901:Nuts & Bolts: Licensing 101

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Faculty Biographies

Laurel A. Jamtgaard

Laurel A. Jamtgaard is a corporate counsel for Ariba, Inc., an enterprise software company. She focuses her time on licensing transactions and data privacy issues for the company.

Prior to joining Ariba, Ms. Jamtgaard was the general counsel and chief privacy officer for Angara E-Commerce Services, an online marketing company in Silicon Valley. Before going in-house, she spent the height of the "Bubble" as a licensing associate at Fenwick & West in California, worked on public interest issues related to intellectual property for the American Library Association and other library groups, and performed a six month fellowship with Professor Pam Samuelson at the Berkeley Center for Law & Technology.

She has volunteered time to the Samuelson, Law, Technology & Public Policy Clinic and has published articles on the topics of copyright law, UCITA, and privacy regulations.

Ms. Jamtgaard received her undergraduate degree from Stanford University and law degree from Boalt Hall.

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Kristi L. Vaiden

Kristi L. Vaiden is senior vice president and deputy general counsel for The Metropolitan Corporate Counsel, Inc., in Mountainside, New Jersey. Her responsibilities include providing legal counsel to the organization, particularly on copyrights.

Previously, she was technology counsel for Cellco Partnership d/b/a Verizon Wireless. She drafted and negotiated contracts and agreements for a wide range of commercial transactions, including web design and hosting agreements, systems development and maintenance contracts, and software, copyright, trademark, and other intellectual property licenses. Her early experience included clerking for the Honorable William L. Hungate in the U.S. District Court, Eastern District of Missouri, and serving as an adjunct professor at the Washington University School of Law. She has authored a number of articles on contract management, software licensing, document retention, and electronic commerce that have been published in the *ACCA DOCKET* and the ABA's *Business Law Today.*

She currently serves on the board of directors for the New Jersey Corporate Counsel Association and the executive committee of ACCA's Intellectual Property Committee. She received the Robert L. Townsend, Jr., award as ACCA's outstanding member of 1996.

She received a BA from St. Olaf College and a JD from the Washington University School of Law.

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The following clauses and checklists give a general introduction to some of the issues and concerns that commonly arise when drafting and negotiating software licenses.

CONTRACTING PARTIES; LICENSING THROUGH RE-SELLER AND ASP

"You" and "your" refers to the individual or entity that has ordered ABC SOFTWARE programs and/or services from ABC SOFTWARE or an authorized distributor.

This Software License and Services Agreement (the "**Agreement**") is made and entered into by and between Software Provider, Inc., ("**Licensor**"), and Customer, as identified in the signature box below ("**Customer**").

Issues:

- Be sure to consider what entities need to be included in the use of the license.
- Depending on their licensing model (e.g. based on usage, #copies, #users), some software companies will let you include affiliates without much of an issue and others will not.
- Some may require that you list the entities.
- Some may allow only "wholly-owned" or just U.S. affiliates.
- The concern on the part of the licensor is the potential scope of use of their product, support issues, and the potential for lost future sales if the license is granted too broadly.
- If you expect use by international subsidiaries, then terms in the license may need to be reviewed by international counsel.
- If licensing through a re-seller – you may or may not enter a license directly with the software producer. If licensing from the distributor, look for warranties and assurances that you would expect if you were licensing directly from the software producer and clearly understand who is providing support.

ACCEPTANCE; REVENUE RECOGNITION ISSUES

You have 30 days from the delivery date to evaluate these programs and either accept or reject the delivery.

Vary rare to have acceptance criteria or an "evaluation period" unless

- the software is a trial or pilot version not to be used in production;
- the software is custom-developed under a services agreement;

Refer to the vendor's warranty for some assurances regarding product quality.

Why don't software vendors like acceptance criteria? The Software vendor will reject the use of "acceptance" criteria because they want to be able to recognize the revenue from the sale and cannot do so if there are conditions on acceptance.

INDEMNITY; LIMITATION OF LIABILITY

A. Indemnity – Most software vendors will offer a limited indemnity regarding 3rd party intellectual property claims. If services are involved, the indemnity may include personal injury, damage to property etc.

Part 1 – Sample basic commitment of Licensor

Provider shall indemnify and hold Licensee harmless against any amounts awarded in a settlement or by a final court decision (and reasonable attorneys' fees and costs in connection therewith) arising from any claim of infringement of a validly issued U.S. patent, copyright, or trademark or any claim of misappropriation of a trade secret in the U.S asserted against Licensee by a third party based upon Licensee's authorized use of the Software, provided that Provider shall have received from Licensee:

(i) prompt notice of such claim (but in any event notice in sufficient time for Provider to respond without prejudice);

(ii) the exclusive right to control and direct the investigation, defense, and/or settlement of such claim; and

(iii) all reasonable necessary cooperation and assistance of Licensee.

Part 2 - Remedies

If Licensee's use of any of the Software is, or in Provider's opinion is likely to be, enjoined due to the type of infringement or misappropriation specified above, or if required by settlement, Provider may, in its sole discretion: (a) substitute for the Software substantially functionally similar programs and documentation; (b) procure for Licensee the right to continue using the Software; or if (a) and (b) are commercially impracticable, (c) terminate the Agreement upon thirty (30) days advance written notice and refund to Licensee an amount equal to the unamortized portion of the license fees paid by Licensee for the Software based upon a five (5) year straight-line depreciation with a commencement date as of the respective Order date of the applicable license for the Software. This Section sets forth Licensee's sole and exclusive remedy with respect to any claim of intellectual property infringement or misappropriation.

Part 3 – Exclusion if the infringement is not solely Licensor's fault…

The foregoing indemnification obligation of Provider does not apply: (1) if the Software is modified by any party other than Provider, but solely to the extent the alleged infringement is caused by such modification; (2) if the Software is combined with other non-Provider products, processes or materials, but solely to the extent the alleged infringement is caused by such combination; (3) after Provider has provided Licensee modifications that would have avoided the alleged infringement; or (4) to any modifications made to the Software by Licensee or any third party, or by Provider based on specifications provided by or on behalf of Licensee.

Issues:

- What intellectual property is included – just claims based on US patents, copyrights etc. Are other jurisdictions important to you?

- Are attorney's fees included?
- What role would you play in potential settlement?
- If consulting services are involved, are there other sort of 3rd party claims that may arise?

B. Limitation of Liability –

Part 1 - a "cap" on direct damages. Usually based on the amounts paid under the contract:

EXCEPT FOR [*list may include indemnification obligations, confidentiality, license violations etc.,]*, , ANY LIABILITY OF EITHER PARTY SHALL BE LIMITED IN THE AGGREGATE TO THE AMOUNTS PAID BY LICENSEE TO PROVIDER. THIS LIMITATION APPLIES TO ALL CAUSES OF ACTION, INCLUDING WITHOUT LIMITATION BREACH OF CONTRACT, BREACH OF WARRANTY, NEGLIGENCE, STRICT LIABILITY, MISREPRESENTATION AND OTHER TORTS.

Part 2 – May extend this cap to protect 3rd party suppliers of the software vendor.

THE LIMITATIONS OF LIABILITY DESCRIBED IN THIS SECTION ALSO APPLY TO ANY THIRD-PARTY SUPPLIER OF MATERIALS SUPPLIED TO LICENSEE. PROVIDER AND ITS THIRD-PARTY SUPPLIERS' LIMITATIONS OF LIABILITY ARE NOT CUMULATIVE. THIS AGREEMENT, HOWEVER, SHALL NOT PURPORT TO EXCLUDE OR RESTRICT THE LIABILITY OF PROVIDER OR ITS THIRD-PARTY SUPPLIERS TO ANY EXTENT NOT PERMITTED BY LAW.

