



# Technology Contracts and Agreements:

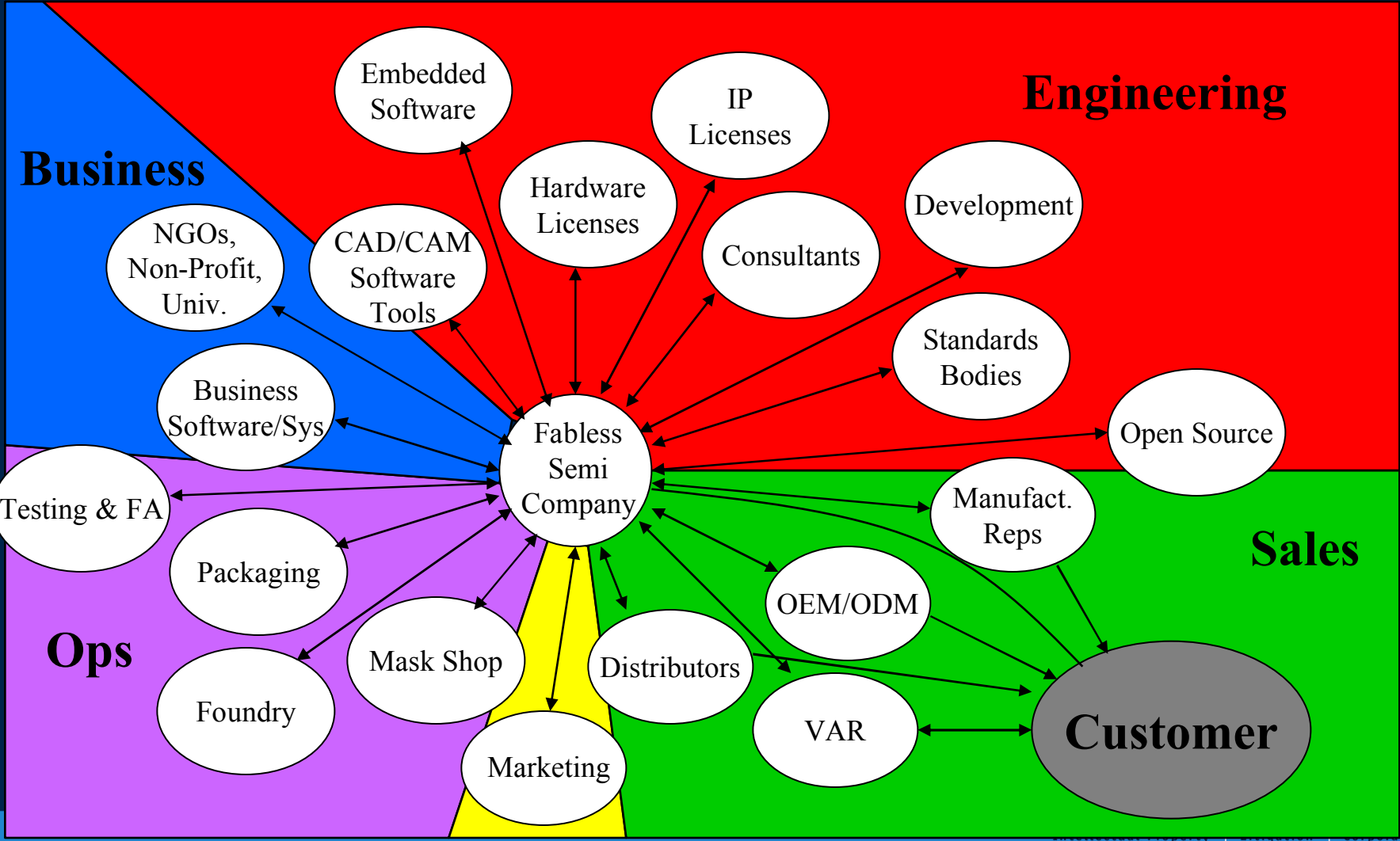
## *A Practice Guide to Effective Negotiation, Drafting and Strategy*

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# Type of Technology Transactions

- Licensing Arrangements (inbound and outbound)
- Development Relationships
  - Joint Development
  - Joint Ventures
- Channel Deals
  - Distributor
  - Resellers
  - VAR
  - OEM Relationships
- Customers and Suppliers
  - EULA
  - Sales / Service Agreements
  - Manufacturing Agreements
  - Supply Agreements
  - Outsourcing



# Why Do Companies Partner?

The end game is Monetizing Technology.

