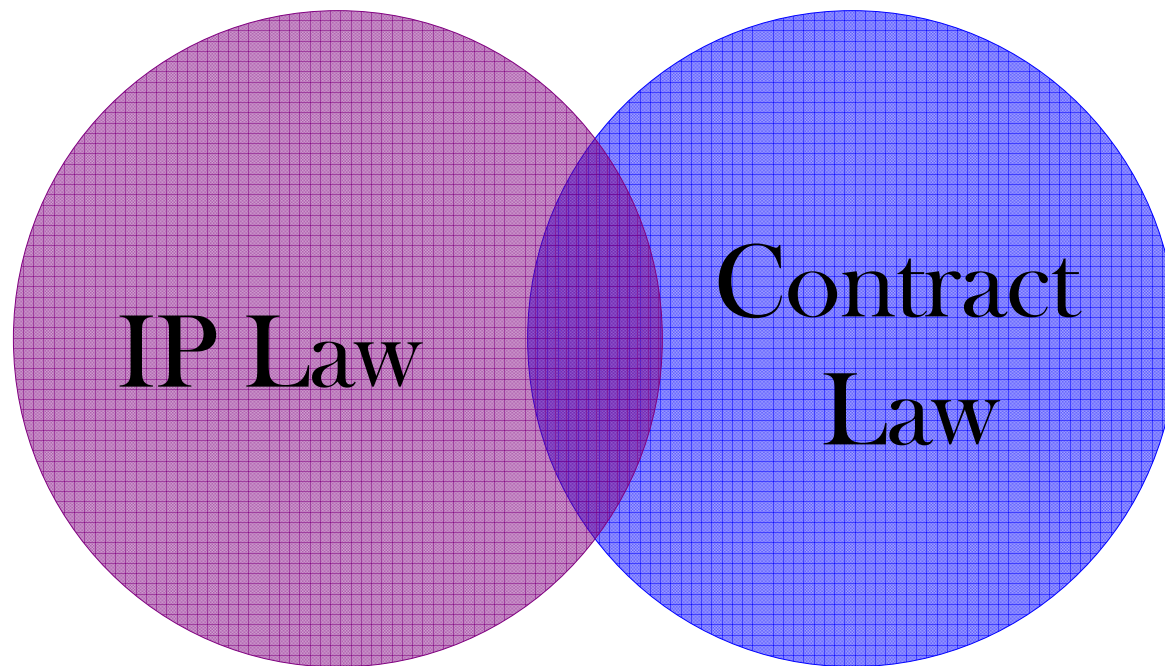


Negotiating a License Agreement



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WHAT IS YOUR MOTIVATION FOR LICENSING?

- ROYALTIES
 - Patent licensing royalties in 1990 = \$15 billion; in 2000 = over \$110 billion
 - Royalty income is attractive to investors
- ASSET FOR MERGERS AND ACQUISITIONS
- TECHNOLOGY DEVELOPMENT
 - Lack of adequate resources to fully develop the technology

TYPES OF IP PROTECTION

Utility Patent

- Protects products, devices, processes, computer programs, business methods
- 20 year term from filing

Design Patent

- Protects industrial design, web page design
- 14 year term

Trademark/Service Mark

- Protects words, phrases, symbols that identify source of goods or services
- Lasts as long as it's used

Copyright

- Protects expressions of creative works, such as pictures, novels, music, advertising, computer source code
- 70 year minimum term

Trade Secret

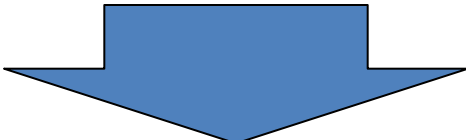
- Protects confidential information that is maintained secret
- Lasts as long as secret is maintained

You've decided you want to license technology.
Now what?

