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GENERAL STRUCTURE OF TECHNOLOGY TRANSFER LICENSE AGREEMENTS

NOTE FOR THE TRAINER

The objective of this chapter is to explain the structure of technology transfer agreements. Representative paragraphs and clauses used in patent and know-how licenses are shown in detail. Information about trademark and copyright licenses is also presented.

As background and as an aid in understanding license agreements, the chapter first provides information regarding:

- 1. The importance of licensing to a business, both from the licensee's and licensor's viewpoint.
- 2. As intellectual property is the subject matter of technology transfer licenses, each form is defined:
 - a. Patent
 - b. Trade Secret
 - 3. Know-How
 - 4. Trademark
 - 5. Copyright

Attention is then directed to the license agreement itself. The segment emphasizes:

- 1. The purpose and definition of a license agreement.
- 2. The importance of clarity in the drafting of licenses to enhance interpretation over the life of the agreement.
- 3. The sections of the agreement in troad terms.
- 4. The structure of a patent and know-how agreement in a detailed, paragraph-by-paragraph presentation.

Issues of importance to the licensee and the licensor appear within some of the clauses to provide a better understanding of the purpose of those clauses.

5. Additional comments regarding trademark and copyright licensing.

It is believed the detailed presentation of the license agreement structure in this chapter will enable the trainer to discuss the individual elements with the trainees to highlight:

- 1. Why each clause is in the agreement.
- 2. The relative importance of each and why some may not be required in every license agreement.
- 3. Alternatives for some clauses.
- 4. The legal implications of some.

The trainer may be able to present an existing license that can be evaluated and discussed by the trainees in comparison to the theoretical structure in the chapter. If so, it could be a very useful training mechanism.

GENERAL STRUCTURE OF TECHNOLOGY TRANSFER LICENSE AGREEMENTS

INTRODUCTION

The licensing of technology is practiced by companies of all sizes located in nearly every part of the world. Licenses are granted or ccepted from other companies whenever it is deemed to be financially, technically or legally advantageous to do so. The benefits are often substantial for both licensor and licensee.

The purpose of this chapter is to cover the important aspects of technology transfer agreements that involve the licensing of intellectual property (patents, trade secrets, know-how, trademarks and copyrights), technical assistance and related equipment or machinery used to produce a licensed product.

The following is described in this chapter:

- 1. The importance and specific benefits of licensing to serve as a background for the need to formalize the transfer of technology.
- 2. The elements of intellectual property, the subject matter of technology transfer agreements, so that their meaning will be clear.
- 3. The structure of the technology transfer license agreement, itself, will be defined, and the principal sections, paragraphs and clauses will be shown in detail along with the rationale for their use.

IMPORTANCE OF LICENSING

1. Licensee's Standpoint

- A. Licensing of a developed product can be the fastest, least expensive means to enter a market. With the high cost of research and development, the often, lengthy time to take a product concept to the commercial stage and the risk of failure in the marketplace or the high cost of re-design, make licensing an attractive alternative when a new or proven product and/or process is available.
- B. A technology transfer license can provide a licensee with exclusive or nonexclusive patent and/or trade secret protection; technical, manufacturing and marketing assistance; and improvements to the licensed product, if they are factored into the technology transfer agreement.

- C. At times, the licensee may be able to access superior raw materials from the licensor and obtain the production machinery that will allow for optimum manufacture of the licensed product in the shortest time.
- D. The above benefits require evaluation of their cost in royalties, the time period of the license, the degree of exclusivity given as well as other considerations that are reviewed in this chapter in the license structure section.

2. Licensor's Standpoint

A. For many reasons, a company may wish to produce a product or utilize a process in its own country only. They may be too small, have limited financial resources for expansion, need added income to keep their current businesses healthy or lack management depth or expertise for foreign expansion.

In these cases, licensing outside their country or marketing area to earn royalties usually makes good business sense.

- P. There are many other reasons including, but not limited to:
 - 1. the offsetting of R&D and patent expenses.
 - 2. gaining confirmation of and reinforcement of owned patents.
 - 3. obtaining broader market acceptance for one or more of their products.
 - 4. sometimes, granting a license to a desirable company can lead to additional cooperation or to a more involved business relationship, such as cross-licensing (an exchange of technologies between the parties) or a joint venture.
 - 5. in certain instances, granting a license may preclude unwanted, costly litigation.

INTELLECTUAL PROPERTY

A technology transfer agreement gives a licensee the right to use the intellectual property of the licensor. In this context, intellectual property is an intangible or proprietary asset. It can be a patent, trade secret, know-how, trademark and/or copyright. A definition of each follows:

1. Patent

The requirements for obtaining a patent will vary by country, but the invention to be covered by a patent must satisfy certain criteria of newness and originality. Once a patent is issued, it is a legally recognized form of protection for an invention in the country of issuance. The protection applies only in the country or countries where the patent is filed and issued.

A patent allows the owner to exclude others from making, using or selling the patented invention for the life of the patent. The length of time a patent remains in effect varies by the country granting the patent, but for most it has a life of 15 to 20 years.

When the term of a patent has expired, the patent enters the public domain. Then, anyone can make, use or sell the invention covered by the expired patent provided another unexpired patent covering aspects of the invention is not infringed.

The subject matter of a patent can be:

- A. Composition of matter.
- B. A product or an article.
- C. Apparatus or machinery.
- D. Process, procedure or method.

The above categories apply to what is usually termed a "utility" patent. In the U.S., for instance, an individual may also obtain a design or plant patent. A design patent protects a new, original and ornamental design for an article of manufacture. A plant patent protects a new and distinct, asexually reproduced variety of plant. Other countries may have additional or different categories.

2. Trade Secret

In its simplest form, a trade secret is confidential information which is protected by law. In some countries trade secrets have little or no protection, but they can be of great value in countries where protection is provided by law. This is the case for highly developed countries.

An expanded definition of a trade secret is confidential information or technology which is used in one's business, and which gives that business an advantage over competitors who do not know or use it. Maintaining the confidentiality and secrecy of a trade secret is the only way to keep it

protected, but it also cannot be generally known by competitors involved in the same business. Examples are a formula for a chemical compound (one of the most valued, and perhaps the most known trade secret, is the formula for Coca Cola syrup), a process of manufacturing, or an industrial technique.

When a trade secret is included in a license agreement, the secrecy is maintained by including a nondisclosure provision in the agreement. If a trade secret is released without a nondisclosure agreement, it loses its value. Therefore, a trade secret can have a very short life or an indefinite one if proper precautions are taken by the owner.

Trade secrets alone can be the basis for a license agreement. However, when they exist along with patents, both are generally included in one license agreement. Since a trade secret can have no limitation on its life, it often enables a licensor to extend the term of such a license. Additional information on this point appears later.

3. Know-how

It is becoming customary for the terms, trade secrets and know-how, to be used synonymously. However, there is an important distinction between the two. Know-how may be confidential or nonconfidential and technical or nontechnical, so it is best to equate trade secrets with confidential know-how. This will avoid possible complications.

Know-how is technical or specialized knowledge which has particular value in using a process or in making or selling a product. It can be many kinds of knowledge that ranges from the highly specific to the very general. It may be product or engineering specifications, compounds, chemical formulas or the like. It also is commonly information known by technical, engineering and operating personnel that enable a company to produce products more efficiently and economically. This latter type of know-how is generally very valuable and constitutes a large part of know-how traded today in technology transfer dealings.

