



401 It's a Two-way Street: Successfully Negotiating IP Agreements for Buyers & Sellers

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Faculty Biographies

David R. Boyko

David R. Boyko is vice president of licensing and legal services for Xenogen Corporation, a biotechnology company headquartered in Alameda, California. Responsible for a wide-range of legal functions for both the company and its wholly-owned subsidiary, Xenogen Biosciences Corporation, his focus is on commercial transactions, licensing, intellectual property, and litigation.

Before joining Xenogen, Mr. Boyko was a senior associate in the technology transactions group at Wilson Sonsini Goodrich & Rosati, P.C., where he represented technology and life sciences clients in a wide range of commercial and intellectual property transactions. Prior to that, Mr. Boyko was a litigation associate with Fried, Frank, Harris, Shriver & Jacobson, co-authoring several articles on intellectual property and antitrust issues.

Mr. Boyko also served eight years as an officer in the U.S. Air Force, where he was involved with development and operational planning for strategic weapons.

Mr. Boyko received a B.S. from Cornell University, an M.A. from the University of Southern California, and his J.D. from the University of California Los Angeles School of Law.

Pedro DeJesus, Jr.

Pedro DeJesus, Jr. serves as vice president and corporate counsel for Information Resources, Inc. (IRI), located in Chicago, where he provides legal and business advice in connection with the company's business activities in the United States, Europe, and other international markets. IRI is the leading global provider of enterprise market information solutions for the consumer packaged goods, retail, and health-care industries.

Prior to joining IRI, Mr. DeJesus was an associate at the Chicago offices of McGuireWoods, LLP and Piper Rudnick. He was also a public interest fellow at the Mexican American Legal Defense and Educational Fund, the premier Latino civil rights litigation and advocacy institution in the United States.

Mr. DeJesus currently sits on the board of trustees for the Hispanic Lawyers Scholarship Fund of Illinois and on the Roosevelt University Alumni board of governors. He also serves as pro bono legal counsel to Mujeres Latinas En Acción, a Chicago-wide social service organization providing bilingual and bicultural services to Latinas and their families, and the Puerto Rican Parade Committee of Chicago, Inc., the largest attended Hispanic festival in the City of Chicago and one of the elite Hispanic festivals in the nation. Mr. DeJesus was the former Midwest regional president for the Hispanic National Bar Association and a past chair of the Chicago Bar Association's coordinating council for minority affairs and its committee on racial and ethnic diversity.

Mr. DeJesus received his B.A. from Roosevelt University and is a graduate of Northwestern University School of Law.

Jeffrey S. Fraum

Jeffrey S. Fraum is senior counsel for Tellabs, Inc., a leading provider of telecommunications equipment, located in Naperville, Illinois. His practice includes contracts and commercial law, bankruptcy and creditor's rights, joint ventures, outsourcing, antitrust, intellectual property licensing, litigation management, real estate, and acquisitions.

After clerking for Hon. John C. Eldridge of the Court of Appeals of Maryland, Mr. Fraum entered private practice with the New Jersey firm of Hanocho Weisman. Prior to going to Tellabs, Mr. Fraum worked for Bunge Corporation, Union Camp Corporation, Chicago Board Brokerage, and Siemens Medical Services.

His publications include "Transfers of Technology Rights to Joint Ventures," "A Model Questionnaire for Expediting Review of Software Procurements," "A Practical Strategy for Complying With the Bulk Sales Act," and "Discretion, Valor and Joint Ventures," each of which appeared in *The Practical Lawyer*.

He is a graduate of Haverford College and Rutgers School of Law Newark, where he was a recipient of the Rutgers Graduate Scholars Award.

Joanne J. Henkle

Joanne Jones Henkle is the associate general counsel for Russell/Mellon Analytical Services, a multinational financial analytics organization in Tacoma, Washington. Her responsibilities include providing legal counsel on intellectual property licensing, information technology agreements, off-shore contracting, and acting as assistant corporate secretary to the boards of Russell/Mellon and Russell/Mellon Canada.

Prior to joining corporate life, Ms. Henkle was a program manager for a web-based project management system, a government procurement consultant, and performed a variety of roles on a couple of sports arena projects.

Ms. Henkle received a B.S. from Creighton University and is a graduate of the Northwestern University School of Law.

The views and opinions presented in these materials do not represent the views and opinions of the panelists' employers

Confidentiality

Issue	Licensor's Concerns	Licensee's Concerns	Practice Tips
Confidentiality	<ul style="list-style-type: none"> Confidentiality provision should be broadly drafted to include all information Licensor intends to keep confidential but disclosure should be limited to Licensee's employees on a "need-to-know" basis. <p>-----</p> <ul style="list-style-type: none"> If disclosure of confidential information is allowed beyond Licensee's employees, Licensor should require that Licensee remain responsible for breaches of confidentiality by third party brokers, consultants, etc. <p>-----</p> <ul style="list-style-type: none"> Licensor should ensure a clear definition of what constitutes confidential information is inserted into the agreement. Confidentiality provision should survive expiration or termination of agreement. 	<ul style="list-style-type: none"> Confidentiality agreement should be made mutual and Licensee should carve out uses for contractors, affiliates and other third parties. <p>-----</p> <ul style="list-style-type: none"> Licensee should attempt to limit exposure of accidental disclosure from its third parties by only requiring that it will take reasonable efforts to obtain confidentiality agreements from such third party users. <p>-----</p> <ul style="list-style-type: none"> Licensee should include standard exceptions (e.g., information in the public domain, information rightfully provided to Licensee without obligations of confidentiality, independently developed information, etc.) 	<p><i>Parties should ensure breaches of confidentiality are carved out of any agreed-to limitations of liability.</i></p> <p><i>The requesting party should seek additional security provisions for highly confidential or sensitive information (e.g., passwords, encryption, secure electronic storage, secure physical facilities etc.)</i></p> <p><i>Additional protections should be sought for use of personally identifiable customer or patient information.</i></p>

Indemnification

Issue	Licensor's Concerns	Licensee's Concerns	Practice Tips
IP Infringement Indemnity	<ul style="list-style-type: none"> Licensor should attempt to limit infringement indemnification to specific infringement claims; <p>-----</p> <ul style="list-style-type: none"> Licensor should attempt to limit infringement indemnity to United States IP rights. <p>-----</p> <ul style="list-style-type: none"> Licensor should request certain common exceptions (infringement arising from licensee's failure to install or use a software update, licensee's modifications of the software or custom specifications requested or provided by client). Licensor should also request exceptions for claims resulting from combination, operation or use of the licensed software with software not provided by Licensor. Licensor should also limit remedies to repair, replacement or refund (at Licensor's option) <p>-----</p> <p>-----</p>	<ul style="list-style-type: none"> Licensee should resist limitations, as the majority of infringement claims arise out of patent or trade secret rights. Indemnity should extend to infringement claims of any actual or alleged claims of patent, copyright, trademark, trade secret or other intellectual property rights related to Licensee's use of the software. <p>-----</p> <ul style="list-style-type: none"> This restriction is generally acceptable unless foreign use of the software is anticipated. Infringement exception for licensee's failure to implement a software update should be limited only to updates that would have avoided the claim. Licensee should request a specific time framed for performance of remedies and seek continued use of the software in the event of an infringement action (i.e., require Licensor to remedy or procure alternative software, modify infringing software or refund fees paid). <p>-----</p> <p>-----</p>	<p><i>IP infringement actions have increased over the past few years. As such, IP infringement provisions are more important than ever before.</i></p> <p><i>Indemnity language can be convoluted and arcane, but its intent is clear: it is to shift risk. Licensors need to aggressively avoid undertaking unhealthy or uninsurable positions. Everything is negotiable in an agreement and indemnification provisions are no exception.</i></p>

	<ul style="list-style-type: none"> Licensee should request exclusive right to prosecute and settle claims in its discretion and request reasonable cooperation from Licensee. <p>-----</p> <ul style="list-style-type: none"> Licensee should be allowed to settle claims without Licensee's consent, provided that Licensee is released from any liability. 	<ul style="list-style-type: none"> Licensee should request timely notice of any claims and should request right to defend claim in the event of inaction by Licensor. Licensee should also seek reimbursement for expenses and time involved in providing assistance to Licensor. Although less common, Licensee can seek first right, at its option, to prosecute third party infringers at its own cost, keeping any recoveries. Licensee should attempt to limit Licensor's settlement of claims only to those claims settled with Licensor's consent. 	
Confidentiality Indemnity	<ul style="list-style-type: none"> If Licensee will have access to non-public patient, financial or other highly sensitive customer information, Licensor should request an indemnity for confidentiality breaches. 	<ul style="list-style-type: none"> Licensee should determine the extent to which this information is needed or used prior to granting this confidentiality indemnity. 	
Personal Injury Indemnity	<ul style="list-style-type: none"> Licensor's commonly request indemnification for personal injury claims resulting from Licensor and its employees, vendors, and contractors. 	<ul style="list-style-type: none"> Licensee should attempt to limit to claims of gross negligence 	
Employee	<ul style="list-style-type: none"> Less common, but in some instances 	<ul style="list-style-type: none"> Licensee should resist providing 	

Compensation Indemnity	Licensor's request indemnification for compensation and overtime claims of Licensee's employees.	indemnification and instead include language in independent contractor clause stating that Licensor is not responsible for employment-related claims of Licensor's employees.	
Indemnification for breaches of License Grant	<ul style="list-style-type: none"> Licensor should request indemnification for losses "arising out of or in connection with Licensee's use of the software." 	<ul style="list-style-type: none"> Licensee should limit to claims arising only as a direct fault of the Licensee. Broad indemnification provisions are unreasonable and should be avoided. 	

Limitation of Liability

Issue	Licensor's Concerns	Licensee's Concerns	Practice Tips
Limiting Direct & Consequential Damages	<ul style="list-style-type: none"> Licensor should include a provision specifically disclaiming liability for consequential damages (also called special or incidental damages and includes lost profits) and limiting direct damages (actual damages for breach, such as the license fee paid) to all or a portion of the fees paid <p>-----</p> <ul style="list-style-type: none"> Licensor should resist making limitations clause mutual. If mutual clause is negotiated, Licensor should seek to exclude claims resulting from breach of confidentiality and breaches of the software license. <p>-----</p> <ul style="list-style-type: none"> Licensee should attempt to limit liability to fees actually paid by Licensee. 	<ul style="list-style-type: none"> Most favorable position for Licensee is for agreement to be silent on issue of limitations of liability. If a limitations clause is present, Licensee should object to broad indemnification provisions. <p>-----</p> <ul style="list-style-type: none"> Licensee should also seek to make any limitation provision mutual. Claims for which the Licensor is insured for should be excluded as should Licensor's indemnity obligations. <p>-----</p> <ul style="list-style-type: none"> Licensee should also seek to increase the overall liability cap by some multiple of all license and professional service fees paid or payable. (i.e., 1.5 to 3x total fees). Licensee can also attempt to draft the limitation in terms of the greater of fees paid or some other defined dollar amount (e.g., fees paid in the first 6 or 12 months of the agreement). 	<p><i>Limitation of Liability clauses should be mutual. Licensee should obtain same damage protections that Licensor seeks.</i></p>

SOFTWARE LICENSE AGREEMENT

This Agreement, dated as of May 8, 1996 (the "EFFECTIVE DATE") is entered into by and between HNC Software, Inc. ("HNC"), a corporation organized under the laws of the state of Delaware, and InfoSeek Corporation ("LICENSEE"), a corporation organized under the laws of California.

WHEREAS; HNC is the developer and owner of a proprietary software system known as CONVECTIS (TM);

WHEREAS, Licensee wishes to obtain the right to license use the HNC Software with respect to categorizing documents in conjunction with Licensee's Internet products; and

WHEREAS, HNC is willing to grant such rights to Licensee on the terms and conditions set forth in this Agreement;

AGREEMENT

In consideration of the mutual agreements contained herein, the parties hereby agree as follows:

1. DEFINITIONS. For purposes of this Agreement, the following terms shall have the meanings indicated below:

(a) "HNC DOCUMENTATION" shall mean the user's guides or manuals, published by HNC and supplied with the HNC Software and which are generally supplied by HNC to licensed end users and shall also include documentation for customized options delivered to Licensee.

(b) "END-USER" shall mean any subscriber and/or licensee of Licensee's Internet products, which shall include Licensee.

(c) "HNC SOFTWARE" shall mean the CONVECTIS server application and the CONVECTIS tuning application, and any licensed options, modifications or enhancements thereto, as supplied to Licensee by HNC pursuant to licenses granted under this Agreement.

(d) "ERROR" shall mean any failure of the HNC Software to substantially conform to the specifications set forth in Exhibit G.

(e) "LICENSED APPLICATION" shall mean the automatic categorization of Internet information into groups.

(f) "CONTEXT VECTORS" shall mean the HNC Software-generated mathematical representation of Licensee [...].

2. LICENSE.

(a) Subject to the terms and conditions of this Agreement, during the term of this Agreement, HNC grants to Licensee a, nonexclusive, nontransferable right and license to:

(i) use, maintain, display, and reproduce (in object code form only), for the Licensed Application the HNC Software in accordance with Exhibit A.

(ii) market, promote and provide [...] produced by the HNC Software to End Users as a part of Licensee's Internet products.

(iii) provide first-line support for the [...] produced by the HNC Software to End Users.

(b) Nothing herein entitles Licensee to use, market or provide any of the HNC Software to any third party except in accordance with the terms and conditions of this Agreement.

(c) HNC reserves all rights not expressly granted hereunder.

3. MARKETING RESPONSIBILITIES.

(a) Licensee shall be solely responsible for the marketing, promotion, and/or distribution of Licensee's products.

(b) Licensee shall indicate use of the HNC Software in those Licensee marketing materials and product documentation described in Exhibit K.

(c) During the term of this Agreement, Licensee shall include a graphic with linked URL supplied by HNC in a location mutually agreed upon by the parties.

4. ACCEPTANCE OF AND MODIFICATIONS TO THE HNC SOFTWARE BY HNC.

(a) HNC shall participate jointly with Licensee in the testing of the HNC Software in accordance with the installation and testing procedures set forth in Exhibit D (the "Acceptance Test Procedures"). The Acceptance Test Procedures shall be designed to determine whether the HNC Software substantially conforms to the HNC and Licensee mutually agreed upon Requirement Analysis. Each party will inform the other of each Error as it is discovered by such party, and HNC will correct each Error as soon as reasonably possible after it is reported. The process of testing the Error reporting and correction will continue and be repeated until the HNC Software successfully completes the Acceptance Test Procedures or until the "Test Completion Deadline" set forth in Exhibit D is reached, whichever occurs first. Both parties shall act promptly in testing the HNC Software and in reporting Errors pursuant to this Section 4. HNC shall have [] days following the Test Completion Deadline to correct any remaining Errors reported by Licensee on or before such date.

(b) In the event that HNC fails to correct such Errors within the [] period described in section (a) immediately above, Licensee may, at its option and as its exclusive remedy, (i) agree in writing with HNC to extend the time period in which HNC is required to correct such Errors, (ii) agree in writing with HNC to modify applicable Specifications or Acceptance Test Procedures, or (iii) terminate this Agreement by giving HNC written notice of termination within thirty (30) days after the date on which HNC is required to correct such Errors (as such date may be extended under subparagraph (i) above). In the event that Licensee elects to terminate this Agreement pursuant to subparagraph (iii) immediately above, HNC shall refund to Licensee [] the one-time installation fee referred to in Exhibit A of this Agreement and any other amounts which shall have been paid by Licensee under this Agreement. Additionally, all licenses granted to Licensee under this Agreement shall immediately terminate, and Licensee shall promptly return to HNC all copies in its possession of the HNC Software, Documentation and other materials received from HNC under this Agreement, and neither party shall have any further obligations to the other party except for the confidentiality obligations under Section 7.

(c) Unless rejection of the HNC Software by Licensee occurs prior thereto, the HNC Software shall be deemed to have been accepted by Licensee upon the earlier to occur of (i) the successful completion of the Acceptance Test Procedures, (ii) the first date on which Licensee makes the information provided by the HNC Software available to End Users, excepting in conjunction with Licensee's use of the HNC Software for testing and acceptance purposes, including external beta testing, or (iii) At HNC's request at such time, Licensee shall furnish HNC with a certificate confirming Licensee's acceptance of the HNC Software.

(d) If Licensee and HNC jointly agree to use HNC resources for any additional consultation services, then such additional services will be charged either on a negotiated and mutually agreed upon fixed price basis or on a time and materials basis according to HNC's then current published rate schedule.

5. PAYMENTS TO HNC.

(a) Except as otherwise provided in Exhibit A of this Agreement, all payments due to HNC hereunder shall be due and payable in full within thirty (30) days of receipt by Licensee of a proper invoice therefor. All past due payments will accrue interest at a rate of one and one-half percent (1.5%) per month on the unpaid balance from the due date until paid in full.

(b) Except as otherwise specified herein, all obligations with respect to the amounts due either party shall survive any expiration or termination of this Agreement.

(c) All payments by Licensee to HNC under this Agreement for any fees due hereunder will be exclusive of any sales, use, service, value added or withholding taxes, or any other levy, tariff, duty or tax of any kind whatsoever imposed by any governmental authority with respect to the services rendered or expenses incurred by HNC hereunder (other than a tax imposed upon HNC's income). Licensee agrees to pay, within thirty (30) days of receipt of the applicable HNC invoices, any such tax whenever such tax is imposed by a governmental authority.

6. SUPPORT AND MAINTENANCE.

(a) HNC's responsibility to provide support or maintenance for the HNC Software is set forth in Exhibit B to this Agreement.

