



Monday, October 20
9:00 am-10:30 am

005 Negotiating IP Provisions in Contracts: Lessons Learned on the Front Line

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Faculty Biographies

Scott Forsyth

Scott A. Forsyth is presently a senior attorney at Microsoft Corporation, based in Microsoft's Mountain View, California offices. Mr. Forsyth provides legal support for the worldwide sales and services teams for the Microsoft TV business group. Mr. Forsyth's primary focus is on technology licensing and commercial agreements.

Prior to joining Microsoft, Mr. Forsyth worked at 3Com Corporation, most recently as an associate general counsel. While at 3Com, Mr. Forsyth handled a wide variety of commercial transactions, including technology licenses, development agreements and sales, and procurement agreements. Mr. Forsyth also worked on numerous special projects, including 3Com's China based joint venture with Huawei Technologies as well as the lead attorney in 3Com's renaming of Candlestick Park to 3Com Park. Prior to joining 3Com, Mr. Forsyth was an associate with several law firms, most recently with the San Jose office of Coudert Brothers, a then New York based law firm.

Mr. Forsyth has been a long time member of ACC and has been a frequent speaker including seminars sponsored by ACC and LES. Mr. Forsyth is currently the co-chair of the San Francisco Bay Area ACC Intellectual Property Committee.

Mr. Forsyth graduated from Washington State University with a BA and later obtained his JD from the UCLA School of Law.

Todd Mayover

Todd Lewis Mayover is corporate counsel with Home Diagnostics, Inc. in Fort Lauderdale, Florida. Mr. Mayover is responsible for acquiring, managing, and enforcing all of the company's intellectual property, and he handles a variety of other legal matters including, providing legal support for complex commercial transactions, contract drafting, negotiating, and review, and advising on employment law matters, FDA and health law matters, corporate governance, and securities law.

Prior to joining Home Diagnostics, Mr. Mayover was an intellectual property attorney with two intellectual property boutique law firms in the Philadelphia metropolitan area.

Mr. Mayover currently serves on the board of directors of the ACC's South Florida chapter, and is co-programs chair of the ACC's Intellectual Property Committee.

Mr. Mayover earned a BS from The Pennsylvania State University, an MS from the University of Maryland, and a JD from Rutgers University School of Law – Camden.

Kelly Slavitt

Kelly M. Slavitt is corporate counsel at The American Society for the Prevention of Cruelty to Animals (ASPCA). In this role, she runs the legal department, reports to the president's office, and manages a small army of outside counsel and legal interns.

Prior to joining the ASPCA, Ms. Slavitt was a transactional intellectual property associate at Skadden, Arps, Slate, Meagher & Flom and Thelen Reid & Priest in New York City, and a solicitor at Allens Arthur Robinson in Melbourne, Australia.

Ms. Slavitt is a member of ACC. She is also a member of The New York State Bar Association's Intellectual Property Law Section where she serves as treasurer; a member of the ABA where she is appointed to the advisory panel; and a member of the New York City Bar Association where she volunteered as a pro bono attorney for various clients including the ASPCA. Ms. Slavitt has been published numerous times in publications ranging from scholarly legal reviews to business law publications, and was an adjunct professor at the NYU School of Continuing Education.

Ms. Slavitt received her BA from The Pennsylvania State University, her masters from New York University, her JD from Brooklyn Law School, and her LLM from The Benjamin N. Cardozo School of Law.



Section 005: Negotiating IP Provisions In Contracts Lessons Learned on the Front Lines

Bill Becker, Align Technology
Kelly Slavitt, ASPCA
Todd Mayover, Home Diagnostics
Scott Forsyth, Microsoft

By in-house counsel, for in-house counsel.SM

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Agenda

- Program will cover four types of Licenses
 - Confidentiality Agreements - Bill
 - IP License Agreements – Kelly
 - Distribution Agreements - Todd
 - Software Licenses - Scott
- Each Panelist will:
 - Review a major issue
 - Provide a sample contract term
 - Give the audience a chance to discuss it among themselves
 - Ask for audience input/ discuss possible solutions
- Reminder: comprehensive checklists can be found in handout



The Scenario

- GlobeShipping Inc owns a software program which calculates the best loading plans and shipping routes for their fleet of 1000 vessels.
- The heart of the system is an algorithm that optimizing the shipping routes given a particular cargo and this is considered by GlobeShipping to be its most valuable IP asset.
- GlobeShipping wants to create a website accessible to their customers which will actually show on a map of the world the best route and the up-to-the-minute location of the ship carrying the customer's cargo.
- They decide to get an outside firm to develop the new application



The Confidentiality Negotiation

- GlobeShipping asks ServiceCo for a price quote. The two companies agree to meet to discuss job details. GlobeShipping asks ServiceCo to sign a Confidentiality Agreement that includes the following language:

“Any information provided by one party to the other will be considered confidential information of the providing party if it is marked as confidential or, if verbal, is subsequently confirmed in writing as confidential. However, the receiving party shall have the unrestricted right to use for any purpose the providing party's confidential information that is residual, i.e. is retained in the unaided memory of a receiving party employee.”