4. Trademark

A trademark is a word, name, symbol, design shape or device, or any combination of the foregoing, adopted and used by a manufacturer or a vendor to identify a product or services as his own and to distinguish such product or services from those of others. It remains in force for an indefinite time period as long as it is renewed in time, and the marked item remains in commerce. Therefore, contrary to patents, its

term can be unlimited. However, the holder of a trademark is cautioned that non-use of the mark for a two-year period may be construed as abandonment.

The exclusive right to use a trademark belongs to the first person to actually use it in association with providing goods or services. "Use" means applying the mark to the goods or their packaging, as sold, or if a service is involved, displaying or using the mark in connection with offering the service.

5. Copyright

A copyright protects the incorporation of an original idea of an author into a tangible medium of expression from which it may be perceived, reproduced or otherwise communicated either directly or with the aid of a machine or a device. The essential elements are originality, authorship and fixation. It does not protect the idea itself, nor does a copyright protect a procedure, process, system, method of operation, concept, principle or discovery. In the U.S., it remains in force for the life of the author plus 50 years from the date of creation, or for 75 years from the date of first publication if it is a work made for hire.

Copyright protection is usually associated with written material, movies, audio works and the like. Relatively recently though, copyrights have become very important in the field of computer programming, commonly called software. The human readable source code, machine readable object code, related program documentation, user instructions and operating manuals may be protected by copyright.

There are complicated legal questions in the field of software licensing. Experienced counsel in that field should be retained to assist in obtaining the best protection and advice before licensing activity is started.

TECHNOLOGY TRANSFER LICENSES - PURPOSE/DEFINITION/STRUCTURE

Before going into the details of the significant paragraphs and clauses in technology transfer license agreements, it may be well to consider the following introductory comments. They are intended to give the reader a better framework for a fuller understanding of the licensing process.

The purpose of a license agreement is to allow the legal transfer of intellectual property (the technology) from one party to another. In other words, the owner of the technology, the licensor, permits the other party, the licensee, to share the rights to the use of its technical property under mutually agreed-upon terms and conditions. If ar individual or a company used or uses protected technology without the consent of the

owner, which is given in a license agreement, that party would be risking a suit against them for infringement.

The license agreement, itself, is a contract with binding commitments between the parties to the agreement that are enforceable by law. The rules that govern its interpretation are the same as those that govern other contractual relationships. For this reason they are almost always prepared by a lawyer who is familiar with intellectual property licenses.

As license agreements usually remain in effect for many years, it is important that the terms of the agreement fully reflect the understanding of the parties as to their rights and obligations under the agreement. A major goal should be to state the terms in a clear, precise manner to avoid future misunderstandings. If the language is cumbersome or ambiguous, it can lead to problems between the parties later on.

It is most important that the writing style be easily understood by non-lawyers as most license agreements are between companies, and the administration and implementation of the license is commonly handled by business and technical people who are not lawyers. This is especially important for several key reasons:

- 1. Usually several individuals from different departments on each side are involved in the negotiations that lead to the final contract. All need to be able to interpret the agreement for their areas of responsibility. Unless the language of the agreement is unmistakable, interpretation can be troublesome.
- 2. Because most license agreements remain in effect for many years, there is a high probability of considerable turnover among the individuals on the licensor/licensee sides involved with the specific transfer of technology and the administration of the agreement. A well-written agreement in easily understood language can be interpreted without difficulty, later on, by individuals who were not a part of the negotiations leading to the license.
- 3. The agreement is a record of the transaction. It spells out:
 - A. The exact identity of the parties.
 - B. The subject matter of the license.
 - C. The licensor's obligations.
 - D. The licensee's obligations.
 - F. The obligations common to both parties.

When well prepared, it will also serve as a guide to direct each party toward the successful implementation of the agreement.

4. On the other hand, should something go wrong with the relationship between the parties that leads to litigation in court or to arbitration proceedings, the judge or arbitrators will surely examine the text of the agreement to determine the will and intent of the parties at the time of the agreement. These proceedings will go more smoothly when the agreement is not subject to misinterpretation. Also, it follows that such misunderstandings or conflicts are best avoided in the first place when the agreement language is not ambiguous.

As a last introductory comment, it is important that the agreement be equitable for both licensor and licensee. This keeps both parties interested in optimizing the returns from the technology transfer.

Sometimes the licensor has an obvious advantage over the licensee in setting the terms and conditions of the agreement which can tempt the licensor to put excessive demands, restrictions, provisions and royalties into the contract. Even though they may be accepted by the licensee because of a current urgent need for the particular technology, experience has shown that it can also lead to discouragement and underperformance on the part of the licensee. In the long run fairness will result in the best monetary returns for both the licensor and licensee.

STRUCTURE OF THE TECHNOLOGY TRANSFER LICENSE AGREEMENT

Almost every license requires an agreement that meets the needs and the situation of the particular technology transfer project being finalized. Although it is probably every licensor's and licensee's desire to have a standard, uniform contract for all of its license agreements, this is really not possible. Each party to a license will generally have certain terms and conditions they wish to incorporate in all or most of their licenses.

It is best for any individual or company dealing in technology transfer to assemble a checklist containing the terms and conditions they desire for their agreements. Then the current situation can be reviewed, and the checklist revised to fit the current circumstances. These should be kept in mind during negotiations as this will give the best chance for getting preferences into the new license. To assist in the development of a license checklist, the following describes the terms and conditions that are common to many license agreements.

A license agreement should be structured to contain the following sections:

1. Preliminary Statements

These contain the identity of the parties, the purpose of the agreement, pertinent background leading to the license, the effective date, and the definitions of the key terms of the agreement.

2. Subject Matter

This is the heart of the license agreement. It contains the grants of the patents. When the following are to be a part of the license, it also contains the know-how right: including trade secrets, technical assistance, improvements on the technology, payments and the term of the license..

3. "Boiler Plate"

This is the common term that describes the detailed operational obligations of the licensor, the licensee and those that are common to both. They include the provisions for the governing law, reporting responsibilities, notices, assignment, etc., that are found in almost all license agreements. Those that apply directly to the subject matter items are included in that section. The other more general ones stand as separate paragraphs.

The incorporation of the above sections in a clear, legally binding manner requires the careful drafting of the license. Not all agreements require all the paragraphs and clauses shown below, while other may require special clauses not covered. There is no precise international format for the drafting of license agreements. Procedures and content will vary from one country to another.

As the following paragraphs are reviewed by the reader, you should be able to decide which best fit the objectives of your own licensing program. To assist you in doing so, explanatory and cautionary comments are shown as deemed necessary for better interpretation.

1. Preliminary Statements

The opening paragraphs are obvious as to why they are included in the agreement as follows:

A. Identification of the Parties

The opening paragraph should identify the parties to the agreement with their official names, addresses and, when applicable, the location of their governing law of incorporation. The identity of corporations should be stated exactly as to whether they are the parent and

subsidiary, parent or subsidiary alone and their legal capacity or authority should be given.

This insures the precise identification of the licensing and licensed parties. For the licensor it precludes the possibility of extending the license beyond the intended entity or not including all of the intended entity. In the case of the licensee, it insures that the identity and commitments of the licensing party extend to the entire intended entity.

B. Purpose

This should be a brief paragraph that captures the essence of why the license agreement is being executed. It can be as simple as "This agreement is to permit Company A to make, use and sell product X in the Torritory, as defined in the Agreement, with the help of the technical assistance provided by and the know-how licensed under this Agreement by Company B and under the Licensed Patents as defined in this Agreement".

C . Effective Date Of The Agreement

This important date is when the agreement comes into full force and effect. The date itself, can be before or after the date when the agreement is signed. Sometimes the effective date is defined in the Definitions section when modifying conditions prevent showing just the date itself.

D. Place Where Agreement Is Made

The place where the agreement is made, is often stated in the same paragraph with the effective date.