7. PROPRIETARY RIGHTS.

(a) Licensee acknowledges and agrees that HNC will own the sole and exclusive worldwide right, title and interest in and to the HNC Software, [], Enhancements to the HNC Software, the Documentation and all worldwide intellectual property rights therein and all copies thereof, in whole and in part, subject only to Licensee's limited license rights to use such HNC Software and Documentation as permitted by this Agreement. Notwithstanding any rights granted in Section 2 above, HNC reserves the right to restrict Licensee's use of HNC's trademarks and/or tradenames, including, but not limited to, HNC, HNC Software, Content Mining and/or Convectis, except as expressly permitted in writing by HNC. Notwithstanding the foregoing, Licensee shall: (i) reference its use of HNC technology and the HNC Software in copyright and/or other proprietary rights notices required under this Agreement; and (ii) place HNC's logo with URL link at a location mutually agreed to by the parties. The HNC Software contains trade secrets of HNC and to protect them Licensee agrees that Licensee will not decompile, reverse engineer, disassemble or otherwise reduce the HNC Software to a human perceivable form or permit any other party to do so. Licensee may not modify, adapt, translate, rent, lease, sell, sublicense, loan, resell for profit,

distribute, time-share or create any derivative works based upon, the HNC Software or any portion thereof or permit any other party to do so. HNC agrees that HNC will not decompile, reverse engineer, disassemble or otherwise reduce the Context Vectors to a form permitting access to the underlying text or permit any other party to do so.

8. CONFIDENTIALITY.

(a) During the course of performance under this Agreement, Licensee and its employees may gain access to certain confidential information of HNC. The term "Confidential Information" shall mean any information and data of a confidential nature belonging to the disclosing party, its affiliates, licensors, vendors or clients, including without limitation, the HNC Software, the Documentation and any related materials, or any proprietary, technical, developmental, marketing, sales, operating, financial, performance, cost/pricing, business and process information, business practices, business plans, software, and computer programming techniques which are disclosed or made available pursuant to this Agreement. Licensee agrees to protect such Confidential Information from unauthorized use, disclosure or access and shall ensure that any Confidential Information obtained from HNC will be disclosed only to Licensee's employees and only on a "need-to-know" basis. Licensee shall ensure that HNC's Confidential Information is not disclosed by Licensee's employees in violation of this Agreement and shall cause its employees to execute a confidentiality agreement in the form attached hereto as Exhibit ____.

(b) Nothing contained herein will be construed to restrict or impair in any way the right of the parties to disclose or communicate any information which (i) is at the time of its disclosure hereunder generally available to the public; (ii) becomes generally available to the public through no fault of the receiving party; (iii) is, prior to its initial disclosure hereunder, in the possession of the receiving party as evidenced in a documentary form; (iv) is independently developed by a party without use of or reference to any of the other party's Confidential Information; or (v) is acquired by the receiving party from any third party having a right to disclose it to the receiving party.

(c) HNC and Licensee agree that in the event that either party breaches any of the provisions contained in this Section 7, then, notwithstanding the provisions of Section 14(k), the nonbreaching party shall be authorized and entitled to seek from any court of competent jurisdiction (i) a temporary restraining order, (ii) preliminary and permanent injunctive relief; and (iii) an equitable accounting for all profits or benefits arising out of such breach. Such rights or remedies shall be cumulative and in addition to any other rights or remedies to which the non-breaching party may be entitled. The provisions of this Section 7 shall continue in effect following termination of this Agreement and expiration or termination of the Term.

(d) The terms and conditions of this Agreement shall be deemed Confidential Information and shall not be disclosed to any third party without the prior written consent of the other party.

9. LIMITED WARRANTIES OF HNC.

(a) HNC represents and warrants to Licensee that: (i) HNC is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware; (ii) HNC has the corporate power and authority to enter into this Agreement and perform all of its obligations hereunder; and (iii) HNC is the sole and exclusive owner of and/or has all necessary rights to all intellectual property rights in and to the HNC Software; HNC has all legal right and authority to grant and convey to Licensee the rights and licenses contained in this Agreement without violation or conflict with any law; there is no action, suit, claim, arbitration, or other proceeding pending or threatened which questions this Agreement or HNC's ownership of the HNC Software or any

intellectual property rights therein; the HNC Software does not infringe upon any proprietary right or intellectual property rights of any third party.

(b) Conformity to Specifications. HNC hereby warrants that the HNC Software will conform in all material respects to the specifications described in Exhibit G hereto and will function in accordance with such specifications in all material respects during the term of this Agreement. In the event that Licensee discovers a material malfunction in the HNC Software (a "Program Error"), HNC agrees to use its best efforts to correct, cure, replace or otherwise remedy, at HNC's option, such Program Error at HNC's sole expense in accordance with the procedures specified in Exhibit L. Licensee agrees to cooperate and work closely with HNC in a prompt and reasonable manner in connection with HNC's correction efforts. Licensee's sole remedy for any breach of warranty under this Section will be to have HNC use its reasonable best efforts to cure such breach as provided herein.

(c) WARRANTY DISCLAIMER. EXCEPT FOR THE FOREGOING EXPRESS WARRANTIES SET FORTH IN THIS SECTION, HNC MAKES NO OTHER WARRANTIES, EITHER EXPRESS OR IMPLIED, UNDER THIS AGREEMENT AND HEREBY DISCLAIMS ALL IMPLIED WARRANTIES, INCLUDING ANY WARRANTIES REGARDING MERCHANTABILITY, FITNESS FOR PURPOSE OR CORRESPONDENCE WITH DESCRIPTION.

10. INFRINGEMENT OF THIRD PARTY RIGHTS.

(a) Indemnification. HNC will indemnify and hold Licensee harmless from, any liability, cost, loss, or expense arising out of any claim alleging (i) that the HNC Software or any portion thereof as furnished under this Agreement and used within the scope of the licenses granted to Licensee hereunder infringes any third-party United States patent or copyright. The foregoing obligations of HNC shall only apply if: (x) Licensee promptly gives written notice of the claim to HNC; (y) Licensee gives prompt, reasonable assistance to HNC in connection with the defense and/or settlement of such claim; and (z) HNC directs and controls the defense of or any settlement of such claims.

(b) Notwithstanding the foregoing, HNC's indemnity obligations under Section 10(a) above will not apply, when the alleged infringement would not have occurred but for: (i) modifications made to the HNC Software that were not authorized by HNC; or (ii) the combination of the HNC Software with any products not provided by HNC.

(c) In the event that Licensee's use of the HNC Software or portion thereof in accordance with this Agreement is enjoined in an action as described in Section 10(a) above, or HNC reasonably believes that it will be so enjoined, then HNC will use its best efforts to promptly, at its sole option and expense: (i) procure for Licensee the right to continue using the HNC Software or portion thereof; (ii) replace the same with non-infringing software of equivalent functions and efficiency.

(d) The remedies specified in this Section 10 will be Licensee's sole and exclusive remedies in connection with any alleged or actual infringement or misappropriation of any intellectual property rights by the HNC Software or the Documentation. "HNC" Software as used in this Section 10 shall include the Documentation.

11. LIMITS ON LIABILITY.

(a) IN NO EVENT SHALL HNC BE LIABLE TO LICENSOR ANY LOST PROFITS, LOSS OF BUSINESS OR FOR INDIRECT, INCIDENTAL, EXEMPLARY, CONSEQUENTIAL, PUNITIVE

OR SPECIAL DAMAGES SUFFERED BY LICENSEE, ITS AFFILIATES, CUSTOMERS OR OTHERS ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE HNC SOFTWARE, THE DOCUMENTATION OR ANY OTHER HNC PRODUCTS OR SERVICES, FOR ALL CAUSES OF ACTION OF ANY KIND (INCLUDING BUT NOT LIMITED TO TORT, CONTRACT, NEGLIGENCE, STRICT PRODUCT LIABILITY AND BREACH OF WARRANTY) EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

(b) EXCEPT FOR HNC'S OBLIGATIONS PURSUANT TO SECTION 10, HNC'S TOTAL LIABILITY UNDER THIS AGREEMENT WILL IN NO EVENT EXCEED THE TOTAL DOLLARS PAID BY LICENSEE TO HNC HEREUNDER (EXCLUSIVE OF INSTALLATION FEES AND REIMBURSED EXPENSES) FOR THE FIRST TWELVE (12) MONTHS DURING WHICH ANNUAL LICENSE FEES ARE DUE AND PAYABLE TO HNC HEREUNDER.

12. SOURCE CODE ESCROW.

(a) HNC, Data Securities International, Inc. ("DSI") (or another escrow agent mutually agreeable to Licensee and HNC and Licensee shall enter into a Technology Escrow Agreement in substantially the form attached hereto as Exhibit D (the "ESCROW AGREEMENTS") which sets forth the conditions under which Source Code (as defined below) for the applicable HNC Software will be released to Licensee in the event of a Triggering Event as defined below. If the Source Code is released to Licensee in accordance with the terms of this Section 12 and the terms of the Escrow Agreement, Licensee agrees that it may use the Source Code solely for the purpose of enabling Licensee to itself internally support and maintain its Licensed Use of the HNC Software during the Term in accordance with the terms and conditions of this Agreement. As used in this Section 12, the term "SOURCE CODE" means, collectively, source code deposited on computer magnetic media, test programs and program specifications, compiler and assembler descriptions, descriptions and locations of third-party computer programs required to use or support the HNC Software, and technical documentation that HNC uses to maintain or support the HNC Software, to the extent such exists at the time of the deposit of the Source Code into the deposit account pursuant to the Escrow Agreement or in the month prior to such deposit. Within thirty-five (35) days after the Acceptance Date of each Version of the HNC Software that Licensee elects to install on the Designated System, HNC shall deposit one (1) copy of the Source Code for such Version of the HNC Software into a deposit account with DSI pursuant to the Escrow Agreement. Receipt of the Source Code by Licensee under the terms of the Escrow Agreement shall not by itself terminate this Agreement. If Licensee receives the Source Code for HNC Software under the terms of the Escrow Agreement, such Source Code shall be subject to all terms of ownership, use, access, disclosure, payment to HNC and termination specified in this Agreement. HNC agrees to update escrow deposits from time to time by promptly placing all upgrades, enhancements, and New Versions of the HNC Software in escrow with DSI. Licensee shall pay all expenses charged by DSI to establish and maintain the escrow arrangement. In the event of any conflict between this Agreement and the Escrow Agreement, this Agreement shall control.

(b) As used herein, "TRIGGERING EVENT" means and includes the following:

(i) action by HNC under any state corporation or similar law for the purposes of dissolution;

(ii) action by HNC under any state insolvency or similar law for the purpose of its bankruptcy or liquidation;

(iii) a voluntary filing by HNC of a petition for relief under Chapter 7 or Chapter 11 of the United States Bankruptcy Code;

(iv) the filing of an involuntary petition in bankruptcy against HNC that is not dismissed within sixty (60) calendar days after its filing;

(v) the occurrence of a material breach by HNC of its obligations under Section 6 hereof to provide support and maintenance of the applicable HNC Software, which material breach is not cured by HNC within [] after HNC's actual receipt of notice of such material breach from Licensee.

13. TERM AND TERMINATION.

(a) The Initial Term of this Agreement shall commence on the Effective Date and shall continue for a period ending five (5) years after the date of acceptance of the HNC Software unless earlier terminated in accordance with this Agreement. At the completion of the Initial Term, this Agreement will automatically be renewed for one or more subsequent Renewal Terms of [] unless and until either party, upon at [] prior to the end of the Initial Term or any Renewal Term, notifies the other party in writing of its intent, to allow this Agreement to expire at the end of such Initial Term or Renewal Term (as applicable).

(b) Either party to this Agreement may, upon written notice to the other, terminate this Agreement if the other party materially defaults in the performance of any of its duties or obligations hereunder, provided that such default is not curable or, if curable, shall not have been substantially cured within ninety (90) days after written notice is given of such default.

(c) To the extent permitted by applicable law (including II U.S.C. Section 365) the non-defaulting party may terminate this Agreement immediately by written notice to the other in the event the other party makes an assignment for the benefit of its creditors, admits in writing an inability to pay debts as they mature, a trustee or receiver is appointed respecting all or a substantial part of the other party's assets, or a proceeding is instituted by or against the other party under any provision of the Federal Bankruptcy Act and is acquiesced in or is not dismissed within sixty (60) days or results in an adjudication of bankruptcy. To the extent applicable law prevents the non-defaulting party from terminating this Agreement, if it should wish to do so as described above, then the parties shall have only those rights and remedies permitted by applicable law, including the United States Bankruptcy Act, including but not limited to II U.S.C. Section 365. However, the non-defaulting party has the unrestricted right, at its option, not to terminate this Agreement and to continue to exercise its rights under this Agreement.

(d) In the event of the expiration or termination of this Agreement, Licensee shall certify to HNC that it has ceased use of the HNC Software, shall return to HNC all online copies of the HNC Software and copies of HNC User Documentation, and all proprietary and confidential information relating to the HNC Software, in Licensee's possession, and shall erase or destroy as soon as is commercially reasonable and practicable all other copies of the HNC Software and other proprietary and confidential information relating to HNC Software previously stored offline by Licensee. The obligation of each party pursuant to Sections 5, 7, 8, 9, 10, 11, and 14 shall survive expiration or termination of this Agreement for any reason.

14. MISCELLANEOUS.

(a) Disclaimer of Partnership and Agency. HNC and Licensee are independent contractors and will have no power, nor will either party represent that it has any power, to bind the other party or to assume or to create any obligation or responsibility, express or implied, on behalf of the other party or in the other party's name. This Agreement will not be construed as constituting HNC

and Licensee partners, joint venturers or agents or to create any other form of legal association that would impose liability upon one party for the act or failure to act of the other party.

(b) Counterparts. This Agreement may be executed in counterparts, which taken together shall constitute one single Agreement between the parties.

(c) Section Headings; Exhibits. The section and subsection headings used herein are for reference and convenience only, and will not enter into the interpretation hereof. The Exhibits referred to herein and attached, and to be attached hereto, are incorporated in this Agreement to the same extent as if set forth in full herein.

(d) No Waiver. No delay or omission by either party hereto to exercise any right or power occurring upon any non-compliance or default by the other party with respect to any of the terms of this Agreement will impair any such right or power or be construed to be a waiver thereof. A waiver by either of the parties hereto of any of the covenants, conditions, or agreements to be performed by the other will not be construed to be a waiver of any succeeding breach thereof or of any covenant, condition, or agreement herein contained. No waiver of any rights of a party under this Agreement will be effective unless such waiver is set forth in a writing signed by such party.

(e) Severability. Whenever possible, each provision of this Agreement will be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be unlawful, prohibited by or invalid under applicable law, then such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or any of the remaining provisions of this Agreement.

(f) Governing Law. This Agreement will be governed by and construed in accordance with the internal laws of the State of California applicable to agreements made in California by California residents.

(g) Entire Agreement. This Agreement and the Exhibits hereto constitute the entire agreement and understanding between the parties regarding the subject matter hereof, and supersede all prior agreements, understandings, documents and statements regarding such subject matter, and there are no understandings or agreements relative hereto other than those which are expressed herein. No amendment or modification of this Agreement will be effective unless it is in writing and is executed by both HNC and Licensee. This Agreement is separate from and independent of all other agreements between the parties.

(h) Notices. Under this Agreement, if one party is required to give notice to the other, such notices shall be deemed given when personally delivered or three (3) business days after being mailed by U.S. certified mail, first class, postage prepaid, and addressed as follows (or to such other address for notice as a party may subsequently notify the other in accordance with the provisions of this Section):

IF TO HNC:

HNC Software Inc.
5930 Cornerstone Court West
San Diego CA 92121-3728
Attention: Executive Vice President

IF TO LICENSEE:

Infoseek Corporation
2620 Augustine Dr.#250
Santa Clara, CA 95054
Attention: CEO

(i) No Assignment. Neither party shall, without the prior written consent of the other party, assign or transfer this Agreement, and any attempt to do so without first obtaining such written

consent will be void and of no force and effect. Notwithstanding the foregoing, (i) either party may assign this Agreement by merger, reorganization, consolidation, formation of a subsidiary, or sale of all or substantially all its assets, provided however that neither party may assign or transfer this Agreement to any direct or indirect competitor of the other party.

(j) Excused Performance. Notwithstanding anything to the contrary herein, neither party shall be deemed to be in default of any provision of this Agreement or be liable to the other party or to any third party for any delay, error, failure in performance or interruption of performance due to any act of God, war, insurrection, riot, boycott, strikes, interruption of power service, interruption of communications service, labor or civil disturbance, acts of any other person not under the control of either party or other similar causes, the occurrence of which are (i) not reasonably foreseeable by a party other than by virtue of the fact that similar things have happened in the past from time to time, and (ii) beyond the reasonable control of that party. Licensee and HNC shall each use its best efforts to remedy its delay, error, failure to perform, or incomplete performance in a manner which is fair and equitable to both parties. The delayed party shall give the other party reasonable written notification of any material or indefinite delay due to such causes. This Agreement shall be deemed to have been amended to extend the term of this Agreement by the period of time attributable to the excusable delay.

(k) Informal Dispute Resolution. Any controversy or claim between Licensee and HNC, arising from or in connection with this Agreement or the relationship of the parties under this Agreement, whether based on contract, tort, common law, equity, statute, regulation, order or otherwise, other than a dispute regarding ownership of software, documentation or Intellectual Property rights (a "DISPUTE"), shall be resolved as follows:

(i) First, upon written request of either Licensee or HNC, the parties will each appoint a designated representative whose task it will be to meet for the purpose of endeavoring to resolve such Dispute. The designated representatives shall be senior level managers of each party with the authority to make decisions and/or commitments on behalf of the respective party to resolve the Dispute.

(ii) The designated representatives shall meet as often as the parties reasonably deem necessary to discuss the problem in an effort to resolve the Dispute without the necessity of any formal proceeding.

(iii) Unless delay would impair a party's rights under applicable statutes of limitations, formal proceedings for the resolution of a Dispute may not be commenced until the earlier of (A) the designated representing representatives concluding in good faith that amicable resolution through continued negotiation of the matter does not appear likely; or (B) the expiration of the thirty (30) day period immediately following the initial request to negotiate the Dispute; provided, however, that this Section will not be construed to prevent a party from instituting formal proceedings earlier to avoid the expiration of any applicable limitations period, to preserve a superior position with respect to other creditors, or to seek temporary or preliminary injunctive relief from a court pursuant to Article 12.

(iv) Temporary Restraining Order. Nothing in Section 14(k) shall be construed to prevent any party from seeking from a court a temporary restraining order or other temporary or preliminary relief pending final resolution of a Dispute pursuant to Section 14(k).