C. Limitation of Liability Part 2 – exclusion of indirect and special damages.

[EXCEPT FOR…] IN NO EVENT SHALL PROVIDER OR ANY PROVIDER SUPPLIER BE LIABLE UNDER ANY CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY FOR ANY SPECIAL, INCIDENTAL, PUNITIVE, EXEMPLARY, INDIRECT, OR CONSEQUENTIAL DAMAGES OF ANY KIND, INCLUDING DAMAGES RESULTING FROM INTERRUPTION OF USE, COST OF COVER, LOSS OR CORRUPTION OF DATA, LOST PROFITS, FAILURE TO UPDATE OR PROVIDE CORRECT INFORMATION, STOLEN OR MISUSED PASSWORDS, OR SYSTEM INCOMPATIBILITY, WHETHER OR NOT PROVIDER HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, AND NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY REMEDY, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT.

Issues/Topics:

- Should you ask for a mutual limitation of liability?
- Check the list of exclusions from liability carefully. Does it make sense for the type of software and the price you are paying?
- Do you want to carve out confidentiality or indemnification obligations from these limitations?

GRANT OF RIGHTS/PROHIBITIONS

Subject to all the terms and limitations of this Agreement, including full payment of any fees, Licensor hereby grants Licensee, a worldwide, non-exclusive, **[**perpetual,**]** fully paid-up license (with the right to sublicense to its subsidiaries; provided, however, that any subsidiary so sublicensed will be bound in writing to all obligations of and restrictions on Licensee under this Agreement) to Licensee's software only to. (i) modify, adapt, and prepare derivative works of the software, or have its contractors do so on its behalf; and (ii) reproduce, have reproduced, display, perform and distribute modifications and derivative works of the software created pursuant to clause (i) above only in object code form, and only as incorporated into or with Licensee's products. The foregoing license includes all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as "moral rights" (collectively "Moral Rights").) Except as specifically allowed to a subsidiary or contractor, the foregoing license does not allow any sublicense, distribution or disclosure of source code or source documentation to any third party in any circumstance or manner and Licensee agrees that it will not engage in any such sublicensing, disclosure or distribution. The software (and any copy) is licensed (and not sold) and **[**, except to the extent expressly violative of applicable law,**]** reverse engineering (by disassembly, decompilation or otherwise) is prohibited.

Issues/Topics:

- Exclusive/non-exclusive
- Does Licensee need additional rights, such as to distribute
- Limitations on what Licensee can put into its end user agreements.
- Limits on transferability (see also Assignment).
- Limitations
  - Number of users/seats
  - Limitations on hardware/systems
  - Territory
  - Location
  - Prohibition against sublicensing to government entities
- What are moral rights; disclaimers
- Enterprise licenses - need to bind subsidiaries
- Rights extended to consultants and contractors
- Current versions (see also Support/Maintenance and Escrow)

ESCROW

The Licensor shall, within fourteen (14) days after the effective date of the License Agreement, deposit the source code and executable code with the Escrow Agent. The Licensor warrants that the latest version of the software delivered to the Licensee can be generated out of the material deposited with the Escrow Agent. Furthermore, the Licensor warrants that the deposited material shall contain all necessary and available written information and technical documentation by the aid of which a programmer with relevant work experience and professional skills can maintain, repair and modify the software without any assistance from the Licensor.

The Licensor shall deliver to the Escrow Agent a written statement including at least the following information: parties to the License Agreement; date of signature of the License Agreement; date of deposit of the materials; and identification of the materials to be deposited.

If Licensor delivers to Licensee an update/fix/upgrade to the software, Licensor shall deposit with the Escrow Agent updated materials including the modification within thirty (30) days after the delivery of the modification to licensee.

At Licensee's request, Licensor, Escrow Agent and Licensee shall together perform an inspection and / or a test of the deposited material which, based on the Licensor's demonstration, shall reasonably ascertain that the materials fulfill the requirements of the License Agreement.

The Escrow Agent shall release the deposited materials to Licensee in accordance with the clauses herein, provided that Licensee requests the release of the materials in writing and states that any one of the following conditions has been fulfilled: the Licensor is declared bankrupt or placed into liquidation or the Licensor's financial situation has otherwise deteriorated so that Licensor will not be able to fulfill its obligations under the License Agreement; or the Licensor has discontinued its business regarding the maintenance of the software; Licensor merges with another company/is acquired by licensee's competitor; or inability or failure of the Licensor to cure a breach or provide maintenance for a predetermined period of time. Such release may be permanent or temporary.

In the event that the Material is released to Licensee, the rights of the Licensee to the deposited material shall be determined in the License or Escrow Agreement.

Issue/Topics:

- Two party vs. three party escrow agreements
- Choice of Escrow Agent
- Costs
- What should be escrowed? source and object code, documentation, flow charts, design notes
- How often should new versions, updates and maintenance materials be filed?
- Testing of escrowed materials.
- Release conditions can be very specific to individual licenses – one size does not fit all. Competing interests of Licensor and Licensee
- Procedures and arbitration/dispute escalation procedure if release is sought.
- Type of materials deposited (can licensee actually use escrowed materials).
- Limitations on use upon release – support and maintenance, or more?
- Ownership of modifications/improvements in released code.

EXPIRATION/TERMINATION

Termination by Licensor:

(i) whenever Licensee is delinquent in payment of any portion of the License fee due under this Agreement and continues to be delinquent for a period of thirty (30) days after written notice and the parties are not engaged in a good faith dispute regarding the amount owed; and

(iii) whenever Licensee is in breach of any material term, condition or obligation under this Agreement, if Licensee fails to cure such breach within the timeframe set forth in the Agreement or, if no timeframe is provided, within thirty (30) days of written notification to Licensee of such breach.

Termination by Licensee.

(i) for any or no reason upon prior written notice, in which case Licensee shall not be entitled to any refunds.

(ii) whenever Licensor is in breach of any material term, condition or obligation under this Agreement, and fails to cure such breach within the timeframe set forth in the Agreement or, if no timeframe is provided, within thirty (30) days of Licensee's written notification of such breach, in which case Licensor shall refund to Licensee certain amounts paid by Licensee pursuant to this Agreement.

Upon termination of the license to the software hereunder, Licensee shall promptly return or destroy all copies of the Software and the Documentation including but not limited to all copies residing in memory, on hard-disk and on any other medium and certify in writing to Licensor that all copies have been returned or destroyed.

Issues/Topics:

- Off the shelf vs. custom
- Perpetual licenses, evergreen extensions, renewals.
- Licensee should want right to terminate and get refunds if Licensee's license to use any third party software products with which the licensed software is intended to operate is terminated, or any change is made to any such third party software product which renders the licensed software of little or no utility.
- Cure periods. Failure to pay vs. other breaches that take longer to cure
- Refunds, full, partial, none
- Impacts of termination
- Suspension of usage
- Disentanglement

ASSIGNMENT

Neither party shall assign or transfer this Agreement without the prior written consent of the other party. No purported assignment or transfer shall be effective without such other party's written consent.

Issues/Topics:

- Rights of divested entities to continue to use the licensed software.
- Termination of payment obligations when licensed software is assigned or transferred.
- Ability to transfer the licensed software among licensee's current and future family of companies.
- Ability of licensee's outsourcing companies to use the licensed software.
- Right to continue to use software when there is a change of control (e.g., sale of licensee's stock)
- Right of purchaser of hardware running the licensed software to continue to use it *:*
- Adequate compensation for any increased or diminished use of the licensed software.
- Limitation on where the licensed software can be used.
- Knowledge of entities using the software, especially reputation for integrity and financial solvency.
- Expertise of entities supporting the software.

