

Presenting a live 90-minute webinar with interactive Q&A

Negotiating Technology Transfer Agreements

Structuring Key Provisions, Anticipating and Avoiding Drafting Pitfalls,
Addressing Cross-Border Challenges

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1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

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Technology Licensing in 2016

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Introduction to Presenters

- **Luke Pedersen**

- Head of IP Section, DC Office, Baker Botts L.L.P.
- Chair of firmwide PTAB Trials Committee

- **Steve Mann**

- Corporate Senior Associate - Technology Transactions, Outsourcing & Technology-focused M&A
- Dallas Office, Baker Botts L.L.P.

- **Opinions and views expressed in this presentation do not necessarily represent the opinions and views of Baker Botts.**

Overview

- **Goal is to “deconstruct” a licensing transaction into its component parts**
- **Compare and contrast how these parts are used by reference to three categories of intangibles**
 - Patents
 - Software
 - Services

Overview—Think Differently

- **Practitioners can fall into the trap of viewing these categories as walled gardens**
- **Really more of a continuum**
- **Presentation is licensor / licensee agnostic—goal is to focus how the same themes are implemented with the categories**
 - Expand your toolbox with new tools (or the same tools now used to address new problems)

When Should You Use a License?

- **License v. sale**
 - Not all of the sticks in the bundle transfer
 - One party remains owner—all rights granted per contract
- **Sale may not be the best option**
 - Licensor's rights to the subject matter may not permit a true sale
 - "Co-ownership" doesn't work (usually)
 - Consider license tantamount to ownership

When Should You Use a License?

- **Flexibility of a license**
 - Ability to shape the deal based on the intent of the parties
 - Licensor may relinquish certain of its own rights as part of the package
- **IP Licenses come in many shapes, sizes & types**
 - EULA
 - Distributor/Reseller
 - Joint development
 - M&A
 - Monetization
 - Settlement

Components of a License

- **Same overarching principles, but the devil is in the details**
 - What is the “thing” being licensed? (Subject of License)
 - What rights are being granted to the “thing”? (Grant of License)
 - What happens if I make new “things” from the old “thing”? (Rights to Develop & Extend)
 - What consideration is being paid for the “thing”? (License Fees and Royalties)

Components of a License, cont'd

- **Same overarching principles, but the devil is in the details**
 - How do I determine the quality of the “thing”? (Warranties)
 - What happens if something goes wrong with the “thing”? (Remedies & Risk Allocation)
 - How are the rights to the “thing” extinguished? (Termination)

Subject of License

- **Patents**
- **Software**
 - Proprietary
 - Third party
 - commercial
 - open source
- **Copyright**
- **Trademarks**
- **Trade Secrets**
- **Services**

Patent License - Special Considerations

- **Right to exclude**
 - Not the right to practice
- **Patent assertion**
 - Who can/must assert the patent?
 - Owner as a necessary party to litigation
 - Who "pays" for patent assertion?
 - average cost of litigation
 - resource/personnel intensive
 - Who recovers damages award?

Patent License - Special Considerations

- **Patent defense**
 - Who can/must defend the patent?
 - Owner as a necessary party to litigation
 - Who "pays" for patent defense?
 - average cost of litigation
 - resource/personnel intensive

Patent License - Special Considerations

- **Validity challenge (3rd party)**
 - District Court (Declaratory Judgment)
 - Patent Trial & Appeal Board (America Invents Act)
 - Post Grant Review (PGR)
 - Inter Partes Review (IPR)
 - Covered Business Method (CBM)
 - PTAB proceedings = patent prosecution?

