

## Negotiating Technology Transfer and Licensing Agreements: Structuring Key Provisions, Avoiding Drafting Pitfalls

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# Negotiating Tech Transfer and Licensing Agreements

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# Introduction to Presenters

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- **Luke Pedersen**

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- Chair of firmwide Technology Transactions Practice
- Member of firmwide Tech Sector Committee

- **Andrew Wilson**

- IP Associate, Transactional Practice Focuses on FOSS Compliance and Diligence, Member IPO Open Source Committee
- DC 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

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- Structural Licensing Considerations
- License Component Overview and Considerations
- Compare and Contrast How these "Components" are Used with reference to Categories of Intangibles
  - Patents
  - Software
  - Services
- Licensor / Licensee Agnostic

# When Should You Use a License?

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- 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?

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- 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

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1. Introduction
2. Definitions
3. Grant
4. Royalties/License Fees
5. Representations and Warranties
6. Term, Renewal, and Termination
7. Assignment and Transfer

# Components of a License - Considerations

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- 1. What's Being Licensed? (Definitions)
  - Define Terms
    - "Licensed IP"
    - "Licensed Products"
    - "Licensed Technology"
  - Difficult to Explicitly Enumerate
  - Single Product
  - Obligations

# Components of a License - Considerations

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- 2. What Rights are being Granted? (Grant)
  - Assignable/sub-licensable
  - Make un-licensed products
  - Affiliates
  - Have sold
  - Have made
  - Exclusive v. non-exclusive license
  - Geographic restrictions
  - Temporal restrictions
  - Field of use limitations
  - Implied license
  - Revocable/Irrevocable

# Components of a License - Considerations

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- 3. Can I Improve Upon or Extend the Licensed IP? (Grant)
  - Ownership
  - Derivative Works
- 4. What are the Payment Terms? (Royalties)
  - License Fee
  - Royalty
  - Strategy in Structuring
  - Bankruptcy - Section 365(n) distinction between types of IP

# Components of a License - Considerations

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- 5. How do you Make Sure You're Getting What You Intend? (Warranties)
  - Forward looking
  - Define warranties with reference to published specification or document
  - Non-infringement
  - Invalidity
  - Defects/Bugs
  
- 6. What If Something Is Wrong? (Representations)
  - Current state of affairs
  - Structural reps/warranties to ensure ownership of assets
  - Embedded OSS

# Reps/Warranties - Embedded OSS

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- Demonstrate contribution to OSS community and compliance with OSS licenses
- OSS Licenses Have Teeth - Artifex Software, Inc. v. Hancom, Inc.
  - GPL v3 licensed Ghostscript PDF Interpreter
  - Prayer for specific performance relief survives 12(b)(6) motion to dismiss
  - But, remedy of specific performance is "extremely dubious"
- Enforcement organizations and watchdogs goal is usually compliance, not punishment

# Components of a License - Considerations

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- 7. What Has to Happen to Dissolve License? (Termination)
  - Transferrable/Assignable
  - Licensees strive for lenient termination provisions for critical technology
  - Survival of Licensed Rights within License Agreement



# Subject of License

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

# Patent License - Special Considerations

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- 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

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- 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

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- 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

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- 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

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- 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

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

# Software License - Special Considerations

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- 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

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- 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)

# Software/Services

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- Style License to SaaS Software as "Right to Use"
  - Avoids Problems with Granting License to Copyright on Underlying Hosted Software
- Development Agreements
  - Use Specific Conveyance Language Instead of Forcing Work for Hire Doctrine
- Maintenance Agreements
  - Updates
  - Bug Fixes
  - Patches
  - New Capabilities

# Services Agreements

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- Contemplate Downstream Recipients of Services
  - Privity
  - Flow-through requirements
- Problems Defining Services Relationships in Agreements
  - Favor "rules of the road" over "for development of x"
  - Don't limit scope to particular product names/versions
- Licenses needed to Provide Services
  - Customer-provided software and IP
  - Provider-provided software and IP
  - Developed works
  - Post-termination rights

# Grant - Additional Considerations

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

# Grant - Additional Considerations

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- Affiliates
  - "To x and its affiliates" does not necessarily mean all "affiliates"
  - *Ellington v. EMI Music, Inc.*, 24 N.Y. 3d 239 (2014)
- Conditional language in Grant
  - Insert uncertainty in agreement
    - "subject to payment of all fees . . ."
    - "subject to licensee's compliance with this agreement . . ."
  - Vulnerable to triggering predatory audits or re-pricing events for breach period

# Grant -Exclusivity/Standing

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- Exclusivity
  - Obtain covenants to assert
  - Consider assignment or transfer
  - Hidden restrictions on otherwise "exclusive" license defeat standing

# Right to Develop & Extend

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- Derivative works
- 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

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



# Fees & Royalties

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

# Warranties

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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



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