Tech Transactions provide:

- Time to Market
- Access to Talent
- Access to Technology or IP
- Access to Markets or Marketing Skill of Partner

# Avenues to Money or Reduced Cost

IP  
Assets



Patent Licensing

Tech Licensing

Patent Pool

Open Standards

Standard Bodies

Business Deals

JDA, JV,  
partnerships

Bundle/Sell

Spin out  
VC

Exclusive go to  
Market plan

Defensive  
operations

Litigation





# Seven Tricks of the Trade for Tech Transaction Lawyers

1. Beware the Half-Baked Agreements
2. When Licensing Patents: Remember *Medimmune*
3. Avoiding the Pitfalls of Joint Development Agreements
4. Beware of Leaky Downstream Licenses
5. Hidden Licenses in Professional Services Agreements
6. Avoiding the Unanticipated Franchise
7. Dealing with the subtleties of “Exclusive” licenses

# Issue #1: The Half-Baked Agreement

- Defined: An agreement that purports to create a binding obligation, but falls short because of indefinite or open material terms
- Examples:
  - Letters of Intent that are never finalized
  - License Language that only indicate intent “Licensor *will* grant...” or “Licensor *shall* grant.”
    - See *Massachusetts Eye and Ear Infirmary v. QLT Phototherapeutics*, 412 F. 3d 215 (1<sup>st</sup> Cir. 2005)

# Issue #1: The Half-Baked License

- Practice Tips:
  - Beware of LOI as a shortcut
  - Draft definite language “Licensor *hereby* grants...”
  - Beware of other “open” terms such as “a *to-be-defined* royalty...”
  - Where business terms are not finalized, add a procedure that ensures finalization or spells out what happens if never accomplished

# Issue #2: The *Medimmune* Decision

- Overview
  - *Medimmune Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007) changed certain baseline rules about patent licensing
  - Summary: The Court held that a licensee can bring an action seeking a declaration of its rights as to the licensor's patent without first breaching the license
  - Effect: a licensee can challenge the validity of a patent without ceasing payments under the license, thereby avoiding a breach of the license

# Issue #2: The *Medimmune* Decision

- Licensing Strategies post-*Medimmune*
  - Licensors should consider including a provision that allows the licensor to terminate the agreement if the licensee brings an action for invalidity, unenforceability, or non-infringement.
    - Such a provision will allow the licensor to avoid the potential consequences of *MedImmune* as they relate to the ability to get treble damages, an injunction, and attorney's fees.
  - Licenses should also include a provision allowing termination if the licensee issues a press release, public announcement, or news release alleging invalidity or unenforceability of the patent.
    - May help the licensor protect the value of the patent in the marketplace and its market position generally.

## Issue #2: The *Medimmune* Decision

- Licensing Strategies post-*Medimmune*
  - License agreement should include a provision requiring pre-suit notification, including details concerning the alleged invalidity, unenforceability, or noninfringement.
  - The licensor should obtain the licensee's agreement that it has analyzed the patent and its acknowledgement that it incorporates the technology in its covered products (i.e., the product infringes the patent).
  - Consider including language that causes the licensee, in the case that a patent it licenses is found invalid, to waive all rights to reimbursement of amounts payable under the license after bringing suit but prior to the date of a final judgment.

# Issue #2: The *Medimmune* Decision

- Licensing Strategies post-*Medimmune*
  - Licensors should include language characterizing the licensing agreement as being granted in settlement of pending and/or prospective litigation between the parties
    - Such language will make it more likely that the agreement is not subject to a declaratory judgment action.
  - Licensors should obtain an agreement by the licensee not to assert that the patent is invalid, unenforceable, or not infringed
    - licensor may also include statements by the licensee regarding the proper inventorship or the adequacy of the patent's specification.
    - used in conjunction with language characterizing the license as a settlement agreement, such clauses may indeed be enforceable.