(v) Other Dispute Resolution. If the parties fail to resolve any dispute under Section 14(k), then they may pursue any other available remedies.

IN WITNESS WHEREOF, HNC and Licensee have caused this Agreement to be signed in duplicate and delivered by their duly authorized officers as of the Effective Date.

HNC SOFTWARE INC.
a Delaware corporation

By: _____

INFOSEEK CORPORATION
a California corporation

By: _____

**SELECTED MODEL CLAUSES FOR
SOFTWARE LICENSE AGREEMENTS
(Reflects the Buyers Perspective)**

DEFINITIONS:

"**Software**" is defined as any and all computer programs supplied under this Agreement, and any and all modifications thereof or upgrades thereto which perform the functions and/or achieve the objectives set forth in the Product Specification set forth in Schedule A.

"**Hardware**" is defined as any computer, server, person digital assistant or other such device which performs computer functions and/or sends or receives data, including all related equipment on which the Software is run.

"**Network**" is defined as an aggregation or interconnection of computers or Hardware, or any other devices which may perform the functions of data communication, computation or storage, where such interconnection is by cable, wireless communication or any other means which permits the passage of machine-readable information among two or more such devices; Network shall include without limitation any publicly accessible communications systems capable of digital and/or analog communications, which systems may be generally known as the Internet, the World Wide Web, or other designation.

LICENSE GRANT:

Scope. This Agreement shall apply to all PURCHASER's employees anywhere in the world as well as any individual engaged in work on behalf of PURCHASER such as contractors, contingent workers, consultants and the like. This Agreement shall also apply to Third Parties provided such Third Parties' access or utilize the Software for activities related to business between PURCHASER and such Third Party and/or in conjunction with services being provided to PURCHASER by such Third Party for PURCHASER's benefit. Notwithstanding the foregoing, Software may be used by any end user for purposes of supporting products or obtaining services provided by PURCHASER to such End User.

Grant. SELLER hereby grants and agrees to grant to PURCHASER a non-exclusive, irrevocable, perpetual, [unlimited,] transferable, fully paid-up, royalty-free, [worldwide] license(s) to use, [sub-license,] maintain, modify and/or reproduce Product on Computers and Networks pursuant to the scope of use and as otherwise defined under the terms of this Agreement and the Schedules.

License Grant Checklist:

- perpetual or for a defined term period
- irrevocable or revocable
- exclusive or non-exclusive
- paid-up and royalty-free or periodic payments
- transferable or non-transferable
- worldwide or restricted to a particular geography

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- sub-licensable or non-sublicensable
- "purchased", leased or subscription service
- lease or rental period

Limitation of Cost and Obligation. *(Applicable only to orders placed on an estimated cost basis.)*

A. It is estimated that the total cost to the PURCHASER, including any fee or profit, for the performance of this order will not exceed the estimated cost set forth in the order, and the SELLER agrees to use its best efforts to perform the work specified in the order or work statement and all obligations under this order within such estimated cost.

B. The PURCHASER shall not be obligated to pay the SELLER for costs incurred in excess of the estimated cost set forth in the order, and the SELLER shall not be obligated to continue performance under this order or to incur costs in excess of the estimated cost set forth in the order, unless and until the PURCHASER shall have notified the SELLER in writing that such estimated cost has been increased and shall have specified in such notice a revised estimated cost which shall thereupon constitute the estimated cost of performance of this order. When and to the extent that the estimated cost set forth in the order has been increased, any costs incurred by the SELLER in excess of such estimated cost prior to the increase in estimated cost shall be allowable to the same extent as if such costs have been incurred after such increase in estimated cost.

C. If the sum presently available for payment and allotted to this order is less than estimated cost, the amount of funds so allotted shall be stated in the order. In any event, it is anticipated that from time to time the PURCHASER will notify the SELLER in writing when additional funds have been allotted to this order. The SELLER agrees to perform or have performed work in this order up to the point at which, in the event of termination of this order for convenience pursuant to the Article entitled "Termination," the total amount paid and payable by the PURCHASER pursuant to any settlement including cost and fixed fee would in the exercise of reasonable judgment by the SELLER, approximate the total amount at the time allotted to this order. The SELLER shall not be obligated to continue performance of the work beyond such point and the PURCHASER shall not be obligated to pay the SELLER any amount which ' although otherwise payable, exceeds, when combined with amounts previously paid, the total amount from time to time allotted to this order. However, when and to the extent that the total amount allotted to this order has been increased, any costs incurred by the SELLER to which the SELLER would have been entitled but for the provisions of this paragraph, shall be allowable to the same extent as if such costs had been incurred and earned after such increase in amount allotted. For the purpose of this paragraph the allotment or allotments made pursuant to this paragraph shall not be decreased without the consent of the SELLER, provided however, that nothing in this paragraph shall affect the right of the PURCHASER to terminate this order pursuant to the Article entitled "Termination".

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D. If at any time the SELLER has reason to believe that the costs which it expects to incur in the performance of this order in the next succeeding sixty (60) days, when added to all costs previously incurred, will exceed seventy-five percent (75%) of the amount then allotted to this order, or if at any time the SELLER has reason to believe that the total cost to the PURCHASER, including any fee or profit, for the performance of this order will be substantially greater or less than the estimated cost thereof, the SELLER shall notify the PURCHASER in writing to that effect, giving its revised estimate of such total cost for the performance of this order, and its estimate of the costs which will be incurred in the next six (6) months.

IP OWNERSHIP

Ownership of Intellectual Property.

A. Unless otherwise agreed in writing, all tools, equipment, materials, drawings, computer software, documents or data of every description furnished to SELLER by PURCHASER or specifically paid for in whole or in part by PURCHASER, and any replacement thereof, or any materials affixed or attached thereto, shall be and remain the personal property of PURCHASER. Such property, and whenever practical each individual item thereof, shall be plainly marked or otherwise adequately identified by SELLER as being the property of XYZ Company by an appropriate clear marking, and shall be safely stored separate and apart from SELLER's property. SELLER shall not substitute any property for PURCHASER's property and shall not use such property except in filling PURCHASER's orders. Such property while in SELLER's custody or control shall be held at SELLER's risk, and shall be kept insured by SELLER at SELLER's expense in an amount equal to the replacements cost with loss payable to PURCHASER. Such property shall be subject to removal at PURCHASER's written request, in which event SELLER shall prepare such property for shipment and shall deliver it as directed by PURCHASER in the same condition as originally received by SELLER, reasonable wear and tear excepted, all at PURCHASER's expense.

B. SELLER shall keep confidential all drawings, specifications, computer software and other data furnished or specifically paid for by PURCHASER and shall not divulge, export from its own country, or use, directly or indirectly, such drawings, specifications, computer software or data to or for the benefit of any other party without obtaining PURCHASER's prior written consent and any required U.S. Government export authorization. Except as required for the efficient performance of this order, SELLER shall not make copies or permit copies to be made without the prior written consent of PURCHASER. If consent is given for any reproduction, this provision shall be provided thereon. This provision shall not apply to information in the public domain otherwise than as a result of a breach of this provision, nor shall it limit any rights the Government may have in such drawings, specifications, computer software, or other data.

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DELIVERY, TESTING AND ACCEPTANCE

Inspection:

A. All goods (which term throughout this order includes without limitation raw materials, components, intermediate assemblies and end products) or services shall be subject to inspection and test by the PURCHASER and its Customers to the extent practicable at all times and places during the performance of this order including the period of manufacture, and in any event prior to final acceptance by the PURCHASER and its Customer.

B. If any inspection or test is made on the premises of SELLER or its supplier, SELLER, without additional charge, shall provide all reasonable facilities and assistance for the safety and convenience of the inspectors in the performance of their duties. All inspections and tests on the premises of SELLER or its supplier shall be performed in such a manner as not to unduly delay the work.

C. Final acceptance or rejection of the goods or services shall be made as promptly as practical after delivery, except as otherwise provided in this order, but failure to inspect and accept or reject goods or services shall neither relieve SELLER from responsibility for such goods as are not in accordance with the order requirements nor impose liabilities on PURCHASER therefor.

SELLER REPRESENTATIONS AND WARRANTIES

Media Warranty

SELLER warrants that for a period of 90 days from the effective date of this Agreement that the media used to store and deliver Licensed Programs to GE shall be free from defects in manufacture and material. Should the media fail to be free of defects in manufacture or material during the 90 day warranty period, SELLER shall replace the defective media. Defective media shipped to the SELLER with a shipping date within the 90 day warranty period will be replaced at no charge including shipping.

Licensed Program Limited Warranty

SELLER warrants that Licensed Programs will perform substantially as described in their Documentation. If PURCHASER should determine during the 90 day warranty period from the effective date of this Agreement that a Licensed Program fails to perform substantially in such a manner, PURCHASER's remedy, in addition to other remedies that may be available to PURCHASER, shall be either replacement of the Licensed Program at no charge or a full refund of all license fees paid by PURCHASER for the right to use the

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program. PURCHASER will deliver all copies of defective Licensed Programs with associated Documentation to SELLER to receive replacements or a refund of fees.

SELLER does not warrant that the functions contained in Licensed Programs will meet PURCHASER's particular requirements nor that the operation of the software will be uninterrupted or error free, provided however, in no event will the Licensed Programs be deemed to be fully installed and accepted until any standards for acceptance testing that may be specified by PURCHASER have been met.

Code Integrity Warranty

SELLER warrants that Licensed Programs contain no known "computer viruses" or "time bombs" as those terms are commonly understood in the information processing industry which SELLER by means of reasonable inspection should have detected in the normal course of quality control and testing. Specifically, SELLER warrants that the Licensed Programs contain no known code or instructions (including any code or instructions provided by third parties) that may be used to access, modify, delete, damage, or disable any computer, associated equipment, computer programs, data files or other electronically stored information operated or maintained by PURCHASER.

Documentation Warranty

Any Documentation furnished as part of Licensed Programs hereunder will be in form and substance at least equal to comparable materials generally in use in the industry. If at any time such original Documentation is revised or supplemented by additional Documentation, thereupon SELLER shall deliver to PURCHASER copies of such revised or additional Documentation at no charge in a quantity of at least one copy. PURCHASER shall have the right to reproduce all Documentation supplied hereunder provided such reproduction shall be solely for the use of PURCHASER.

Year 2000 Warranty

SELLER warrants that the occurrence in or use by the Licensed Programs of dates on or after January 1, 2000 (the "Millennial Dates") will not adversely affect the performance of the Licensed Programs with respect to date-dependent data, computations, output or other functions (including, without limitation, calculating, computing and sequencing) and that the Licensed Programs will create, store and generate output data related to or including Millennial Dates without errors or omissions.

Interoperability

SELLER acknowledges that the Licensed Software is designed to interact and operate with at least one of PURCHASER's existing and/or yet-to-be installed computer systems. As such, SELLER shall ensure that the LICENSED SOFTWARE. . . .

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General Representations and Warranties:

SELLER represents and warrants that:

- A. all information that it has submitted heretofore and contemporaneously is true and accurate in every material respect;
- B. it has the authority, license or permission from any third party owner or security interest holder, to use intellectual property in conjunction with the provision of the Licensed Programs and/or services under this Agreement.
- C. it has the requisite personnel, competence, alliances, skill and physical resources necessary to provide the Licensed Programs and to fully perform the maintenance, support and related services on a global basis as set forth under this Agreement.
- D. Licensed Programs and services delivered or performed shall be in accordance with the highest generally accepted standards of the profession existent at the time the Licensed Programs and services are delivered or performed.

INDEMNITIES:

Patent and Copyright Indemnity:

A. SELLER shall hold PURCHASER harmless against, and at SELLER's expense handle and defend, any claim and defend any suit brought against PURCHASER based upon an allegation that the use of any Software, equipment, or services furnished pursuant to this purchase order constitutes an infringement of any United States patent, or any copyright or other proprietary information right, provided that SELLER is notified promptly in writing of such suit and given any necessary authority, information and assistance (at SELLER's expense) for the defense of the same. SELLER shall pay all damages and costs awarded in such suit, but SELLER shall not be liable to PURCHASER under this purchase order to the extent of any compromise made by PURCHASER or its agent without SELLER's written consent. If such Software, equipment, or services in such suit is held to constitute infringement and its use is enjoined, then SELLER has the right by its own election, and at its expense, either to procure the right for continued use of such Software, equipment, or services, or to replace or modify such Software, equipment, or services so that it becomes noninfringing, provided that the performance thereof will not thereby be materially adversely affected. As a last resort, SELLER has the right to accept return of Software, equipment, or rescind services, if purchased, and refund to PURCHASER any license fees paid by Purchase for Software removed and refunded to PURCHASER the purchase price, as prorated, for equipment, services rescinded.

Alternative – Combined Warranty and Indemnity:

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A. SELLER represents and warrants that it is the sole owner of the Licensed Programs, or has procured the Licensed Programs under valid licenses from the owners thereof, and SELLER further represents and warrants that it has full power and authority to grant the rights herein granted without the consent of any other person. SELLER shall indemnify and hold PURCHASER harmless against and shall handle and defend against any claim, suit, or other proceeding brought against PURCHASER based on an allegation that the Licensed Programs or any elements thereof, or the use of any Licensed Programs furnished by SELLER pursuant to this Agreement constitutes a violation or infringement of any patent, copyright, trade secret, or other proprietary information right provided that SELLER is notified promptly in writing of such allegation, suit, or proceeding and given full and complete authority, information and assistance (at SELLER's expense) for the defense of same.

B. SELLER shall pay all damages and costs incurred by PURCHASER with respect to such suits or proceedings, but SELLER shall not be responsible for any compromise made by PURCHASER or its agents without SELLER's consent. If any such Licensed Programs is held by a court of competent jurisdiction to constitute infringement, and its use is enjoined, SELLER shall, at its own expense, either promptly procure the right for continued use of such Licensed Programs by PURCHASER, or, if the performance thereof will not thereby be materially adversely affected promptly replace or modify such product(s) so that it becomes noninfringing. If neither of the actions specified for SELLER in the preceding sentence is commercially feasible, then as a last resort, SELLER shall accept return of such Licensed Programs and refund to PURCHASER all fees paid by PURCHASER for such Licensed Programs, plus any costs incurred by PURCHASER in the removal of such Licensed Programs and installation of alternative products. During the pendency of any claim against SELLER or PURCHASER with respect to SELLER's ownership or authority, PURCHASER may withhold payment of any sum otherwise required to be paid hereunder.

TERM & TERMINATION

Insolvency:

If SELLER ceases to conduct its operations in the normal course of business (including inability to meet its obligations as they mature), or if any proceeding under the bankruptcy or insolvency laws is brought by or against SELLER, or a receiver for SELLER is appointed or applied for, or an assignment for the benefit of creditors is made by SELLER, Purchaser may terminate this order without liability except for deliveries previously made or for goods covered by this order then completed and subsequently delivered in accordance with the terms of this order.

MAINTENANCE AND SUPPORT SERVICES

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A. Maintenance for Licensed Programs shall include the provision of all major and minor Program Upgrades, patches, bug fixes and consulting if required to correct Licensed Program defects, and shall include at least 1 primary and 2 backup contacts. Maintenance and support services shall be available at the prices specified in the proposal. Maintenance and support services are renewable annually at PURCHASER's option.

B. In the event of a bona fide commercial dispute over the rights and obligations of the parties under this Agreement, SELLER shall continue to provide maintenance and support services as required under this Agreement and expressly consents to the entry of an injunction or other equitable remedy to require it to do so.

C. All maintenance and support services provided by SELLER to PURCHASER under this Agreement shall be in accordance with Schedule C entitled "Support Services Protocol" in effect as of the effective date of this Agreement, which publication lists SELLER's service levels for designated categories and priority levels of service.

D. Where SELLER lists "response times" or similar terms in its "Support Services Protocol," such terms shall mean SELLER's committed response time and support performance levels to PURCHASER for which PURCHASER has paid a fee as identified in Exhibit A herein. For example, SELLER's Priority One response time shall be not more than X hours on average; SELLER's Priority Two response time shall not be more than Y hours on average. In the event that SELLER publishes a new version of its Support Services Protocol and response times are adjusted so as to be less favorable to PURCHASER than before, then the response times in existence prior to any adjustments shall prevail as to all PURCHASER support services received under this Agreement.

E. SELLER and PURCHASER agree that SELLER's willingness and ability to provide support services elected by PURCHASER at the service levels as identified herein shall constitute a material obligation of SELLER under this Agreement

F. SELLER agrees to provide support for the Licensed Program for a period of at least Z years from the effective date of this Agreement provided that PURCHASER is entitled to or has otherwise elected to receive such support services from SELLER. If SELLER discontinues support services on a Licensed Program during this period, SELLER will provide PURCHASER with a full refund of the amount of the license fees for the Licensed Program.

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Access to Source Code / Source Code Escrow**Escrow:**

SELLER shall maintain the SELLER Source Code in escrow pursuant to the Source Code Escrow Agreement.

Source Code License Grant:

Subject to the terms hereof, PURCHASER shall be entitled to immediate receipt and possession of the SELLER Source Code on the occurrence of a Release Event section below. Subject to the terms hereof, upon each occasion when SELLER does not provide Support for the Licensed Program to PURCHASER in accordance with this Agreement, SELLER shall be deemed to have granted (without the need for further action) to Purchaser a worldwide license to reproduce, use, modify, market, distribute, and otherwise prepare derivative works of, the SELLER Source Code (the "Source Code License") only to the extent reasonably necessary to, and for the sole purpose of, fixing Priority 1, 2 or 3 Errors as defined in Schedule C – "Support Services Protocol." Each Source Code License shall end upon the earlier to occur of (1) the second anniversary of the termination hereof and (2) upon SELLER providing Support for the Licensed Program to Purchaser in full accordance herewith for ninety (90) consecutive days. Purchaser shall be entitled to retain and use Purchaser Personnel to exercise its rights under this Section 0, provided that the SELLER Source Code remains at all times in the control of Purchaser and that Purchaser shall use precautions to protect the Source Code of the Licensed Program that are consistent with PURCHASER's own precautions to protect source code owned by PURCHASER, but in no event will SELLER take precautions less rigorous than industry standard precautions used to protect source code.