Patent License - Special Considerations

- **Challenge by licensee**
 - Validity
 - District Court (Declaratory Judgment)
 - Patent Trial & Appeal Board (America Invents Act)
 - No Challenge clauses are generally unenforceable unless settling litigation
 - Licensee need not terminate to challenge validity
 - Non-infringement
 - Doesn't cover a "licensed product"
 - Patent holder has burden to prove infringement

Patent License - Special Considerations

- **Related patents covered?**
 - Reissue/reexam
 - Chain of priority
 - Later acquired patents
 - Related subject matter
- **Patent Misuse**
 - No royalties on expired patents or unpatented products
- **Patent exhaustion**
 - First sale "exhausts" patent rights

Software License - Special Considerations

- **What type of software is being licensed?**
 - Proprietary (to licensor)
 - Third party commercial
 - COTS
 - Special purpose
 - FOSS

Software License - Special Considerations

- **Source code scan tools**
 - Text-based (Proprietary, Open Source)
 - Low cost (e.g., free) but otherwise resource intensive
 - Requires a higher level of user-sophistication
 - Better suited to identify unintentional “violations”
 - Text-based scans allow for a more comprehensive review and understanding of the code base and "false positives"
 - Signature-based (Proprietary)
 - High cost but otherwise low impact on user
 - Performed by third party
 - No special knowledge required
 - "False positives" can be difficult to run to ground

Software License - Special Considerations

- **Potential Implications**

- Quality - functionality, cost to fix, maintain, improve
- Malware exposure - bugs, virus, backdoor, time bombs
- Infringement of 3rd party IP
 - copyright
 - patent
- Copyleft trigger
- Insufficient pass through rights (e.g., sublicense)

Subject of License

- **Software**

- Identify software with particularity
- Remember distinction between technology and intellectual property

- **Services**

- “Right to use” versus license
- Software development
- Software maintenance

Services Agreement - Special Considerations

- **Recipient of Services**
 - Affiliates
 - Customers of customer
 - Coordination with other third party providers
- **Licenses needed for Services**
 - Customer-provided software and IP
 - Provider-provided software and IP
 - Developed works
 - Post-termination rights

Grant of License

- **Grant acts like “magic words” to define the parameters of the license**
 - “Licensor hereby grants to Buyer and its Affiliates (but only to the extent that such Affiliates remain Affiliates) a **perpetual, irrevocable, non-assignable, non-exclusive, worldwide, non-sublicensable, royalty-free, fully paid-up** right and license (or sublicense, as applicable) to **make, have made, develop, use, have used, distribute, lease, sell, offer for sale, have sold, import, support, service, display and publish, perform, copy, create derivative works of, modify and distribute** the Licensed IP and otherwise commercially exploit such Licensed IP, provided that Buyer must maintain the confidentiality of any confidential source code or other trade secrets so licensed .“
- **Modifiers are used to alter or clarify the default assumptions regarding the license grant**

Grant of License

- **Define Statutory IP Rights to be Licensed**
 - Patents: make, use, sell, offer for sale, and import. 35 U.S.C. §271(a)
 - Copyright: reproduce, prepare derivative works, distribute, perform the work publicly, display the work publicly, and transmit. 17 U.S.C. §106
 - Trademarks: use. 15 U.S.C. §§1114 and 1125
 - Trade Secrets: access and use. Uniform Trade Secret Act §§ 1 and 2

Discussion of rights—Scope of Licensee

- **Ellington v. EMI Music, Inc. (2014)**
 - Copyright renewal agreement
 - “Affiliates” does not necessarily mean all “affiliates”
 - State-law specific (NY, in this case)
- **Be careful with “conditional” license grants**
 - “Subject to the payment of all fees ...” – must consider interaction with payment terms
 - “Subject to licensee’s compliance with this agreement...” – may cause the license to lapse during any breach periods (even for immaterial breaches)

Discussion of rights–Exclusive

- **Exclusive, Limited Exclusive, and Sole**
 - Issue - Protecting Licensor from Exclusive License Risks
- **Non-Exclusive License**
 - Issue - Protecting Licensee from Non-exclusive License Risks
- **Exclusive to the licensee**
 - Geography
 - Subject matter

Discussion of rights–Exclusive

- **Exclusivity even as to the licensor**
- **When do exclusive rights create standing regarding the “thing”?**
 - Exclusive licensees can have the same rights as an “owner”
 - Non-exclusive licensees have less rights, but the gaps can be filled in with covenants made by the licensor