- The parties meet in a conference room at 11:30 AM. GlobeShipping opens the meeting by stating that it has a number of valuable trade secrets. A GlobeShipping exec presents its business plans for taking over one of its competitors. Then the chief engineer describes the core equation in their shipping algorithms.
- **WHAT ARE THE PROBLEMS?**



Negotiating Confidentiality Agreements

- Issues before you begin
 - What, if any, confidential information, needs to be shared?
 - Does the residuals language help or hurt you?
 - Will this be superseded by confidentiality language in a development contract?



The Problems

- **Marking- good or bad**
- **Residuals- who does it help and what should it cover**



Practice Tips regarding NDAs

- Don't allow your client to disclose its confidential information or receive it from the other party under an NDA unless and until it is necessary to do so
- Its hard to protect your and the other party's confidential information unless it is clearly and specifically identified
- Be certain you don't tie your client's hands for future projects
- Be careful you are not inadvertently giving the other party a license to your confidential information which may be broader than you think
- Use the right language for the circumstances to be covered by the NDA, not necessarily the entire transaction



Alternate Language, Part I

MARKING

“Any information provided by one party to the other will be considered confidential information of the providing party if it is marked as confidential, if verbal, is subsequently confirmed in writing as confidential within 45 days of the date of first disclosure to the receiving party. Further any information about GlobeShipping’s route planning algorithm and ServiceCo’s existing source code shall be considered confidential information of that party regardless of whether marked confidential.”



Alternative Language, Part II

RESIDUALS

“However, the receiving party shall have the unrestricted right to use for any purpose the providing party’s Residuals. However, no license is granted hereunder under any patent, trademark or copyright of the providing party. “Residuals” means non-tangible information, including but not limited to ideas, concepts, general know-how or general techniques, which is inadvertently retained in the mind of a recipient resulting from a person’s rightful access accordance with this Agreement, without further reference to any material that is written, stored in magnetic, electronic or physical form or otherwise fixed. The term “Residuals” includes without limitation underlying ideas but specifically excludes computer program code in which such underlying ideas are expressed. ”



Copyright and Trademark Licenses

Kelly M. Slavitt, Esq.
Corporate Counsel,
ASPCA



From the much longer checklist in your materials, here are a few license provisions I’ll discuss:

- 1) Defining what the intellectual property is
- 2) Specifying how the intellectual property will be used
- 3) Including appropriate license-specific reps, warranties and indemnifications



The Scenario

- GlobeShipping Inc. has decided to expand its business beyond the 1 software program it developed itself and owns.
- They plan to license out their name for use on other software programs not developed by it and to create software drafting how-to manuals.
- This means GlobeShipping now has to enter into licenses for both its trademark and for its copyrighted manuals.



The Trademark Licensing Negotiation

- A new attorney in your department at GlobeShipping sends you a draft trademark license that includes the following language:

“Licensor hereby grants to Licensee an exclusive license to use its trademarks throughout the world.”

- **IS THIS ENOUGH TO PROTECT GLOBESHIPPING (AS THE LICENSOR)?**



Sample provision (Pro-Licensor)

Subject to the terms and conditions contained herein, the ASPCA hereby grants to Licensee a **[non-exclusive]** license to use the Trademarks within the Territory and Distribution Channels (as defined below) for the sole purpose of manufacturing, marketing and selling the Licensed Products during the Term (as defined in Exhibit “B”). **[Nothing in this Agreement shall be deemed to prevent the ASPCA from granting any other licenses of the Trademarks to third parties for any purpose whatsoever.]**



EXHIBIT “B”

1) Description of the Licensed Products:

- a. toys **[for all animals or just for dogs/cats, made of anything or only of certain materials such as plush, fabric, plastic, rubber, vinyl, canvas]**
- c. treats **[for all animals or just for dogs, made of anything or only specific meats or vegetables]**
- c. pet carriers **[hard-sided or soft-sided collapsible]**
- d. jewelry **[worn by pets or humans, made of what since royalties will be different for metals and fashion jewelry, all jewelry, exclusivity as to certain types of jewelry]**

2) Territory: United States **[and its possessions, North America, Canada]**

3) Distribution Channels: stores **[brick and mortar or online, specialty independent pet, direct mail catalogs and online website, independent general merchandise, independent gift and specialty, chains such as mass market or supermarket or drugstore or pet store, military outlets, office supply, E-commerce and TV shopping]**



The Copyright Licensing Negotiation

- You decide to give that new attorney in your department at GlobeShipping a second chance, and he sends you a draft copyright license that includes the following language:

“Licensor agrees that Licensee can do whatever it wants with the content throughout the world.”

- **IS THIS ENOUGH TO PROTECT GLOBESHIPPING (AS THE LICENSOR)?**



Sample Provision -- Copyright License (Pro-Licensor)

[You expressly agree that all Content (as defined below) shall be considered work-made-for hire for the benefit of the ASPCA. To the extent the Content is not considered work-made-for hire, You hereby assign to the ASPCA all right, title, and interest in and to the Content throughout the world in all mediums for all purposes. You also hereby expressly and irrevocably waive any moral rights you may have in and to the Content.] For all Content provided by the ASPCA to be used for the Services, the ASPCA will be responsible for acquiring all rights with respect to such use of such Content. For all Content provided by You to be used for the Services, You will be responsible for acquiring all rights with respect to such use of such Content. ASPCA shall own all Intellectual Property (as defined below) used to provide the Services. **["Intellectual Property" is all trademarks, service marks, trade names, domain names, designs, logos, slogans, mechanicals, plates, films, artwork, photographs, copyrights, confidential information, trade secrets, templates, trade dress, and Content of or relating to the provision of the Services.]** "Content" is all copy, script, text, graphics, photographs, video, audio, promotional/advertising materials and all other editorial matter(s) or press releases.