PAYMENT AND AUDIT

Licensee shall pay to Licensor the license fees and Services fees set forth in Exhibit A. Licensor may invoice Licensee for the license fee for the Product on the date of Licensee's acceptance of the Product. After expiration of the Warranty Period, maintenance fee payments may be invoiced yearly upon the commencement of the annual maintenance term.

Licensee shall pay Licensor for the Services based on the fees set forth in Exhibit A, provided that the services are performed to the reasonable satisfaction of Licensee.

Any requests by Licensor for reimbursement of expenditures and expenses under this Agreement must be supported by original bills or vouchers and conform with Licensee's travel policy set forth in Exhibit B.

Licensor shall indicate of its invoice any sales, excise, VAT or other governmental taxes and shall specifically state the jurisdiction for which any such tax was collected. Licensor shall remit any such taxes to the appropriate taxing authority.

Licensee shall pay correct invoices within forty-five (45) days after their receipt at the following address: Licensee, Street Address, City, State, ZIP.

On or before each anniversary of the effective date, Licensee shall submit a written report to Licensor listing the CPU on which the licensed software is being run. The list shall include the manufacturer, model, operating system, location and (except for micro processors) the serial number of each CPU. Licensor shall review the report and advise Licensee of any applicable supplemental license fees due. Upon Licensor's prior written notice, Licensee will grant Licensor access to each of Licensee's sites to verify the accuracy of Licensee's report, and Licensee shall provide any further information as Licensor may reasonably require.

Issues/Topics:

- Breadth of enterprise-wide license (see scope of license, definition of affiliated companies and assignment clauses).
- Measurement of usage based license (see license grant and restrictions).
- Scope of services (e.g., installation, testing, training, maintenance, disaster recovery, etc.).
- Disruption to Licensee's business of Licensor's audit.
- Timeliness of payments.
- Ability to audit use, what records and facilities are subject to audit and who pays cost of audit.
- Extent to which product changes included in license and maintenance fees include new releases.
- Fee adjustments if response times or service levels are not met.
- Indemnity for licensor's failure to make tax payments on time.
- Cap on future price increases in for term licenses and for maintenance fees.
- Most favored customer provisions.

WARRANTIES AND DISCLAIMER

Licensor warrants that:

(a) The licensed software shall perform in conformance with its then current

Specifications;

(b) The services shall be performed in accordance with the highest generally accepted standards of the profession as exist at the time the services are performed;

(c) Neither the licensed software or services shall give rise to a claim of infringement of any patent, copyright, trade secret or other property right of a third party;

(d) The licensed software does not contain, and the services shall not introduce, any virus or any other contaminant, or disabling devices including, but not limited to, codes, commands or instructions that may have the effect or be used to access, alter, delete, damage or disable the licensed software, information or other property, in a manner other than in accordance with Specifications;

(e) Licensor has the requisite personnel, competence, and physical resources necessary to perform the services at all locations contemplated by this Agreement.

In the event of a breach of any of the foregoing warranties, Licensee, in addition to any other available remedies, shall have the option of electing either (i) replacement of the licensed software at no cost to Licensee; or (ii) a full refund of all fees paid by Licensee under this agreement less an equitable adjustment for Licensee's actual use of the licensed software.

THE FOREGOING WARRANTIES ARE IN LIEU OF ANY OTHER WARRANTY, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCANTABILITY AND FITNESS FOR A PARTICULAR PUPOSE. Licensor does not warrant that:

(a) the licensed software will meet Licensee's particular requirements;

(b) operation of the licensed software will be uninterrupted or error free.

Issues/Topics:

- Warranty for media and documentation
- Warranty for interoperability of licensed software with computer systems installed and to be installed by Licensee
- Licensor responsibility for performance of the licensed software.
- Liability for third-party products incorporated into the licensed software.
- Length of warranty before maintenance fees must be paid.
- Number of years during which maintenance will be available.
- Extension of warranty period while maintenance fees are paid.
- Pass-through of warranties to authorized end users, successors and assignees.
- Licensor's commitment to continually upgrade the licensed software.
- Ability of Licensor to support licensed software for worldwide operations.
- Restrictions on Licensor's ability to exercise self-help remedies.
- Requirement for Licensor to give notice of any financial difficulties and procedure for adequate assurance of ability to continue to perform (see escrow, dispute resolution and termination provisions).
- Procedure for handling intellectual property claims.

Nuts & Bolts: IP Licensing 101

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Overview

- **Licensing Challenges**
  - ***One size does not fit all***
- **Key Clauses**
  - ***Business drives content***
- **Leading Edge Issues**
  - ***Technology and law continue to evolve***

IP Basics

- **One Size Does Not Fit All**
  - ***Understand the underlying area of law***
    - **Patents**
    - **Copyrights**
    - **Trademarks**
- **Visit www.uspto.gov**
- **Tackle Drafting Challenges**

Patents

- **Government Grant**
  - *Virtual Monopoly for Patent Holder*
- **Excludes Others from**
  - *Making*
  - *Using*
  - *Offering for Sale*
  - *Selling*
  - *Importing*

Copyrights

- **Protects Expression**
  - *Does not protect idea itself*
- **Protects Rights**
  - *Copy*
  - *Prepare derivative works*
  - *Distribute*
  - *Publicly perform*
  - *Display*

Trademarks

- **Indicates Source**
  - *Distinguishes products from goods of others*
- **Format**
  - *Word, name, symbol or device*
- **Protects mark**
  - *Does not protect the goods*

Patent Licenses

- **Scope of the Patent**
  - *Is it adequate to commercialize the product?*
- **Timing of the License**
  - *More developed means more royalties*
- **Government Filings**
  - *Who prosecutes and defends?*
- **Royalty Payments**
  - *Life of patent*

Copyright Licenses

- **Require display of copyright notice**
- **Identify who owns the copyright**
- **Allocate enforcement rights**
- **Set parameters on remedies**

Trademark Licenses

- **Goodwill**
  - *Set, measure and audit standards*
- **Description**
  - *List with registration numbers*
- **Enforcement Mechanisms**
  - *Termination*
- **"Hands On"**
  - *Monitor branded products*

Keys to Success

- **Overall Business Strategy**
- **Licensing Staff**
- **Records Management**

Conclusion

- IP licenses take many different forms
- Look at who, as well as what
- Tailor your license to meet your company's business needs

Software Licensing – Up Close

Software Licensing – Up Close (Cont'd)

- Contracting Parties
  - *Licensor – Software Producer vs. Reseller*
  - *Licensee – Subsidiaries, affiliates, consultants*
- Grant of Rights/Prohibitions
  - *Exclusivity, sublicensing, transferability, territory, use, documentation*
  - *Copying, reverse engineering, service bureaus, decompiling, disassembly, dealing with governmental entities*

Software Licensing – Up Close (Cont'd)

- Delivery / Acceptance / Payment
  - *Installation/integration*
  - *Test period, acceptance criteria*
  - *Revenue recognition*
  - *Audit rights*
  - *License fees vs. maintenance and update fees*
  - *Discounts (failure to meet standards, MFC), caps*

Software Licensing – Up Close (Cont'd)

- Representations and Warranties – Express and Implied
  - *Software*
  - *Services*
  - *Remedies*
  - *Disclaimers*

Software Licensing – Up Close (Cont'd)

- Indemnification
  - *Infringement*
  - *Participation in Proceedings*
  - *Attorney's Fees*
- Limitation of Liability
  - *Cap on direct damages, exclusion of indirect, consequential and special damages*
  - *Mutuality*
  - *Carve outs*

Software Licensing – Up Close (Cont'd)

- Support and Maintenance
  - *Separate Maintenance Agreement*
    - Scope: Error correction, telephone/Internet support, new releases/upgrades/patches/enancements
    - Staffing
    - Training
    - Additional services
    - Exceptions
  - *Fees*