Find licensee or licensor



Pre-licensing agreements



Negotiate license agreement



Draft and sign license agreement

FINDING THE RIGHT LICENSEE/LICENSOR

- Competitors – potential for cross-licensing
- Find potential markets and market players
 - Develop a strategy for finding licensees
 - Attracting market players to accept and want your technology may often be difficult because not “everyone is doing it.” No progress may be made until the potential suitor perceives the desirability of the technology.
- Infringers – involuntary licensing

REVIEW OF THE TECHNOLOGY NON DISCLOSURE AGREEMENT

- NDA: agreement that the recipient of specified information will use that information only for a specified purpose and will maintain it in confidence

Exceptions:

- Information in public domain
 - Already in possession of the recipient
 - Subsequently comes into the possession of the recipient
 - Disclosed to a third party without any obligation of confidentiality
 - Subsequently is independently created by the recipient without recourse to the disclosed materials
- NDA expires at specified time limit (commonly 3 years)

REVIEW OF THE TECHNOLOGY

WHAT IS PROTECTED?

- Claim construction
- Patents may be enforced from the date of issue
 - May be able to retroactively collect damages for period between publication of the application and issuance if claims are substantially similar to the published claims

NEGOTIATION DOS AND DONTS

Dont:

- Lying/exaggeration
- Surprises
- Arguing or threatening
- Underestimating the other party
- Haggling
- Negotiating against yourself (bidding lower before receiving counteroffer)
- Lack of preparation

Do:

- Goal setting
- Plan the next best alternative
- Develop negotiation strategy
- Plan who will attend
- Form agenda
- Start with little matters to open dialogue
- Keep record of things that have been agreed on

NAVIGATING THE DANGEROUS MINEFIELD OF CONTRACT LAW

- A contract requires:
 - Offer and acceptance
 - Competent parties
 - Consideration
 - Legal purpose
- If contract terms are not defined, a court will define them for you, or if the terms are necessary, then court will rule no contract was formed

OVERVIEW OF KEY TERMS

Introductions	<ul style="list-style-type: none">• Who, what, when, where and purpose
Definitions	<ul style="list-style-type: none">• In legal disputes, it is often the case that whoever defines the terms wins the argument – make sure definitions reflect your intentions
Grant	<ul style="list-style-type: none">• The scope and nature of the grant of rights are specified• Exclusive v. nonexclusive
Royalties	<ul style="list-style-type: none">• Type of royalties and rate
Representations and Warranties	<ul style="list-style-type: none">• Representations state what is being relied on as the basis of the agreement• Warranties state promises – if promise is broken, damages may be recovered
Term and Termination	<ul style="list-style-type: none">• Provisions relating to termination of the agreement, including breach of contract, early termination, and settlement
Assignment and Transfer	<ul style="list-style-type: none">• Provisions relating to assignment, sublicensing, and transfer of rights granted in the license agreement
Miscellaneous Terms	<ul style="list-style-type: none">• May include most favored nations clause, choice of law, choice of forum, arbitration provisions, and non-waiver provisions

INTRODUCTIONS

Identification of the Parties:

THIS TECHNOLOGY LICENSE AGREEMENT (this “**Agreement**”) is made and entered into effective as of August 23, 2010 (the “**Effective Date**”), by and among Licensor Corporation, a company organized and existing under the laws of Delaware having its principal place of business at _____ (“**Licensor**”), and Licensee, Inc., a Texas corporation having its principal place of business at _____ (“**Licensee**”).

Recitals: gives background and shows intent of the parties when forming the agreement

WHEREAS, Licensor owns or has the right to grant licenses under certain patents, patent applications, technology, trade secrets, data, know-how and other intellectual property relating to pulverization apparatuses and techniques to pulverize material and extract moisture; and
WHEREAS, Licensee desires to obtain from Licensor, and Licensor is willing to grant to Licensee, a license under such technology and intellectual property for the use, development, production and commercialization of certain products under the terms and conditions herein;
NOW, THEREFORE, in consideration of the mutual covenants and obligations set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

DEFINITIONS

- Licensed Patents – listed by number and may include continuations, CIPs, divisions, and reissues
- Licensed Products – those that may be produced, used, offered for sale, sold, or imported by the licensee
 - Broad: “any product covered by one or more claims of any of the Licensed Patents”
 - Narrow: list by product or model numbers
- Licensed Territory – where the licensed products may be produced, used, sold, etc.
 - Broad: “the United States, its territories and possession”
 - Narrow: “place of business located at [street address]”