The Rep/Warranty/Indemnification Negotiation

- Third time is a charm, so you ask the new attorney to list the key license-specific issues that should be covered in these provisions.
- The answer is: "consider and include issues specific to your client's business, no actual or alleged infringement of the IP rights of you or of a third party, no false or misleading advertising in connection with the Licensed Products, no product defects"
- **IS THIS ENOUGH TO PROTECT GLOBESHIPPING (AS THE LICENSOR)? AND SHOULD YOU BE LOOKING FOR ANOTHER ATTORNEY??**



Sample Provisions -- Reps/Warranties/Indemnifications (Pro-Licensor)

Licensor represents and warrants that it, and any permitted manufacturing subcontractor hired by Licensor:

- (a) will not **[(i) conduct animal testing without discussing it first with the ASPCA to ensure any such testing is done in accordance with the ASPCA's policies and positions on this issue; or (ii) use child labor in connection with the manufacture, marketing, sale, promotion, packaging or distribution of the Licensed Products.]**
- (b) will **[(i) perform its obligations in a professional manner consistent with industry standards; (ii) use its best efforts to present the ASPCA in the best light possible; and (iii) not infringe the Intellectual Property rights of the ASPCA or of a third party.]**

Licensor agrees to indemnify, defend and hold harmless the ASPCA...arising from or in connection with (a) the breach of any of Licensor's agreements or representations hereunder; **[(b) any actual or alleged infringement of any patent, copyright, trademark, trade secret or other proprietary rights of any party in connection with the Licensed Products; (c) Licensor's false or misleading advertising in connection with the Licensed Products;]** and (d) any damages (including, without limitation, consequential damages) for personal injury (including, without limitation, death), property damage, and products liability claims **[(including without limitation, any defect in materials or workmanship in any of the Licensed Products)]** arising out of any person's use of the Licensed Products.



Negotiating IP Provisions in Distribution Agreements

Todd L. Mayover



The Scenario:

- GlobeShipping (Software Developer/Manufacturer)
- ServiceCo (International Software Distribution Company)
- ServiceCo has sales force that sells directly to end-users, has internet sales capabilities, and distributes directly to retail chains.
- GlobeShipping desires to negotiate the terms of an international distribution agreement with ServiceCo to distribute GlobeShipping software products world-wide.
- GlobeShipping intends to protect its intellectual property under the terms of the distribution agreement.



Initial IP Language:

1. Intellectual property owned by or licensed to GlobeShipping are vital to GlobeShipping's business. ServiceCo agrees, therefore, to take reasonable measures to assist GlobeShipping in protecting its intellectual property.
2. In partial fulfillment of this responsibility, ServiceCo agrees to notify GlobeShipping of any and all uses of these rights by any unauthorized person or entity of which ServiceCo becomes aware, and to cooperate in any actions by GlobeShipping to protect these rights at GlobeShipping's expense.
3. Nothing set forth herein shall constitute any grant of license or right to use GlobeShipping's Trademarks, Service Marks, Copyrights, or Patents other than in connection with the Software Products and their packaging in accordance with the terms of this Agreement.
4. ServiceCo shall not use GlobeShipping, its corporate name, or any of GlobeShipping's Trademarks or Service Marks in connection with any corporate or business name of ServiceCo.



Questions For Audience To Address:

1. What are the IP rights granted by this IP language?
2. What are the issues this IP language fails to address?
3. What contractual rights or limitations would you want to include in a revised draft of this IP language (if GlobeShipping, if ServiceCo)?



IP Checklist:

- Identify Form(s) of Intellectual Property
- Scope (Rights, Restrictions, Guidelines)
- Responsibilities of the Parties
- Expiration/Termination of Rights
- Indemnification
- Representations/Warranties



Alternative IP Language:

1. IP License and Rights of Use Language:

- During the Term of this Agreement, GlobeShipping grants to ServiceCo a non-exclusive, fully paid up, royalty free license to use GlobeShipping's designated name(s) and trademark(s) solely in connection with ServiceCo's distribution and sale of GlobeShipping's Software Products within the exclusive international territories provided in Exhibit A. A list of the designated names and trademarks included under this license are provided in Exhibit B.
- ServiceCo shall have the right to use and display GlobeShipping's designated names and trademarks provided in Exhibit B in advertising and promotional materials (whether in traditional print or electronic format) solely in connection with the marketing, advertising, promotion, and sale of GlobeShipping's Software Products by ServiceCo.



Alternative IP Language Cont.

2. Trademark Use Guidelines:

- ServiceCo shall legibly apply the appropriate GlobeShipping designated names, trademarks and trademark notices to all marketing, promotional, and sales documents used to distribute or sell GlobeShipping's software products.
- Marketing, promotional, and sales materials created by ServiceCo to distribute or sell GlobeShipping's Software Products shall be at least equal in quality as the materials ServiceCo produces to sell comparable products.
- During the Term of this Agreement, ServiceCo agrees that (i) it will not attack the title of GlobeShipping in and to GlobeShipping's trademarks, nor will it attack the validity of the license granted hereunder, and (ii) it will not misuse, tarnish, or dilute GlobeShipping's trademarks.