E. Whereas Clauses (Recitals)

The following statements are in the agreement to give the background and rationale for the agreement. They should be worded carefully for they could be important, for better understanding of the terms and conditions, to people from either party who were not involved when the agreement was made, but who are asked at a much later date to make decisions concerning a controversy between the parties. The same can be said in the event of legal action taken by one party against the other. In a court of law the judge may look to the whereas clauses to give him a better perspective on clauses that may be difficult to interpret.

Examples of what whereas clauses describe are:

1. Licensor Representations

A clause is provided to show the licensor owns the technology that is the subject of the license (patents, patent applications, know-how, trade secrets, trademarks, and/or copyrights), that it has the right to grant the license, and that it has not granted a previous conflicting license.

2. Licensee Representations

Another clause should indicate why the licensee wishes to obtain rights to the subject technology, and, if it is the case, that it is already the owner of patents, patent applications, know-how, trade secrets and/or trademarks relating to the field of the licensed technology. It is also appropriate to include in this section any other pertinent information that relates to or could affect the license. At times the license is being taken to resolve an infringement or some other dispute. Mention of such situations help to preclude future misunderstandings.

3. Background Of The Agreement

When it is warranted, other clauses should include statements about any prior relationship between the parties, and any prior agreements that may relate, dominate or affect in any way the present agreement. Cancelled or suspended agreements should be mentioned as well.

F. Definition of Terms

The subject matter and the key words that will have broad impact in the agreement require definition to preclude misunderstandings between the parties. The most important are:

"Licensed Patents" - generally includes the patents, patent applications, continuations, continuations-in-part and divisions that relate to the licensed technology. If the license includes foreign countries, the definition would then include the foreign counterparts of the patents and applications in each of the countries.

If there are several patents, patent applications, etc., they are usually listed in an attached schedule which shows the necessary specific details of each. The typical schedule headings are: licensor identification or docket number, patent title, country(s) where patent is issued or filed, serial number, filing date, patent number for those that have issued and the issue date.

"Licensed Know-How/Trade Secrets" - This is the licensor's information that is to be transferred to the licensee. The technology to be included in the know-how should be described in broad terms, but with enough specificity to avoid misunderstandings. Usually, the licensor agrees to communicate to the licensee information in its possession, which it has a right to divulge, as of the effective date of the agreement. that will enable the licensee to produce the licensed product or use the licensed process, such as the pertinent drawings, manuals, specifications, formulas, etc. Sometimes, know-how will include the sale and supply of the manufacturing equipment or apparatus that can be used to manufacture the licensed products, assuming the licensor has such equipment.

In some patent and know-how agreements, the definition is put into the license grant section. If it encompasses a great deal of material, a listing and description of it is made an attachment to the agreement.

"Licensed Improvements" - If the licensor's improvements are to be a part of the license, it is best to clearly define them in this section. Improvements usually include inventions, technical developments, know-how (including trade secrets) as defined in the agreement that: licensor has or obtains the rights to license; are patentable or not; developed or acquired during the term of the agreement; pertain to the Licensed Products, Licensed Process and Licensed Apparatus; and have been put into commercial use by the licensor. Their inclusion is a major consideration that should be thought out carefully.

"Grantback" - This is the term used to denote giving the licensor rights to the improvements made by the licensee on the licensed technology. If the licensee is to grant their improvements back to the licensor, the scope of such improvements require clear definition in this section. It usually parallels the Licensed Improvements definition.

"Licensed Product", "Licensed Process", "Licensed Apparatus" - In defining these terms, it is best to tie them into the patent rights and into the know-how to be exchanged under the license. It is most likely that these definitions represent the basis for collection of royalty payments. The licensed product may be covered by the patents only, while the licensed process by which the product is made may be covered by the patents and/or the know-how. The equipment in the licensed apparatus can also be covered by either the patents, the know-how or both.

"Net Sales" - When royalties are based on a percent to net sales, it is necessary to decide and stipulate what the term means. Often it is gross sales less discounts, commissions, returns, taxes or other credits as intended by the parties to the agreement. This definition is obviously very important as it is used in the calculation of royalties to be paid.

"Territory" - It is necessary to be specific as to the geographical area where the license will be in effect. Each country must be named. If the rights vary by country as to exclusivity or in any other manner such as sales rights vs. manufacturing rights, it may be best to show this in tabular form for clarity. The patent rights can only be granted in countries where the licensed patents are filed or issued, but know-how does not have a territorial barrier.

"Subsidiary" - A subsidiary is a company either wholly or partially owned by another company. The owning company is called the parent company. If the rights granted in the license apply to a parent company, as licensee, and includes its subsidiary or subsidiaries, the ownership (wholly, partially, voting rights) must be defined. It is good practice to require that the subsidiary be controlled by the licensed party. For the purposes of the agreement the control" means the power to direct the management and policies of a subsidiary through the ownership of voting securities, by contract or otherwise.

The above definition applies to the licensor as well with respect to its obligations under the agreement. It should be clear whether the rights granted are from a parent, subsidiary or both.

Other Definitions - As a license is negotiated and drafted, additional terms requiring definition will become apparent. They can be added to the Definitions Section if they are key and apply broadly to the agreement. Otherwise, they can be defined in the paragraph or clause in which they first come up as the agreement is being finalized.

2. Subject Matter of the License - The License Grant

The grant is probably the most important part of the license. Its provisions, outlined below, require careful thought as to their content. They should be drafted unambiguously so there is no doubt or open questions regarding the rights being granted.

A. Patent Rights

For the purposes here, it is assumed that "Licensed Patents" is a defined term with the identity of the patents, applications, etc. that are included in the license clearly shown in a Schedule attached to the license agreement. This would apply for each country in the licensed territory.

The grant specifies the following:

1. Exclusivity

The grant can be exclusive, sole (exclusive except for the licensor) or non-exclusive. Sometimes exclusive or sole licenses have a limited time period of, perhaps, three or five years, and then revert to being nonexclusive. The governing factor for the licensor is to determine his goals for optimizing the returns from his own use and/or the sale of the technology rights, and then determining if they can be meshed with the licensee's aims.

On the other hand, should the licensee be after an exclusive license, he must be prepared to make a strong case on his ability to aggressively market the technology in the licensed territory.

The exclusivity decision for a licensor can be very complicated, especially if the patents extend to foreign countries as well. It requires a careful study of which approach will yield the greatest return after considering the following questions:

- a. Will he practice the technology himself?
- b. If so, will it be only in his own or in several countries?
- c. Is the technology broad or narrow?
- d. Will the patent protection have a long life?
- e. Will the licensed product have a broad or narrow market?
- f. Are their many or few prospects for a license?

Whatever the licensing policy, be it exclusive, sole or nonexclusive, it does not have to be the same for all areas of the world. The licens r can adjust his strategy to fit his own plans for practicing the

technology at home or abroad, and the type of exclusivity offered can be different for each geographical area where patent coverage has been obtained.

2. Territory

As this is normally a defined term, it only has to be shown as the Territory, with a capital T, in the grant. This is the much preferred technique as otherwise the license grant paragraph will be needlessly encumbered.

3. Rights Conferred

The grant should set forth exactly what a licensee is free to do under the Patent Rights. Depending upon the claims in the patents, the licensee can be given the right to manufacture, have manufactured, use and/or sell the subject matter of the license.

4. Limitations

Depending on the coverage within the claims of the patents, the licensor may impose limitations beyond the geographical territory, such as quantities (maximum, minimum) and field-of-use. Field-of-use restrictions are sometimes applied to licenses of technologies that have many or several uses. In that event the licensee may be given the right to practice the technology for only one or more of the applications but not all of them. The restrictions have to be balanced between the aims of both the licensor and the licensee and the payments.

