How to Negotiate a License Agreement

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Agenda

• What Intellectual Property Rights Are Being Licensed
• Helpful Tools In Negotiating A License
• Key Provisions In License Agreement
• Recent Court Decisions Affecting License Agreements
License/Types of Intellectual Property

• License: A right granted which gives one permission to do something which he could not legally do absent such permission

• Patents: Government grant of the right to EXCLUDE others: Except as otherwise provided in this title, whoever without authority makes [implies have made], uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent. 35 U.S.C. §271
Types of Intellectual Property

• Copyrights
  – Protects expression of an idea (e.g., a graphic design vs. idea for design)
  – Exclusive right to reproduce, create derivative work, distribute, perform, display

• Trademarks/Service Marks
  – Symbols/Words identifying products/services
  – Right to exclude others from using the same or confusingly similar marks for the same or similar goods/services

• Common Law and Registered - Advantages
Types of Intellectual Property

• Trade Secrets:
  – Definition differs from state to state
    » Different statutes of limitations may apply
    » Different remedies may be available for trade-secret misappropriation
  – Defend Trade Secrets Act provides a uniform statute to be applied nationwide in federal court.
    » Does not preempt existing state trade-secret laws
    » Gives companies option of filing suit in federal court to enforce their intellectual property rights
Types of Intellectual Property

• Trade Secrets:
  – CA Uniform Trade Secrets Act definition:
    “Information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
    (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and
    (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”
Types of Intellectual Property

• Trade Secrets:
  – Defend Trade Secrets Act definition:
    “All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.”
Basic Elements of a License:

- Exclusive vs. Non-Exclusive (Exclusive includes Licensor unless carved out)
- Worldwide vs. Specified Territory
- Fields of Use: All Fields (Unspecified) vs. Specified Fields/Uses/Markets
- Perpetual vs. Specified Term
- Non-Revocable vs. Revocable
- Fully Paid-Up (Prepaid), Royalty (%, Per Unit/Seat/Period) vs. Royalty Free
- Sub-licensable vs. Non-Sub-licensable
- Transferable vs. Non-Transferable
Helpful Tools In Negotiating A License

- NDA
  - Should be signed before any exchange of technical information or trade secrets
- Letter of Intent
  - Establishes general intent to negotiate terms for a license
  - Has term, due diligence scope, material key expectations
  - May have no-shop/stand-still obligations
- Term Sheet
  - Key business terms ($, term, scope, etc.)
  - Negotiate key licensing terms in term sheet to shorten license negotiation cycle
- Diligence
Helpful Tools In Negotiating A License

• Converting Term Sheet to Agreement:
  – Term sheet should translate to framework of agreement
  – Detail added from key concepts in term sheet
    – Avoid ambiguity
    – Fully complete the basic ideas from the term sheet: **Who, How, When, How Much, What if Not**
    – Remain within framework in the term sheet
• NO NEW MATERIAL DEAL TERMS
• Boilerplate to be even-handed and reasonable
Key Provisions In License Agreement

• Important Definitions
  – Licensed Intellectual Property
  – Territory
    • Worldwide vs. Specified Territory
  – Field of Use
    • All Fields (Unspecified) vs. Specified Fields/Uses/Markets
    • Narrowly define – especially if exclusive rights are contemplated
  – Net Sales
  – Term
    • Perpetual vs. Specified
Key Provisions In License Agreement

• Sample License Grant:
  – Present Grant: Licensor Agrees to Grant vs. Licensor Hereby Grants
  – Licensor hereby grants Licensee, for the term of this Agreement and in
    consideration for the Royalties, an exclusive license under the Licensed Patent
    Rights in the Territory to make, use, offer to sell, sell and import the Licensed
    Products in the Field of Use. The license rights set forth herein may not be
    sublicensed without the prior written consent of the Licensor. This Agreement
    and the license rights set forth herein may only be assigned or transferred
    pursuant to and in accordance with Section [Assignment].
Key Provisions In License Agreement

• Improperly defined license grant
  – Causes ambiguity
  – Over/under grants rights
  – No restrictions/incorrect restrictions

• Right to grant proposed license(s)
  – Can only license rights that you have
  – May be unenforceable or void
  – May violate other laws
  – Contract at risk
Key Provisions In License Agreement

• Does Licensee have right to improve? Without express language, can be implied.
  – TM use inures to the sole benefit of the TM owner
  – Inventor/author owns
  – Without express grant-back clause, Licensor could find itself losing control of the development pipeline for its IP

• Some countries limit grant-back to license rights only (EU)
• Public institutions generally may be unable to grant-back ownership, can only grant exclusive licenses
Key Provisions In License Agreement

• Transferability
  – Sublicensable vs. Non-Sublicensable
    • Must spell out “without the right to sublicense” or right to sublicense is implied
  • Scope of Sublicense vs. Master License
  – Transferrable vs. Non-Transferable – M&A Considerations
    • Carefully consider application to affiliates
    • Evaluate application of assignment clause upon change of control
Key Provisions In License Agreement

