee
- Licensee often mistakenly assumes it can share rights granted to it in a License Agreement with affiliates (i.e. subsidiaries or parent) or even contractors
- Parties should clarify Licensee up front to avoid this potential problem

Part III

How Does Licensee Plan to Use Licensor's Technology?

How Does Licensee Plan to Use Licensor's Technology?

- **Clarify how Licensee intends on using Technology**
 - Will Licensee only use Technology “internally” to make a final product for use by end users?
 - Or, will end users need access to Licensor's Technology?
- **Licensees often assume they can automatically sublicense their rights to a third party**
 - Licensor's attitude—the terms and conditions of the License were negotiated based on the financial and commercial status of Licensee and not upon an unknown sub-licensee
 - Licensee should disclose to Licensor any intent by Licensee to engage a third party to manufacture, distribute or sell products containing the Technology
 - Thus, Licensor wants to know scope of any sub-licensee's rights (i.e., simply to manufacture, simply to distribute, etc.)

Part IV

Exclusive/Non-Exclusive License and Territory

Exclusive/Non-Exclusive License and Territory

- Does Licensee want exclusive License to make, sell or otherwise use the Technology in specific territories?
- Generally, Licensor should not grant exclusive rights (i.e. a “worldwide License”) unless the Licensee can demonstrate it has capacity to maximize the commercialization of the Technology in that territory
- Licensor should require Licensee to explain its business plan for maximizing commercialization of Technology
 - This applies when granting exclusivity within the USA
 - As well as when granting exclusivity in other nations

Exclusive/Non-Exclusive License and Territory, *cont.*

- Licensor's legal counsel needs the above information since Licensor may not have patents registered in all of the applicable nations
- Does Licensor have need to use the Technology in the exclusive territory? If so, Licensor needs to reserve this right

Part V

Licensee's Minimum Level of Performance ("Milestones")

Licensee's Minimum Level of Performance "Milestones"

- Minimum levels of performance must be established for exclusive and non-exclusive Licensees
- Licensor must understand Licensee's business plan for commercializing Technology to establish reasonable performance standards for the Licensee (often called "Milestones")
- Milestones may be in terms of minimum Royalties per year or capturing a percentage of market share

Licensee's Minimum Level of Performance "Milestones," *cont.*

- At a minimum, Licensee must use "best efforts" to commercialize Technology
- An exclusive Licensee should have particularly strict Milestones since it is granted significant rights
- If a Licensee cannot meet the Milestones, Licensor often have right to:
 - Terminate the License
 - With regard to exclusive Licensees, either termination or convert into non-exclusive License

Part VI

Royalty Payments

Royalty Payments

- **The Royalties that Licensee will pay Licensor can be structured in many ways:**
 - “Upfront Royalties” (similar to a “down payment”)
 - “Ongoing Royalties” that often are a percentage of “net sales” of products containing the Technology
 - Could require Licensee to pay “minimum” ongoing royalties regardless of the level of sales
 - Licensor could obtain an “equity interest” in the Licensee

Royalty Payments, *cont.*

- Particularly if Royalties are based on sales of products by Licensee—Licensor usually requires “auditing” rights to allow Licensor to monitor Licensee’s compliance with terms of License Agreement
- Particularly related to overseas Licensees—Licensors usually require that any taxes that either Licensor or Licensee must pay to applicable taxing authorities will not be deducted from Royalty payments

Part VII

Ownership of Improvements

Ownership of Improvements

- Discuss right of Licensee to develop “improvements,” or “derivatives” of, or other enhancements to, the Technology (collectively “Improvements”)
- Issue of who owns Improvements is often contentious
- First, does Licensor want to “own” Improvements?
- If so, and to overcome likely objections from Licensee, Licensor may need to offer a license back to Licensee in Improvements
- If Licensee resists giving Licensor ownership in Improvements, Licensor should at least obtain a royalty-free license in the Improvements

Part VIII

Ongoing Protection and Maintenance of Intellectual Property Rights in Technology

Ongoing Protection and Maintenance of IP Property Rights

- If Technology contains patents (both registered and pending), Licensor will have ongoing costs to obtain, and maintain, the patents
- Particularly with exclusive Licensee, Licensor may require that Licensee cover these costs
- Preventing infringements by third parties

Part IX

Intellectual Property Representations and Warranties are Intensely Negotiated

Licensee's Viewpoint

- Licensee needs some “assurances” that Licensor either “owns” or “controls” all IP rights in the licensed technology
- Licensee also wants “assurances” it will not be sued for patent, trademark or copyright infringement as a result of using the licensed technology

Licensor's Viewpoint

- Licensor usually reluctant to give "broad" IP reps/warranties
- Usually will not give reps/warranties about IP outside the "Territory"
- Usually wants to give "minimal" reps/warranties related to IP inside the "Territory"
 - Wants to add "best of knowledge" qualifiers
 - For example: "To the best of its knowledge, Licensor has the authority to grant the License to Licensee pursuant to the terms and conditions of this Agreement"

Compromise IP Representations/Warranties

- **To the best of Licensor's knowledge, Licensee's use of the Licensed Products in the Territory only, provided such use is in accordance with the terms and conditions of this Agreement, will not infringe upon any third party's:**
 - i. patents registered with the United States Patent & Trademark Office
 - ii. United States-recognized copyrights; and
 - iii. trademarks registered with the United States Patent & Trademark Office

Part X

Term of License

Term of License

- Will License be for a specific period of time?
- If for a defined time period, will Licensee have any renewal rights and what will the renewal term/terms be?

Part XI

Training, Support & Maintenance

Training, Support & Maintenance

- **Will Licensee look to Licensor for training to allow Licensee to better use Technology? If so, discuss:**
 - Exact scope of such training to be provided by Licensor
 - Costs
 - Location of training sessions
- **Will Licensee look to Licensor for ongoing support and maintenance? If so, discuss specifics**

Part XII

Right to Source Code

Right to Source Code

- If any computer programs are part of licensed Technology, does Licensee need access to source code compared to object code?
- Consider source code escrow instead of outright delivery of source code

Part XIII

Other Issues

Other Issues

- **The previous list is intended only as a brief summary of some key discussion points in a License Agreement. This list does not address all of the provisions that would be included in a final License Agreement**
- **For example, a final License Agreement will likely contain provisions covering:**
 - Indemnities by one party to the other for actions of the first party
 - Limitations on any liability Licensor may sustain resulting from the Licensee's use of the Technology