# Issue #2: The *Medimmune* Decision

- Licensing Strategies post-*Medimmune*
  - Licensors should front load payment for use of the patent.
    - The payments on such a provision should include language ensuring that the payments are irrevocable, non-cancellable, and non-terminable.
  - Licensors may consider incorporating an arbitration provision which forces the parties to submit to binding confidential arbitration in the event a dispute as to the agreement arises.
  - Licensor may want to include a provision triggering a step-up in royalty rate upon challenge of the patent by licensee or in the event an invalidity challenge is successfully defended.
    - Might not be enforceable, but this type of provision may deter a licensee from challenging the patent on weak grounds.

## Issue #3: The Pitfalls of Joint Development Agreements

- Summary: Agreements that do a poor job of clearly delineating “who owns what” in a joint development context pose special problems
- Business people often default to “joint ownership” when relationships become complex
- What is often carelessly characterized as “jointly owned”?
  - Improvements
  - New inventions resulting from working together
  - Derivative works
  - Inventions resulting from jointly funded work

# Issue #3: The Pitfalls of Joint Development Agreements

- The Problem:
  - Joint Ownership is a messy concept
    - The statute: “In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other owners.”
    - This is often 100% different than the intent of the parties
  - Attempts to contractually define Joint Ownership often fall short
    - Who prosecutes the patent? Who pays? Who makes key decisions?
    - Who enforces the patent? Who collects judgments? Can the joint-owner be involved and to what extent?
- Practice Tip:
  - Any time business person refers to joint ownership, test them. Do they mean it? Be considerate of all issues

# Issue #4: The Scope of Downstream Licenses

- The Problem:
  - Licensees want complete “downstream” sublicense rights to cover manufacturers, distributors, customers, etc.
  - Licensors are concerned with “leaky” licensing arrangements that preclude future royalties from 3<sup>rd</sup> parties who are inadvertently licensed

# Issue #4: The Scope of Downstream Licenses

## Case Law:

- *Cyrix Corp. v. Intel Corp.*, 77 F.3d 1381 (Fed. Cir. 1996)
  - Cyrix was shielded from infringement liability because its activities fell within the scope of a patent license agreement Intel had reached with the companies that manufactured the products for Cyrix
  - Illustrates how leaky downstream licenses occur

# Issue #4: The Scope of Downstream Licenses

## Case Law:

- *Jacobs v. Nintendo of America, Inc.*, 370 F.3d 1097, 1099 (Fed. Cir. 2004).
  - the absence of restrictive terms in the license grant can create an implied sublicensing right for the benefit of downstream purchasers
- *Minebea Co., LTD., et al. v. Papst*, 444 F.Supp.2d 68, 208 (D.D.C. 2006)
  - a covenant not-to-sue “conveys a ‘bare’ or ‘nonexclusive’ license, meaning that the license holder has not affirmatively conveyed any patent rights . . . . In and of itself, this ‘bare’ license cannot be construed to convey any further rights because ‘a non-exclusive patent license is always personal in nature and confers no right to sub-license others.

# Issue #5: The Scope of Downstream Licenses

- Drafting Considerations:
  - Traditional License Approach
    - Grant follows the product
    - Licensors Need to Worry about both Implied license and exhaustion
    - Preferred by licensee
  - Covenant Not To Sue
    - Personal to specified entities
    - Forces Licensee to define the downstream players
    - Preferred by licensor

# Issue #4: The Scope of Downstream Licenses

## More Case Law:

- *Quanta Computer, Inc. v. LG Electronics, Inc. (2008)*

*Facts:*

- LG licensed patented chips to Intel; grant allowed Intel to “make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of”.
- License purported to restrict to products where no non-Intel products were incorporated with the licensed (Intel) products
- Side agreement where Intel was supposed to notify downstream purchasers that they had no license; nothing more

# Issue #4: The Scope of Downstream Licenses

## Case Law:

- *Quanta Computer, Inc. v. LG Electronics, Inc. (2008)*

### *HOLDINGS:*

- Method Claims are subject to exhaustion
- The Product must “substantially embody” the method claim to trigger exhaustion
- If the sale of a product is within the terms of a license, exhaustion applies