5. Maintenance And Prosecution Of The Patents

The licensor, except as noted below, is usually responsible for the cost of filing, prosecution and maintenance of the licensed patents. This includes future patent applications if improvements are included in the agreement.

The future patents, when offered and accepted by the licensee, become part of the licensed patents and are subject to royalty payments. Therefore, they can add to the term of agreements written for the life of the patents. The licensee should understand this consequence before requesting or accepting such responsibility. On the other hand, often the licensee is not given the right to apply for any patent, anywhere in the world, covering any invention disclosed to it under the agreement, without the licensor's permission.

In some agreements, mainly exclusive licenses or when the licensed territory consists in part, or totally, of foreign countries, costs associated with the prosecution and maintenance of the licensed patents, are made the responsibility of the licensee. This is highly desirable for the licensor as foreign filing and prosecution of patents is very costly. The licensee is advised to avoid this responsibility if at all possible.

6. Infringement

a. Licensed Patents

The licensor will want the licensee to advise promptly, in writing, any infringement the licensee discovers. Then, the licensor will also want the right to sue the infringing party to recover damages after he has a reasonable time period in which to assess the facts of the alleged infringement. The licensor usually has the right to choose and control the counsel selected for prosecution of the suit, and will insist on full cooperation by the licensee.

Damages collected in such a suit are commonly used to pay the litigation expenses of the licensor and the licensee on a prorated basis. The remainder is then divided evenly between the parties.

The licensor will also want to control legal action against an alleged infringer by the licensee. After carefully looking into the facts, the licensor may decide against filing a suit. Then the licensee is often given the right to pursue a suit on its own. This right should not be given lightly, because the loss of such a suit might jeopardize the validity of the licensed patents and other licenses of the licensor.

The licensee should make an effort to have royalty payment relief written into the agreement for a situation where the licensor will not allow the licensee to take legal action against an alleged infringer.

b. Suits Against Licensee

The agreement should stipulate the handling of patent suits against the licensee by third parties.

In many agreements the licensor will not warrant the validity of the licensed patents, nor will it assume an obligation to defend or indemnify the licensee against a third party suing the licensee for infringement of the third party's patents. See the Warranty and Indemnification section for additional comments.

In some cases the licensor does assume a degree of responsibility and obligation in the defense of a licensee. Generally, the parties split the actual litigation expenses evenly, or the licensor agrees to pay up to a certain percent of royalties paid by the licensee as of the time of the suit. If the licensor is participating in the suit, he, almost always, retains the right to choose and control counsel for the defense.

Should there be an award in favor of the licensee, it is first used to pay the actual litigation expenses of the parties on a prorated basis. Then the surplus, if there is one, is split evenly between the parties. If the licensor does not participate in the litigation, the licensee should insist that no portion of the award be shared.

7. Patent Marking

For licensed products that are patented the licensor should insist upon a provision that requires the licensee to mark the product with the patent number, and the licensee should agree to do so. Otherwise, in the event of an infringement, the licensor (unless he is selling the licensed product as well) and/or the licensee, will be unable to collect damages for the period prior to giving notice of the infringement to the infringer.

B. Know-how / Trade Secrets / Confidential Information

1. General

Know-how alone can be the basis for a license agreement. In that event the technology transfer license will have no references to patents. However, when know-how exists along with patents, both are generally included in one license agreement. The inclusion of the know-how can be especially important to a licensee who is licensing a new product or process.

If for some reason, one or both of the parties wishes to have the know-how license separate from the pater,t license, the know-how paragraphs that follow can be pulled out and put into a separate agreement. In that case the know-how agreement would stipulate the pertinent terms and conditions from the patent license that will also apply for the know-how.

For this point on, the term, know-how, will include both confidential information (trade secrets) and nonconfidential information. It is the technical and specialized knowledge which has particular value in making, using and selling the licensed process or product.

2. Know-How Grant

If know-how is a defined term, then the grant can be a statement, such as: "Licensee is granted the right to use the Licensed Know-How to make, use and/or sell the Licensed Products, Licensed Process and Licensed Apparatus in the Territory.".

Often, improvements that occur subsequent to the effective date are included in the license, but they are usually the subject of a separate section of the agreement which is discussed later in Section D.

To the extent possible, and for accurate documentation, know-how disclosures should be in writing. Very often the agreement will allow conferences, plant visits and the like. In that event, the substance of such oral disclosures should be confirmed in writing within a stipulated time period and made a part of the record of transferred know-how.

In the drafting of the know-how section, the licensee must assure that he is not just being transferred the information per se, but will be shown how to use the technology correctly. This entails receiving training and technical assistance which is covered below in Section C.

3. Secrecy

In all instances the licensor should insist that all know-how, without limitation, be held in confidence. The drafting of suitable wording for the agreement is common and readily available, but attention is needed for exceptions to the confidentiality provisions. Those most often included in the agreement are confidential information which:

a. Licensee can prove with written records, is

already known to or already in the possession of the licensee,

- b. Is in the public domain prior to disclosure by the licensor,
- c. Becomes a part of the public domain by publication or by any other means except an unauthorized act or omission by the licensee,
- d. Is received from third parties that are under no obligation to maintain such information in confidence or
- e. Licensee can prove with written records, was developed by licensee independent of disclosures from licensor.

A secrecy obligation with the above exceptions should be acceptable to the licensee.

4. Licensee's Use Of The Know-how

The agreement should provide for the conditions that give the licensee the right to disclose any portion of the know-how. Included would be any restrictions the licensor requires on disclosures within the licensee's organization and where necessary outside of the organization to suppliers or customers.

The basis on which disclosures can be made should be spelled out to include a requirement that the licensee execute confidentiality agreements with the pertinent employees and third parties. For this purpose the licensor may wish to include an attachment to the agreement that shows the wording and content it requires.

C. Technical Assistance

Technical assistance can greatly reduce the time required by the licensee to get into production with the licensed technology. The obvious benefits are that the licensee generates income more quickly, and the licensor earns royalties much sooner. Both parties should strongly favor it, but to fulfill the responsibility, the licensor will need to have the available resources.

The common elements of technical assistance are:

1. Piant Visits

The licensee obtains rights to on-the-spot training

of its technical engineers in the licensor's facilities that are developing or using the licensed process and/or making and selling the licensed product.

2. Direct Assistance

The licensee also obtains the right to have on-the-spot assistance in their plants within the licensed territory from licensor's technical personnel with respect to problems relating to the commercial use of the licensed process and/or the making and selling of the licensed product.

3. Consultation

This is the right for the licensee to contact the licensor through correspondence or by telefax, telex or telephone through representatives appointed by each party.

The licensor will require controls on the access to technical assistance and the licensee should expect reasonable restraints. A fair way to handle it in the agreement is to state that the technical assistance will be provided at mutually agreed upon times and be subject to the availability of licensor's personnel and facilities. A further provision should specify that the licensee will not make unreasonable requests for technical assistance, nor will it request technical assistance that cannot be used at that time in licensee's commercial operations.

D. <u>Improvements</u>

If the parties decide to include improvements made after the effective date of the agreement, the drafting of this section must be handled carefully with respect to the following:

1. General

It is necessary to stipulate the rights to licensor improvements in the grant, and to allow for their use as well. Improvements should be subject to the same secrecy obligations as imposed for the know-how and confidential information disclosed during the agreement. (Improvements made by the licensee that are to be granted back to the licensor require a separate clause to specify how they are to be handled. See 4. below.).