Software Licensing – Up Close (Cont'd)

- Escrow Provisions
  - *Two party vs. three party escrow agreements*
  - *What should be escrowed*
  - *Release conditions*
  - *Arbitration/dispute escalation*
  - *Limitations upon release; reversion*

Software Licensing – Up Close (Cont'd)

- Expiration / Termination
  - *Off-the-shelf vs. custom software*
  - *Termination rights; cure periods*
  - *Impact of expiration / termination*
  - *Bankruptcy Code §365(n)*

Software Licensing – Up Close (Cont'd)

- Miscellaneous Provisions
  - *Confidentiality*
  - *Assignment*
  - *Choice of Law*
  - *Force Majure*

Miscellaneous Licensing Issues

- Click-wraps and on-line agreements
- Open Source licensing considerations
- Privacy/Data provisions in licenses
- Questions

Click-wraps

- Enforceability
  - Recent decisions
  - Emerging standards
  - International issues
- Monitoring use of Click-wraps in your company

Open Source Licenses

- What is an "open source" license?
- Benefits of using open source programs
- Issues to be aware of:
  - Product development constraints
  - Tracking
- Learning more about open source

Privacy/Data Provisions

- Examples of new provisions
- Privacy laws driving use of these provisions
  - US
  - Internationally
- Thinking about data flows and data responsibility related to a transaction

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EVALUATING AND REEVALUATING OBTAINING A PATENT LICENSE

XEROX'S UNISTROKES® ALPHABET RECOGNITION SOFTWARE PATENT VERSUS PALM'S GRAFFITI® HANDWRITING RECOGNITION SOFTWARE

Michael I. Chakansky [FNa]

Sills Cummis Radin Tischman Epstein & Gross

Xerox Corporation recently won another battle in its patent war against Palm Inc.'s Graffiti® handwriting recognition software. On December 20, 2001, the US District Court in Rochester, New York, reluctantly found Palm's Graffiti® based device to infringe Xerox's valid and enforceable patent. [FN1] Damages and imposition of an injunction remain to be tried. Palm has said that it will appeal the decision.

The importance of the Graffiti® software to Palm's handheld devices is self evident. Just think about the tens of thousands of users who spent time learning the Graffiti® alphabet; they will not want to learn another language. If Xerox ultimately prevails in court, Palm will have to take a license.

Consider Each Event A Business Opportunity

The question for every company, when faced with a patent involving its core technology and owned by a party capable and willing to fully assert the patent, is whether to take a license, or gamble on defeating the patent in the courts and/or at the US Patent and Trademark Office (PTO), and if unsuccessful take a license later, if available. [FN2] During this process, there are many events which may warrant reconsideration of the company's position vis-a-vis a license. Such events include, learning about the patent, [FN3] notice from the patent holder, filing of the law suit, requests for the PTO to reexamine the patent, lower and appellate court decisions. These events and other events should be looked at as business opportunities, for both parties, to reopen discussions, and should not be considered merely as defeats or wins.

At each event, a company should have the patent evaluated or re-evaluated by a patent professional, who like the lower courts can only provide their best judgment -- they cannot guarantee the result. The company must seriously consider their interpretation of the patent, as well as, the tangible and intangible costs of litigation. From the million(s) plus dollars in attorneys fees, to the trebling of damages, to the time spent by employees at depositions and in directing/assisting the attorneys, to the value of the technology to the company three-four-or-five year's hence, when the litigation is resolved -- the total cost over the lifetime of the patent must be considered.

Some Events In Xerox v. Palm

In the Xerox versus Palm litigation, one such event was when the District Court issued its initial decision on June 6, 2000 [FN4] construing the claims of Xerox's patent and holding that the Graffiti® system did not infringe. That may have been an appropriate time for 3Com to approach Xerox and offer to take out a license under very reasonable terms.

As we know, Xerox appealed, and the Court of Appeals for the Federal Circuit affirmed-in-part and reversed-in-part this past October. [FN5] The Court of Appeals upheld the lower court's claim construction but reversed its determination of non-infringement. Three months later, the district court, on remand, held that Palm's Graffiti® product infringes Xerox's patent, as "all of defendants' Graffiti symbols read on the claims of the '656 Patent as those claims have been construed by the Court of Appeals." Xerox III.

There were even earlier noteworthy events. According to published sources when Xerox first brought its suit, Xerox claimed that a vice president at Palm Computing and the designer of the Pilot approached Xerox prior to issuance of the patent about licensing the technology. The sources go on to state that, after the patent issued, Xerox informed U.S. Robotics of its patent, but U.S. Robotics did not take a license and Xerox was forced to bring the patent infringement action. These were clearly licensing events.

Now, after the most recent court decision, Xerox III, Xerox's General Counsel is reported as saying that either "Palm will have to cease production of its handheld organizer or license the technology from Xerox." A post- injunction event license will be more costly than a pre-litigation event license.

Why Fight?

Palm certainly realized the costs of fighting the patent, but nevertheless decided it was worthwhile to fight in the courts and at the PTO. Why? Consideration of Xerox's patent and Palm's Graffiti® alphabet may hypothetically provide a clue and perhaps some general guidance in approaching what a patent covers. The scope of a patent is determined by its "claims" as properly construed by the courts. The scope of a patent need not be as great as what it discloses, nor as limited as what is set forth in its drawings. Both aspects often causing confusion among those who are not patent attorneys.

Hypothetically, perhaps those involved at Palm placed too much reliance on a comparison of the Graffiti® alphabet to the Unistrokes® alphabet appearing in Xerox's patent, without realizing that the patent was not necessarily limited to the exact alphabet disclosed, pointing out again, the importance of obtaining expert patent guidance at every event. At this point it is useful to actually consider Xerox's patent.

Xerox's Unistrokes® Patent

Xerox is the owner by assignment from the inventor, David Goldberg of Palo Alto, California, of U.S. Patent No. 5,596,656 (the '656 Patent), for "Unistrokes for Computerized Interpretation of Handwriting," issued January 21, 1997, based on an application filed October 26, 1995, which, in turn, was a continuation of an original patent application filed on October 6, 1993, now abandoned. [FN6] Hence, the technology is considered as having been invented at least as early as October 1993; not in 1995 or 1997. In 1998 and 1999, 3Com requested the PTO to reexamine Xerox's patent in light of additional printed prior art. On April 25, 2000, the PTO issued Reexamination Certificate B1 5,596,656 setting forth its determination confirming the patentability of all 16 claims of Xerox's patent.

As is usually the case with patent disclosures, the applicant begins with a problem with prior art technology. The problem in this case is with inputting data into small computers. The solution proposed by Xerox's patent is to make it easier for the computer to understand handwritten text by using special symbols in place of ordinary Roman letters. The symbols are designed to be well separated from each other graphically. "These symbols preferably define an orthographic alphabet to reduce the time and effort that is required to learn to write text with them at an acceptably high rate. Furthermore, to accommodate 'eyes-free' writing of text and the writing of text in spatially constrained text entry fields, the symbols advantageously are defined by unistrokes (as used herein, a 'unistroke' is a single, unbroken stroke)." '656 Patent, column 2, lines 39-46.

A Unistroke Alphabet

The patent specification discloses "a unistroke alphabet (Fig. 2) that is composed of just five different strokes ... that are written in up to four different rotational orientations (0%, 45%, 90% and 135%) and in one of two opposite directions (stroke direction is more easily captured electronically than in standard mechanical writing systems). This provides 40 unique symbols (5 x 4 x 2), which is more than ample to encode the 26 alphabetic characters of, for example, the English alphabet." '656 Patent, column 3, lines 14-22.