Alternative IP Language Cont.

3. Limitations/Restrictions On Use Language:

- Nothing contained in this Agreement shall be construed as an assignment or transfer of ownership of GlobeShipping's right, title or interest in its designated names or trademarks to ServiceCo or to any other third party.
- ServiceCo shall not use GlobeShipping's designated names or trademarks other than as permitted hereunder. In using GlobeShipping's designated names or trademarks, ServiceCo shall in no way represent that it has any right, title or interest in GlobeShipping's designated names or trademarks other than those expressly stated under the terms of the license grant provided herein.
- Registrations or any other protection of GlobeShipping's designated names or trademarks shall only be obtained by GlobeShipping at its own expense.



Alternative IP Language Cont.

4. Expiration/Termination of Rights Language:

- All rights granted to ServiceCo under this non-exclusive license to use GlobeShipping's designated names and trademarks shall be void upon the expiration or early termination of this Agreement. ServiceCo shall immediately cease all use of GlobeShipping's designated names and trademarks, except that ServiceCo shall have the right to sell any remaining inventory of GlobeShipping's Software Products it had previously paid for that remains in its possession at the time of termination or expiration of this Agreement.
- (ServiceCo shall immediately cease all use of GlobeShipping's designated names and trademarks, and GlobeShipping shall have the right to buy back all remaining inventory in ServiceCo's possession at the time of termination or expiration of this Agreement.)



Alternative IP Language Cont.

5. Litigation Support Language:

- ServiceCo shall take all actions reasonably requested by GlobeShipping (at GlobeShipping's expense) to assist in defending or prosecuting any action or suit relating to GlobeShipping's designated names or trademarks as used in connection with this Agreement. This obligation shall survive and extend beyond the expiration or early termination of this Agreement.



Alternative IP Language Cont.

6. Representations and Warranties Language:

- GlobeShipping is (and warrants that it is) the rightful and legal owner of all right, title, and interest in all of its designated names and trademarks provided in Exhibit B in each of the countries or territories provided in Exhibit A.
- ServiceCo recognizes the value of the publicity and goodwill associated with GlobeShipping's trademarks and acknowledges that such goodwill and all rights in GlobeShipping's trademarks belong exclusively to GlobeShipping. All use of GlobeShipping's trademarks by ServiceCo shall inure to the benefit of GlobeShipping.



Alternative IP Language Cont.

7. Indemnification Language:

- GlobeShipping shall indemnify and hold harmless ServiceCo, its directors, officers, and employees in any action arising out of the use of GlobeShipping's designated names or trademarks under the terms of this Agreement, except for actions arising as the result of the willful misuse or negligent conduct of ServiceCo in connection with the use of GlobeShipping's designated names or trademarks.



Negotiating IP Provisions in Software License Agreements

Scott Forsyth



Additional Facts to Consider:

- GlobeShipping plans to license their updated software program to 3rd parties.
- GlobeShipping is looking at different pricing models:
 - Various options are available: fixed offering; mix and match; etc.
 - Companies may call the same program/fee by a different name; watch out!

A License Fee	B Program Fees	C Additional Fee
Fully Paid	Annual Upgrade Fee	New software products
Royalty Bearing	Annual Maintenance Fee	New versions for separate fee
	Annual Service Fee Hourly Service Fee	



IP Language:

- Licensor grants to Licensee a non-exclusive [fully paid/royalty bearing] license to use the Product internally.
- “Product” means the GlobalShipping Planning Software, version 2.0, as further described in Schedule A.
- “Updates” mean maintenance releases or fixes provided or otherwise made available to Licensee by Licensor from time to time under this Agreement. Updates do not include Upgrades.
- “Upgrades” mean improvements and enhancements to the Product which are provided or otherwise made available to Licensee by Licensor from time to time under this Agreement. Upgrades do not include releases, improvements and enhancements for which Licensor charges separately or extra.



Additional Facts to Consider:

- GlobeShipping, either directly or using ServiceCo, intends to improve their software program on a regular basis, adding new features/ functionality.
- GlobeShipping is looking to expand its software offerings and is working on developing new products to license for a separate fee
 - There is internal tension as to whether some of the new features/ functions should be rolled into their current product or treated as a ‘new’ product.
 - GlobeShipping’s largest competitors in this software field have very ‘robust’, full featured product offerings.



Questions:

In your group, please consider the following questions from the perspective of GlobeShipping as well as the Customer:

- What issues, if any, does the language raise or fail to address?
- What additional rights or limitations, if any, would you want to include?

Customer make your case; GlobeShipping reply. Let’s see if we can get a compromise position.

Note: Please do not focus on the license grant language. We will leave that for another day!



Selected Issues for Licensee to Consider:

- What does your client really 'need'?
- What does your client 'want'?
- How much can they afford to pay?
- Generally, the more things you 'want', the more you must 'pay', whether in monetary or non-monetary terms.



Selected Issues for Licensee to Consider (cont.):

- What exactly is the 'software product' are you licensing?
- Does the 'software product' include updates and/or upgrades?
- How does GlobeShipping determine what is (i) an upgrade or (ii) a new product/feature to be licensed separately?
- Must you pay extra or participate in a services program in order to obtain updates? How about upgrades; separate upgrade program?
- Do you receive all of the released updates/upgrades or only certain ones?
- When do you receive your updates/upgrades?
- Are your license rights in the updates/upgrades the same as your license rights in the product?