2. Improvements Grant

Just as described for know-how, if the improvements are a defined term, the grant would have the same wording using Licensed Improvements in place of Licensed Know-How: "Licensee is granted the right to use the Licensed Improvements to make, use and/or sell the Licensed Products, Licensed Process and Licensed Apparatus in the Territory.". The rights to improvements can be for the term of the main agreement, but sometimes a limit of five or ten years is used instead. This is up to the desires of the parties to the agreement.

3. Timing Of The Disclosure

To avoid premature disclosure, it may be advisable to provide that disclosure be made after filing of a patent application or after first commercial use in the case of unpatented improvements. A delay in disclosure serves at least two purposes. One, is to avoid loss of patent protection, another is to allow time to determine that an improvement will be truly useful, and not one that will be abandoned after closer study of its value.

4. Grantback Of Improvements Made By Licensee

The licensor generally insists on including this provision whereby the licensee is obligated to give the licensor rights to improvements, patentable or otherwise, made by the licensee during the term of the agreement. The licensor will also insist that the rights be exclusive and be without time limit. Some licensors will insist on a grantback provision without offering their own improvements. The licensee should insist, to the extent possible, on improvements being reciprocal.

The licensor may also insist on sublicensing rights for the improvements if it has licensed the subject technology to others in addition to the licensee. However, the requested sublicensing rights usually do not provide for the use of the improvements by other parties (except perhaps, the licensor) in the licensee's territory. In a situation where there are several licensees of the same technology in different countries around the world, it can benefit a licensee to give such sublicensing rights, provided the licensee also receives the improvements from the other licensees.

The provisions with respect to definition and timing of disclosure for improvements are commonly reciprocal between the licensor and licensee.

For grantback purposes the licensor must provide in the agreement for access to those areas of the licensee's laboratory or plant where the improvement is practiced. He should also have access to all information concerning the improvement such as drawings, manuals and specifications that will enable him to utilize to the fullest extent the disclosed improvement.

E. Sublicense Rights

A licensee may not grant sublicenses unless the agreement authorizes that right. Should it be agreed between the parties to allow sublicensing, the main agreement should specify the rights and obligations of the licensor and licensee with respect to the sublicensee. It usually is obvious when granting sublicensing rights is good business for the licensor and licensee. When it is unclear for the licensor, and when the licensee wants sublicensing rights, the licensee should prepare and present a market plan that will hopefully convince the licensor.

It is advisable that the licensor make the licensee responsible for assuring that the sublicensee fulfills all the requirements of the principal license and for the collection of royalties. Another major decision for sublicenses is deciding which party provides the technical assistance to the sublicensee. It is most common that the primary licensee be responsible.

The best way to insure that the sublicensee has the comparable obligations as the licensee is for the licensor to draft the sublicense. In so doing the licensor can be certain to include all the pertinent requirements from the primary agreement. This procedure should be acceptable to the primary licensee.

F. Payments

1. Initial Payment

Frequently, technology agreements involve the transfer of valuable know-how. In these cases it is imperative to require a lump sum payment when the license is executed. The payment should reflect the value of the information that will be transferred early in the life of the agreement. Beside being

justified for the transfer of important knowledge, it also precludes not receiving any payment should problems develop with the license preventing its implementation.

Although imperative in agreements that include know-how, it is not at all unusual to obtain up-front payments for patent licenses that do not have know-how included. This is a good practice for the licensor as it encourages the licensee to pursue the technology diligently. It is most common when the licensor has a strong position, and then he will probably also require minimum payments as well. If the licensee has a good negotiating position, reduction of up-front and minimum payments should be pursued vigorously.

The amount of up-front payments depend upon:

- a. An assessment of the value of the technology.
- b. Whether the license is exclusive, non-exclusive, allows sublicensing or not.
- c. Whether advance payment of royalties is included.
- d. The rate of running royalties to be paid.
- e The amount of the ongoing minimum royalties.

2. Royalties

Most licenses require payment of royalties based on a percentage of the "Net Sales" (as carefully defined in the Definitions section) of the licensed product. Advance payments are sometimes made initially or over a period of time and applied against running royalties. The more common practice is that royalties are collected at set periods (3 months, 6 months or yearly) based on the net sales for the immediately preceding period.

Exclusive licenses almost always have a yearly minimum royalty provision in the agreement, but minimums are not uncommon for nonexclusive agreements. The minimums are generally set between the parties based on a conservative estimate of projected net sales over the life of the agreement. They may not start for an initial period while the technology is being commercialized. Then be an increasing amount (for 5 or so years) up to an agreed-upon maximum. The maximum then generally remains in effect for the life of the agreement.

As minimums in a license agreement are intended to insure vigorous effort on the part of the licensee to commercialize the technology, it is possible to provide for termination of the license if the minimums are not being met, or, less stringently, to convert the license from exclusive to nonexclusive status. For this reason, if minimums cannot be avoided in the license, the licensee must do its utmost to have fair, realistic minimums set.

It is very difficult to have absolute rules on setting minimum royalties as so many factors are involved. A reasonable procedure is for the licensor to try to develop theoretical sales projections together with the licensee which can then be reduced by 20% to 40% to arrive at a fair conservative amount to be used in the agreement.

3. Separate Payments For Patents and Know-How

There is a trend toward separation of the patent and know-how royalty payments in license agreements. Several reasons account for this as outlined below:

- a. Patent royalties are subject to risk for there is always a chance they can be declared invalid.
- b. Patent regalties can remain in effect only for their life, but know-how royalties may continue after the licensed patents expire.
- c. The subject matter of the license with respect to patents is limited to the scope of the claims, whereas it can be defined more broadly under the scope of the know-how.

From the above, it follows that it will be best for the licensor to try to obtain higher royalties for the transfer of know-how than can be obtained from the patent rights. Naturally, the licensee should guard against this as best he can during the negotiations.

4. Tangible Items

The agreement should specify how the licensor will bill and collect for any machinery sold to the licensee, if any, and for such items as operating manuals, blueprints, drawings, manufacturing specifications, test equipment or devices and the like that are supplied by licensor to licensee. Such charges may apply for amounts above an agreed-upon level that may be exchanged initially at no added payment.

5. Acquisition Of Machinery

When proprietary machinery is sold by licensor to licensee, the terms for such a transaction can be shown in the above paragraph, in a schedule attached to the agreement, or it can be handled in a separate sales agreement. On occasion, the licensee may be permitted to buy machinery from a third party based on the licensed patents and/or know-how. Then the licenser may provide in the agreement that the licensee pay licensor a royalty which, for instance, can be based on 10% to 20% of the cost or selling price of such machinery.

6. Technical Assistance

Fees should be shown for the licensor's costs for licensee visit's to its plants, training, direct assistance at the licensee's plant(s) and for consultation. These will normally show the hourly and daily rate for personnel plus all travel and living expenses incurred by its personnel.

7. Payment Method

This is not a concern for licenses in the licensor's country as there should not be any unusual circumstances. Checks or bank transfers are easily arranged. However, it is very important for foreign licenses as provision for type of currency, exchange control, governmental taxes and other factors have to be considered, and the agreement must provide for how they are to be handled.

8. Interest On Overdue Payments

The license should provide for interest payments, at a rate shown in the agreement, whenever the licensee fails to make a payment when due. A rate of 3% to 5% above a recognized banking rate is customary. In international agreements that rate can be one from London, Zurich or New York for example.

9. Licensee Records

The licensee will be required to furnish licensor with a statement, certified by the licensee's Chief Financial Officer or an independent certified public accountant acceptable to licensor (preferred when the licensor has not had previous experience with the licensee), showing the royalty calculations in sufficient detail for licensor to ascertain their correctness.