However, the patent is not limited to this particular alphabet. In order to better appreciate the scope of the invention, set forth below is claim 12 of the '656 Patent. To infringe, each of the claim elements, in this case [a] through [e], as properly construed, must be present.

"[Claim] 12. A handwriting recognition process for pen computers, said process comprising the steps of

[a] correlating unistroke symbols with natural language alphanumeric symbols, each of said unistroke symbols being fully defined by a single continuous stroke that conforms geometrically and directionally to a predetermined graphical specification, some of said unistroke symbols being linear and others being arcuate;

[b] entering user written unistroke symbols into buffer memory in sequential time order, successive ones of said unistroke symbols being delimited from each other by a predetermined, symbol independent delimiting operation, said delimiting operation distinguishing successive unistroke symbols from each other without reference to and totally independently of their spatial relationship with respect to each other;

[c] reading out said unistroke symbols from buffer memory in sequential time order to provide buffered unistroke symbols;

[d] translating each buffered unistroke symbol that correlates with a natural language symbol into said natural language symbol; and

[e] outputting any natural language symbols that are produced by such translating to a utilization device."

In Xerox III, the court found that Palm's Graffiti® products performed each element.

Palm's Graffiti® Software Alphabet

For comparison purposes, below is one version of the Graffiti® alphabet as known to its many, many users.

Dealing With The Patent Trap

Many times a patent is a trap for the patent unsophisticate. Perhaps a side by side comparison was made, and Palm decided the two were different, perhaps not. In any event, the point being made when faced with a third-party patent involving a company's core technology is two-fold. First, obtain competent patent advice and listen to it, notwithstanding any gut instinct that tells you the patented invention is different from your company's products. Second, do not waste an event. Consider each win or loss as a business opportunity. Re- evaluate the need to license on an on-going basis, and consider that the better part of valor may be in negotiating a license right after winning a decision.

FN1. Xerox Corporation v. 3Com Corporation, U.S. Robotics Corporation, Palm Computing, Inc., et al., No. 97-CV-6182T(F) (W.D.N.Y. Dec. 20, 2001)(Xerox III). Palm, Inc., which started in 1992 as Palm Computing, Inc., was acquired by U.S. Robotics in 1995, which in turn was acquired by 3Com in 1997. Finally, 3Com spun Palm out in 2000 as an independent publically traded company. When used herein, a reference to Palm and/or 3 Com refers to any or all of the above defendants.

FN2. Of course, if the patent holder is unwilling or unable to license the patent, or if the license terms exact too high a cost, the company has little choice but to litigate, if it wishes to continue to use and sell the patented technology.

FN3. After learning about a patent, a company has an obligation to make a good faith determination whether it infringes a valid patent. An opinion of outside patent counsel to the effect that the patent is not infringed and/or invalid will go a long way toward defeating a claim of wilfull infringement.

FN4. Xerox Corp. v. 3Com Corp., 55 U.S.P.Q.2d 1108 (W.D.N.Y. 2000)(Xerox I).

FN5. Xerox Corporation v. 3Com Corporation, U.S. Robotics Corporation, Palm Computing, Inc., et al., 60 U.S.P.Q.2d 1526, (CAFC, No. 00-1464, Oct. 5, 2001) (Xerox II).

FN6. The full patent is available at the PTO's website at www.uspto.gov.

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COMMERCIALIZING UNIVERSITY-CREATED BIOTECHNOLOGY

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Much of the pioneering work performed in the field of biotechnology takes place at universities and is performed by university researchers. For a variety of reasons, many talented scientists choose to work in a university environment, and universities tend to be willing to perform more basic, "blue sky," research than many corporations. There is thus a large body of university-created technology ripe for commercialization. At the same time, private corporations are continually looking for new technologies to bring to market, and universities can be an excellent source for new technologies in embryonic form.

There are tensions in commercializing university-created inventions. A university usually views its mandate as maximizing public dissemination of its inventions and receiving compensation therefor, while prospective licensees usually want broad exclusivity even if this means the invention is not exploited in some fields. A university tends to want open discussion of its work and academic status is often significantly determined by publication, while private corporations tend to want to preserve the confidentiality of technology so it is not available to competitors. In addition, a university will often insist on being totally protected against any liability (such as patent infringement or products liability) arising from exploitation of its inventions which licensees naturally tend to resist.

Universities' and private corporations' interests are not wholly incompatible. Often there is little incentive for a company to assume development of a university invention that is in the public domain. Without some form of exclusivity over the technology, there may be little incentive for a company to invest the resources needed to take the technology from the laboratory to the marketplace. The intellectual property rights that would be developed in the course of making the technology ready for marketing may not provide sufficient protection to justify the investment. Patenting of a new technology and granting an exclusive license may thus be the best way for a university to ensure that its work is brought to the public.

When negotiating with a university, it is important to be aware of the types of agreements one is likely to encounter. There are several types of agreements that are particular to commercializing university-created technology or raise particular issues when entered into in the university context:

Sponsored Research Agreements

Sponsored research agreements are agreements pursuant to which an entity agrees to fund specific research at a university, usually in exchange for the right to an exclusive license to the inventions created in the course of the research. The sponsored research agreement will usually describe the research to be conducted, the location of the research and the team that will be conducting the research, procedures for funding, the process for determining what patent applications are filed and how those applications are to be prosecuted. Key elements of a sponsored research agreement include:

- Identity of the principal investigator -- the entity providing funding will usually want to make sure that the work will be performed under the supervision of a particular individual. The agreement will often also provide either a right for the sponsoring entity to terminate the agreement if the named principal investigator is unable or unwilling to continue serving in that role or for a mechanism for replacing the original principal investigator.

- Location of the research -- usually the laboratory or laboratories in which the research will be conducted.

- Description of the research -- a detailed research plan will usually be attached to the agreement.

- Procedures for and extent of funding -- the agreement will generally provide for timing of payments for the research, reports on the usage of funds and a budget for the research. The agreement will often also provide for the right for the sponsoring entity to audit the recipient's use of the sponsor's funds and that the university may not exceed budgeted amounts without prior approval by the sponsor.

- Reporting procedures -- the agreement should always establish procedures for the university to report on the results of the sponsored research.

• Process for filing patent applications -- the agreement will often establish processes for choosing what patent applications will be filed and oversight of the prosecution of those patents. If the sponsoring entity does not obtain the right to prosecute the applications itself, it will generally have the right to approve the outside counsel responsible for preparing and prosecuting the applications and will also often have the right to review and comment on any submissions made to the U.S. Patent & Trademark Office or equivalent foreign office before they are made.

• Publication of research -- although sponsoring entities may want to keep results of research confidential, this runs contrary to the policy of wide public dissemination common throughout academia. Sponsored research agreements will generally provide that the researchers may publish or otherwise publicly disclose the results of the research, but must notify the sponsoring entity in advance so a patent application may be filed if desired.

License Agreements

There will often be a license agreement closely associated with each sponsored research agreement -- indeed, the license agreement and sponsored research agreement are at times integrated into a single document. The license agreement will identify the scope of the license, products that are royalty bearing, royalty rates, procedures for challenging infringers of the licensed patent rights and allocation of liabilities arising from exploitation of the licensed patent rights. Where the licensed technology results from sponsored research, the license granted will generally be exclusive.

Key terms of license agreements for university-created biotechnology include:

• Licensed intellectual property -- the license agreement will generally identify the intellectual property that is the subject of the license. When patents or applications have been filed, they will usually be identified by number as well.

• Field of use -- the university may want the license limited to a fairly specific field of use, with the university free to license the inventions for other uses. The entity sponsoring the research usually wants the field to be defined as broadly as possible.