Release Events:

A. SELLER not providing Support for the Private Labeled Product or the SELLER Software (excluding components thereof that are not provided by SELLER) to Purchaser in accordance herewith (except as a result of a material breach of any provision hereof by Purchaser); and/or

B. the failure of (A) SELLER to have any involuntary filing regarding it (i) under Chapter 7 of the United States Bankruptcy Code (or equivalent successor law) dismissed within thirty (30) days after it is filed or (ii) under Chapter 11 of the United States Bankruptcy Code (or equivalent successor law) dismissed within sixty (60) days after it is filed or (B) [the filing of any voluntary petition regarding it under any bankruptcy or insolvency law][any trustee, including SELLER as debtor in possession, in any bankruptcy case hereafter filed by or against SELLER either to (i) assume this Agreement within fifteen (15) days after the filing of the initial bankruptcy petition or (ii) perform this Agreement within the meaning of Section 365(a)(4)(i) of Title 11 of the United States Code, as now constituted or hereafter amended].

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This Access to Source Code / Source Code Escrow Section shall survive the termination hereof for any reason.

MISCELLANEOUS**Public Release of Information:**

No public release of information regarding this order (including, without limitation, photographs, films, announcements and denials or confirmations of the placing of this order) shall be made without the prior written approval of Purchaser.

Pass Through of Warranties:

Purchaser shall be authorized to pass through any of the covenants, representations or warranties made by SELLER hereunder to End Users, and Purchaser may include appropriate language in its End User License Agreements that purports to pass SELLER covenants, representations or warranties on to such End User. SELLER, at its sole cost and expense, shall be responsible for performing, either directly or indirectly, all repair, replacement and other services required to cure any breach of any of the warranties set forth herein. The parties intend that End Users are third-party beneficiaries hereunder.

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**401 – It's a Two Way Street:
Successfully Negotiating IP Agreements for “Buyers” and “Sellers”**

WARRANTIES

Issue	Licensee's concerns	Licensor's concerns	Practice Tips
Warranty of Non-infringement	<p>Wants to be assured that an infringement claim will not cause a loss to Licensee.</p> <p>If an IP claim is asserted, Licensee does not want to go out of pocket to have to defend the claim.</p> <p>In addition, if a claim is threatened or use enjoined, Licensee would like to <u>require</u> Licensor to procure license for the Licensee in case of infringement. Only if Licensor has been <u>unable</u> to procure the license should Licensor have the right/obligation to replace with a non-infringing alternative (backward compatible and equivalent functionality). Only if Licensor has been <u>unable</u> to initially</p>	<p>Licensor will wish to expressly disclaim a warranty of non-infringement.</p> <p>Why? UCC 2-312(3) provides an implied warranty of non-infringement which is broad, e.g., it is not limited in geographic scope, so that a licensor will prefer to give its own more narrowly scoped (as to geography and otherwise) IP indemnity.</p> <p>Warranty damages may be broader than a limited IP clause (defend and pay), especially if it is a consumer transaction.</p> <p>Because Licensor cannot know of the rights of all others- this warranty is a big economic risk for Licensor- with potentially large financial consequences if breached, even innocently (consider costs multiplied by multiple licensees).</p> <p>Not only does Licensor not necessarily know of rights of all others, Licensee also may not know of all potential uses of licensees over</p>	<p><u>Disclaimers of implied</u> warranties are the norm. As Licensor, you want to expressly disclaim a warranty of non-infringement in favor of indemnifying Licensee for infringement suit. Assuming that you, as Licensee, receive proper indemnity, this disclaimer of warranty should be acceptable.</p> <p><u>Infringement, Indemnity and Combinations:</u> With respect to any warranty of non-infringement (which Licensor shouldn't provide) and even with respect to an indemnity for infringement, Licensor should carve out from its obligation any claim of infringement where the</p>

<p>procure the license, and then unable to provide a non-infringing alternative, should Licensor have the right/obligation to provide a refund. (Licensee wants the Licensor to have a high-level of obligation to procure the license, in the first instance, to minimize disruption to Licensee).</p> <p>In an ideal world for Licensee, Licensee would receive a broad warranty with respect to Licensor's <u>right to convey</u> (a warranty of title and authority) the license rights: "Licensor represents, warrants, covenants and agrees that it has the right to grant all rights and licenses granted herein"</p> <p>Licensee will also want to receive, in an ideal world, a representation/warranty that the software <i>and use thereof</i> will not infringe.</p>	<p>which it has no control, and which may involve other materials and processes.</p> <p>Limitation of liability is a related issue- Licensor does not want to be an insurer for all losses suffered by Licensee due to infringement claim.</p> <p>Licensor does not want an absolute requirement that it procure a license for Licensee if infringement found. In case of infringement (or threat of infringement action) Licensor wants to have the <u>option</u> to replace with non-infringing alternative, or to give a (pro-rated) refund (Note: there may- or may not- be accounting/revenue recognition issues if there is a refund right- check with your finance folks).</p> <p>If there is an infringement claim, Licensor will want to control the defense, costs of defense, and any settlement. Thus, Licensor should suggest a tender of defense and, assuming Licensor receives timely notice from Licensee, a "defend and pay" obligation, rather than a full indemnity.</p> <p>Licensor wants to control the defense because it is the Licensor's IP, and Licensor is in best position to mount a good defense and does not want to leave the defense of its IP in the</p>	<p>claim of infringement is caused by/attribution to the actions of the licensee, e.g., the combination of the licensed materials with materials and processes not provided by Licensor; further, Licensor should request that Licensee provide a reciprocal indemnity to Licensor for an infringement claim caused by the combination of the licensed materials with materials and processes not provided by Licensor.</p>
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		hands of a third party. Licensor wants a “defend and pay” so as to limit its potential liability to the costs of defense and any damages finally awarded. A full indemnity is not desirable because it arguably would obligate the Licensor not only to the costs of defense and damages awarded, but also to pay any liability (e.g., liquidated damages the Licensee may owe to Licensor’s customer(s) as a result of an interruption caused by not being able to use the licensed product) or damages the licensee suffered (e.g., costs of removing and replacing infringing product).	
Warranty that the Software Will be Defect Free	Licensee wants to know that the Licensee has recourse if the software is defective and use is substantially inhibited by such defect(s). While Licensor may freely provide a warranty with respect to defective <u>medium</u> on which the software is delivered, Licensee’s real concern is not the medium, but the damage it may suffer due to the software itself being defective. Licensee’s preference should be along the following lines:	Licensor will generally be willing to warrant that the <u>medium</u> on which the software is delivered is defect-free, and warrant against defects in material and workmanship with respect to the <u>medium</u> on which the software is delivered. However, virtually all software has bugs. Therefore, Licensor should <u>expressly</u> disclaim any warranty as to software being “defect free” or that it will run uninterrupted. Licensor should advise Licensee get comfort that the software will perform through the Licensor’s warranty that the software will meet specs (discussed below). Licensor should be willing to provide something along the following lines:	All (or virtually all) software has some bugs. Therefore, it is generally unreasonable to ask the licensor to warrant the software as “defect free”. Licensor will want to expressly disclaim any such warranty, and Licensor should be able to get sufficient comfort through a warranty concerning the software meeting specs.

	“Licensor warrants that during the Warranty Period the Products will be free from defects in materials, design and workmanship.”	“Limited Product Warranty. Licensor warrants that each version of a commercial product will perform <u>substantially in accordance</u> with our user documentation.” “If you notify us within the warranty period that a product does not meet this warranty, then we will, at our option, either (i) return the price paid for the product or (ii) repair or replace the product. To the maximum extent permitted by law, this is your exclusive remedy for any failure of any commercial product to function as described in this subsection.”	
Warranty- that the Software Meets Specifications	Licensee wants to be assured that the software meets specifications. Licensee’s attorney should explore with the client the possible consequences of failure to meet some or all of the specifications (interoperability, speed, scalability, etc) and draft accordingly. Licensee may try to bring within the warranty all marketing materials and communications, whether oral or written, that Licensor may have made with respect to the	Licensor must try to limit this warranty to compliance actual <u>written</u> specifications (or user documentation), preferably on an attached schedule. Licensor will wish to avoid piggybacking additional documents or correspondence. Similar to the warranty with respect to defects, Licensor will want to assure the agreement contains a disclaimer similar to the following: “Licensor does not guarantee that the programs will perform error-free or uninterrupted, or that Licensor will correct all program errors.” Licensor will want to limit the warranty to that the software meets specs “in all material respects,” or that the software “substantially complies” with the	Which specifications? If you are the Licensor, make sure to limit the scope of the “specifications” to a finite ascertainable set, avoiding piggybacking of extraneous documents and assurance (such as e-mails from sales personnel). If you are the Licensee, beware of a warranty of “substantial” compliance. If you must accept a warranty below compliance with specifications, check with your business folks to

	<p>performance of the software. Licensor would prefer something like the following: "Licensor represents, warrants, covenants and agrees that during the Warranty Period, the product(s) shall comply with all specifications and all documentation relating thereto..."</p>	<p>specifications (note- without researching this issue, I would guess that a court would hold that "substantially complies with specs" is a lower standard than that the software "meets specs in all material respects", but I wouldn't want to bet my job- or want you to bet yours- on this without researching it). The Licensor desires this "wiggle room" to excuse occasional failures/crashes due to bugs or otherwise.</p> <p>Licensor will wish to disclaim the usually disclaimed implied warranties, particularly as to merchantability and fitness for a particular use. With respect to use, as long as the software complies with specifications to the extent warranted, Licensor does not want to be liable the software fails to meet the Licensee's needs.</p>	<p>ascertain what is truly critical and attempt to get an absolute commitment to this level of performance.</p>
<p>Warranty/Representation: <u>Open Source</u></p>	<p>Particularly if the software is to be <u>embedded</u>/ combined with Licensee's software, Licensee may wish Licensor to represent and warrant that the licensed software does not contain any open source software and is not subject to any open source rights.</p>	<p>Licensor does not want the Licensee to damage the Licensor's rights to the software by the Licensee combining the software with open source software. Therefore, the Licensee may want to be assured that Licensee's use of the software will not create any open source rights.</p>	<p><u>No Open Source Combinations</u>: In the license grant, Licensor may require Licensee to agree not to combine licensed software programs with any programs licensed under the GNU General Public License in any manner that could cause the licensed program to be licensed under GPL.[Note: There are a number of open</p>

			<p>source licenses other than GNU/GPL; the open source restriction should thus be broader than the GNU/GPL]</p>
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GRANT OF LICENSE

Issue	Licensee's concerns	Licensor concerns	Practice Tips
Scope of Technology /Field of Use	At absolute minimum, Licensee must have the rights it needs (and, perhaps, those it needs to convey to its customers, especially if embedded). Licensee would generally prefer as broad a grant as possible, such as: "Licensor hereby grants to Licensee and Licensee's end-users a non-exclusive (unless the license is an exclusive one), perpetual, worldwide, royalty-free license to use the Software and grants to Licensee the right to make, have made, and to use the Software in connection with the manufacture, sale, license, and distribution of Licensee's products through resellers and multiple tiers of distribution."	Licensor wants a narrower grant- particularly if Licensor is accepting risks of indemnity. Licensor will prefer a grant limited to actual proposed use and location, and may want/require other limitations (field of use, types of use). Licensor may want to ensure that no implied licenses are read into the agreement with something like the following: "Licensor does not transfer any ownership rights in any licensed product and Licensor reserves all rights not expressly granted."	Right to Improvements. Consider the effect of improvements, and who should own the various rights with respect to such improvements, in light of your client's needs. If you are the Licensee, make certain that your grant includes the right to "create derivative works" if you intend to embed the software.
-Term and Termination	Termination. Not for minor breach, and Licensee wants cure period. -Failure of Licensor to provide promised upgrades, or to maintain the technology, or to protect the rights to the software should also be	Termination. Licensor needs license to be terminable for breach of license terms or for non-payment (or late payment). (Note- Licensor will likely want to receive periodic reports of licenses out, and a right to audit, to help assure that Licensor is receiving payments to which	

	grounds for termination. Term and T'nation. Needs to make certain that Licensee will have adequate notice to obtain/ develop substitute/replacement software (particularly if software is being embedded in Licensee's product).	Licensor is entitled.) Breach of use restrictions should be grounds for termination.	
Exclusivity	Licensee should insist on exclusivity to the extent that it is a negotiated and required term. In such situations,	If there are royalties associated with the license, Licensor may require minimum annual payments from the Licensee to continue the exclusivity.	Licensee should consider requiring an outright purchase of the rights, rather than a license.
Right to transfer, distribute	Licensee's attorney, after carefully consulting with the client, needs to assure such distribution rights as client deems necessary (and, hopefully, as desired). As Licensee, check to make certain that the rights to be granted permit distribution through your distribution chain (including any potential distribution chain) and ultimate use by end customers.	Pass-Through License Terms- Restrictions and Requirements. Licensor must review the terms and requirements of any "in licenses" which it has, and pass through any required pass-throughs.	

SOFTWARE MAINTENANCE AND SUPPORT

Issue	Licensee's concerns	Licensor concerns	Practice Tips
Maintenance (patches, bug fixes, updates, upgrades)	<p>Licensee wants to be assured of prompt development of and (preferably free) access to patches and bug-fixes.</p> <p>Failure to timely repair bugs should, at some level, arise to an event of default. Under proper conditions, it might trigger an escrow release.</p> <p>If the product roadmap calls for upgrades on which Licensee is relying, Licensee wants a commitment to the timely development and distribution of these at a committed price.</p> <p>Licensee will want to be guaranteed that the software will be supported for some period of time. Consider the following provisions:</p> <p>"Licensor agrees to provide support for the licensed version of the software for a minimum of XX (X) years from the date of the last license hereunder. If, having providing the support required under the preceding sentence, Licensor intends to</p>	<p>Licensor wants the freedom and flexibility to discontinue support for outdated versions/revisions of its products, as well as for the products itself that licensor no longer wishes to support.</p> <p>Licensor wants to minimize its post sale obligations- and to charge for support, if provided or offered.</p> <p>"Licensor reserves the right to de-support its programs or particular versions of programs. You will be notified in advance when Licensor determines that a program is to be de-supported. Such de-support notices, will be posted at Licensor's customer support web site."</p>	<p>If Licensor is reluctant to commit to continuing support then, in exchange for such a commitment, Licensee should consider offering that Licensor need only continue such obligations for so long as Licensee continues to (a) stay near-current on Licensor's software releases and/or (b) some volumetric level of purchases (in support program or in product). Note that Licensor may still be reluctant to give up flexibility to discontinue products as it sees fit, but Licensor might consider providing an</p>

	<p>discontinue support, Licensor shall give at least XX (XX) month's written prior notice to Licensee. "</p> <p>"Licensor agrees to provide commercially reasonable technical assistance, functionally equivalent replacement Products, as well as repair services and failure analysis services (collectively, "Support Services") with respect to each Product individually, including discontinued Products ordered, delivered and paid for, for a period of at least five (5) years after the later of the last date of shipment or termination or expiration of this Purchase Agreement. "</p>		<p>ample notice period for discontinuation to permit Licensor to find a substitute or replacement for the product.</p>
Tech Support	<p>Licensee wants assurance of available qualified (trained) tech support, preferably around the clock and with guaranteed response times and results. Availability and pricing for this should be committed to in the agreement. Response time requirements should be specified (often tiered to the level of the problem, with Licensor committing that problems causing downtime, or near downtime, be responded to within a brief time).</p> <p>Licensee wants available tech support even after product discontinuance.</p>	<p>Licensor does not want to commit to problem resolution.</p> <p>For the right price, Licensor is generally willing to commit to some level of tech support availability, but with no guarantee of results.</p>	

SOFTWARE ESCROW

Issue	Licensee's concerns	Licensor concerns	Practice Tips
When required? Admin-istration	Licensee should not require this as a matter of course (that would be overkill). Licensor should generally only require this (and is only really warranted) where the software is mission critical (critical to business success) and/or where there is concern about the Licensor's ability (or motivation- in case of acquisition by a competitor) to perform support and maintenance due to (a) potential acquisition/merger, (b) bankruptcy, or (c) product discontinuance. Licensee wants to know that what has been deposited will work and is current- and this should be a continuing obligation. Licensee should require periodic testing of the escrowed materials (not just source code- but other materials/documentation probably will be required, including third-party materials) to ensure that the deposited materials will enable the	Licensor will virtually always wish to avoid an escrow, primarily for reasons of secrecy and the damage it might suffer through release, but secondarily for reasons of cost and administrative burden (upkeep and maintenance). Often the smaller the Licensor, the more burdensome these are due to cost and lack of staff. If Licensor does agree to the escrow, then Licensor wants maximum protection for deposited code/materials. If Licensor is a smaller (start-up type) entity with a product that will be mission critical to larger entities, Licensor might consider a proactive escrow strategy, setting up an escrow scheme (and working with it's venture capital funding to get their buy in) that will permit potential large customers to feel assured that they are not taking an unprotected risk in using the smaller entities product.	It is in both parties interests to select a reputable maintenance agent. If Licensor is going to pay all or part of the escrow fees, Licensee might consider requesting the right to pay these and take a credit against payments owed to the Licensor (so Licensee can assure that payment is made). Smaller software developers (and those with less established track records) will be more amenable to an escrow than larger ones. Licensee wants to

	Licensee to continue use as required, at least for a needed time frame. Updates/testing to be done periodically (perhaps annually, and/or upon each new revision/ release).		make the grant by the Licensor of right to use the escrowed materials a present grant, with the Licensee committing not to exercise the grant until a triggering event- this might help in bankruptcy (but caution- I have not researched this issue; it's a gut feel).
Release Triggers	Licensee does not want to have to obtain Licensor's consent for release. Licensor wants objective, identifiable/demonstrable, clear and indisputable set of release conditions. Hopefully these will be leading indicators of problems, rather than trailing (for example, a drop in bond rating to BBB or below is, from Licensee's perspective, a better trigger than filing for bankruptcy).	Licensor wants stringent/narrow conditions/triggers for release condition- including (1) advance notice (sufficient to meaningfully object) of any request for release, (2) opportunity to cure any default or other triggering event, and (3) continuing use restrictions (including royalties) after release.	
Post-Release Rights	Licensee wants to secure right to hire Licensor's current or former employees- w/o any restrictions these employees may have as no non-compete or use of trade	Licensor's position will be that once a default is cured, wants no further right of Licensee to continue to use the licensed materials except as permitted under the license- wants to return to original license terms.	