A further provision should obligate the licensee to maintain records, open to inspection by the licensor or to a third party accounting firm on reasonable notice, that will permit licensor or its representatives to determine that all payments made and due are accurate. If an audit becomes necessary, the agreement should provide for the handling of the cost.

Whenever possible, the licensor will want to avoid the use of an accounting firm for conducting audits as their fees can be high. Depending upon the relationship between the licensor and licensee, the licensee may want to insist that any inspection of his records be done by a third party.

G. Term of the License Agreement

1. Patent License

In a patent license the term is usually from the effective date of the license until the expiration of the last of the licensed patents, or until none of the licensed patents remain in effect for any other reason (lapsed or declared invalid).

There are times a license is made when there are no existing patents, but only patent applications. In these cases it is common to provide that termination of the license can occur after an agreed upon time period, such as three to five years, unless during the set period, a patent or patents issue. The licensee should negotiate for this provision in such a case.

2. Know-how License

In a know-how (or patent and know-how) license the term for the know-how royalty period is set by negotiation. It does not have to be limited as for a patent license. At the end of the term the licensee may be given the right to continue to use the know-how on a royalty free basis or not be given the right to continued use unless the know-how license is renewed. Renewal is then open to negotiation as to royalty rate, but most often the renewal rate is lower.

In view of the above the licensee should carefully consider his plans for the licensed technology and his bargaining options and negotiate accordingly to obtain the best position possible.

3. "Boiler Plate" Provisions

A. Termination of the Agreement

Termination provisions can vary widely. They can be limited to expiration or invalidity of the patents, to a definite time period for know-how, and/or to breach of the agreement by either party. With respect to breach or default, it is common to provide that the license can be terminated if the breach or default is not cured within a 60 day period following notice of the offense. Breach or default is usually determined in arbitration.

Often, the following conditions are specifically included in the agreement as cause for termination:

1. Overdue Payments

If a payment remains overdue for a set period, such as 60 or 90 days, the licensor will usually have the right to terminate the agreement without resort to arbitration.

2. Bankruptcy, Receivership Or Insolvency

Should any type of bankruptcy or receivership proceedings take place, by or with the consent of the licensee, and remain in effect for a specified length of time, such as 60 days or more, that prevents the licensee from paying royalties or implementing the licensed technology, the licensor may wish to have the right to terminate the license at the end of the specified time period. The licensee should push for at least 6 months.

3. Expropriation

It can be advisable for the licensor to have a provision for automatic termination of the agreement should a government take control of the licensee or prevent the licensee from operating that part of his business dealing with the licensed technology.

4. Change Of Control

With the great rise in the number of acquisitions occurring around the world this provision has become very important to licensors. They are wary that their technology could fall into competitor's hands inadvertently by that route. Although this is certainly a valid concern, the licensee must be careful to avoid losing the technology too easily should they be acquired. Therefore, the following

provisions will demand skillful negotiation and review by the licensee's legal advisor.

A licensor in a strong position may want to have a change of control provision such as the following:

"If during the term of the agreement the licensee sells that part of his operations that are significant to the licensed technology; a third party acquires that part of the licensee's operations; or if a competitor of the licensor takes an equity position, of sufficient percentage, in the licensee or in any other way is able to obtain access to the licensed technology; the licensor will have the right to terminate the license within a period of 90 to 120 days.".

However, the licensee should negotiate to have the provision apply only if the acquiring firm is a "competitor" of the licensor. Then, what constitutes a "competitor" has to be a defined term in the license agreement.

B. Effect of Termination

Following a termination, the licensor will want to provide for the remedies listed below:

1. Payments Due

Immediate payment for all money due or accrued.

2. Technical Information

Immediate return of all technical manuals, etc.

3. Non-Use Of The Licensed Technology

The licensee is no longer permitted to use any of the licensed patents, know-how or improvements.

4. Machinery

The return of purchased machinery that embodies any of the licensed technology. In this event the licensee may be given compensation. An amount should be stipulated in the agreement, i.e. depreciated value less 20% or more.

5. Liquidated Damages

Because of the termination the licensor may have to forego income that cannot subsequently be easily

regained through the licensing of another party or parties following such termination. Perhaps, the opportune licensing moment has passed, or there can be other reasons. This provision allows the licensor to recover the income that would be lost.

In a liquidated damages provision the future royalty income of the license, had it not been terminated, is estimated and discounted for payment in a lump sum to the licensor within 30 or 90 days after the termination date. The procedure is shown in the agreement, and it usually provides for discounting at an agreed-upon rate, such as 10% simple interest per year. In actual practice the amount is usually negotiated for a lower settlement.

C. Best Efforts

A paragraph stating that the licensee will use his best efforts to exploit the licensed technology is common in both exclusive and nonexclusive licenses. Interpretation of "best efforts" has gradually come to mean "reasonable efforts". So, if the intent for the use of best efforts by the licensee in pursuing the licensed technology is a serious concern, the licensor should have specific steps to be taken toward that end, by the licensee, put into the agreement.

Even though the use of best efforts could be assumed for exclusive licenses having minimum royalties, it is good practice to be safe and include the obligation in the agreement. There are cases where exclusive licensees have intentionally not pursued a licensed subject matter that would obsolete a non-licensed product they were currently making. In such instances they had determined it would be more profitable to "sit on" the license and make the minimum payments rather than equip for the new licensed product.

D. Most Favored Nations

Nonexclusive licensees should insist on this clause. It provides that should licensor grant another license to a third party at more favorable terms, the more favorable terms will then apply to the first licensee. In granting such a provision the licensor will most likely be careful with respect to the following:

1. <u>Definition Of More Favorable Terms</u>

Frequently the licensee expects to have this right apply to a reduced royalty rate, but the licensor will want it to apply to all the terms and conditions of

the additional license. This safeguards against a situation where during negotiations a new licensee may be given a reduced royalty in return for requirements that are more favorable to the licensor elsewhere in the agreement.

2. Notification

The licensee will want a reduced royalty to automatically come into force. However, the above provision precludes this as the licensor has to agree to all terms and conditions of the new license. The licensee should insist that the licensor advise the licensee of an additional license at more favorable terms, but should allow at least three months following execution of the additional license for such a disclosure. On the other hand the licensor should irsist that failure to notify not be treated as a breach. Instead the acceptance of the new terms by the licensee can be made retroactive with interest applied to any reduced royalties that would have come into effect.

E. Warranty and Indemnification

Many times a licensor, especially when he has a strong position, will make no warranty or representation of any kind (express or implied) concerning any matter in the agreement. In effect, no warranty is extended. However, this practice is not always recognized in court. On the other hand, if the agreement is silent with respect to a warranty, the licensee should not consider a warranty as implied. The understanding of the parties must be expressed in the agreement. Therefore, the licensee should negotiate as best he can to obtain a meaningful warranty.

In addition to not giving a warranty and "to leave no stone unturned", a strong, diligent licensor may include the following in the Warranty section: "The licensor extends no other express or implied warranties or indemnification including any claim by the licensee of damages or injury to any person or property, of any loss of profit, or an obligation to defend the licensee against third party claims that may arise from the use of the licensed technology or from the manufacture, sale or use of a licensed product.".

The responsibilities of the parties in case of infringement suits brought by third parties against the licensee were discussed earlier in the Infringement section. In spite of the above warranty disclaimers, the licensee should at least negotiate for some

indemnification against any damages it may have to pay to a third party. This could be an offset equal to a percentage of the royalties paid to the licensor up to the time of settlement of the third party suit, and/or a temporary reduction in future royalties until all or an agreed-upon portion of the damages amount is reached. The licensor should not summarily reject such a position as addressing the matter in this manner will most likely preclude a more unfavorable court or arbitration judgment should an incident be litigated or arbitrated.