# Issue #5: Hidden Licenses in Professional Services Agreements

- The Problem:
  - Many Professional Services Agreements (development arrangements, outsourcing deals, consulting agreements, etc.) have the service provider retaining “ownership” in work product
  - Companies retaining these firms need to:
    - Clarify ownership issues carefully; “work-for-hire”
    - Beware of joint inventorship issues (need full assignments)
    - Don’t be lulled into false sense of security by:
      - Confidentiality provisions that allegedly protect client
      - Industry exclusivity purporting to restrict developer’s use of materials to non-competitors

## Issue #6: The Inadvertent Franchise

- Background – US Federal Law and all States govern “franchise” relationships and “business opportunities”
- General requirements for a franchise are:
  - A trademark license
  - An upfront payment to the licensor
  - Licensor’s ability to control or influence licensee’s business
- Practice Tip: Beware of creating a regulatory obligation under franchise laws when licensing trademarks.
  - “Control” is a very broad concept; avoiding “naked” trademark license often creates control
  - Structure royalties as %’s as opposed to up front to avoid rule

# Issue #7: Understanding the Subtleties of “Exclusive Licenses”

- The Problem:
  - Business people often use the term “exclusive” to mean something different than IP lawyers do
  - Not understanding the effect of “exclusive” license can have dire consequences for the licensor

# Issue #7: Understanding the Subtleties of “Exclusive Licenses”

- Practice Tips:
  - In practice, most “exclusive licenses” fall on a continuum somewhere between a complete assignment, at one end, and a non-exclusive license (or a mere personal covenant not to sue), at the other end
  - No magic words create or prevent an exclusive license
  - Avoid Half-Baked Licenses!

# Issue #7: Understanding the Subtleties of “Exclusive Licenses”

- Questions of Exclusivity
  - Promises of exclusivity may be expressed in the contract or implied by the court as representations, warranties or covenants
  - Typical fact patterns involve co-owners, prior or subsequent licensees
    - What if there are there conflicting owners or licensees connected to licensor’s interest?
    - What if there are there third parties who can sue licensee for infringement or otherwise exercise or assert conflicting rights arising from separate or independent invention, authorship, ownership, use in commerce, etc?
    - Does exclusivity extend even as to licensor such that licensee may preclude use by licensor within the field of exclusivity?
  - Failure of definitions to adequately account for future events often requires a court to determine whether subsequent events conflict with exclusive license
  - Exclusivity on one right does not necessarily imply exclusivity on other rights

# Issue #7: Understanding the Subtleties of “Exclusive Licenses”

- Questions of Performance
  - Standards of “good faith” or “best efforts” often apply
    - May be express or implied
    - May arise in connection with exercise of other contractual rights
      - For example, to what extent is licensor obligated to cooperate with licensee in infringement actions against third parties?
      - For example, what standard governs licensor’s exercise of rights related to quality assurance for goods distributed under a trademark license or franchise agreement?
    - Exclusive licensee may have an implied duty to promote the licensed product in “good faith” or using “best efforts”
    - Similarly, when an exclusive licensee takes actions that detract from the performance of the licensed product, the licensee may breach duty to use “best efforts” or act in “good faith”

# Issue #7: Understanding the Subtleties of “Exclusive Licenses”

- Questions of Breach and Remedies
  - What constitutes a material breach?
  - When will licensor be entitled to rescission, injunctive relief or enhanced damages?
  - What is licensor’s measure of damages?
    - In the event of breach of the exclusive license by licensee, can the licensor recover lost profits related to missed licensing opportunities as part of its expectation damages?
  - Do licensee’s remedies include rescission or injunctive relief or are they limited to monetary damages?
  - When will licensee be excused from obligation to pay royalties?

# Issue #7: Understanding the Subtleties of “Exclusive Licenses”

- Questions of Ownership and Standing
  - Is an exclusive license a de facto transfer of ownership?
    - For example, copyright law generally deems an exclusive license to be a transfer of ownership.
    - Important for both licensors and licensees under an exclusive license to consider background IP law as well as tax and financial accounting treatment related to ownership of licensed assets
  - Are there specific registration or other requirements applicable to the transaction under patent, trademark or copyright statutes?
    - Issues of enforceability
    - Issues of perfection and priority (e.g., security interests)
  - Who has standing to sue for infringement?
    - For example, where there is a prior conflicting license, the subsequent licensee may lack standing