Several Ways to Resolve Language Problems

- Redefine the term "Product"
- Redefine the terms "Upgrade" and "Update"
- Create a more detailed license grant
- Choose one, two or all three of the above



Alternate/Revised IP Language

"**Product**" means the GlobeShipping Planning Software, version 2.0, as further described in the Planning Software Specifications attached as Schedule A, including all Upgrades and Updates provided to Licensee under this Agreement.

- Including Upgrades and Updates helps ensure rights in those will be equal to your rights in the 'original' Product.
- You may still need to revise 'Upgrade' or 'Update'.
- Note: Attaching Specifications adds specificity as to what is the 'Product'; also may be useful for product warranty.



Alternate/Revised IP Language (cont.)

Possible alternative, more favorable to Licensee:

“**Product** “ means the GlobeShipping Planning Software, version 2.0, as further described in the Planning Software Specifications attached as Schedule A, including all Upgrades and Updates (i) provided to Licensee under this Agreement or (ii) otherwise made generally available by Licensor to third parties during the term of this Agreement.

- Adding (ii) helps ensure you receive Updates and Upgrades that are made available to others.
- We will look at some other possible issues when we cover Updates and Upgrades.



Alternate/Revised IP Language (cont.)

“**Updates**” mean maintenance releases or fixes to the Product which are (i) provided or otherwise made available to Licensee under this Agreement or (ii) otherwise made generally available by Licensor to third parties participating in Licensor’s Service Program.

- Including ‘(ii)’ helps ensure Licensee is treated the same as other parties under the Services Program. Licensor may push back if they have different ‘levels’ of membership in their Service Program.
- Including ‘generally available’ allows Licensor to carve out Updates for ‘custom’ offerings.
- Note
 - Most language additions/changes will also apply to Upgrades as well.
 - You will likely want the definitions of Updates and Upgrades to be substantially the same to avoid different treatment.



Alternate/Revised IP Language (cont.)

Possible alternative, even more favorable to Licensee:

“**Product** “ means the GlobeShipping Planning Software, version 2.0, as further described in the Planning Software Specifications attached as Schedule A, including all Upgrades and Updates (i) provided to Licensee under this Agreement or (ii) otherwise made generally available by Licensor to third parties as well as any product introduced by Licensor during the term of this Agreement which is a new version of or functional replacement for the Product (regardless of price or performance).

- New addition is more aggressive and will help to ‘future’ proof the Product.
- Licensor may reject this as too broad; unless for example, Licensor has favorable royalty provision or Product promotes the sale of other Licensor products.
- Consider defining ‘functional replacement’ to avoid later disputes.



Alternate/Revised IP Language (cont.)

Possible alternative, more favorable to Licensee:

“**Updates**” mean maintenance releases or fixes to the Product which are (i) provided or otherwise made available to Licensee under this Agreement or (ii) otherwise made generally available by Licensor to third parties.

- Dropping service program participation helps ensure Licensee is treated the same as even more other licensees.
- Licensor may push back on ‘third parties’, looking to exclude non-customers (e.g., developers).



Alternate/Revised IP Language (cont.)

“Upgrades” mean improvements and enhancements to the Product which are (a) (i) provided or otherwise made available to Licensee under this Agreement or (ii) otherwise made generally available by Licensor to third parties.

- Issues to consider similar to Updates.
 - Licensor may push for participation in an Upgrade Program and limit ‘third parties’ to other customers; not developers.
 - Licensee may push for delivery before or at the same time as to third parties.
- Licensee may try add language to include a new version of or functional replacement for the Product as an “Upgrade” (if not handled in the definition of ‘Product’).
 - Licensor likely to push back to preserve options for additional revenue stream.
 - Use of Upgrade Program for a fee may help resolve this issue.
 - Creative royalty fee structure may also resolve this issue.
- These additional ‘terms’ may well come at a price to Licensee; make sure the price is worth the ‘ask’.



Alternate/Revised IP Language (cont.)

Remember, be mindful of what you ask for:

- For example, if there is an upgrade program which costs money, make sure you need to join and it is worth the cost.
- May be less expensive to simply skip an Upgrade or two; then purchase the one you really want later.
 - This will typically depend on how the upgrade program is designed and the significance of the Upgrades.

‘A la Carte’ may be a better for you than ‘all you can eat’!



Upgrade vs. Update:

- Is the release an Upgrade or an Update?
 - May not matter if Licensee is assured of receiving both and both treated equally under the License Agreement.
 - Potential issues if there are meaningful differences.
- Look to the respective defined terms to decide.
 - Improvement/enhancement vs. maintenance release/fix
 - Define those terms further for clarity.
 - Will you know an update vs. upgrade when you see one?
 - Alternate approach; look to version number of release in v.x.y.z numbering scheme.
 - Upgrade = change in either v or x
 - Update = change in y or z



3 Steps to Licensee Happiness (or at least get you started down that road.....)

- Know what you need to license
- License what you need to license
- Pay only for what you need to license
- Hopefully, you will pay less and also finish your license faster!!!

