

SAXTON & STUMP
LAWYERS AND CONSULTANTS

Issues to Keep in Mind with Intellectual Property Agreements

Presented For:
ACC Central PA

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Types of Agreements that May Have IP Provisions

- License Agreement
- Joint Research and Development Agreements
- University Research Agreements
- Joint Venture Agreements
- Acquisition/Investment Agreements
- Security and Loan Agreements
- Distributor Agreements
- Consulting Agreements
- Partnership Agreements



Types of Agreements that May Have IP Provisions

- Tolling Agreements
- NDA/CDA or Secrecy Agreements
- Covenants not to sue
- Strategic Alliances
- Settlement Agreements
- Assignments
- Design Build Agreements
- Private Label Agreements



Types of Agreements that May Have IP Provisions

- Franchise Agreements
- Sponsorship Agreements
- Manufacturing Agreements
- Sales Agreements
- Website Development Agreements
- Hosting Agreements
- Software Agreements





What is Intellectual Property?

Intangible property that results from creativity and deals with the ownership of almost anything that is known, written or thought.

Types of Intellectual Property

- Patents- legal right preventing others from making, using, or selling the invention as defined in the claims of the patent that are new, non-obviousness and have utility.
- Trademarks- distinctive words, phrases, symbols, logos, designs used to identify and distinguish the owner's products and/or services
- Copyright- original works of authorship fixed in a tangible medium.
- Trade Secrets- information that derives independent economic value from not being known outside the company.
- Know-how/Confidential Information- gives party a competitive advantage.

Issue - Technology vs. Intellectual Property

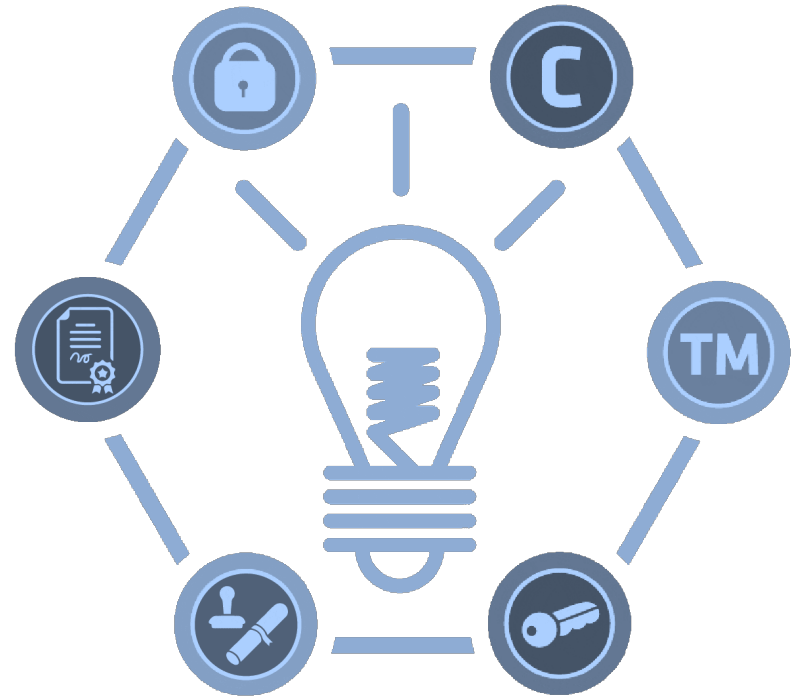
- **Technology** - processes, techniques, know-how, algorithms, software, content, data, protocol, manufacturing processes
- **Intellectual Property** - the legal rights
 - Patents
 - Trademarks
 - Copyrights
 - Trade Secrets
- Used interchangeably in agreements, but they are NOT!

Issue - Joint Ownership

- Most common form of IP allocation for collaborative work
- May compromise the value of the IP
- Need to have a clear statement of responsibilities to maintain rights, obligations, enforcement and exploitation.
- Contractual agreements with joint owners are usually not detailed, often inconsistent and may not be enforceable against third parties.
- Strategies: allocate ownership to one party with detailed license terms for each party's right to use.

Issue - Pre-existing Intellectual Property

- Do you have the right to use the other party's pre-existing intellectual property?
- May be important to use prior patents, trademarks, or copyrights to achieve business goals.
- How long to the rights extend?





Issue - Promise to Grant is not a grant...

- An agreement to grant in the future is not a grant.
- Does not convey title or rights.
- Only a promise.
- Always get a present grant of the future rights.

Issue - Different IP Grants

Assignment - the transfer of rights of one party to another party.

- Note - difference between “entire right” and “his/her right”
- Must be in writing for patent and copyright

Issue - Different IP Grants

License

- Exclusive
- Sole
- Non-exclusive
- Hybrid



PROPERTY

LICENSE

REGIST

Issue -Different IP Grants

Covenant Not to Sue

- Personal with grantor
- Contractual obligation
- Makes litigation moot

Issue - Failing to Define the Grant

What exactly are you getting?

- Parties
- Subject Matter
- Rights
- Territory
- Term
- Restrictions



Problems with the grant

- Failure to spell out the terms of the grant
- Improper grant language- need to cover statutory rights
- Over granting/under granting

Issue - Enforcement Rights Based upon Grant

- IP rights can be diminished or lost by failure to enforce rights against third party infringers
- Determine if IP is infringed by a third party, how will it be handled.
- If there is recovery, how will it be divided?
- Past damages not recoverable unless specifically spelled out
- Nunc pro tunc assignment made post suit, may be ineffective.
- Consider provision in agreement requiring an owner of the IP to be joined.