RIGHTS GRANTED

- Exclusive license: grants rights to the licensee to exclude all others
 - Limited exclusive license – exclusivity in limited to certain geography, industry, etc.
- Sole license: grants rights to the licensee to exclude all others except for the licensor
- Non-exclusive license: covenant not to sue

RIGHTS GRANTED

Subject to the terms and conditions of this Agreement, Licensor hereby grants to Licensee the exclusive right and license to (i) make, have made, use, offer, sell, have sold and otherwise dispose of Licensed Products during the Term in the Licensed Territory and (ii) practice the inventions, processes and methods included in the Licensed Patents during the Term in the Licensed Territory. This license is not transferable or assignable, except as explicitly stated elsewhere in this Agreement. This license will be irrevocable during the Term except as specifically provided herein.

This grant of license shall include the right to use any existing or hereafter-acquired trademark of Licensor (whether registered or not), or any packaging trade dress of Licensor, in connection with the promotion, marketing, offer, or sale of Licensed Products in the Licensed Territory; provided, however, that such use is approved by Licensor. All use of such marks by Licensee shall inure to the benefit of and be on behalf of Licensor.

Licensor reserves for itself, and to license any third party, all rights not specifically granted to Licensee, including, without limitation, the right to make, have made, use and sell products in any geographical region or territory other than those that are granted to Licensee pursuant to the terms of this Agreement.

ROYALTIES

- Paid-up: total amount agreed on up front
 - May be paid all at once or over a period of time
 - Good for relatively predictable future sales and short license term
 - May reduce risk of invalidity, unenforceability, or non-infringement
- Running Royalty: based on sales of the licensed product
 - 25% Rule – 25% of expected operating profit of the licensee
 - Rates may be enforced upon finding of infringement →
 - *Georgia-Pacific Corp. v. US Plywood Corp.*, 318 F. Supp. 1116 (SDNY 1970) - 15 factors to be considered when determining a rate
 - Nature of protection (patent, copyright, etc.); utility over older methods; scope of exclusivity; commercial success; etc.

ROYALTIES

COMMON INDUSTRY RATES

Industry	Average (%)	Median (%)
Automotive	4.7	4.0
Chemicals	4.7	3.6
Computer Hardware	5.2	4.0
Computer Software	10.5	6.8
Consumer Goods	5.5	5.0
Electronics	4.3	4.0
Internet	11.7	7.5
Healthcare	5.8	4.8
Machines/Tools	5.2	4.5
Pharma & Biotech	7.0	5.1
Semiconductors	4.6	3.2
Telecom	5.3	4.7

MISCELLANEOUS TERMS

- Patent Enforcement –
 - Will the licensor be obligated to sue infringers? If so, what are the limits to his enforcement obligation?
 - Who pays for the infringement suit?
 - How to split damages?
 - Average cost of patent litigation is over \$2 million.

MISCELLANEOUS TERMS

- Indemnification –
 - Licensees are typically responsible for injury or damage from the licensed product, but indemnification clauses are nevertheless common in the agreement

WHO? WHAT? WHEN? WHERE? WHY? AND HOW MUCH?

I. Introductory Formal Provisions

1. Heading
 - A. Party names
 - B. Effective date of agreement
 - C. Location of agreement
2. Recitals
 - A. What is being licensed – patent number
 - B. General rights licensed
 - C. Warranties
 - D. Definitions of terms
 - E. Agreement history and purpose

III. Rights and Obligations

1. Warranties by licensor
2. Most favored licensee
3. Sublicensing
4. Enforcement of licensed patent
5. Invalidity of licensed patent
6. Patent marking
7. Obligation of licensor and licensee in defense of infringement suit
8. Improvements on patented subject matter

I. Grant of Patent Rights

1. Exclusivity of the License
2. General limitations
3. Territory limitations
4. Field of Use limitations

III. Royalties

1. Fixed Royalty
2. Running royalties
3. Interest on overdue payments
4. Acceleration on default

V. Duration

1. Effective date of license agreement
2. Term
3. Cancellation rights
4. Termination for cause – default by a party, bankruptcy, patent invalidity
5. Manner of effecting termination
6. Obligations after termination
7. Severability of provisions
8. Arbitration
9. Assignment
10. Governing law

QUESTIONS?