**401 – It’s a Two Way Street:
Successfully Negotiating IP Agreements for “Buyers” and “Sellers”**

SAMPLE LICENSE PROVISIONS

Royalties and Fees

1. “Net Sales” definition

NET SALES OF LICENSED PRODUCT means the invoiced sale price received by LICENSEE or its AFFILIATES for LICENSED PRODUCTS sold by LICENSEE or its AFFILIATES, respectively, hereunder to third parties, less the sum of the following actual and customary deductions where applicable: (a) cash, trade, or quantity discounts; (b) sales, use, tariff, import/export duties or other excise taxes imposed upon particular sales; (c) transportation charges; and (d) allowances or credits to customers because of rejections or returns.

NET SALES OF LICENSED SERVICE means the invoiced sale price received by LICENSEE or its AFFILIATES for LICENSED SERVICES performed by LICENSEE or its AFFILIATES, respectively, hereunder for third parties on a fee-for-service basis, less the sum of the following: (a) cash, trade, or quantity discounts; (b) sales, use, tariff, import/export duties or other excise taxes imposed upon particular sales; (c) transportation charges; (d) allowances or credits to customers because of rejections or returns; and (e) the fully burdened costs of providing such LICENSED SERVICES.

“NET SALE” means (a) the gross invoice price charged and the value of any other consideration received by the LICENSEE or any Sublicensee for LICENSED PRODUCTS or LICENSED SERVICES (including, but not limited to any up-front fees, annual fees, maintenance fees, milestone payments and/or royalty income received by the LICENSEE or a Sublicensee, including any type of income received by the LICENSEE or a Sublicensee from products/targets identified in the performance of LICENSED SERVICES), or (b) in those instances where the LICENSED PRODUCT or LICENSED SERVICE is combined in any manner with any other Product or service so as to form an integrated kit or service (integrated means that if such LICENSED PRODUCT or LICENSED SERVICE were removed from the integrated kit or service, the remaining kit or service would not function for the purpose for which the integrated kit is being sold), the gross invoice price charged and the value of any other consideration received by the LICENSEE or any Sublicensee for the integrated product or service in its entirety. In all cases, (a) and (b) above shall be determined less the following items, but only to the extent that they actually pertain to the disposition of such LICENSED PRODUCT or LICENSED SERVICE and are separately billed:

- 1) Allowances actually granted to customers for rejections, returns and prompt payment and volume discounts;
- 2) Freight, transport packing and insurance charges associated with transportation; and
- 3) Taxes, including Deductible Value Added Tax, tariffs or import/export duties based on sales when included in the gross invoice price, but excluding value-added taxes other than Deductible Value Added Tax or taxes assessed on income derived from sales. "Deductible Value Added Tax" means value added tax only to the extent that such value added tax is actually incurred and is not reimbursable, refundable or creditable under the tax authority of any country; and
- 4) Rebates and discounts paid or credited pursuant to applicable law.

Whenever LICENSEE exercises its "have Sold" right for Sales of LICENSED PRODUCTS to end-users through a distributor, then for purposes of calculating the ROYALTY due, LICENSEE may report the

<p>secrets or confidential information- in order to access and make use (broad use) of the source code and deposited materials.</p> <p>Licensee wants to be able to continue to use the licensed materials after release, even if the triggering default has been cured. If any payments is due to Licensor for such continued use (either during the release period or after the materials may be required to be re-deposited), Licensee wants to deduct the cost and expense which Licensee incurred as a result of the events which caused the release and necessitated Licensee’s need to resort to the escrowed materials.</p>	<p>Wants to be paid (royalties) for Licensee’s use during the release period.</p>
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NET SALE price based on the amount it receives from such distributor on account of such Sales, provided that the NET SALE price attributed to such transactions may not be less than fifty percent (50%) of the gross invoice price that would have been charged by LICENSEE (based on the end-user's size, status, volume of business and location) had LICENSEE Sold the LICENSED PRODUCTS directly to the end-user itself.

For the sake of clarity, if items other than LICENSED PRODUCTS or LICENSED SERVICES appear on the same invoice, the amounts charged for such items shall not be included in NET SALES.

Notwithstanding anything to the contrary contained in this Agreement, "consideration" when used herein does not include the value resulting to the LICENSEE from incidental use of LICENSED PRODUCTS and/or LICENSED SERVICES to support, encourage or stimulate existing or future LICENSED PRODUCT sales or to garner customer (or potential customer) goodwill.

"NET SALES" means the total amount invoiced to Third Parties in connection with the sales of the LICENSED PRODUCT in all of its final packaged forms by LICENSEE, its SUBLICENSEES or its AFFILIATES in the TERRITORY, less, to the extent actually incurred:

- 1) allowances and adjustments credited or payable, including credit for damaged, outdated and returned products;
- 2) trade, cost or quantity discounts earned or granted;
- 3) transportation charges (including insurance costs), sales taxes, excise taxes and duties, and other similar charges;
- 4) wholesaler chargebacks;
- 5) Medicare, Medicaid and other rebates and management fees mandated, earned or granted; and
- 6) taxes on sale, transportation or use paid by LICENSEE.

NET SALES shall be calculated in accordance with LICENSEE's standard internal policies and procedures. Any discount, allowance, rebate, management fee or wholesaler chargeback for the LICENSED PRODUCT which is given to a customer due to the purchase of a product other than the LICENSED PRODUCT or due to the purchase of any service, shall not be taken into consideration for the calculation of NET SALES. NET SALES shall not include sales by LICENSEE to its AFFILIATES or Sublicensees for resale, provided that if LICENSEE sells the LICENSED PRODUCT to an AFFILIATE or Sublicensee for resale, NET SALES shall include the amounts invoiced by such AFFILIATE or Sublicensee to THIRD PARTIES on the resale of such LICENSED PRODUCT. A "sale" shall also include a transfer or other disposition for consideration other than cash, in which case such consideration shall be valued at the fair market value thereof.

2. Royalty Stacking

If LICENSEE, its AFFILIATE or Sublicensee is required to pay to non-AFFILIATE third parties royalties with respect to a LICENSED PRODUCT under agreements for patent rights or other technologies which LICENSEE, its AFFILIATE or Sublicensee, in its reasonable judgment, determines are desirable to license or acquire with respect to such LICENSED PRODUCT, LICENSEE may deduct such amount owing such non-AFFILIATE third parties (prior to any reductions) from the royalty owing to LICENSOR for the sale of such LICENSED PRODUCT. LICENSEE shall notify LICENSOR of any non-AFFILIATE third party royalties it wishes to deduct and shall describe its rationale for licensing or acquiring such patent rights or other technologies, and LICENSOR shall have sixty (60) days to approve or deny the deduction of such royalties. In no

case, however, shall the amount to be paid to LICENSOR be so reduced to less than _____ percent (____%) of the amount that would otherwise be due to LICENSOR.

In the event LICENSEE becomes obligated to pay royalties to a Third Party for patent rights or technology utilized in or with a LICENSED PRODUCT, LICENSEE may deduct _____ percent (____%) of the royalties paid to such Third Party from the Royalties owing to LICENSOR for such LICENSED PRODUCT; provided, however, the Royalty amounts paid to LICENSOR may not be reduced by more than an aggregate of _____ percent (____%).

3. Payments and Reporting

While Royalties are payable hereunder, LICENSEE shall furnish to LICENSOR a written quarterly report showing, on a country by country basis: (i) the NET SALES during such quarter and the calculation thereof; (ii) the Royalties payable in United States dollars which shall have accrued in respect of such NET SALES and the calculation thereof; (iii) withholding taxes, if any, required by law to be deducted in respect of such sales, as applicable; and (iv) the exchange rates used in determining the amount of United States dollars. All amounts payable shall first be calculated in the currency of sale and then converted on a monthly basis into United States dollars using the rate of exchange used by LICENSEE in preparing its own quarterly financial reports. Royalties earned on sales occurring in any country outside the U.S. may not be reduced by any taxes, fees or other charges imposed by the government of such country on the payment of royalty income. Reports, together with the Royalties payable for the periods to which the reports relate, shall be due on the sixtieth (60th) day following the close of each calendar quarter. LICENSEE shall keep, in accordance with generally accepted accounting principles consistently applied, complete and accurate records concerning sales of the LICENSED PRODUCT in the TERRITORY in sufficient detail to enable the Royalties payable hereunder to be determined.

LICENSEE shall make semi-annual royalty reports to LICENSOR on or before February 28 and August 31 of each year during the Term. Each such royalty report will show respectively for each of LICENSEE, its AFFILIATES and sublicensees:

- (a) The invoice amounts and NET SALES OF LICENSED PRODUCTS sold during the most recently completed calendar half year;
- (b) the number of each type of LICENSED PRODUCT sold;
- (c) the royalties, in U.S. dollars, payable hereunder with respect to such sales of LICENSED PRODUCTS;
- (d) the royalties, in U.S. dollars, payable hereunder with respect to the NET SALES OF LICENSED SERVICES;
- (e) the method used to calculate the royalty owed by LICENSEE to LICENSOR in each category (a) through (d) set forth in this Section; and
- (f) the name and address of each entity issued a sublicense by LICENSEE during the reporting period, and any such sub-licensee not previously thus identified.

If no sales of LICENSED PRODUCTS have been made during any reporting period, a statement to this effect shall be required. LICENSEE's royalty reports shall contain the names of any and all third parties for whom such LICENSEE, its AFFILIATES, and sublicensees have performed LICENSED SERVICES during the most recently completed calendar half year as set forth under this Agreement.

LICENSEE hereto shall maintain at its principal office usual books of account and records showing its actions under this Agreement. Such books and records shall be open to inspection and copying,

upon reasonable notice during usual business hours by an independent certified public accountant retained by LICENSOR and reasonably acceptable to LICENSEE, for three (3) years after the calendar half year to which they pertain, for purposes of verifying the accuracy of the royalties paid under this Agreement by LICENSEE. The fees and expenses of such examination shall be borne by LICENSOR. However, if an error in the reporting of expenses or proceeds of more than ten percent (10%) for any calendar semi-annual reporting period is discovered, then those fees and expenses of these representatives shall be borne by LICENSEE. LICENSOR and any such independent certified public accountant shall treat LICENSEE's books and records as confidential.

4. License Maintenance Fee

As additional consideration of the rights granted by LICENSOR to LICENSEE under this Agreement, on January 1 of each year during the term of this Agreement and until LICENSEE achieves the first sale of the first LICENSED PRODUCT, LICENSEE shall pay to LICENSOR an annual maintenance fee ("ANNUAL FEE") of [_____] Dollars (\$_____). Following the first sale of the first PRODUCT, the LICENSEE shall be increased to [_____] Dollars (\$_____), which amount shall be payable for so long as a royalty is due to LICENSOR. It is agreed and acknowledged by the parties that all running royalties paid to LICENSOR under this Agreement shall be creditable against amounts owed under this Section.

LICENSEE shall also pay to LICENSOR a royalty in the form of a license maintenance fee of [_____] thousand dollars (\$_____ beginning on the one-year anniversary of the EFFECTIVE DATE and continuing annually on each anniversary of the EFFECTIVE DATE. The license maintenance fee is not due on any anniversary of the EFFECTIVE DATE if, on that date, LICENSEE is commercially selling LICENSED PRODUCT and paying a royalty to LICENSOR on the sales of that LICENSED PRODUCT. License maintenance fees are non-refundable and not an advance against royalties.

5. Minimum Annual Royalty

The minimum annual royalty will be paid to LICENSOR by February 28 of each year and will be credited against the earned royalty due for the calendar year in which the minimum payment was made. For the year of first commercial sale, LICENSEE's obligation to pay the minimum annual royalty will be pro-rated for the number of months remaining in that calendar year when commercial sales commence and will be due the following February 28 (along with the minimum annual royalty payment for that year), to allow for crediting of the pro-rated year's earned royalties.

A non-refundable, non-cancellable, MINIMUM ANNUAL ROYALTY shall be due and payable by LICENSEE to LICENSOR in accordance with the following schedule:

- (a) [_____] dollars (\$[____]) shall be paid within the thirty (30) days following the EFFECTIVE DATE, and of each subsequent anniversary of the EFFECTIVE DATE up to and including the fifth such anniversary;
- (b) [_____] dollars (\$[____]) shall be paid within thirty (30) days following the sixth anniversary of the EFFECTIVE DATE, and of each subsequent anniversary of the EFFECTIVE DATE up to and including the tenth such anniversary; and,
- (c) [_____] dollars (\$[____]) shall be paid within thirty (30) days following the eleventh anniversary of the EFFECTIVE DATE, and of each subsequent anniversary of the EFFECTIVE DATE

during the time that this Agreement is in force. ROYALTIES owed by LICENSEE to LICENSOR in an Agreement Year may only be credited against the MINIMUM ANNUAL ROYALTY due and payable by LICENSEE to LICENSOR in that same Agreement Year. Each Agreement Year shall consist of the span of one year from the Effective Date until the first anniversary of the Agreement and similarly for each subsequent year until the following anniversary thereafter.

6. Sublicense Fee

LICENSEE shall pay to LICENSOR [_____] percent (___%) of any fees (other than earned royalties, advances creditable against earned royalties, reimbursements received for research and development expenses, *bona fide* equity investments in LICENSEE at market values, loans, fully burdened FTE costs, income derived from debt financing, or reimbursement of patent and patent-related expenses) received by LICENSEE from any third party resulting from any sublicense and/or research or development agreement concerning LICENSED PRODUCT or LICENSED SERVICE, including, but not limited to, license issue fees, license maintenance fees, milestone payments, premium paid to purchase equity, rights of set-off and other compensation of any kind, less taxes on such amounts withheld at the source.

"SUBLICENSE FEES" shall mean all cash license fees received by LICENSEE or a Subsidiary upon execution of a sublicense between LICENSEE, a Subsidiary or a sublicensee and a third party relating to LICENSED PRODUCTS (net of withholding taxes or other tax-related reductions), or equity (including options to purchase equity) in the sublicensee that LICENSEE or a Subsidiary receives upon execution of such a sublicense in lieu of such a cash license fee (in which case LICENSOR shall receive [____] percent ([____]%) of the equity so received by LICENSEE or a Subsidiary). It is understood that such fees shall not include royalties, advances against future royalties, LICENSED PRODUCT development funds, equity investments, or scientific benchmark payments or payments for past research expenditures relating to development of LICENSED PRODUCTS. In addition, it is understood that this Section shall not be deemed to require LICENSEE to share with LICENSOR any cash or equity received by LICENSEE in connection with an acquisition by a third party of all or substantially all of the business or assets of LICENSEE to which this Agreement pertains.

Patents

1. Prosecution Costs and Control

In partial consideration of the rights and licenses granted by LICENSOR to LICENSEE under this Agreement, LICENSEE agrees to reimburse LICENSOR, within ninety (90) days of LICENSOR's written submission of a statement and request for payment, an amount equal to LICENSOR's reasonable, documented out-of-pocket expenses incurred prior to the Effective Date for the filing and prosecuting of the LICENSED PATENTS divided equally among all licensees of record as of the date such statement and request is received by LICENSEE. LICENSEE further agrees to reimburse LICENSOR on an annual basis, within ninety (90) days of LICENSOR's written submission of a statement and request for payment, an amount equal to all such expenses incurred during the previous calendar year divided equally among all licensees of record as of the date such statement and request is received by LICENSEE. The amounts paid to LICENSOR under this Section shall be fully creditable against ROYALTY payments due hereunder.

LICENSOR shall have the right, at its option, to control the filing for, prosecution and maintenance of the LICENSED PATENTS; provided however that LICENSOR shall keep LICENSEE reasonably informed as to the filing, prosecution and maintenance of such patents and patent applications. For purposes of this Article, "filing, prosecution and maintenance" of patents and patent applications shall be deemed to include, without limitation, filing of applications, the conduct of interferences or

oppositions, and/or requests for reexaminations, reissues or extensions of patent terms. If LICENSOR elects not to file, prosecute or maintain any patent application or issued patent within the LICENSED PATENTS or pay any fee related thereto, in any country, LICENSOR shall promptly notify LICENSEE of such election, but in no case later than sixty (60) days prior to any required action relating to the filing, prosecution or maintenance of such patent application or patent. In such event, upon notice to LICENSOR, LICENSEE shall have the right, at its option, to control the filing, prosecution and/or maintenance of any such patent applications or patents within the LICENSED PATENTS at its own expense. In the event that LICENSEE takes over the filing, prosecution and/or maintenance of a patent or application within the LICENSED PATENTS, LICENSEE shall keep LICENSOR reasonably informed on matters regarding such filing, prosecution and maintenance.

LICENSEE shall have the right to review all such pending applications and other proceedings and make recommendations to LICENSOR concerning them and their conduct. LICENSOR agrees to keep LICENSEE promptly and fully informed of the course of patent prosecution or other proceedings by means which include providing LICENSEE with copies of substantive communications, search reports and Third Party observations submitted to or received from patent offices throughout the TERRITORY. LICENSEE shall provide such patent consultation to LICENSOR at no cost to LICENSOR and shall treat all information disclosed to it under this section as confidential and subject to the provisions of this AGREEMENT.

At all times during the term of this Agreement, LICENSOR shall be responsible for and shall diligently carry out and shall bear all costs (including attorney fees) for the preparation, filing, prosecution, maintenance, and extensions, if any, of all patents or patent applications within the LICENSED PATENTS in the TERRITORY. In addition, LICENSOR shall promptly advise LICENSEE of all material correspondence, filings and notices of action between LICENSOR and the patent office in the TERRITORY concerning the LICENSED PATENTS. In the event that LICENSEE reasonably determines that the failure of LICENSOR to pursue the filing and prosecution of a patent application within the LICENSED PATENTS would adversely affect the rights of LICENSEE under this Agreement, LICENSEE may, but does not have the obligation to, file or continue prosecution of such application or maintain such patent at LICENSOR's expense. If LICENSEE so elects, LICENSOR shall be responsible for the reasonable costs incurred by LICENSEE in connection with such filing, prosecution or maintenance in the TERRITORY, and LICENSEE may deduct any such costs borne by LICENSEE from any payment due to LICENSOR under the Supply Agreement.