ACC ANNUAL MEETING

SEATTLE, WASHINGTON

OCTOBER 19-22, 2008

INTRODUCTION

To the untrained eye, intellectual property clauses in corporate contracts and commercial agreements seem innocuous enough. However, that is precisely when an informed generalist can add value by ensuring that the language regarding intellectual property adequately protects the corporation's assets.

The following checklists are designed to give the corporate generalist a starting point to focus their review of intellectual property clauses in a variety of corporate, commercial, and licensing arrangements. These checklists are by no means exhaustive, but they do highlight important issues to consider when reviewing language regarding the use of intellectual property.

The checklists were prepared by the panelists for the ACC Annual Meeting held in Seattle, Washington on October 19-22, 2008, and reflect their personal views and not necessarily the views of their respective employers. Please feel free to modify the checklists as you wish to suit your own practice.

005 NEGOTIATING IP PROVISIONS IN CONTRACTS: LESSONS
LEARN ON THE FRONT LINES.

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CHECKLIST FOR CONFIDENTIALITY AGREEMENTS

Prepared by:

Lauren Bruzzone
Senior Group Counsel, IP Law, Global Services
IBM

The following is a list of considerations involved in drafting and negotiating an agreement governing the exchange of confidential data between companies or vendors. It is not exhaustive nor will all the items mentioned be applicable to all situations.

Before you start:

- What is the purpose of the meeting(s); what really needs to be covered; what needs to be protected
- Will the disclosure be mutual or one way
 - with mutual, good news: you both agree to the same thing; bad news: you both agree to the same thing
 - with one way: it may later turn out to be mutual

The Agreement terms:

- Who are the parties to the agreement; Who needs to be bound
 - in a service agreement, if a prime and subprime, how is the sub bound
 - if a vendor, does he use independent contractors and how will they be bound
- the definition of what is confidential – how will it be identified
 - categories: [patent applications](#) (unpublished), [financial](#) information, customer lists, vendor lists, business practices/strategies, algorithms, chemical formulas, commercial data, product specifications or plans, technical drawing or plans (note: these are reasonably self defined and identified
 - technical area
 - specified documents; materials with label “Confidential”
 - know-how, “confidential information,” “IT related”
 - practice point: this is vague. If you can’t recognize it, how will other party?
 - Personal information
 - Practice point: under current laws, handling of personal information is held to a very high standard. Clarifying who is responsible for what is important
- exclusions from what must be kept confidential.
 - the recipient had prior knowledge of the materials
 - the recipient developed the knowledge independently
 - the recipient gained subsequent knowledge of the materials from another source
 - the knowledge was contained in publically available materials

- term (in years) of the confidentiality, i.e. the time period of confidentiality
 - Practice point: if the term is defined as X years after project completion, it is advisable to add “or 20XX, whichever comes first,” for certainty
- obligations of the recipient regarding the confidential information
 - to use the information only for enumerated purposes
 - practice point: this will require a purpose to be stated
 - practice point: this is more easily agreed to if the confidential information is readily identifiable
 - to disclose it only to persons with a need to know the information for those purposes;
 - to use appropriate efforts to keep the material confidential
 - no less rigorous than that which the recipient uses to keep its own similar information secure
 - specific requirements ex. No copies
 - restriction to personnel with need to know
 - “reasonable efforts”
 - practice point: this leaves room for interpretation
 - obligation to return or destruction of copies at end of project
 - exception: use of knowledge retained in unaided memories of employees (usually included if know-how or technical information is shared)
- permission to obtain [ex-parte injunctive relief](#)
 - practice point: can be considered unreasonable
- when is disclosure permitted
 - subject to a subpoena
 - required by law or valid court order
- disclaimers
 - the agreement does not create a license, title or interest to any copyright or patent of the disclosing party
 - no liability for use of erroneous information (generally used for test results, prototypes, etc.)
 - export restrictions (if required by nature of the data)

After the meeting:

- Make a record of what is disclosed, preferably acknowledged by the other party

CHECKLIST FOR SOFTWARE OR TECHNOLOGY LICENSES
(COMPANY AS THE LICENSEE)

Prepared by:

**Scott Forsyth
Senior Attorney
Microsoft Corporation**

The following checklist may be useful during the initial discussions of a licensing arrangement where Company A (Licensee) desires to license software or technology from Company B (Licensor) in order to assist Licensee in flushing out certain relevant details of the proposed transaction in advance.

This checklist is not meant to be exhaustive, nor will all the items mentioned be applicable in all situations.

Please consult with your company lawyer or outside counsel as well as with your applicable business teams before engaging in any licensing arrangement.

1. Parties

- a. Provide exact corporate name and address of Licensor. Any subsidiaries involved?
- b. If Licensee has subsidiaries, what Licensee entity is licensing the technology? Do multiple Licensee entities need access to the technology; including rights to use and distribute the technology?

2. License

- a. Who is licensing what from whom?
- b. What is the technology being licensed and in what format (source, object, verilog, documentation, designs, etc.)
- c. What is it being used for? What does Licensee need to do with it?
- d. What license rights does Licensee need?
- e. Does Licensee need any modifications to the technology?
- f. If so, who will make them? Licensor (at what cost)? Licensee?; Who will own these changes?
- g. Do third parties need access to the software (such as subcontractors, outsourced developers, contract manufacturers or customers)? If so, for what purposes?
- h. Any technical, machine, use, site or other restrictions on Licensee's rights?
- i. Territory restrictions?
- j. Is the software home grown by Licensor or did they license components from third parties? What rights does Licensor have in the technology?
- k. Is any of the code which is not home grown subject to an open source license? If so, see Item 8 (Open Source) below.