• Diligence requirements -- because of university desires to ensure public availability of university-created inventions, it is common for the license agreement to require that the licensee diligently work toward commercializing the licensed technology. Some agreements contain strict milestones for product development and provide that failure to meet the milestones will be grounds for termination of the agreement by the university.

• Royalties -- the license agreement will specify royalties on sales by the licensee, and will usually also specify royalties payable on amounts received from sublicensees. It is not uncommon for these agreements to treat amounts received from sublicensees differently from those received from purchasers of licensed products (for example, an agreement may provide that the university is entitled to the greater of 50% of the amounts received from the sublicensee or the royalties that would have been due had the sublicensee's sales been made by the licensee).

• Royalty stacking -- universities are generally unwilling to indemnify their licensees against third party infringement claims arising from the commercial exploitation of licensed technology (see below), but they will often allow licensees to make certain deductions from their royalty payments if the licensee is required to pay royalties to a third party. This concept is known as "royalty stacking." There is no fixed standard for royalty stacking provisions, but it is not unusual for such a provision to allow a licensee to deduct a certain percentage (say 50%) of royalties payable to third parties but not to exceed a certain percentage (again, say 50%) of the royalties that would otherwise be due under the license agreement.

• Enforcement of licensed rights -- under an exclusive license, the licensee has a strong interest in making sure that infringers are stopped. If there are others practicing the licensed invention in competition with the licensee, the licensee's rights may be significantly impaired. Generally university license agreements will call for each party to notify the other of any infringement of the licensed rights of which it becomes aware and will specify how infringements are to be handled. Often the university has the first option to pursue infringers, with the licensee having the option to take action against infringers if the university fails to do so within a specified time.

• Allocation of liabilities arising from exploitation of licensed rights -- universities tend to be very strict with respect to claims arising from exploitation of university-created inventions. They will often not only disclaim all liability for claims brought by third parties (including claims of patent infringement or those arising from death or injury resulting from the use of the university-created technology), but will demand that the licensee indemnify the university against such claims.

Material Transfer Agreements

In addition to the foregoing agreements, a private entity may want to provide some tangible research materials (often biological materials) for the university to use in performing its research. These materials may represent the investment of significant time and money, and the provider will usually want to ensure that its proprietary interest in such materials is protected.

A material transfer agreement (or MTA) is roughly equivalent to a nondisclosure agreement for the materials that are being transferred. It will generally require the recipient to refrain from giving access to the materials to any third party without permission of the provider and will also usually specify the type of work that can be done with the materials provided. The MTA may specify ownership of inventions made using the materials provided -- some MTAs indicate that the provider of the materials will be entitled to an assignment of all inventions made using the materials.

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There are many opportunities in commercializing university-created biotechnology, but there are also risks. The foregoing is not an exhaustive list of issues that can arise and there is no substitute for having someone on the negotiating team with experience dealing with universities and the particular sensitivities that arise in connection with such negotiations. Entering negotiations well prepared and well informed should provide for a significantly smoother negotiating experience and should provide opportunities to strike a better deal.

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SUN V. MICROSOFT-A WAR OF WORDS

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Introduction

In a battle of "middleware," Sun Microsystems recently won a significant victory for its Java Platform against Microsoft and its competing .NET Framework. Specifically, on December 23, 2002, United States District Judge Motz issued a preliminary injunction, based on both antitrust and copyright law: (1) requiring Microsoft to carry Sun's current Java Platform on any software Microsoft distributes which has the .NET Framework on it (antitrust remedy); and (2) prohibiting Microsoft from carrying its Virtual Machine for Java, an earlier version of the Java Platform modified by Microsoft (primarily copyright remedy).

This December 23 Opinion is simply the latest in an over 5 year battle between Sun and Microsoft. In 1998, a District Court for the Northern District of California indicated that Microsoft was liable for copyright infringement, because it had violated a Sun license agreement. In 2000, after being reversed by the Ninth Circuit, the same District Court said that the same violation of the same license agreement was a breach of contract, not copyright infringement. On December 23, the District Court for the District of Maryland said that a violation by Microsoft of a subsequent license agreement was copyright infringement. These decisions emphasize the importance of very careful drafting of the words in any license agreement involving computer software.

The Java Platform is "middleware," which figuratively sits on top of operating system software and acts as an intermediary for programs, such as word processing programs or spreadsheets, which in turn figuratively sit on top of the middleware. At the bottom, an operating system performs basic functions to manage the computer hardware, to regulate which programs may run at any particular time, to manage and copy files and to provide an interface for other programs. These interfaces are called application program interfaces (API's), and their existence saves time for the person developing the program, since she does not have to build the functionality offered by the API's into the program she is developing. The Java Platform will work with a variety of PC operating systems, such as Windows, Unix, Solaris, Apple and Linux, but is also designed to be compatible with servers, personal digital assistants, cell phones and smart cards.

Owners of operating systems and of middleware want developers to write programs to their software, but generally place restrictions in the license agreement on what the licensee can do with the software. The Sun/Microsoft litigation has revolved around the uses Microsoft legally could make of the Java Platform licensed by Sun to Microsoft in the Java Development Kit. Although antitrust issues recently have received more publicity, four decisions in the Sun-Microsoft saga do discuss a significant copyright-related issue: When a licensee violates provisions of a software license agreement, does that violation constitute copyright infringement or "simply" breach of contract?

Copyright law treats software as a literary work, and the general principle is that copyright law does not protect ideas (e.g., the idea about a man who works hard to become the heavyweight boxing champion of the world) but does protect the expression of ideas (e.g., "Rocky"). That statement of principle is too simplistic, however, because copyright law does not protect some expression, such as the individual words in Rocky or the individual 1's and 0's in binary code. Where to draw the line between unprotected ideas and expression and protected expression is very difficult.

Adding to the difficulty, computer software should "work" or be compatible with other software. Just as one telephone by itself is of no value (there must be at least two telephones to make the first telephone valuable), computer programs need operating systems to function. In addition, the program on one's PC should work with the program on servers, which in turn should work with programs on other computers, including handheld devices. There must be similarities in the programs in order for them to operate together. If a developer makes parts of the program she is developing similar to the middleware in order to be compatible with the middleware, who owns the intellectual property rights to the similarities? What remedies does the middleware owner have? The license agreement controls.

Conditions Precedent vs. Independent Covenants

In 1997, Sun sued Microsoft for copyright infringement, claiming that Microsoft had licensed and copied the Java Platform from Sun, but then illegally modified it (made a derivative work) to make Microsoft's version of the Java Platform (Microsoft's Virtual Machine for Java) incompatible with the core Java Platform. The license agreement between Sun and Microsoft had allowed Microsoft to make derivative works from the Java Platform, but only if the derivative works were compatible with the core Java Platform. The District Court in 1998 granted a preliminary injunction against Microsoft for copyright infringement, concluding that a "licensee infringes the licensor's copyright if it exceeds the scope of the license." Sun Microsystems, Inc. v. Microsoft Corp., 21 F. Supp. 2d 1109, 1119 (N.D. Calif. 1998).

In 1999, the Ninth Circuit vacated the decision of the District Court and said whether "this is a copyright or a contract case turns on whether the compatibility provisions help define the scope of the license." Sun Microsystems, Inc. v. Microsoft Corp., 188 F.3d 1121 (9th Cir. 1999). The Ninth Circuit added that if "a license is limited in scope and the licensee acts outside the scope, the licensor can bring an action for copyright infringement." 188 F.3d at 1121. Otherwise, the action was for breach of contract. In other words, did Sun grant Microsoft: (1) a license only if any modifications Microsoft made in the Java technology were compatible with the core Java Platform; or (2) a license to use the Java technology as long as the contract remained in effect, with the covenants in the contract not being limitations on the license grant itself but only being grounds for termination of the contract? The significance of the difference is that if a plaintiff proves copyright infringement-point 1 above -- there is a presumption of irreparable harm, generally justifying an injunction. If a plaintiff only proves breach of contract -- point 2 above -- there is no such presumption.