As long as LICENSEE has paid patent costs as provided for in this Article, LICENSOR shall diligently endeavor to prosecute and maintain the U.S. and foreign patents comprising the LICENSED PATENTS using counsel of its choice, reasonably acceptable to LICENSEE. Notwithstanding the above, in the event that LICENSEE has rejected three (3) choices of prosecution counsel, LICENSOR shall have the right to use counsel of its choice without LICENSEE's assent. LICENSOR shall provide LICENSEE with copies of all relevant documentation so that LICENSEE may be informed of the continuing prosecution, and LICENSEE agrees to keep this documentation confidential. LICENSOR's counsel will take instructions only from LICENSOR, and all patents and patent applications under this Agreement will be assigned solely to LICENSOR, or to LICENSOR and LICENSEE, as determined by inventorship on such applications.

LICENSOR shall use reasonable efforts to amend any patent application to include claims reasonably requested by LICENSEE to protect the products contemplated to be sold under this Agreement. LICENSOR shall consult with LICENSEE with respect to the LICENSED PATENTS in a timely manner concerning (i) scope and content of the LICENSED PATENTS prior to filing those patent applications, and (ii) content of and proposed responses to official actions of the United

States Patent and Trademark Office and foreign patent offices during prosecution of such patent application. LICENSEE shall pay to LICENSOR all non-reimbursed costs for preparing, filing, prosecuting and maintaining all U.S. and foreign patent applications contemplated by this Agreement. Costs billed by LICENSOR's counsel will be rebilled to LICENSEE and are due within thirty (30) days of rebilling by LICENSOR. These costs include patent prosecution costs incurred by LICENSOR prior to the execution of this Agreement and any patent prosecution costs that may be incurred for patentability opinions, re-examination, re-issue, interferences, oppositions or inventorship determinations. LICENSEE shall reimburse LICENSOR for all past prosecution costs in eight equal quarterly payments, commencing on the third month of the Effective Date of this Agreement. In the event that this Agreement is terminated, any and all amounts deferred by LICENSOR will be due within thirty (30) days of the termination date of the Agreement. However, in the event that this Agreement is terminated as to a portion of the LICENSED PATENTS, any and all prosecution costs deferred by LICENSOR with respect to the terminated portion shall be due within thirty (30) days of termination of such portion of the Agreement.

LICENSEE may request LICENSOR to obtain patent protection on an Invention in foreign countries if available and if it so desires. LICENSEE shall notify LICENSOR of its decision to obtain or maintain foreign patents not less than sixty (60) days prior to the deadline for any payment, filing or action to be taken in connection therewith. This notice concerning foreign filing must be in writing, must identify the countries desired and must reaffirm LICENSEE's obligation to underwrite the costs thereof. The absence of such a notice from LICENSEE to LICENSOR will be considered an election not to obtain or maintain foreign rights.

LICENSEE's obligation to underwrite and to pay patent prosecution costs will continue for so long as this Agreement remains in effect, but LICENSEE may terminate its obligations with respect to any given patent application or patent upon three (3) months' written notice to LICENSOR. LICENSOR will use its best efforts to curtail patent costs when a notice of termination is received from LICENSEE. LICENSOR may prosecute and maintain such application(s) or patent(s) at its sole discretion and expense, but LICENSEE will have no further right or licenses thereunder. Non-payment of patent costs may be deemed by LICENSOR as an election by LICENSEE not to maintain application(s) or patent(s). LICENSOR may file, prosecute or maintain patent applications at its own expense in any country in which LICENSEE has not elected to file, prosecute or maintain patent applications in accordance with this Article, and those applications and resultant patents will not be subject to this Agreement.

2. IP Assurances

LICENSOR hereby represents, warrants and covenants to LICENSEE that:

- a. LICENSOR is the sole and exclusive owner, or the exclusive license pursuant to a valid and enforceable written license agreement, of the Licensed Patent Rights free and clear of any liens or encumbrances;
- b. The LICENSED PATENTS are valid and enforceable;
- c. Practice of any invention claimed or described in the LICENSED PATENTS does not and shall not infringe or otherwise conflict with any intellectual property rights or other rights owned or controlled by LICENSOR or its Affiliates that are not licensed hereunder;
- d. No claims of infringement, misappropriation or other conflict with any intellectual property rights or other rights owned or controlled by any third party have been made or threatened with respect to the LICENSED PATENTS;
- e. LICENSOR is not aware of any infringement or misappropriation of the LICENSED PATENTS by any third party;

- f. LICENSOR has not, up through and including the Effective Date, omitted to furnish LICENSEE with any information in its control or possession or of which it is aware, concerning (i) the LICENSED PATENTS or (ii) the activities contemplated by this Agreement, which would be material to LICENSEE's decision to enter into this Agreement and to undertake the commitments and obligations set forth herein.

LICENSOR hereby represents, warrants and covenants to LICENSEE that, as of the Effective Date, it has no knowledge from which it concludes that the LICENSED PATENTS are invalid or that their exercise would infringe patent rights of third parties, and it has no knowledge, as of the Effective Date, from which it concludes that the process by which it manufactures LICENSED PRODUCT, and all intermediates of such process, would infringe patent rights of Third Parties in both the country in which the LICENSED PRODUCT is produced as well as all countries of the TERRITORY;

LICENSOR represents and warrants to LICENSEE that: (i) other than the LICENSED PATENTS, it does not have rights in any other patents or patent applications that are reasonably necessary for the manufacture, sale or use of the LICENSED PRODUCT; (ii) it owns or controls the LICENSED PATENTS listed in Exhibit _ and LICENSOR KNOW-HOW described in Exhibit _; (iii) to LICENSOR's knowledge, there are no existing or threatened actions, suits or claims pending against it with respect to the LICENSED PATENTS and LICENSOR KNOW-HOW or its right to enter into and perform its obligations under this Agreement; and (iv) to the best of LICENSOR's knowledge, LICENSOR does not have an obligation to pay any third party royalties with respect to the LICENSED PATENTS or LICENSOR KNOW-HOW.

LICENSOR warrants and represents that it has disclosed to LICENSEE the complete texts of all patent applications filed by LICENSOR as of the Effective Date which relate to LICENSED PRODUCT as well as all information received as of the Effective Date concerning the institution or possible institution of any interference, opposition, re-examination, reissue, revocation, nullification or any official proceeding involving a LICENSED PATENT anywhere in the TERRITORY. LICENSOR further warrants and represents that it will disclose to LICENSEE the complete texts of all patent applications filed by LICENSOR after the Effective Date which relate to LICENSED PRODUCT as well as all information received after the Effective Date concerning the institution or possible institution of any interference, opposition, re-examination, reissue, revocation, nullification or any official proceeding involving a LICENSED PATENT anywhere in the TERRITORY.

3. Sublicense Survival

Upon termination of this Agreement for any reason, LICENSOR, at its sole discretion, shall determine whether LICENSEE shall cancel or assign to LICENSOR s any and all sublicenses. At any time during the term of this Agreement, upon LICENSEE's request, LICENSOR agrees to meet and confer with LICENSEE and LICENSEE's sublicensee (or potential sublicensee) to discuss what assurances LICENSOR might give to the sublicensee that the subject sublicenses will not be terminated upon the termination of this Agreement. To the extent LICENSOR is willing to give such assurances, LICENSOR agrees that it shall enter into a written agreement with LICENSEE and such sublicensee regarding setting forth LICENSOR's assurance and LICENSOR's agreement not to require termination of the sublicense.

Upon termination of this Agreement for any reason, any sublicense granted by LICENSEE hereunder shall survive, provided that upon request by the terminating party, such sublicensee promptly agrees in writing to be bound by the applicable terms of this Agreement.

Upon any expiration or termination of this AGREEMENT for any reason, all sublicenses will remain in effect and will be assumed by LICENSOR as binding obligations provided that (a) the Sublicensee is not in breach of its sublicense at the time of expiration or termination of this Agreement; (b) all of the terms of this Agreement are agreed to fully in writing by the Sublicensee; and (c) the Sublicensee acquires no rights from or obligations on the part of LICENSOR other than those that are specifically granted under this Agreement and the Sublicensee assumes all liability and obligations to LICENSOR required of the LICENSEE under this Agreement with respect to LICENSOR 's sublicensed rights, including past due obligations existing at the time of assignment of this Agreement by LICENSEE. If any Sublicensee fails to meet the above provisions described in (a) – (c), then LICENSOR may terminate its sublicense, in accordance with Article __. LICENSOR will not be bound to perform any duties or obligations set forth in any sublicense that extend beyond the duties and obligations of LICENSOR set forth in this Agreement, and the LICENSEE's obligations to LICENSOR hereunder will be binding upon each Sublicensee. All sublicenses surviving termination or expiration of this Agreement in accordance with this Paragraph will be amended such that each Sublicensee is required to pay ROYALTIES directly to LICENSOR as if it were the LICENSEE at a rate that is no lower than the rate set forth in Article __ in accordance with Article __.

4. Patent Challenges

In the event that both (i) a Third Party initiates any legal or administrative proceeding challenging the validity, scope or enforceability of a LICENSED PATENT in any country in the TERRITORY, and in the event such challenge is successful there would be no LICENSED PATENT claiming the LICENSED PRODUCT in such country, and (ii) there are continuing sales of a LICENSED PRODUCT in the country in question that would infringe the LICENSED PATENT that is the subject of such challenge, then the royalty obligation in Section __ shall be applicable to NET SALES in such country during the pendency of the proceeding, and shall be paid by LICENSEE into an interest bearing escrow account. The payment from such escrow account shall be as follows:

- (a) If the enforceability of at least one claim in the LICENSED PATENT claiming the LICENSED PRODUCT is upheld by a court or other legal or administrative tribunal from which no appeal is or can be taken, then the amount of royalties owed during the period of suspension shall be promptly paid with interest to LICENSOR from such escrow account.
- (b) If, however, the claims in the LICENSED PATENT are held to be invalid or otherwise unenforceable by a court or other legal or administrative tribunal from which no appeal is or can be taken, then the amount of royalties which would have otherwise been owed to LICENSOR during the period of suspension shall be promptly paid with interest to LICENSEE from such escrow account and no further royalties shall be owed to LICENSOR with respect to the sale of such LICENSED PRODUCT in such country.

In any event of this Section, the royalties already paid by LICENSEE to LICENSOR hereunder shall not be refundable.

Trademarks

During the term of this Agreement, all packaging materials, labels and promotional materials for the LICENSED PRODUCTS shall display the LICENSOR MARKS. In addition, LICENSEE may, if it so chooses, mark all such materials and labels with "Distributed in [country] exclusively by _____", it being understood that the LICENSOR MARKS shall be the more prominently displayed of the two marks. LICENSEE may only use the LICENSOR MARKS in the form set forth in Appendix 1 to Exhibit A, or as otherwise may be approved by LICENSOR. In the event that any of the LICENSOR MARKS is not available for use in a specific country in the TERRITORY, then LICENSOR and LICENSEE will mutually agree on a substitute mark to be used in such country.

LICENSEE will display all proprietary notices required by LICENSOR and will comply with all applicable laws and regulations pertaining to the proper use and designation of trademarks in the TERRITORY.

LICENSOR hereby grants to LICENSEE a non-transferable, non-sublicensable, royalty-free license to use the LICENSOR MARKS in the TERRITORY for the term of this Agreement solely in connection with the marketing and promotion of LICENSED PRODUCTS for use and sale within the FIELD as contemplated in this Agreement. LICENSOR reserves all rights not expressly granted herein.

LICENSEE acknowledges that it has no interest in the LICENSOR Marks other than the licenses granted under this Agreement, and that LICENSOR will remain the sole and exclusive owner of all right, title and interest in the LICENSOR MARKS. LICENSEE agrees that LICENSEE's use of the LICENSOR MARKS and any good will in such MARKS resulting from LICENSEE's use will inure solely to the benefit of LICENSOR and will not create any right, title or interest for LICENSEE in the LICENSOR MARKS. LICENSEE shall not contest, oppose or challenge LICENSOR's ownership of the LICENSOR MARKS. LICENSEE agrees that it will do nothing to impair LICENSOR's ownership or rights in the LICENSOR MARKS. LICENSEE shall not, during the term of this Agreement or thereafter, register, use, or attempt to obtain any right in and to any LICENSOR MARK (other than those rights granted herein) or in and to any name, logo or trademark confusingly similar thereto. LICENSEE agrees that at no time during or after the term of this Agreement to challenge or assist others to challenge the LICENSOR MARKS or the registration thereof or attempt to register any trademarks, marks or trade names confusingly similar to such LICENSOR MARKS.

LICENSEE shall notify LICENSOR promptly upon learning of any actual, alleged, or threatened infringement of a LICENSOR MARK in the TERRITORY or of any unfair trade practices, trade dress imitation, passing off of counterfeit goods, or similar offenses.

LICENSEE's use of each LICENSOR MARK is contingent on LICENSOR's prior approval, at its sole discretion, of a sample of such MARK indicating the form and style and usage intended by LICENSEE. LICENSEE shall submit representative promotional materials, labels, packaging and other materials using any LICENSOR MARK (accompanied by an English language version if such materials are not in the English language) to LICENSOR for LICENSOR's review and comment prior to their first use and prior to any subsequent change or addition to such materials. If LICENSOR does not object within fifteen (15) business days after receipt of such representative materials by LICENSOR, such materials will be deemed approved. LICENSOR will not unreasonably withhold or delay its approval of such materials. LICENSEE shall not use any LICENSOR MARK or other proprietary mark of LICENSOR or LICENSOR's suppliers or licensors in a manner that has not been approved by LICENSOR.

Term

1. Renewal

Unless otherwise terminated pursuant to Section ____, this Service Agreement will have a one (1) year term from date of expiration of LICENSOR's limited warranty for the SYSTEM that is the subject hereof. Thereafter, LICENSEE may renew this Service Agreement at LICENSOR's then-current price for subsequent one (1) year periods by providing LICENSOR with written notice to that effect at least thirty (30) days prior to the expiration of the then-current term of this Service Agreement.

Unless otherwise terminated pursuant to Section __, this Service Agreement will have a one (1) year term from date of expiration of LICENSOR's limited warranty for the SYSTEM that is the subject hereof. Thereafter, this Service Agreement will automatically renew for subsequent one (1) year

periods unless LICENSEE provides LICENSOR with written notice of LICENSEE's intent not to renew the SERVICE PROGRAM for the SYSTEM at least thirty (30) days prior to the expiration of the then-current term of this Service Agreement.

This Agreement will commence on the Effective Date and, unless terminated earlier as provided in this Article, will expire ____ () years after the INSTALLATION DATE, subject to extension by LICENSEE for an additional ____ () years upon agreement of the Parties as to the annual technology licensing fee, which fee shall not be more than ___% greater than the fee in place at the end of such initial period in accordance with Section _ of this Agreement (the "Term"). It is understood by the Parties that, should this Agreement be extended in accordance with the preceding sentence, then its term shall run for the lesser of ____ () years or expiration of the last to expire patent within the LICENSED PATENTS, and the annual technology licensing fee for that extended period shall be subject to annual increase based on the PPI change as described in Section ___ above. Notwithstanding the foregoing, upon written notice to LICENSOR occurring not less than thirty (30) days prior to each anniversary of the INSTALLATION DATE, LICENSEE may terminate this Agreement and its rights hereunder, to be effective upon such anniversary date.

2. Residual Rights

Upon expiration of this Agreement in any country, LICENSEE shall have a fully-paid, perpetual, irrevocable license, with right to sublicense, under the LICENSED PATENTS to manufacture, use, market, distribute, offer to sell, and sell the LICENSED PRODUCT in the FIELD in such country. Nothing herein shall obligate LICENSOR to deliver, at such time, any manufacturing know-how to allow LICENSEE to exercise its residual rights under this Section.

Expiration of this Agreement shall not preclude LICENSEE from continuing to make, have made, use and sell LICENSED PRODUCT and to use LICENSED KNOW-HOW in the TERRITORY on a non-exclusive basis without further royalty payments or any other remuneration to LICENSOR.

Sections _____ above shall survive with respect to such LICENSED PRODUCT and the LICENSOR MARKS, other than the LICENSOR tradename, under which such LICENSED PRODUCT was being marketed as of the date of such expiration; provided, however, that LICENSEE shall pay to LICENSOR a royalty equal to ___ percent (___%) of the NET SALES of such LICENSED PRODUCT ("Trademark Royalty"). Such payments shall be made quarterly for so long as LICENSEE retains rights to such LICENSOR MARKS, and Article __ above shall survive with respect to such payment obligations. LICENSEE shall have the right to terminate its license to the LICENSOR MARKS with respect to any particular LICENSED PRODUCT upon twelve (12) months notice to LICENSOR, in which case this Section shall have no further force or effect from and after the effective date of such termination.

3. Post-Termination Conduct

Upon termination of this Agreement, LICENSEE is entitled to dispose of all previously made or partially made LICENSED PRODUCT, but no more, within a period of one hundred and eighty (180) days provided that the sale of LICENSED PRODUCT is subject to the terms of this Agreement, including, but not limited to, the rendering of reports and payment of royalties required under this Agreement.

LICENSEE may dispose of its inventory of LICENSED PRODUCT on hand as of the effective date of termination, and may fill any orders for LICENSED PRODUCT accepted prior to the effective date of termination, for a period of twelve (12) months after the effective date of termination and

(b) within thirty (30) days after disposition of such inventory and fulfillment of such orders LICENSEE will forward to LICENSOR a final report containing the details required by Article ___ herein and pay LICENSOR all amounts due for such period.

In the event this Agreement is terminated for any reason, LICENSEE and its AFFILIATES shall have the right to sell or otherwise dispose of the stock of any LICENSED PRODUCT then on hand, all subject to payment to LICENSOR of fees and royalties pursuant to Article ___ hereof.