Issue - Change of Control

- Default rules
- Silence or express prohibition may bar transfer if change of control.
- Bankruptcy Issue



Issue - Representations, Warranties, & Indemnification-ALLOCATE THE RISKS

- Ownership
- Validity
- Non-infringement
- Factual accuracy
- Authority to Enter Agreement
- No misappropriation of confidential information or trade secrets
- No other license or right needed
- IP (software code) will operate in all material respects in conformity with the specification

Issue- Representations, Warranties, & Indemnification-ALLOCATE THE RISKS

- Attainment of service levels for hosted software
- Services performed in a professional and workmanlike manner by qualified and competent personnel familiar with the services
- Documentation for software- complete and in English that permits reasonably skilled operator to use
- Update vs. enhancements
- Defect in design, materials, workmanship for software
- Compatibility with prior and later versions, operating systems
- Data integrity in transfer

Issue- Representations, Warranties, & Indemnification-ALLOCATE THE RISKS

- Problem in software code
- No pending litigation
- Fitness for particular purpose
- All employees subject to NDA with assignment of rights to licensor
- As is- no warranties
- No encumbrances
- Timely prosecution
- No open source included

Issue- Representations, Warranties, & Indemnification-ALLOCATE THE RISKS

- Scope and survival of indemnification
- Caps on exposure
- Thresholds
- Control of defense of claims
- Remedies- repair, replace
- Exclusions
 - Outside scope of license
 - Modification by licensee
 - Combined with other subject matter
 - Use not appropriate
 - Prohibited uses

Issue- Representations, Warranties, & Indemnification-ALLOCATE THE RISKS

UCC 2-312(2): Unless otherwise agreed, a seller who is a merchant regularly dealing in goods of the kind, warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like, but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of the compliance with the specifications.

Issue - Unintended rights/lack of rights

- Grant-back
- Implied licenses
- Estoppel
- Sublicense



★ KNOW ★
— YOUR —
RIGHTS

Issue - Failure to Address IP Recordation Obligations



- Decide who bears the burden
- Licensee's obligations to assist with information necessary to record.

Issue- Royalty Provisions

- Is the royalty based on a small component of the product covered by the IP or the entire product?
- Do royalty obligations terminate after a set number of years?
- Are the royalties due for product given away?
- Are the royalties tied to the licensed product but only the derived product reaches the market?
- Are royalties are based upon cost of goods rather than sales price?
- Are royalties based upon fixed amount that does not escalate over time?
- Are there reach through provisions?



Issue - Royalty Provisions

Most favored licensee clause

- Define
- Limit
- Exclude
- Specify who decides
- Watch for confidentiality clause conflicts

Issue - Termination, Dispute Resolution, Jurisdiction

- **Termination** - what if the license is not working? Do I have a way out?
- **Bankruptcy**
- **Dispute Resolution**
 - Mediation
 - Arbitration
- **Jurisdiction**
 - Spell out both jurisdiction and venue
 - Clarify what law applies and exclude conflict of law provisions

Issue - Negotiation

- Define the subject matter clearly
- For each type of IP, make sure you discuss
 - Territorial range
 - Type of use
 - Duration
 - Right to sublicense
- Person conversant in IP should be involved
- Conduct due diligence
- Prepare a summary of negotiating issues
- Resolve all issues on term sheet
- Do not start drafting too early!!!





Issue - Employee Agreements

Make sure that there is a signed agreement with all employees transferring all IP rights in IP created during the job, using employer's facilities or supplies

Issue - Other Concerns

- Consideration- invention agreements
- NDA- do not invent under NDA
- Keep in mind prior IP
- Background or pre-existing IP – how can it be used?
- Independent IP- who owns?

Issue - Failing to Consider Ways to Structure the Deal

- Licensor- what do you want out of the agreement?
- Licensee- what do you need from the licensor?

- **Ways to structure the deal**
 - Royalty free
 - Royalty
 - Single lump payment
 - Milestone payments
 - Other considerations

Issue - Failing to Impose Affirmative Duties on Licensee

- Without affirmative duties, exclusive licensee can do nothing and preclude others from commercializing IP
- Usually covered by minimum royalty
- Other considerations if no minimum royalty



Issue - Special Trademark Issues

- Assignments
- Naked Licensing
- Franchise Agreement

Issue- Special Copyright Issues

- **Must have written assignment**
- **Work for Hire**
 - Work created by employee as part of the employer's regular duties
 - Individual and hiring party enter into an express written agreement and the work is a commission for use
 - Compilation
 - Contribution to a collective work
 - Part of motion picture or other work
 - Translation
 - Supplementary work
 - Instructional text
 - Answer for test materials
 - Atlas

Issue- Special Copyright Issues

Fair Use

- Criticism, comment, reporting, teaching, scholarship or research
- Affirmative defense
- 4 Factor Test
 - The purpose and character of the use
 - The nature of the copyrighted work
 - The amount and substantiality of the portion of the work in relation to the copyrighted work
 - The effect on the potential market for or value of the work

Public Domain



Issue -Special Patent Issues

- Marking- Make sure product is covered by the claims of the patent.
- Assignment
- Remember- it is a negative right!

Issue - Open Source Issues

- Many types of open source licenses exist.
- May include express patent grants
- Usually provided as –is.
- Copyleft (or some variation)
- Compliance obligations
- Consider a policy



Conclusion

DO NOT LEAVE IP UNADDRESSED

- Use terms to avoid litigation
- Put key terms in writing
- Face problems up front
- Plan for the unexpected
- Say it in plain English
- Make sure that everyone agrees to the same terms
- Make sure that the contract fits the needs of the business.

QA

Questions?

If you have any additional questions,
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