- A. Effective Date
- B. Identification of Parties
 - a. Names
 - b. Addresses
 - c. Identification of subsidiaries and/or affiliates
- C. Recitals
- D. Definition of Licensed Property
 - a. Identification of patents, trademarks, copyrights, know-how etc.
 - b. Include corresponding rights
- E. Definition of Licensed Products/Services
- F. License Grant
 - a. Exclusive vs. nonexclusive
 - b. Perpetual
 - c. Revocable vs. Irrevocable
 - d. Definition of territory
 - e. Definition of field or field of use\
 - f. Reservation of rights
 - g. Sublicensing
- G. Term of the Agreement
 - a. Initial term
 - b. Option to renew
 - c. Life of patent concerns
- H. Compensation
 - a. Lump sum payment
 - b. Milestone payments
 - c. Royalty rate
 - d. Most Favored Nations Clause
 - e. Sublicensing income
 - f. Royalty period defined
 - g. Net sales/revenue defined - taxes, returns, uncollectable accounts
 - h. Royalty statements—form
 - i. Advance
 - j. Guaranteed minimum royalty
 - i.-- Guaranteed vs. nonguaranteed
 - k. When sale occurs
 - l. Sales to affiliates
 - m. Receipt will not prevent subsequent challenge
 - n. Acceleration
 - o. Survival of termination
- p. Currency
- q. Interest
- I. Records and reports
- J. Audit
 - a. Timing and notice
 - b. Underpayment/accounting fees
 - c. Record retention
- K. Representations and Warranties
 - a. Ownership and noninfringement
 - b. Necessary permissions
 - c. Ability to contract
 - d. No conflicting agreements
 - e. Best efforts to commercialize
 - f. Promote and advertise
 - g. Product introduction and first shipment dates
- L. Disclaimer of Warranties
- M. Quality Control and Samples
 - a. Marking provisions of intellectual property laws
 - b. Quality standards
 - c. Legal notices
 - d. Product approvals/types/frequency
 - e. Right to terminate
- N. Intellectual Property Rights
 - a. Ownership question
 - b. Improvements
 - c. Responsibility for seeking protection
 - d. Foreign protection
 - e. Licensee estoppel (nonpatents)
 - f. Goodwill
- O. Transfer of know-how
- P. Provision of technical support
- Q. Termination of civil action and releases
- R. Termination
 - a. Termination for cause
 - b. Termination for convenience
 - c. Immediate right to terminate
 - d. Right to terminate portion of agreement
 - e. Right to terminate upon notice
 - f. Bankruptcy
 - g. Effect of termination/Rights on termination
 - h. Survival
- S. Post-termination Rights
 - a. Inventory
 - b. Sell-off period
 - c. Cease selling
 - d. Return of material
- T. Infringements
 - a. Responsibility to sue/secondary rights
 - b. Cooperation
 - c. Responsibility for payment
 - d. Lead counsel
 - e. Division of proceeds
- U. Indemnification
 - a. Product liability
 - b. Infringement
 - c. Breach of agreement
 - d. Indemnified party's right to participate in defense at own expense
 - e. Indemnifying party's right to settle
- V. Limitation of liability
- W. Insurance
 - a. Product liability
 - b. Advertiser's
- X. Force Majeure
- Y. Governing law and jurisdiction
- Z. Dispute resolution
- AA. Attorneys' fees for prevailing party
- BB. Notice Provisions
- CC. Confidentiality
- DD. Noncompetition
- EE. Binding on Successors
- FF. NoWaiver Provision
- GG. Independent Contractor
- HH. Severability Provision
- II. Assignability
- JJ. Integration
- KK. Execution and Dating by Parties
- LL. Headings
- MM. Counterparts
- NN. Compliance with law
- OO. Exhibits