Upon the termination or expiration of this Agreement, without prejudice to any other of LICENSOR's rights, LICENSEE shall do all of the following:

- (a) Cease marketing and distributing LICENSED PRODUCTS, except solely as necessary to dispose of its inventory of LICENSED PRODUCTS on hand as of the effective date of termination or expiration, and may fill any orders for LICENSED PRODUCTS accepted prior to the effective date of termination or expiration, for an aggregate period of six (6) months after such date. Within thirty (30) days after disposition of such inventory and fulfillment of such orders, LICENSEE will forward to LICENSOR a final report containing the details required by Section ___ and pay LICENSOR all amounts due under Section ___.
- (b) Except as permitted under Section (a) above, cease distributing any promotional or advertising, labels, or other items bearing the LICENSOR MARKS and promptly return to LICENSOR, at LICENSEE's expense, all such materials and items.
- (c) Within thirty (30) days after the effective date of such termination or expiration, and at LICENSOR's sole discretion and expense, return to LICENSOR all LICENSED PRODUCTS (excluding those LICENSOR subject to Section(a) above) remaining in LICENSEE's inventory and provide an officer's certificate attesting to such delivery as is satisfactory to LICENSOR, acting reasonably.
- (d) Within thirty (30) days after the end of the period described in Section (a) above, LICENSOR will buy back from LICENSEE (at the transfer price paid) all new and unused LICENSED PRODUCTS remaining in LICENSEE's inventory, at LICENSOR's expense.

⁹D.R. Boyko, 2005. All rights reserved

**401 – It's a Two Way Street:
Successfully Negotiating IP Agreements for “Buyers” and “Sellers”**

Royalties and Fees

Issue	Licensee's concerns	Licensor concerns	Practice Tips
1. Net Sales definition	Minimize basis for royalty calculations Link to cash received, when received Get basis as close to margin as possible - deductions for "real" labor and material costs to providing services Link to Licensee's sales amounts rather than downstream sale prices that Licensee may not receive Avoid cash outlays for non-cash consideration received Maximize "bartering" ability Maximize pricing flexibility	Maximize basis for royalty calculations Auditable/traceable sales amount Auditable/traceable deductions Capture highest price point – avoid transfer pricing Independence from Licensee cost structure Capturing fair value of non-cash consideration Minimize freebies Minimize price risk of bundling May have upstream licensor constraints	Distinguish between Licensed Products and Licensed Services for Net Sales definition Minimum royalty amounts for each type of sales Limit number of freebies or eligible customers Address combination products Maintain cognizance of upstream constraints Understand Licensee's business model
2. Royalty stacking	Cap overall royalty burden	Limit reductions due to Licensee's cost structure	Are the 3 rd party royalties necessary or merely useful?

			<p><i>Consider mutual approval of royalty-bearing technologies</i></p> <p><i>Floors and ceilings for third party royalties</i></p> <p><i>Limit applicability to reciprocity</i></p>
3. Payment and Reporting	<p>Minimize disclosure</p> <p>Minimize frequency and level of effort</p> <p>Link to receipt of downstream payments and reports</p> <p>Limit audit rights</p>	<p>May have interest in customer identity, customer mix, product mix</p> <p>Maximize cashflow</p> <p>May have upstream licensor constraints</p> <p>Preserve audit rights during and after expiration</p>	<p><i>Maintain cognizance of upstream constraints</i></p> <p><i>Coordinate reporting frequency and timing with accounting department</i></p> <p><i>Account for currency conversion</i></p> <p><i>Account for foreign withholding taxes</i></p>
4. License Initiation (Up-Front) Fee	<p>Does not want to spend cash prior to receiving revenue from licensed material.</p>	<p>Licensor wants some initial cash without having to wait for Licensee's commercialization efforts to bear fruit.</p> <p>May want initial cash to fund other activities, including patent prosecution.</p> <p>Specify amount paid is non-refundable, non-</p>	<p><i>More appropriate in exclusive licenses, where it may be justified/offset by opportunity costs</i></p> <p><i>Consider some</i></p>

		<p>creditable and not an advance against royalties.</p>	<p><i>degree of creditability against royalty stream</i></p>
5. License Maintenance Fee	<p>Does not want to spend cash without offsetting revenue</p>	<p>Minimal return on investment</p> <p>Diligence tool</p>	<p><i>Often traded off for minimum annual royalty once sales start</i></p> <p><i>More appropriate in exclusive licenses, where it may be justified/offset by opportunity costs</i></p> <p><i>Consider creditability against royalty stream</i></p> <p><i>Maintain cognizance of upstream constraints</i></p>
6. Minimum Annual Royalty	<p>Does not want to spend cash without offsetting revenue</p> <p>Reconciliation in arrears</p>	<p>Minimal return on investment</p> <p>Diligence tool</p> <p>Payment in advance</p>	<p><i>Often replaces maintenance fee once sales start</i></p> <p><i>More appropriate in exclusive licenses, where it may be justified/offset by opportunity costs</i></p> <p><i>Maintain cognizance of</i></p>

			<p><i>upstream constraints</i></p> <p><i>Consider different minimums if different markets with different pricing are involved</i></p> <p><i>Consider increases over time as product/service sales notionally increase</i></p>
7. Sublicense Fee	<p>Maintain flexibility for R&D support, equity investment and other forms of consideration</p> <p>Not sacrifice consideration intended to be reinvested in the company</p>	<p>Receive fair share of amounts that Licensee receives for sublicensing</p> <p>Avoid discouraging sublicensing</p> <p>Having "invested" in this Licensee, may want to discourage immediate sublicensing without licensee adding its own IP/value</p>	<p><i>Carve-outs for R&D support and consideration relating to equity/capitalization</i></p> <p><i>Decrease fees/royalties with increasing time until sublicense is entered into</i></p>

Patents

Issue	Licensee's concerns	Licensor concerns	Practice Tips
1. Costs	<p>Blank check</p> <p>Limiting obligations</p> <p>Ensuring that other non-exclusive licensee's bear fair share</p>	<p>Cover/recoup expenses</p> <p>Delegate responsibility</p>	<p><i>Account for cost-sharing by later licensees</i></p> <p><i>Consider cost-sharing</i></p>

2. Control	Licensor's claim amendments or other patent office communication may limit specific utility or may affect Licensee's own efforts	Limiting Licensee role and input, especially with multiple licensees	<i>Generally follows with cost responsibility</i>
3. Abandonment	<p>For non-key markets, ensure ability to opt-out of payment obligation</p> <p>For key markets, ensure ability to assume prosecution</p>	Flexibility to abandon in some/all markets	<i>Generally can agree on transfer of prosecution obligation with sufficient notice</i>
4. Assurances	<p>Licensee wants assurances as to Licensor's patent rights at present and on continuing basis and ability to sublicense the subject matter</p> <p>Licensee wants assurances regarding validity of patent rights</p> <p>Licensee wants assurances regarding knowledge of actual/potential infringement threats and suits</p>	<p>Licensor has its own disclosure obligations vis-à-vis the patent office</p> <p>Licensor will not want to admit knowledge of 3rd party infringers</p> <p>Licensor's size may realistically limit ability to disseminate "knowledge" of a potential infringer or threatened suit</p>	<p><i>Assurance (w/disclosure schedule, if needed) regarding actual infringements suits by/against 3rd parties</i></p> <p><i>Parry by focusing on licensee's own responsibility for due diligence regarding the marketplace</i></p>
5. Sublicense survival	Where Licensor has its own licensor(s), Licensee needs assurance that its sublicense will continue independent of relationship between Licensor and its licensor(s)	Licensor needs to limit any assurances to bounds of its own existing licenses	<p><i>Sublicense survival should appear in all in-licenses, even if there aren't any sublicenses at that time</i></p> <p><i>Licensors need to ensure that minimum set of its own licensor requirements are flowed down to</i></p>

			<i>sublicensees</i>
6. Patent challenges	<p>Wants ability to stop royalty payments and reporting obligations at soonest opportunity</p> <p>Typ. will want to return to existing terms if patent "survives" challenge rather than renegotiate new terms, although this is a risk assessment (potential narrowing of the patent claims)</p>	<p>Avoid any alteration to license fees/royalties already paid (e.g., annual payments made in advance)</p> <p>Defer effect of patent challenge as long as possible.</p> <p>Also want to forestall any patent challenges by its own licensees</p>	<p><i>Potential compromise by: 1) no effect until final, non-appealable, adverse decision 2) upon initiation of re-exam or litigation, royalties into escrow account until proceedings finally decided</i></p>

Trademarks/names

Issue	Licensee's concerns	Licensor concerns	Practice Tips
1. Display	<p>Ability for own accrual of goodwill</p> <p>Not to be overshadowed</p> <p>Flexibility</p>	<p>Proper display and prominence</p> <p>No loss of goodwill – quality standards</p> <p>Global name recognition</p>	<p><i>Bar alteration, blocking</i></p> <p><i>Require equal prominence, type, etc.</i></p> <p><i>If appropriate, address "above the fold" type issues</i></p> <p><i>Licensor to provide samples and specs for printing and repro</i></p> <p><i>Control use in global markets</i></p> <p><i>Approval/coordination of use to ensure conformity</i></p> <p><i>Mutual agt if new foreign names needed</i></p>

Term

Issue	Licensee's concerns	Licensor concerns	Practice Tips
1. Renewal	Flexibility Pricing predictability for renewal	Revenues/relationship Pricing flexibility and ability to capture benefits of commercial success	<i>Evergreen?</i> <i>Burden and timing of termination notice</i> <i>What is the effect on Licensor's business of losing a sublicensee?</i> <i>Ceilings and floors for price changes</i>
2. Residual Rights	Not paying beyond patent term Certainty regarding freedom to use know-how gained during term of license	Consider value of continued trademark license	<i>Possible trade secrets license continuing with reduced royalty rate</i> <i>Possible trademark license continuing with reduced royalty rate</i>

3. Post-termination conduct	Orders in process Inventory on-hand	Rapid turnover to new sublicensee No loss of market position or momentum due to termination Accounting issues for inventory return?	<i>Cooperation with successor licensee</i> <i>Turnover of leads/sales in process</i> <i>Trailing sales allowed post-termination to dispose of remaining inventory – but beware competition with successor licensee</i>
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HOW TO CREATE A BUSINESS REQUIREMENTS CHECKLIST

Each business differs in organizational structure, size, type of IP being licensed, etc. One form will not fit all businesses, or all individual users. The below list identifies key considerations to building your own checklist.

1. **Identify IP** to be licensed, if there are separate components from one vendor, list components if rights, uses or restrictions are apt to differ.
2. Identify **specific** anticipated **uses** (exactly how it will be used, how it could be used, whether the in-licensed technology is contained in a product provided to customers)
 - a. **Internal**
 - b. **External**
 - c. In a **product**, service or communication
3. Identify possible **users** and their **locations** (by **city** and **country**)
 - a. Departments (if IP is to be included in a product, the product lifecycle may help identify the key departments)
 - b. Subsidiaries, affiliates
 - c. Distributors, sales agents
 - d. Third parties in collaborations, sponsored research or joint ventures
 - e. Contractors/Consultants
 - i. Auditors
 - ii. Business Process Analysts
 - iii. IT Developers
 - iv. System Administrators
 - v. Other **outsourced** services
4. **Contact** each **user** to **document** their **actual** specific **uses** and any **known constraints**. (Match to user name so that you can consult with them if a requirement or use cannot be permitted or if more information is needed.)
 - a. For IP loaded into systems do not forget need to download system data to other systems, create backup tapes or outsourcing arrangements for system administration or development.
 - b. Don't forget records management/records retention requirements when faced with a term to "delete all documents at termination of agreement."
5. Match contract negotiation issues or provision requirement is covered by to the specific requirement.

BUSINESS REQUIREMENTS CHECKLIST

IP to be licensed: _____

Vendor name: _____

Department	Use*	Contact	Uses/Constraints	Section/Negotiation Result
Product Development				
Project Management				
Operations				
IT				
Sales				
Client Service				
Marketing				
Legal				
Records Management				

*I = Internal, E = External, P = Product



401 – It's a Two Way Street: Successfully Negotiating IP Agreements for "Buyers" and "Sellers"

**David Boyko
Peter DeJesus, Jr.
Jeffrey S. Fraum
Joanne Jones Henkle**

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- I need someone with a driver's license.
Who here has a driver's license?



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● Here's what you'll be driving



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● Overview

- How to prepare for a negotiation
 - Gathering business requirements
- Reviewing the agreement/comments
 - Understanding both sides' businesses
 - Minimizing frustrations for all
- Tips for making the negotiation go smoothly
 - Long term business relationship
 - Do risks outweigh revenues?
- Negotiating specific contract clauses

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- Focus on concepts – not process

- Understand how to approach and analyze a license – it is a business deal that will separate the “business” lawyer from the “rules” lawyer.
- Process you follow will depend on your firm’s use of the licensed IP or rights to license the IP, your corporate resources and corporate culture
- In materials you will find checklists and process options to help you incorporate today’s ideas into your legal practice.



- Lawyers understand that IP is typically protected and subject to license restrictions
- Our clients do not. Examples:
 - Many corporate executives think if data is on the internet it is in the public domain
 - Employees think if it is on their internal systems, they own it
 - Most employees do not worry about whether they have the rights to use copyrighted materials or IP or assume someone else obtained the rights
- Have you ever seen a cartoon character appear in one of your in-house presentations?



- A license is not a purchase, a Licensee is not a “buyer”, a licensor is not a “seller”.
- Driver’s license a good analogy to use with clients:
 - License restricts use to certain vehicles for certain purposes
 - If a use isn’t expressly permitted, it is prohibited
 - If violate rules of the road (license terms), license is revocable



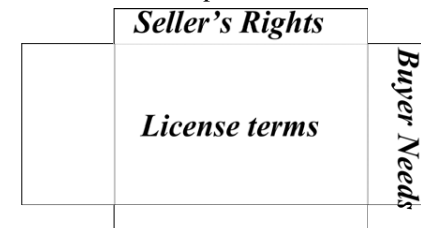
- The “license rule” is that if it doesn’t say you can, then you can’t
- This differs from the standard contract rule that if it doesn’t say you can’t, then you can.
- The need for specific authorization impacts the analysis and negotiation of license terms.
 - The license terms must be within the Licensor’s authority and match the Licensee’s proposed uses.
 - The Licensee cannot just look for prohibitions that might impact its projected use of the IP, it must affirmatively permission all the uses it will need.



- Rule #1 – The Licensee CANNOT negotiate an IP license without knowing how it will use the licensed property.
 - A license is NOT a collection of legalese for the lawyers to read.
 - The license terms must match the Licensee’s uses of the IP.



- Negotiating an IP license requires
 - Finding the intersection between “Seller’s” licensing rights, business and risk acceptance



- and the “Buyer’s” Business Requirements (the uses it needs authorized in the license)



- Why do I only mention Licensor's risk acceptance?
 - If you sell a physical item, there are physical constraints to possible uses and distribution
 - Licensing IP, there are no physical constraints to its use - it can be widely used and distributed – and your protections are your contract, the Licensee's integrity and your enforcement mechanisms.
 - If you buy or license an item, even “as-is”, the analysis of the risk is similar with the exception of what can happen if you violate a license
 - Since this is a negotiation course, I will generally assume the Licensee's risk analysis occurred prior to choosing the Licensor.



- Licensor's licensing rights are defined by:
 - Whether they own or license all or part of the IP. If they own it, licenses may be subject to previously granted license rights (exclusive distributorships.) If the licensed IP contains IP licensed from a third-party, Licensor's rights to license its product may be restricted by the third-party license.
 - Regulations the IP is subject to (SEC, Export Controls, etc.)
 - Licensor's business and risk tolerance to the Licensee and its uses.
 - Licensee's misuse of their IP could cost Licensor its ownership rights and result in a suit in excess of Licensor's revenue.
 - Licensee's business model must at a minimum not conflict with Licensor's business constraints or prior licensing agreements.



- Licensee's Business Requirements are defined by:

- It's proposed uses of the IP
 - Will it be used internally or in products or services?
 - Who will have access to it?
 - Where will it be used by those with access?
 - How will it be accessed?
- Unique IP risks: Licensor doesn't have the rights to license the IP, or Licensee violates license: result, Licensee may lose use of licensed IP
- System or business constraints/processes
- Other commitments



- Where are the Licensee's legal requirements in all this?

- In my industry the business requirements drive the legal requirements to the point I don't separate the two.
- In many companies a purely legal risk may not be persuasive in a business deal.
- Personal preference whether to separate the two.



● Licensor's decision license IP depends upon:

- Understanding of the Licensee's proposed uses, including (where applicable) distribution channels, pricing, contracting, etc.
- Ability to conform Licensee's proposed uses and business model with Licensor's legal and regulatory constraints (e.g. previous license agreements, export regulations); and
- Ability to blend Licensee's business model with Licensor's business model (e.g. is Licensee planning to use the licensed IP to sell to one of Licensor's key target markets in a manner that will be detrimental to Licensor's business plan?)



● Bottom line:

- Unless the Licensee can accept the Licensor's terms unchanged, both sides need to understand the other's business to negotiate a license.
 - Licensee needs to understand Licensor's business model and constraints and ensure Licensor can grant sufficient rights.
 - Licensor needs to know Licensee's business model and proposed uses, and assure Licensee can comply with license terms (does not eliminate need for adequate enforcement mechanisms.)



- Who should the Licensee consult when defining its Business Requirements (i.e. how it will use the licensed IP)?

• **EVERYBODY!!!**



- Simple example – word processing software, need to know locations, servers, users (including contractors, subsidiaries), whether access is needed to code, etc.
- Complex – incorporate licensed data into product containing other licensed data. May involve product development (current and future uses), operations (uses and system constraints), marketing (copyright uses), sales/client service (target markets, locations and client types, client uses and contract sensitivities), IT (development access/activities including offshore), legal (conflicting legal obligations), subsidiaries and distributors (proposed target markets, contracting sensitivities).