If the licensee cannot obtain a warranty of substance in the agreement, he should insist that the warranty section be used to confirm that the licensor:

- 1. Owns or has the rights to the licensed patents.
- 2. Owns or has the right to disclose the licensed know-how and other technical information.
- 3. Has no pending or threatened suit regarding the licensed patents and technology (assuming there is none).
- 4. Has used the know-how to enable it to produce the licensed product (assuming that is the case). Otherwise, another statement that attests to the worth of the know-how should be given. Unless the agreement calls for the licensor to establish a turn-key operation, it is not realistic for a licensee to insist getting production guaranties based on the use of the know-how. Such a statement covers too many variables of personnel, skills, resources, etc. of the licensor vs. those of the licensee, and it would be rare that a licensor would grant it.

F. Export Controls

If the technology or products made under a license are considered to be "sensitive", or if they might be utilized in countries under the licensing country's export restrictions, the licensor will require a clause to assure that such restrictions are not violated. The provision should specifically not allow the licensee, without prior authorization from the licensing country's export office, to export or re-export any of the licensed know-how, improvements, other technical information or products to any such restricted country.

G. Arbitration and Applicable Law

Arbitration as a means for resolving license agreement

disputes is being used more frequently. The most important reasons are that it is faster, much less costly and tends to not embitter the parties as is often the case with law suits.

Frequently the arbitration clause is very broad. For example, providing for any dispute arising out of or relating to the license to be settled by arbitration. However, a more limited clause can be acceptable. Often, the parties will specifically exclude disputes concerning antitrust laws, export control laws, the validity or alleged infringement of patents, royalty rates or other payments stipulated in the agreement.

The parties should specify that the arbitration procedure be in accordance with the rules of an arbitration association appropriate to the geographic areas of the agreement. Although there appears to be a trend toward selecting one impartial arbitrator, in most agreements it is still common to have three arbitrators, one from each party's country and the third from a country different from that of the licensor or licensee.

Unless it has a weak negotiating position, the licensor will insist that it choose the arbitration location and the applicable law. It is also advisable to name the language to be used in the proceedings. The agreement should specify the court of jurisdiction for any judgment upon or court endorsement of any arbitration award.

There are many subtle points to consider in the writing of arbitration and applicable law clauses. The patent laws around the world differ, the use of discovery in arbitration can be limited and the generally accepted procedures for arbitration are changing. The licensee and licensor are advised to have their counsel study the circumstances for each license carefully before deciding on the most appropriate provisions for such clauses.

H. Retained Rights / Rights Reserved

In complex or multi-faceted technologies the licensor will most likely want to include some or all of the following clauses:

1. Retained Rights

At times to remove any doubt about the intentions of the parties, a clause is added to a nonexclusive license stating that the licensor retains its rights to exploit on its own or to license others to exploit the licensed patents or technology within the territory and anywhere else in the world.

2. Proprietary Machinery

During the term of an agreement that involves the purchase of licensor's proprietary machinery by licensee, the licensee will generally not be given the right to sell or transfer in any other way, machinery purchased from the licensor that is based on the licensed patents, licensed know-how or other confidential information.

If the license agreement does not include the right to make proprietary machinery developed by the licensor for producing the licensed or other products, but only the right to purchase such machinery, the licensor will usually specifically state this in the agreement.

3. Restrictions On Use Of Technical Information And Patents

The licensor will probably include a paragraph whereby the licensee is not given any rights to use any of the know-how or other confidential information (that has not legally entered the public domain) outside the licensed territory or anywhere following the expiration or termination of the agreement. Nor is the licensee allowed to subsequently practice under any of the patent claims or patent applications that are licensed patents at the expiration or termination of the agreement, unless consent is obtained from the licensor or any such pacents or applications have lapsed, expired, been abandoned or are invalid.

4. Licensee Undertakings

If the licensor is making the licensed products in his own country, or elsewhere outside of the licensed territory, or if the licensor has other licensees outside of the licensed territory, the licensor often will specifically prohibit sale of products by the given licensee outside of the licensed territory that are made using the licensed know-how or other confidential information. However, on the other hand, the licensor may wish to specifically restrict the licensee from using a licensed patent to prevent licensor from selling those products in the licensee's territory.

The reservation of rights has legal complications. A licensor that wishes to include them, and a prospective licensee faced with such clauses should have them carefully reviewed by legal counsel before agreeing to their inclusion in the agreement.

I. General Provisions

1. Assignment

It is important for the license agreement to provide for assignment or preclude it. Commonly it is precluded for the licensee except as noted in the following paragraph.

Usually the licensor will provide that the agreement is binding upon and be to the financial benefit of any successor to the entire business (or that part of the business that relates to the licensed subject matter) of the licensor by merger, consolidation or another means. The same provision would generally apply to the licensee except it would be subject to the provisions of the Change of Control section.

It is common to state specifically in the assignment clause that the agreement is not otherwise assignable by either party except by the licensor to an affiliated company of the licensor. Such assignment by the licensor does not relieve the licensor or a successor of its obligations under the agreement.

2. Severability

If a significant provision of the agreement is declared void or unenforceable by arbitration or a court proceeding, it is usual to provide that the remaining provisions of the agreement remain in full effect. However, the licensor may wish to add that should such a provision, in its own discretion, be of such importance to it that it does not want to continue the agreement without it, the licensor will then have the right to terminate the license within a period of 30 to 90 days. Naturally, the licensee should strongly oppose such an added clause.

3. Entire Agreement

In the event there have been prior agreements between the parties related to the current or another subject matter, it is good practice to add this clause. Such earlier dealings could be license agreements, confidentiality agreements, letters of intent or other matters. The clause should state that the license agreement currently being consummated represents the entire agreement between the parties on the subject matter and supercedes all previous agreements or understandings concerning that subject matter. It is well to add that the agreement may only be modified in writing, signed by both parties.

4. Force Majeure, Contingencies

This clause provides that neither party to the agreement would be responsible for failure or delay in performing their obligations due to circumstances beyond their reasonable control. The circumstances in the sense of this clause usually refer to, but are not restricted to: acts of God, fire, flood, storm, earthquake, etc.; explosion, major accident, war, terrorism, etc.; or labor disputes, fuel shortages, transportation embargoes or failures, etc. Payments due by the licensee are usually exempt from this clause and remain due and payable unless the licensor waives such payment.

5. Notices

The parties will designate who the principal contacts are for the handling of correspondence, fax messages, telephone calls, notices, royalty payments, technical assistance, training, patent administration, etc. Generally, for each, a technical and/or a license administrator is appointed to handle the day-to-day business of the license. The license administrator may also be the recipient of all contacts and then refer them to the appropriate individual or department within his organization. Most corporations prefer that all patent and legal matters be sent directly to their General Counsel.

Whatever the preference, it is well to show the desired contact representative in this section of the agreement. It serves to preclude uncontrolled communication between the parties. If the agreement is with parties that speak different languages, they will need to state in the agreement the language to be used for communication.

LICENSING OF TRADEMARKS AND COPYRIGHTS

In the above License Agreement section, the concentration has been on patents and know-how, including trade secrets. Below is information on trademarks and copyrights:

1. Trademarks

A licensor that has a valuable trademark associated with his licensed invention is free to offer it, or not, with the license of patents and know-how. It is subject to negotiation. If the licensee believes it will be valuable in the licensed territory, he should pursue its inclusion.

A trademark license can be a part of a patent and know-how license, but it is recommended that it be handled as a separate agreement.

