

October 22, 2018

Licensing Essentials: Practical Tools and Tips in Intellectual Property Licensing

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What is an IP License?

- Grant of permission by an owner of a right to another entity to do something that, but for the permission of the owner, would be an infringement of the owner's right.
- Licensor retains legal and beneficial title.
- A license is more than a mere covenant not to sue as it generally contains positive obligations by both parties.

Situations Where IP Licenses May Arise

- Licensing-in technology
- Licensing-out technology (sometimes as part of a sales contract)
- Joint development agreements
- Cross-licenses
- Intra-company licenses

Key Aspects of an IP License

- Grant Clause
- Ownership of Foreground IP & Assignment
- Obligations of the Parties
- Representations & Warranties
- Indemnification
- License Enforcement & Dispute Resolution

Grant Clause



Grant Clause

- Sets out what the licensee is permitted to do
- Often sets out important limitations

Grant Clause

- Parties – who is entitled to exercise rights?
- Subject matter – what is being licensed?
- Rights – what is licensee allowed to do?
- Territory – where can rights be exercised?
- Exclusivity – are rights exclusive, sole, non-exclusive?
- Term – how long can rights be exercised?
- Payment – royalty-bearing or royalty-free?
- Restrictions – assignable? Transferable? Sublicensable? Irrevocable? Perpetual?

Foreground IP & Assignment



Foreground IP & Assignment

- Joint ownership of improvement – try to avoid if at all possible.
- Assignment – ensure the language is present tense, not future tense.

Foreground IP & Assignment

- Description of the improvement – Be very clear
 - Ownership of the physical item vs. IP embodied in the physical item.
 - Ownership of test results – what does that mean?
 - Customers typically want that to mean that the developer cannot share the results with competitors.
 - Ownership of drawings – what does that mean?
 - Customer owns the drawings, but who has the IP that went into the drawings?
 - The developer would want to have rights to the IP that went into the drawings so long as it can do so in a way that does not reveal to competitors what the customer is doing.

Obligations of the Parties

- Maintenance and preservation of IP rights.
 - Think through the cost impact - what if the business is sold, is a release needed?
- Enforcement of IP rights.
 - What are the obligations to report infringement?
- Confidentiality
 - What are the obligations?
 - If an exception applies, is there an obligation to inform before relying on one of these exceptions?

Obligations of the Parties



Obligations of the Parties

- Material Breach
 - Consider noting which obligations are material and would be considered a breach.
- Reverse engineering
 - Not allowed to reverse engineer or allow others to reverse engineer.
 - Depending on the nature of the good, may have to dispose in a certain way or keep covered.

Obligations of the Parties

- Quality control for trademarks
- Validity challenges
 - Not allowed to challenge validity – may not be enforceable in certain countries.
- Reporting of new inventions
 - Consider ownership allocation.
 - Joint research – how to control when a research partner files applications around the agreement?
 - Consider including a provision that requires disclosure after the agreement is terminated.

Representations & Warranties



Representations & Warranties

- Options that limit scope of representation and warranties:
 - Knowledge
 - Trying to prove that individuals knew something can be very difficult and strongly undermine make the representation.
 - Territory
 - Time
 - Disclosure
 - Notice

Representations & Warranties

- Validity
 - May want to include a necessary knowledge qualifier.
- Non-infringement
 - Consider that this is closely tied to the indemnification provision.
 - If there is a cap on indemnity, but no cap on breach of warranty, then there may be exposure to the licensor under this provision.
 - Consider that a representation of “conveying all rights to make equipment per the specification” is another way of saying no infringement.

Representations & Warranties

- Ownership
 - Consider the size and age of the company – there could be issues with ownership of legacy materials where the company may forget who owns the materials.
 - Consider saying “own or have the necessary rights to convey”.

Indemnification



Indemnification

- Breach of terms of agreement
- Non-IP liability relating to licensee's products
- Licensee's compliance with applicable law
- IP infringement

Indemnification

- Options that can limit scope of indemnification:
 - Exclude modifications to licensed property.
 - Exclude use for unlicensed applications or purposes.
 - Exclude combination with other IP or products.
 - If the exposure cannot be otherwise limited, include a damages cap.

License Enforcement & Dispute Resolution



License Enforcement & Dispute Resolution

- When a license dispute leads to a lawsuit, try to always end with a court order.
 - Settlement agreement are often not good enough.
 - If the one party violates the order, the other side can move for contempt instead having to file a new lawsuit for breach of the settlement agreement.
 - The order may include a description of the product that is not specifically tied to the patent language, but is easy to enforce.

Special Licensing Situations



Special Licensing Situations

- Patent pool
- Government, universities
- Major customer considerations

Questions?