Discussion of rights—Perpetual

- **As compared to limited term**
- **Reconcile with the term of the license agreement**
- **Does not mean non-terminable**
- **Draft with an eye toward the future**

Discussion of rights—Irrevocable v. revocable

- **If silent on revocability, then revocable at will (subject to a stated term, if any)**
- **“Revocable” without further qualification (e.g. “in accordance with the termination provisions in Section ___”) generally means revocable at will**
- **“Irrevocable” without similar qualification could be interpreted to mean that the license survives the termination of the license agreement (even for breach)**
- **Do not assume that the ability to terminate the license and the ability to terminate the license agreement will be interpreted the same**

Discussion of rights—Non-sublicensable

- **No further grants by the licensee**
 - Generally, non-exclusive licensees cannot grant sublicenses
 - Key is to maintain control over sublicensees
- **May create issues within affiliates if license not directly granted**
- **Must consider interplay with ability to create derivative works**
- **Consequences of termination of the underlying license?**

Discussion of rights—Non-assignable

- **No transfers by the licensor**
 - Non-exclusive licenses generally considered personal to the licensee and not assignable without consent
 - Exclusive licenses may be assignable absent consent, but not all courts agree
- **Need to reconcile with the assignment provision in the license agreement**

Right to Develop & Extend

- **Derivative works are derivative**
- **Allocation of rights**
 - Licensee-owned
 - Licensed back to Licensor
 - Assigned to Licensor
- **Further assurances to perfect rights**
- **Act like the owner**
 - Covenant to enforce
 - Covenant not to sue

Mechanisms to Enforce License Limitations

- **Audit by Licensor**
- **Keys / certificates**
- **Enforcement of sublicensee uses (no licensor privity with sublicensees)**
- **Certifications**

Fees & Royalties

- **Royalty-bearing license**
- **One-time fee**
- **Most favored nation**
- **Software maintenance**
- **Fees for services**
 - Blended rates
 - By-the-drink

Warranties

- **Patent warranties**

- Title
- Valid, enforceable

- **Software warranties**

- Title
- No infringement (often qualified by knowledge)
- No viruses / malware
- No open source, *except . . .*
- Meets specifications
- Quality
- Ability to compile

Service Quality

- **Service warranties**

- Service standard
- Service levels
- Non-infringement?

- **Efforts clauses**

- No reliable precise meaning
- Define obligations with specificity
- In the alternative, define balancing with respect to efforts

Remedies & Risk Allocation

- **Issue of title**
 - Breach of title warranty
 - IP Indemnification
- **Issue of infringement**
 - Breach of no infringement warranty
 - Difficult to fully diligence that IP is not infringing
 - Warranty often given “to the knowledge of licensor” (may or may not include a statement that due inquiry has been performed)
 - Infringement indemnity generally applies regardless of knowledge

Remedies & Risk Allocation

- **Choice of counsel**
- **Right to participate**
- **What if use of IP is enjoined?**
 - Render non-infringing
 - Replace with non-infringing equivalent
 - Refund
- **Exceptions to IP indemnification**
 - Use inconsistent with specifications
 - Combination or alteration
 - Use in unintended jurisdiction
 - Unintended uses

Remedies & Risk Allocation

- **Breach of quality**
 - Breach of warranty
 - Repair, replace or refund?
 - Service level credits
- **Acceptance**
 - Ability to inspect and accept or reject
 - Full refund if rejection, or payment not due until acceptance

Remedies & Risk Allocation

- **Traditional allocation of risk**
- **Non-monetary remedies**
 - Software/Source Code Escrow
 - Somewhat customary
 - What rights on release?
 - What triggers release?
 - What happens when release issue is cured?
 - Step-in Rights
 - Often heavily resisted
 - Get use of infrastructure
 - May need both in order to be able to ensure continuity of service if licensor fails to perform

Termination

- **Dispute resolution as a pre-condition?**
- **Termination right**
 - Primary triggers—breach, deemed breaches
 - Secondary triggers--insolvency
- **What happens if termination is an inappropriate remedy?**
 - Consider asymmetric outcomes
 - Perpetual license where licensor commits material breach