- l. Is it hosted or being used on internal equipment by Licensee? If hosted, is there any data privacy issues based on the data Licensee will have access to and is system security adequate?
- m. Does the technology need to be integrated with other applications?
- n. If yes, what does Licensee need to accomplish this or will Licensor do this for Licensee and if so, at what cost?
- o. Can Licensee use subcontractors to assist with development, support, distribution of the product?

3. Term

- a. Number of years, perpetual or auto-extension. (If there is an expiration date, be sure that date meets Licensee's needs or does Licensee have an alternate source of the same or similar technology.)
- b. Consider a "sunset period" after expiration in order to sell out the products containing the technology and to support existing users.
- c. Administrative issue of who is minding expiration dates on finite term agreements.

4. Payments and Royalties

- a. What is the fee and how will it be paid? (e.g., up front, ongoing, fully paid, NRE, per copy, percentage of revenue (in which case, how is revenue is defined), any carry forwards.)
- b. What other payments must be made (e.g., maintenance, taxes, duties, withholding tax, etc.)
- c. How and when are fees paid? What currency?
- d. Must Licensee report to Licensor? How often, what format, what level of detail, record retention requirements, etc.? Can Licensee's existing processes support these requirements?
- e. Does Licensor have the right to audit Licensee? How often? What are the damages if Licensee under reports/pays?

5. Delivery and Acceptance

- a. Delivery terms (DDP Destination vs. Ex Factory) – e.g., who is responsible for cost of delivery and who is liable for items while in transit.
- b. Is delivery electronic or via hard media – discuss implications with Licensee's finance or tax group in advance.
- c. Any formal acceptance period or criteria and process for return or repair of nonconforming product?
- d. Any Service Level Agreements required? How mission critical is the application?

6. Maintenance

- a. Is it sold separately or is it part of the license fee? If separate, how is it calculated? Any cap on yearly increase?
- b. What is Licensee getting? Updates, Upgrades, Enhancements, New Versions? Are these defined clearly?

- c. What level of effort being used to fix problems? (Licensee will want fixed periods for maximum resolution time.)
- d. Time criteria for turnaround.
- e. What does Licensee need in order to be successful with this product? Is it offered as part of their regular service?
- f. How long will product be supported after license agreement expires in order to support customers?
- g. What training is included? Available?**Proprietary Rights**
- a. Who owns what? If anyone will be making modifications, be clear as to the ownership and license rights of those modifications.
- b. Indemnification for IP infringement – what territory, what rights, what amounts, what remedies really work for us, any caps? Any alternative sources for comparable products? Time for transitioning to new product if something goes wrong and we can no longer use this technology?

7. Open Source

- a. Does the code being licensed contain any open source code?
- b. If so, please provide a copy of the applicable open source code license(s)?
- c. Explain how Licensee will use the code covered by the open source license?
- d. Will Licensee modify the code?
- e. Will Licensee incorporate the code into Licensee's product/code? If so, how?
- f. Are there alternatives to the open source code?

8. Warranties

- a. Period of time.
- b. What does it cover?
- c. What remedies and do they make sense?
- d. No virus, trojan horse, no open source (unless specified) and title.
- e. If cap on IP infringement, consider asking for a warranty regarding no past claims.
- f. Is there a clear process for return of defective products and turnaround time?

9. Confidentiality

- a. Is it "family jewels"?
- b. Don't just reference existing NDA without first making sure it covers this situation and that it is not subject to expiration during the potential agreement term.
- c. When will data be old and cold?
- d. Does Licensee have comparable technology in existence or in process?

10. Limitation of Liability – Please work with Licensee's legal representative.**11. Termination**

- a. Think about migration to alternative technology if terminated and whether this technology is needed for the long haul or just as a stop gap for a limited period of time. (e.g., is it core technology?)

- b. If terminate, any right to source code from a source code escrow?

12. Source Code Escrow. Does Licensee need the source code held in escrow? If yes,

- a. What are the triggers for release of source code?
- b. When is source code deposited? What about updates/upgrades?
- c. Can Licensee or 3rd party inspect/verify source code?
- d. What may Licensee do with the source code?
- e. What license fees does Licensee owe following the release of source code?
- f. Who bears the cost of the escrow?

13. International Issues

- a. Foreign know how or other IP registrations might be needed.
- b. Export Control issues – any encryption technology involved?
- c. Withholding tax applicable? Is it included in our determination of royalties?

14. Others Using Technology

- a. Are any other groups in Licensee using this technology?
- b. If so, which group?
- c. If not now, would Licensee envision any groups being interested in the future?

15. Other

- a. Any other pertinent information on transaction, players, role this technology will play in market that would be helpful for Licensee's legal group to know?
- b. Any pertinent information on the Licensor or Licensor's technology that would be useful for Licensee's legal and business teams to know?