● Defining Internal Use Requirements

- What departments?
 - How will each department use it?
 - Who will they give access?
 - Controls on uses?
 - Do they need rights to Licensor's name?
 - Don't forget developers, consultants, contractors
- Do you have necessary resources for handling IP? (May not know until see license. Can include how brought in and stored, special handling needs, special personnel.)
- What geographic locations?
- Future uses



- External use – in addition to the above questions:

- To whom is it going that makes you consider the use “external”?
- How will the IP be distributed/accessed? Included in a tangible product, or added to other intangible services? In hardcopy, on public website, protected website, download or FTP?
- For what purpose(s) is it going to them (i.e. how will it be used)?



- Using licensed IP in a product or service

- Question everyone in the product lifecycle
 - Product development – future uses, how is IP incorporated into product (wholesale, as a portion, a raw material for calculations, combined with other’s IP, etc.), anticipated distribution channels, clients, client uses. Has IP attribution (trademark) capability been built into product?
 - Marketing – how advertise, when, where, what locations, what media? Are advertising rights needed for trademarks?
 - Operations – how will they use it, who will have access, if applicable – can access be controlled and documented in auditable format?



- Using licensed IP in a product cont'd
 - IT – if IP will be on systems, identify what controls are available in the system, who can access the system, whether they are subject to confidentiality, whether any rights are needed to code, whether outside (including off-shore) contractors will be able to access the IP.
 - Sales/Client Service – what uses will be promoted to client? What uses are clients asking for now?
 - Project Management – when is license needed? (Not product launch date, usually during product development/testing.)
 - Finance – if product profitability, billing cycles or other aspects are called into play (example, excluding pass-through fees from sales commissions)
 - Human resources – if pricing may impact commissions or other employee issues, like requiring employees to sign a confidentiality agreement.
- Ideally, a license should be requested after the Business Requirements are defined. In reality, you may be defining the Business Requirements after the license is received.



- When requesting a license:
 - Identify IP wanted (must do)
 - Identify key rights needed (strongly recommended unless you need a confidentiality agreement in place first to protect competitive advantage)
 - How IP will be used (internal, external, products)
 - Right to distribute (client types and market locations)
 - Methods of distribution (the more difficult it is to control distribution the more expensive – web)
 - Don't forget alternate sources identified in the pre-purchase, pre-negotiation decision-making (not covered in this course)



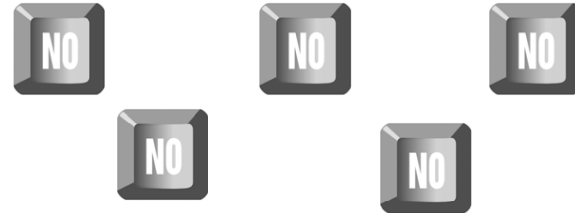
- Example:
- Acca would like permission to provide the HenJon Indexes on a password protected website to its 17,753 members for their internal use. Members are located in 55 different countries, but the server is located in the United States. Please send the appropriate license.

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- Licensor gets license request
 - Hopefully you have an appropriate boilerplate
 - What if you don't? Just call off the whole deal?



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- In a changing business environment companies are looking for new revenues, new markets for existing products. If your company is one of these, you need to understand the rights you have to license your product.



- Rule #2 – The Licensor cannot negotiate a license without understanding its ownership rights in the IP.
 - Where do your rights come from?
 - What flexibility do you have to negotiate terms?
 - Understand the legal AND BUSINESS risks and liabilities of changing terms.



- Understanding your rights and your contract allows you to do three things:
 - Stop aggressive salesmen from “selling” rights you don’t have
 - Provide knowledgeable “no” (and “yes”); and
 - Be a hero by finding new ways to safely generate revenue with existing products!!!



- Standard use request
 - Provide the license that most closely aligns with the needs of the Licensee.
 - If you do not understand their needs, research it before you determine the appropriate license to send.



● Non-standard use of IP request

- If you don't have an applicable license, pull together a business team to discuss the opportunity.
- To do this, you must understand your own business model, whether it can be changed for the right opportunity and who needs to be involved in the discussion.
- Licensor will probably want to meet with the potential Licensee to discuss the proposition before drafting anything (Pre-negotiation Discussion.)



● Pre-negotiation Discussion (for non-standard uses)

- Arranged when you need to better understand the proposed use before entering business negotiations or providing a contract.
- Ask about (and research on the internet and elsewhere) the proposed Licensee's business, understanding of IP, controls they will have on your IP, uses of the IP, distribution channels, etc. In other words, discuss the business model.



- If decision is to move ahead
 - Modify an existing license to meet their needs
 - If no existing license is close enough, consider a non-binding term sheet, or other interim step. It allows the parties to get into the details that can unravel a licensing arrangement, or to add additional business provisions that are not a part of the license.



- Rule #3 – Licensors and Licensees, beware the missing or misunderstood Business Requirement.
 - For Licensees this means forgetting to consult a business unit who had a key requirement for the license.
 - For Licensors this means failing to understand the business deal or the implications of proposed uses.



● Proposed Licensee receives the contract

- It's totally inappropriate for your uses. Do you:
 - Bleed red ink all over it?
 - Call the whole thing off – they're idiots!?!?
 - Call the Licensor to verify you received the right agreement?

- Call the Licensor – if it is the right agreement you can give them a heads-up that you're likely to have a lot of changes. If their terms are non-negotiable, you'll both save time.



● Contract Review – Practice Tip

- Whether you are the first or the last to receive/review the license, review the agreement on-line and:
 - Track your changes using your preferred method
 - Annotate changes to explain the reason for the change
 - Use annotations to insert questions for your business team



● Benefits:

- When negotiating the terms, your reasons for needing a change are there to prompt you, and if the other side cannot accept the revision knowing your reasons may allow them to suggest alternate language.
- Inserting questions for business allows them to focus on the business issues, not the legalese. Just remember to remove the comments prior to sending to the other party OR translate into a “clean” redline version to remove signs of internal disputes/discussions.
- Document becomes a negotiation summary.



● Rule #4 – Legal review of a license can rarely be completed without input from the business units.

- Remember, the goal is to match the license terms to the Licensee's Business Requirements and the Licensor's rights and risk acceptance.
- This means matching legalese to the business operations of both parties.
- Many license negotiations have four players – Licensor's legal and business representatives and the Licensee's legal and business representatives.



● Contract Review

- After reviewing the terms that ARE in the agreement, ask yourself what do you need that is missing?
 - Go back to your Business Requirements (if you haven't defined them yet, insert questions to the business units based on what you know of your business model.)
 - You can add terms to the agreement or write them up and request their insertion – some companies are very form driven so you might be wasting your time if you are adding significant rights.



● Adding terms – Practice Tip

- Be able to explain why you need them.
- Be open to accepting alternate solutions that meet your needs.
- Know the business consequences if terms cannot be added – a license missing key rights isn't an asset, it's just an expense (an undefined expense if you violate the license.)



● Licenser/Licensee Relationship

- A license is basically one company loaning its IP to another company in exchange for a fee. If the Licensee violates the agreement, the Licenser could lose its IP. If the Licenser violates the agreement (by not having the rights it purports to grant), the Licensee may face IP claims or find itself suddenly without IP it needs to service its clients or keep its business open.



● Implications

- A Licenser/Licensee relationship is built on contract terms, business integrity and even some trust. Negotiations should be an exploration of whether the two businesses can merge their respective rights/needs into a license agreement. If they can be, then depending upon the uses of the IP and the nature of the relationship the Licenser/Licensee relationship can become a long-term business near-partnership. Particularly if the licensed IP is part of the Licensee's product.



● Bottom line for Negotiations

- License negotiations are rarely the place for cut-throat tactics
- License negotiations are not the place for “close-to-the-vest” poker tactics
- Be open about your business uses and needs to ensure the license authorizes your uses.



● Negotiation Practice Tip #1: Track Edits

- This saves everyone's time reviewing changes
- Licensors – consider providing editable, password protected licenses to facilitate both parties' reviews
- Negotiation Practice Tip #2: Explain your edits.
 - This avoids add/delete wars
 - Allows other side to research issues and propose alternate language that meets both side's business needs
 - Keeps discussions focused on the issues



- Negotiation Practice Tip #3: Educate the other party on your business (and be open to the same education)
 - In licenses, business realities intrude on terms more than any other contract.
 - Profit margin may not support your requested liability apportionment
 - Licensees can rarely control their client's use
 - System constraints take time and money to fix
 - If IP is integrated into Licensee's product, they may need time to terminate the relationship



- Negotiation Practice Tip #4: Use the internet to research reasonable terms for particular market, and for competitors terms.
 - Independent verification of other party's stance
 - Verify their business model/drivers through the uses they market to their clients



- **Negotiation Practice Tip #5: Provide edits/comments 1-2 days before a scheduled negotiation meeting:**
 - Allows other party to research issues
 - More likely to have right parties on phone
 - Speeds up negotiations – can resolve terms rather than “research that and get back to you.”



- **Negotiation Practice Tip #6: Practice common courtesy.**
 - Keeps negotiations focused on the business issues, not personalities
 - Hopefully this will be a long term relationship
 - May be the only game in town or a big revenue source
 - May be auditing your use/or you may have to call and confess to a license violation



- Once you receive comments/edits

- Get buy-off from the appropriate business people. There are multiple ways to do this
- Provide comments back for any rejected language or proposed alternative language, indicate accepted language.



- **DON'T FORGET TO READ CONTRACT CHANGES IN CONJUNCTION WITH OTHER CONTRACT TERMS!!!!**

- Fees – annual fee payable upon execution of license
- Termination – provide 90 days notice of cancellation before end of term
- Early termination – may terminate if pay a fee equal to 25% of fees outstanding to end of contract term
- But you negotiated a 4 year term to get better pricing.



- Stuck on an Issue? Think outside the box

- Look for a business work-around
- Look for a legal work-around
- Look for a combination answer
- Re-assess the “undoable”

- Finalize License

- Say “thank you” if it is warranted
- Set up compliance
 - Review agreement for compliance requirements
 - Make certain assignments are made to fulfill obligations.
 - Compliance checklist.



● Using Outside Counsel

- Provide them with Business Requirements, chart the Business Requirements to the contract terms.
- Run “missing” terms provided by Outside Counsel past the business units.
- Attend the negotiation sessions, bring along a business expert.
- Remember Outside Counsel’s job is to provide legal advice, not business advice, and a license is a business deal. As the business’ attorney you must retain control.

● Contract Provisions

- Jeff, David and Pedro will discuss specific provisions, analyzing them from Licensor’s and Licensee’s perspectives



**401 – It's a Two Way Street:
Successfully Negotiating IP Agreements
for "Buyers" and "Sellers"**

Indemnification,
Limitation of Liability &
Confidentiality Provisions

By: Pedro DeJesús, Jr.

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Indemnification

● One sentence definition might be:

“A specific type of contractual risk allocation mechanism where one party to a contract agrees to hold the other (and presumably innocent) party harmless if a third party brings a claim against the innocent party.”

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● Important questions to consider when reviewing indemnification clauses:

1. Is the indemnity limited to certain types of claims (e.g., patent, trademark, copyright, personal injury, etc.)?
 - **Licensors** will attempt to limit indemnification to specific types of claims.
 - **Licensees** should resist limitations and broaden to include all intellectual property rights.



2. Is the indemnity limited geographically (e.g., only to claims brought in the United States or alleging violations of a U.S. patent)?
 - **Licensors** will attempt to limit infringement indemnity to United States intellectual property rights.
 - **Licensees** will generally accept this restriction unless foreign use of the software is anticipated.



3. Is the indemnity broad enough?

- **Licensors** will attempt to limit damages to a specific dollar amount or to damages "actually and finally awarded by a court."
- **Licensees** should request a comprehensive indemnification to defend, indemnify and hold Licensee completely harmless from any and all damages or losses (including legal fees and related expenses)?



4. Is the licensor's right to settle claims exclusive or does it require licensee's consent?

- **Licensor** should request exclusive right to prosecute and settle claims and request reasonable cooperation from licensee.
- **Licensee** should request timely notice of claims and right to defend in the event of inaction by licensor as well as reimbursement for expenses and time involved in providing assistance.



5. Are there exceptions to the indemnification provisions?

- **Licensors** should request common exceptions (e.g., claims arising from licensee's failure to install a software update or due to licensee's modifications to the software).
- **Licensees** should attempt to limit the exceptions to only those failures/modifications that would have avoided the claim



6. Are you being indemnified for claims other than IP infringement claims?

- Indemnification for breach of confidentiality if a party has access to non-public patient, financial or other highly sensitive customer information.
- Indemnification for personal injury claims resulting from actions of a party's employees, vendors or contractors.



9. INFRINGEMENT AND INDEMNITY.

(a) Indemnification. HNC will indemnify, ~~and, hold Licensee harmless and defend Licensee~~ from, any liability, cost, loss, or expense (including reasonable attorneys' fees and costs) arising out of any claim, demand or action alleging (i) that the HNC Software or any portion thereof as furnished under this Agreement and used within the scope of the licenses granted to Licensee hereunder infringes any third-party United States patent, or copyright, trademark, trade secret or intellectual property rights; (ii) personal injury or damage to personal property resulting from the negligence or willful misconduct of HNC or its employees or agents; and (iii) the Services or Deliverables violate any law, statute, court order, rule or regulation. The foregoing obligations of HNC shall only apply if: (x) Licensee promptly gives written notice of the claim, demand, or action to HNC; (y) Licensee gives prompt, reasonable assistance to HNC in connection with the defense and/or settlement of such claim, demand or action (provided such failure to provide prompt notice shall only relieve HNC of its obligation to the extent HNC was prejudiced by such failure); and (z) HNC directs and controls the defense of or any settlement of such claims, demand or action (provided that Licensee's consent shall be required in the event any settlement requires Licensee or its affiliate to pay any money, take any action or make any omission).



9. INFRINGEMENT AND INDEMNITY (continued...)

(c) In the event that Licensee's use of the HNC Software or portion thereof in accordance with this Agreement is enjoined in an action as described in Section 9(a) above, or HNC reasonably believes that it will be so enjoined, then HNC will ~~use its best efforts to~~ promptly, at its sole option and expense: (i) procure for Licensee the right to continue using the HNC Software or portion thereof; (ii) replace the same with non- infringing software of equivalent functions and efficiency; or (iii) terminate the license granted herein with respect to the infringing or potentially infringing portion of the Software and refund to Licensee its pro-rata portion of the fees paid with respect to such portion.



Limitation of Liability

- Limitation of liability provisions attempt to cap the total liability of a party in connection with a specific contractual relationship.



- **Licensors** should include a provision specifically disclaiming liability for consequential or special damage and limiting direct damages to all or a portion of the fees paid.
- **A Licensees** most favorable position is for contract to be silent on issue of limitations of liability.
 - If a limitation is negotiated, licensee should seek to increase the overall liability cap by some multiple of all license and professional service fees paid or payable (e.g., 1.5x to 3x of total fees).



- **Licensors** should resist making limitation of liability clauses mutual.
 - Licensors should ask: “what is licensee’s justification for requesting a limitation of liability?” before making the clause mutual.
 - If mutual limitation of liability clause is negotiated, claims resulting from breach of confidentiality and breach of the software license should be excluded from licensee’s limitation.
- **Licensees** should attempt to cap its own liability if possible and its should also seek to exclude licensor’s indemnification obligations from any liability limitation.



Confidentiality

- **Licensors** should broadly draft confidentiality clauses to include all information licensor intends to keep confidential.
- **Licensors** should also limit disclosures to licensee’s employees who have a direct “need-to-know”



- **Licensees** should ensure that confidentiality provisions carve out uses for affiliates or other necessary third parties (e.g., contractors or other outsourced vendors).
- **Licensees** should also attempt to limit exposure from accidental disclosures by third parties by limiting its obligation/duty to obtaining confidentiality agreement from such third party users.



- **Licensees** should insert standard exceptions to confidentiality (e.g., information in public domain, information independently obtained without an obligation of confidentiality, independently developed information, etc.)
- Both parties need to ensure that there is a clear definition of what constitutes confidential information.
- Both parties need to ensure that the confidentiality obligations survive expiration or termination of the agreement.



8. CONFIDENTIALITY.

(a) During the course of performance under this Agreement, Licensee and its employees may gain access to certain confidential information of HNC. The term "Confidential Information" shall mean any information and data of a confidential nature belonging to the disclosing party, its affiliates, or licensors, vendors or clients, including without limitation, the HNC Software, the Documentation and any related materials, or any proprietary, technical, developmental, marketing, sales, operating, financial, performance, cost/pricing, business and process information, business practices, business plans, software, and computer programming techniques which are disclosed or made available pursuant to this Agreement and which are identified and marked "Confidential" prior to disclosure. Licensee agrees to protect such Confidential Information from unauthorized use, disclosure or access and shall ensure that any Confidential Information obtained from HNC will be disclosed only to Licensee's employees, agents and contractors and only on a "need-to-know" basis. Licensee shall take commercially reasonable efforts to ensure that HNC's Confidential Information is not disclosed by Licensee's employees, agents or contractors in violation of this Agreement and shall cause its employees to execute a confidentiality agreement in the form attached hereto as Exhibit _____ with access to HNC'S Confidential Information to agree in writing to be bound by nondisclosure and limited use provisions protecting HNC's rights to at least the same extent as this Agreement.



8. CONFIDENTIALITY (continued...)

(d) The terms and conditions of this Agreement shall be deemed Confidential Information and shall not be disclosed to any third party without the prior written consent of the other party; provided however, that either party may disclose the terms and conditions of this Agreement to (i) potential acquirers or financial investors, or (ii) to their legal counsel and accountants, and to governmental agencies or authorities (including but not limited to the Securities and Exchange Commission) or otherwise if such party believes such disclosure is legally required. If a party needs to disclose the terms of this Agreement for financial investment purposes or is legally required to disclose the terms of this Agreement to any governmental agency or authority, it will promptly advise the other party and attempt to limit disclosure and seek confidential treatment of such disclosed information.



Recap....

- Although indemnity, confidentiality and limitation of liability clauses should never be "standard" and should be customized as appropriate.
- Ensure you are sufficiently protected from the costs and liabilities associated with claims surrounding these provisions.
- When your business (or your service) is the "carrot" that the other party seeks, always remember that everything is negotiable, even so-called boilerplate provisions.



401 – It's a Two Way Street: Successfully Negotiating IP Agreements for "Buyers" and "Sellers"

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