Upon remand, the District Court concluded in 2000 that Microsoft was liable for breach of contract, but not copyright infringement, because the "language and structure of the TLDA suggest that the compatibility obligations are separate covenants and not conditions of, or restrictions on, the license grants." Sun Microsystems, Inc. v. Microsoft Corp., 81 F.Supp.2d 1026, 1031 (N.D. Calif. 2000). In 2001, Sun and Microsoft settled that litigation, and Sun gave Microsoft a more limited license for a temporary period of time.

In 2002, Sun felt that Microsoft was not complying with the new license and sued Microsoft again, this time claiming that Microsoft had violated antitrust and copyright laws. On December 23, 2002 the District Court found that the settlement agreement "expressly provides that the restrictions imposed upon Microsoft are limitations of its license." In re Microsoft Corporation Antitrust Litigation, 2002 WL 31863526 *19 (D. Md. 2002). Since Microsoft had previously admitted copying parts of the Java Platform, the District Court granted a preliminary injunction against Microsoft's continued use of the Virtual Machine for Java.

Drafting License Agreements To Preserve Copyright Claims

The distinctions between a condition of a license grant and a covenant in a license agreement separate from the license grant do not seem clear in the abstract. However, there are steps the drafter of a license agreement should consider, based on the Sun-Microsoft litigation. Of course, since contract interpretation is a question of state law, an attorney drafting a license agreement would have to consider the applicable state law, and in fact the Sun-Microsoft litigation discussions might not be applicable in certain states.

Putting in the license grant itself -- rather than some other place in the license agreement -- a statement that licensor grants the license "only on the conditions set forth in the license agreement" may help avoid doubt that violations of the agreement can be treated as copyright infringement. For instance, in McRoberts Software, Inc. v. Media 100, Inc., 2001 WL 1224727, * 10 (S.D.Ind. 2001), the District Court concluded that the condition in the license agreement was a limit on the scope of the license, since the license grant itself said licensee could "distribute executable code versions [of the software], ... and such versions shall be licensed only for use on" DTI's Media 100 hardware.

Such language may not be sufficient, however. Even though the right of distribution is one of the exclusive rights granted to a copyright holder by statute, in its 2000 decision, the District Court in Sun decided that a restriction in the license agreement on the right of distribution did not necessarily limit the scope of the license. The District Court pointed to the remedies provision of the license agreement, which gave Sun the right to terminate the agreement if Microsoft willfully and intentionally breached the compatibility requirements of the agreement and failed to cure the breach for a period of 1 year after receiving notice. Another section of the license agreement provided that upon termination of the agreement, Microsoft's license was limited to surviving products that satisfied the compatibility requirements at the time of termination. The District Court reasoned that if "Sun could sue for copyright infringement immediately upon Microsoft's failure to fully meet the compatibility requirements, the remedies scheme would be frustrated and Microsoft would not get the full benefit of its bargained for cure periods." 81 F.Supp. 2d at 1033.

In addition to expressly incorporating the license restrictions into the license grant itself, therefore, a drafter of a license should review other parts of the license agreement. She should try to prevent giving a court the opportunity to say that other parts of the license agreement evidenced an intent by the drafter to waive its right to bring a copyright infringement claim until the contract had been terminated. Although after a copyright license "agreement is terminated, any further distribution would constitute copyright infringement," Rano v. Sipa Press, Inc., 987 F.2d 580, 586 (9th Cir. 1993), waiting until any cure period is over to terminate the agreement and obtain an injunction may be too late for the client.

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WHAT TO CONSIDER BEFORE LICENSING TECHNOLOGY

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Negotiating a license can be critical to your business success, marking the most significant step in the development of technology or the commercialization of a product. Unfortunately, in the headlong rush to get quick cash or access new markets, companies may fail to develop an overall licensing strategy or develop essential elements of a licensing arrangement. This article explores issues that should be considered before the sale or license of technology.

The Most Important Factor Is The Proper Timing Of The Transaction

The single most important factor is the proper timing of the transaction. The proper timing will have a greater impact on the value received than any other single issue. More developed technology will receive higher royalty fees, so it may pay to wait until the technology is scaled-up, field-tested or proved out in clinical trials before licensing. It may be as simple as waiting until a patent application is filed, a provisional application is reduced to practice or a pending application is issued. On the other hand, if the technology is not core to your business or if the next development step is costly, then incurring further development or patenting costs may not be warranted or practical. Another factor to consider is the threat of competing technology -- if you can't keep pace with new discoveries in a rapidly evolving field, it may be best to license immediately or risk losing value.

Depending on the technology involved, a comparison of the cost to develop the technology to the next phase versus the expected additional return may add considerable value. For example, testing a new product in the human, animal or agricultural field may show the dosage, efficacy and value-in-use of the product, leading to increased royalties. Such royalties can not only recover the cost of additional testing, but also increase the value of the license. Similarly, scaling-up a process may determine cost savings or identify volume, purity or method improvements. Without sufficient testing or prove-out, royalties will be deeply discounted.

Consider The Possibility Of Joint Development With A Strategic Partner

An alternative to developing in-house versus licensing to another company is the possibility of joint development with a strategic partner. Joint development or collaborative agreements can generate significant value providing the right partners are selected and the relationships are nurtured. The right partner can bring instant credibility to a small company, but strategic partnering comes at a cost. Partners may insist on preferential licensing rights or joint ownership of new inventions in return for assisting in the development. Despite this, if sufficient flexibility on setting royalties can be retained, partnering may be beneficial. In the best case, the strategic partner may accept a first right to negotiate a license or a right of first refusal on the technology or product. Alternatively, the license terms may be negotiated, but the royalties could fluctuate based on results of efficacy, dosage or cost savings.

Critical issues to negotiate in a development agreement include the ownership of inventions arising from the joint development and the right of either or both parties to continue with development following termination. If the technology owner can retain both the rights to future inventions and the right to continue development if the strategic partner terminates, then joint development may be appropriate.

Assuming the time is right to license, consider next what assets are available to license. The threshold issue is whether to assign all of the technology or instead to retain some portion of the technology and only offer a license. Assignment of a patent portfolio will transfer the obligation to prosecute and maintain the patents, as well as the obligation to sue for infringement, while those costs and liabilities will usually be retained only if a license is granted. For a large estate covering 10 or 20 patents filed in 10-15 different countries, prosecution and maintenance costs may be significant. Even if patent rights are retained, the licensor may still agree to an assignment with a licensing back of rights. The risks for the patent holder in the case of an assignment are that remedies are more limited and difficult to enforce in the event of a default on royalties or commercialization.

Assuming a license remains the preferred arrangement, a critical issue is whether to grant exclusive, non-exclusive or sole licenses. A successful licensing strategy may bring in funds for development while retaining sufficient independent technology to continue building a successful company. One strategy involves granting exclusive licenses, but in restricted fields; another may include structuring the deal to optimize the global market by focusing each deal on the ability of the licensor to distribute and market in the selected geographical regions.

The Scope Of The License Is Critical

The scope of the license is also critical. The initial focus is on which patents to include, which countries to include, whether or not know-how is included, and whether or not improvements will be offered. In a patent license, the licensee will typically want to receive know-how, but will only offer to pay royalties based on the patented technology. In contrast, if the know-how is valuable and extends beyond the scope of the patents, the licensor may rightly ask for royalties to be based on use of either knowhow or patents. Whether or not to offer improvements should also be considered in advance. Again, the licensees will usually ask that these be included and will only offer to pay royalties if the improvements are patented. The licensor, on the other hand, will want to retain all rights to future improvements since the value and, therefore, royalties to be charged are unknown. Desired restrictions and limitations on the license should also be discussed, such as limitations on fields of use. Of course, all of these items may not be defined until meetings are held with prospective licensees, but the general offering should be outlined and non-negotiable issues should be identified before the critical first meeting.