**CHECKLIST FOR INTELLECTUAL PROPERTY CLAUSES IN
DISTRIBUTION AGREEMENTS**

Prepared by:

**Todd L. Mayover, Esq.
Corporate Counsel
Home Diagnostics, Inc.**

The following checklist may assist the corporate generalist to spot issues involving intellectual property matters that commonly arise in distribution agreements. This list is by no means exhaustive (nor will all the items mentioned be applicable in all situations), but rather, it is a starting point for the corporate generalist to begin his or her negotiation or review of intellectual property language in distribution agreements.

1. Identify the form(s) of intellectual property contemplated for use under the agreement (trademarks and trade secrets are the most prevalent).

- Copyrights
- Patents (patent applications on file)
- Trademarks
- Trade Secrets

-Determine whether a particular trademark, copyrighted material, patent, or trade secret should be specifically identified in writing. For example, a manufacturer of multiple products may only want to grant to its distributor the right to use a particular logo or brand for the product(s) covered by the distribution agreement, but not all of the manufacturer's logos or trademarks, so the distribution agreement should spell out the actual logos or trademarks contemplated for use under the terms of the agreement.

-Determine whether specific intellectual property should be identified that will be excluded under the agreement. Both parties to the distribution agreement may own separate intellectual property that they may want to specifically exclude. For example, a manufacturer may decide that the agreement does not grant any right to make, use, or sell any product(s) covered by any of its patents, and only wants to grant the right to use its corporate name and logos on the products.

-Identify the country of origin of the intellectual property described in the agreement (especially when dealing with international agreements).

2. Identify rights of use (scope of rights, restrictions, guidelines for use).

-Determine the scope of the rights of use of the intellectual property (what, how, where, when, and by whom, etc.). For example, a manufacturer who owns trademarks and logos may decide to prohibit a distributor from using the

manufacturer's name, trademark, and logos in advertising, point of sale activities, and marketing materials except as provided in the distribution agreement or with the manufacturer's prior written consent.

-Identify any specific limitations on use and provide those in writing. For example, if a distribution agreement is an exclusive agreement granting distribution rights to a particular foreign country, a manufacturer may choose to exclude use of intellectual property outside of the exclusive territory.

-Provide written guidelines for proper usage of intellectual property; A trademark owner may wish to give guidelines for proper usage of its logos, corporate name(s), and trademarks in order to minimize dilution or tarnishment of its marks.

-Call out restrictions on modifying or deliberately changing intellectual property in any way without the prior written consent of the owner.

-If a license to use is granted, define the license terms, and highlight any specific rights, such as, assignment and delegation, and the right to sub-license.

3. Identify the Parties' responsibilities regarding intellectual property.

-Cooperation on litigation matters involving the use of the other party's intellectual property.

-Assist intellectual property owner in monitoring proper usage of intellectual property and to identify unauthorized users or infringers.

-Refrain from making false representations of ownership of intellectual property

4. Define what should happen to rights to use intellectual property upon expiration or early termination of the distribution agreement.

-Indicate that rights terminate immediately upon termination or expiration of distribution agreement.

-Decide up front what should happen to inventory (immediate destruction, return to owner, ability to use up or buy remaining inventory, etc.).

5. Indemnification language regarding intellectual property

-The party granted rights to use intellectual property should seek indemnification from the intellectual property owner for infringement or contributory infringement actions based on use of intellectual property granted under the terms of the distribution agreement.

6. Representations and warranties regarding intellectual property.

-Require that a party claiming ownership of intellectual property provide a written representation or warranty that it is the rightful owner of the intellectual property and can provide documentation to support its claim of ownership.

-If there is third party ownership of intellectual property rights, require by representation or warranty that the party to the distribution agreement granting a right to use intellectual property owned by a third party has the proper authority to transfer rights of use (sub-license rights).

-The party receiving rights to use intellectual property should seek a representation or warranty stipulating that the intellectual property is valid, enforceable, and does not infringe a third party's intellectual property rights.

CHECKLIST FOR COPYRIGHT AND TRADEMARK LICENSES

Prepared by:

Kelly M. Slavitt, Esq.
Corporate Counsel
ASPCA

- 1) What is the scope of the intellectual property? Use a defined term such as the "Trademarks", the "Content" or the "Licensed Products" and specify each piece of IP covered in the license
- 2) What is the scope of use? Most importantly, is it exclusive or nonexclusive? Where and how will the IP be used, in what territory, in which distribution channels?
- 3) How do you want the IP to be represented? Include an exact representation as an Exhibit or incorporate a Style Manual into the license. This is one of many quality control issues you will want to include to protect your IP, including review of product samples in advance.
- 4) You need a strong confidentiality provision since the other side will likely know your business plans and strategies
- 5) Make sure you include a right to audit royalties
- 6) Make sure you include a provision on what to do in the event of defects, including a product recall
- 7) Make sure you include reps and warranties specific to licenses and protection of your brand: noninfringement and departure from standard of quality in particular, but also no use of child labor (or animal testing perhaps)
- 8) Make sure you include indemnifications specific to licenses: for infringement, false or misleading advertising, and defect in materials or workmanship
- 9) Make sure you include termination rights specific to licenses: breach of royalty, infringement, departure from standard of quality, and possibly for tarnishment or disparagement of your trademark
- 10) The reality is that termination of the agreement will not mean instant deletion of the copyright or trademark from whatever it is being used on, so include a time period for removal including a sell-off period for merchandise that has already been manufactured