• Payment Provisions, Minimums and Renewals
  – Fully Paid-up (Prepaid), Royalty (%, Per Unit/Seat/Period) vs. Royalty Free
    • Royalty Calculation – Consider Affiliates (License vs. Fee Scope)
    • Minimums – Fixed or Rolling Requirements
    • Remedies – Termination or Non-Exclusive
    • Fixed Renewal Terms – May tie to accrued minimums
Key Provisions In License Agreement

- **Scope of Licensed Technology - Patents/Know-How/TMs**
  - No right to challenge validity of patents (Licensor)
  - Carefully Evaluate Scope of Licensed IP vs. Application of Royalties
  - Quality Control Terms
  - IP Maintenance Terms

- **11 U.S. Code § 365(n) – Delineate Continuing IP Rights**
  - (1) If trustee rejects contract, licensor of a right to intellectual property may:
    - (A) treat such contract as terminated and a breach in BK; or
    - (B) retain its rights (including a right to exclusivity, but excluding any other right to debtor performance), as such rights existed immediately before the case commenced, for the duration of such contract; and
  - (2) Make all royalty payments.
Key Provisions In License Agreement

• 11 U.S. Code § 101 - “Intellectual Property” means—
  – (A) trade secret;
  – (B) invention, process, design, or plant protected under title 35;
  – (C) patent application;
  – (D) plant variety;
  – (E) work of authorship protected under title 17; or
  – (F) mask work protected under chapter 9 of title 17.
Key Provisions In License Agreement

- 3rd Party Infringement of Licensed Technology
  - Licensor Enforcement
    - Mandatory or Permissive
    - Control over prosecution
    - Control over Settlement vs. Effect on Licensee
    - Recovery/Retention of Damage Awards
  - Licensee Enforcement
    - Standing?
    - Mandatory or Permissive – Responsibility for Costs
    - Application of Minimums during Pending Actions
    - Rights to Approve Settlements
    - Recovery/Retention of Damage Awards
Key Provisions In License Agreement

• Representations and Warranties
  – Licensor should warrant right to grant licenses, non-infringement of third party rights, no infringement claims or knowledge of any facts that could give rise to infringement claim and no conflicting agreements
  – Licensee should warrant right to enter into license, no conflicting agreements and compliance with laws
Key Provisions In License Agreement

• Indemnification
  – Licensor to indemnify for IP infringement or restriction on Licensee’s ability to enjoy licensed rights
  – Licensee to indemnify for its methods of use of licensed IP and its transactions with its customers
  – Licensor to additionally be obligated to try to secure right for Licensee to continue using licensed rights or to modify licensed IP so as to abate the infringement
Key Provisions In License Agreement

- Upgrades, Service Levels and Technical Support (Licensor)
- Restrictions (Licensee)
  - No Reverse Engineering
  - No Registration of Similar Marks
- Source Code/Escrows
- Limitation of Liability
- Disclaimers (Licensor)
- Confidentiality
- Right of First Refusal (Licensee)
- Tax/Foreign Matters (consult with legal counsel)
- Export Control/Antitrust (consult with legal counsel)
Key Provisions In License Agreement

• Term and Termination Rights
  – Licensor wants to be able to terminate to protect its rights
  – Licensee will prefer contractual legal remedies rather than termination
  – Strike balance between Licensor and Licensee and focus on critical failures as giving rise to termination
Key Provisions In License Agreement

• Reporting and Audits
  – Audits of Licensee and Sublicensees’ books and records to measure compliance with payment and other obligations

• Audit Rights and Quality Control
  – Licensor should approve quality of Licensed Product
  – Trademark quality controls and usage exemplars to be approved by Licensor
Boilerplate

- Project Leaders/Representatives
- Relationship of Parties
- No Partnership/Joint Venture
- Governing Law/Jurisdiction/Venue
- Assignment
- Waiver
- Severability
- Entire Agreement
- Amendment/Modification
- Attorneys’ Fees
- Notice
- Survival
Recent Court Decisions

• Pay careful attention to license agreement provisions intended to survive termination or expiration of license agreement
  – Choice of law and forum provision was not included in survival clause
  – Court concluded parties did not intend clause to survive
Recent Court Decisions

• Carefully draft sublicense right grants
  – Survival of the sublicensee’s rights depends on the interpretation of the master license agreement
  – Court found no provision of the license agreement that directly addressed the question of sublicense survival, and recommended for parties to license agreements to include language specifically addressing the survival of sublicense rights
Recent Court Decisions

• Invalid Patent → inability to recoup royalty payments
  – *Tessera, Inc. v. Toshiba Corporation*, (N.D. CA Oct. 8, 2019)
  – Court confirmed that a determination that a patent under a license agreement is invalid does not entitle the licensee to recoup royalties already paid
  – Court reasoned that a licensee cannot recoup paid royalties after having enjoyed the fruits of the license agreement
Thank you!

Questions? Please feel free to contact us any time for guidance.

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