Will The License Involve The Transfer Of Technology Or A Transfer Of Legal Rights?

Consider also if the license will involve the transfer of technology or just a transfer of legal rights. Will data be transferred, technology be taught, or will a process be installed and operated? The appeal of added fees based on services should be weighed against the need to give additional warranties on operation of the technology, equipment or product. Where technology will be transferred, a technology package should be put together transferring relevant data, operating procedures, test or clinical trial protocols, etc. Obviously, only portions of this information should be disclosed during the course of negotiations and then only after a confidentiality agreement is signed.

Where the technology being licensed is core to your on-going business, consider how you can prevent being blocked from future improvements made by the licensee. Even without a license, parties can develop and patent new improvements, but a license may enable the entry of a new competitor and the transfer of technology may provide know-how needed for further developments. As a result, licensors will argue that a grant back is needed to maintain their leading edge in the technology. At a minimum, the licensor will want a grant back in their retained field of use. If, however, the license granted only non-exclusive rights, the licensor may insist on a grant back of all improvements -- both in the licensed and retained fields of use.

A final consideration before negotiating a license is to evaluate the strength of the licensed patents and the scope of competitive technology. Prior art searches should be reviewed and any opinion of counsel on freedom to operate or validity should be analyzed. Handling these issues proactively in negotiations before royalty rates are discussed and established may prevent any attempt by the licensee to reduce royalties upon learning of prior art or close technology.

The above issues illustrate the importance of developing a complete licensing strategy and focusing on the essential parameters of a license prior to the first meeting. Formulating a strategy on these issues should enable the licensor to maximize the value of the license, and be better prepared for issues raised by the licensee during the negotiations.

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BRAND MANAGEMENT STRATEGIES: 10 KEY POINTS

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This article is the second part in our series on the management of intellectual property assets ("IP Assets"). The first part of this series focused on the management of IP Assets generally. In this part, we address the development, maintenance and growth of brands in connection with distinct products and services - in essence management of a trademark portfolio. Specifically, through this article, we present ten key points to be considered when developing and implementing a brand management strategy. Of course, strategic branding programs are highly specific to industries. As such, the following key points should be adapted as necessary to suit one's particular product and service line.

1. Establish And Maintain The Brand

As a threshold issue, it will be extremely important to establish and maintain the brand. When doing so, the adoption of a holistic approach, or an "overall brand strategy" is recommended. Such overall brand strategy should be implemented with full recognition that the brand may traverse numerous different product lines and geographic regions. Adopting an overall brand strategy also requires recognition that brands are significant to both the traditional retail and the online market.

Accomplishing an overall brand strategy requires close coordination between the licensor and licensees in different markets. There must be a consistent program for protecting brands and monitoring the usage of brands. Focus should also be placed upon prospective uses of brands. This may include identifying brands that might be used in the future and identifying new products and services with which existing brands might be used.

2. Ensure Consistency Between The Brand Licensing Strategy And Overall Business Goals

Effective brand management strategies also necessitate emphasis on ensuring consistency between the brand licensing strategy and the enterprise's overall business goals. Efforts should be undertaken to ensure that the brand reflects positively on the company, does not detract from other product lines and remains profitable with other parts of company.

3. Select Profitable And Innovative License Partners

The importance of consistency should also be reflected in the selection of license partners. Focus should surely be placed upon license partners that enjoy healthy businesses and that offer innovative products. At the same time, however, emphasis should also be placed upon licensee partners with similar cultures and business goals since doing so may help to reduce the amount of time that is expended on reaching the basic business terms. Companies should develop a profile of the ideal license partner but recognize that while many licensors and licensees may enjoy long-term relationships, few of such relationships will be permanent.

4. Focus On Maximizing Leverage Of The Brand

Successful brand management will involve focus on the maximizing the leverage of the brand. Of course, this may mean different things in different contexts. However, in all circumstances, a considered judgment regarding brand placement will be crucial.

5. License Agreements: Exclusive Or Non-Exclusive?

The exclusivity of the license agreement will be a key factor in brand management. Whether the license agreement will be exclusive or nonexclusive will have important implications for all of the business. When considering the exclusivity of a license grant, it must be recalled that the license can only be granted once as an exclusive license. Accordingly, particular scrutiny must be directed towards the strategies and business goals of potential exclusive licensees.

In addition to understanding the current interests and strategies of the prospective exclusive licensee, it is advisable to construct the license in such a way so as to maintain the licensee's commitment licensee to the brand. Clearly, it will be in the interest of the licensor to ensure that the licensee's interest in the brand is and will stay as high as possible. This can be done in a number of ways including, for example, by requiring additional payments or some other form of compensation during the license term in order to maintain the exclusivity of the arrangement.

While exclusive licensing arrangements will be extremely important, it must be recalled that non-exclusive licenses can also play a role in the business. Accordingly, proper attention and resources should also be devoted to constructing such non-exclusive arrangements and ensuring that they are profitable.

6. License Agreements Must Include Effective Means For Enforcing Key Provisions

All license agreements should include effective means of enforcement. Most license agreements will address extremely important issues including quality control standards and reporting standards. However, such standards and requirements will not be of much use without effective enforcement mechanisms to back them up. The precise enforcement mechanisms that should be used will depend on the particulars of the licensing arrangement. As an example, however, in an exclusive licensing arrangement, the termination of exclusivity may be an effective remedy for the breach of certain contractual requirements.

7. Be Pro-Active On Products And Services

Licensors should not adopt a "hands off" approach when dealing with the licensee's products and services. Rather, efforts should be undertaken to ensure that the licensee's products are desirable and up-to-date. Clearly, it will be in the licensor's interest to ensure that its brand will be affixed to the most popular products and services. Of course, consumer interest can change over time so it will be essential to periodically monitor changes in demand for the licensee's product and services.

8. Allocate Ownership And Control Of IP Assets Equitably

When undertaking a brand licensing relationship, it will also be important to allocate equitably ownership and control of the IP assets. While this will be an important issue in all relationships, it will be particularly important when a long-term relationship is contemplated. In all instances, the licensor will have the stronger interest in the brand and will likely desire to retain the maximum amount of control. However, particular business issues may impact the ultimate allocation. Such allocation should include consideration of each party's business plans and innovations that impact power of the brand. The allocation should also be conducted with recognition of the fact that the association of the name with particular products or services will be key

9. Successful Brand Licensing Strategy Requires Dedicated Staff

The enterprise's staff will play an extremely important role in the company's overall brand licensing initiatives. Selection of licensing staff should be undertaken with the recognition that such staff members will be required to organize, control and coordinate all the activities of the licensees. In addition to focusing on the key licensing staff, other relevant staff members should be trained and encouraged to take an active role in the efforts overall brand licensing efforts.

10. Actively Integrate The Brand Licensing Strategy Into Product Development And Launch Activities

Companies should be active - and not static - when undertaking efforts to integrate the brand strategy into product development and launch activities. A clear and proactive strategy is likely to generate the most reward

Conclusion

This article, which has addressed key issues in brand management strategies, is the second part in our three part series of IP Asset management. While all IP Assets require the creation and implementation of effective management strategies, this article has demonstrated that brands require special consideration. The next and final part of this series, will examine IP rights designed to protect various processes. In doing so, we will focus on patents and trade secrets.