Most countries permit trademark licensing with only a requirement that the agreement include a clause that assures the prescribed quality control standards for the licensed production of the marked product are being met. Germany is an exception. There, a company must operate in Germany to obtain a trademark. Germany does allow the sale of goods marked with a foreign country's trademark. Germany is expected to relax their trademark restrictions soon, perhaps in conjunction with the evolving European Economic Community regulations.

Considerations for the licensing of a trademark include:

- A. Registration of a trademark is relatively inexpensive in most countries. It is required for each country where the license is to be offered, and for all classes of goods for which the trademark will be used.
- B. Essentially all of the applicable terms and conditions should be consistent with those of the patent and know-how license. Care must be taken to assure that the term does not survive the patent and know-how license term or the licensor could lose the rights to the trademark.
- C. In the event of an infringement, an action promptly brought can often lead to injunctive relief without the problems of technical subject matter proof and attendant actions based upon patent and copyright law.
- D. Prescribed quality control standards for the product must be met. A requirement to regularly submit samples to the licensor, or other procedures, are imposed on the licensee for such assurance.

2. Copyrights

Copyright protection begins when a work is fixed in a tangible medium of expression from which it may be perceived, reproduced or otherwise communicated. However, a copyright must be registered to enable filing of an infringement action. And if registration is not within 3 months after a first publication, there can be no recovery of statutory damages or attorneys' fees for infringements occurring before the effective date of the registration.

Therefore, copyrights should be registered to protect eligibility for statutory infringement, and to avoid delay

in bringing suit while a registration is applied for. The cost of a copyright infringement suit usually is moderate as compared to a patent suit, and a preliminary injunction is often obtainable.

The exclusive rights of the copyright owner may be transferred and owned separately. Thus he may assign to another any one or more of the exclusive rights to reproduce, to prepare derivative works, to publicly distribute by sale, rental, lease or lending, to publicly perform and to publicly display.

Any transfer of copyright ownership, other than by operation of law, must be in writing signed by the owner to be valid. An exclusive copyright license does constitute a transfer of ownership, but a nonexclusive license does not.

A transfer of ownership of a copyrighted work, a physical object, does not of itself convey rights of copyright. A license agreement must accompany the sale of the physical object if the purchaser/licensee is to be able to reproduce, prepare derivative works or distribute copies of the copyrighted work.

Although software is licensable under patent law, trade secret law, trademark law or directly by contract, copyright law is now the most common form of software protection. The laws that bear upon software licensing, including copyright laws, are developing rapidly. Anyone contemplating the licensing of software is advised to have their counsel study the latest cases and other materials to be absolutely concurrent. Careful drafting can substantially modify the risks and obligations of the parties. Improper drafting can result in substantial liability.

CROSS-LICENSES

In a cross-license arrangement, each party to an agreement licenses the other. At times businesses may encounter a situation where another firm's patent or patents and their own dominate, overlap or block technology of the other. Consequently, neither party is able to commercialize their invention unless they obtain rights from the other. In such a situation a cross-license is often negotiated. Most often cross-licenses involve patents, but they can involve other intellectual property as well.

The term cross-license is a title, and it is not generally used as terminology in the body of the agreement. In effect, each party trades technology rights to the other instead of collecting royalties. The other terms and conditions in the license are usually reciprocal.

In this chapter many of the most common types of clauses found in technology transfer license agreements have been explained and discussed. Most will be found in nearly every license, and perhaps they will serve as a framework for your own ideas. The reader should feel free to use independent thinking and to invent new clauses that will accomplish the objectives of the licensor and the licensee. Getting agreement between the parties always requires creativity and a certain amount of flexibility. The result is likely to be a combination of new clauses to go along with many of the standard ones that will accommodate the given situation.

The laws governing the licensing of intellectual property do change, and they do vary, sometimes significantly, from one country to another. Just consider, for example, all of the current activity occurring in this regard in the European Economic Community. Naturally, each new license has to be carefully checked by counsel to assure its legality in the geographical areas of the agreement.

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ADVANCE HAND-OUT

The aim of this chapter is to teach a full understanding of the elements of technology transfer license agreements.

To accomplish this:

1. The business rationale for licensing from the licensee and licensor viewpoints is explained.

Questions:

Why do businesses want to transfer technology?

What are the advantages for the licensee (buyer)?

What are the advantages for the licensor (seller)?

2. The various forms of intellectual property, which are the subject matter of the license, are defined.

Questions:

What is intellectual property?

What are the major forms of intellectual property?

What is the definition of the following:

- patent?
- trade secret?
- know-how?
- trademark?
- copyright?

3. The definition and purpose of a technology transfer license agreement is presented along with the need for careful drafting of the document. Also what is documented within a license transaction is noted.

Questions:

What is a license agreement?

What purpose does a license agreement serve?

What are the reasons for careful drafting of a license?

What does a license agreement record?

Why should a license agreement be equitable or fair?

- 4. The contents of the major sections of a license are listed. These are:
 - a. The preliminary statements.
 - b. The subject matter.
 - c. The "boiler plate".

Questions:

What paragraphs or clauses are included in the preliminary statements section of the license?

In the subject matter section?

In the "boiler plate" section?

- 5. The structure is shown paragraph-by-paragraph for each section of the license agreement with the purpose of each paragraph given. Comments on issues deemed important to the licensee and licensor are included in the applicable paragraph.
 - a. Preliminary Statements Section.

Questions:

Why is the <u>exact</u> identity of the parties to the license important?

Give at least two reasons why "Whereas" clauses are needed?

What are some of the terms in the agreement requiring definition?

Why should "Net Sales" be carefully defined?

b. Subject Matter Of the License Section.

Questions:

What are important considerations in in a patent grant?

Can you name at least 4 reasons that could cause a licensor to offer an exclusive license?

Who should pay for the maintenance and prosecution of patents?

Does know-how have to be a part of a patent license? Can it stand alone?

How is know-how different from trade secrets?

What are the common elements of technical assistance?

Should improvements be reciprocal between licensee and licensor?

Are minimum payments advisable for an exclusive license?

In a patent and know-how license, does the term have to be the same for each? c. "Boiler Plate Section".

Questions:

What are liquidated damages?

Is a "Favored Nations" clause important in a non-exclusive license?

What is the least a licensee should agree to for a warranty from licensor?

Can a licensee sell proprietary machinery obtained in a license?

If the licensee is acquired by a third party, is a license automatically acquired as well?

6. Information is given on the licensing of trademarks and copyrights.

Questions:

Can a trademark license be part of a patent and know-how license?

What is a primary requirement for a trademark licensee? For a licensor?

What must a licensor of a trademark guard against regarding its term?

When does copyright protection start?

What is required to enable filing of a copyright infringement suit?

Is copyright law the most common form of software protection?

GENERAL STRUCTURE

OF

TECHNOLOGY TRANSFER LICENSE AGREEMENTS

VISUALS

IMPORTANCE OF LICENSING

- LICENSEE STANDPOINT

- . Quick market entry
- . Patent/trade secret protection
- . Technical/manufacturing/market assistance
- . Obtain proprietary machinery
- . Lower cost than own development

- LICENSOR STANDPOINT

- . Earn added income with royalties
- . Broader market acceptance for their product
- . Offset to R&D and patent expense
- . Confirm validity of their patents
- . Preclude litigation

FORMS OF INTELLECTUAL PROPERTY

- PATENT

- . Criteria originality / newness
- . Protection for an invention
- . Term / Life
- . Subject matter composition of matter
 - product / process / method
 - apparatus / machinery

- TRADE SECRET

- . Confidential information
- . Advantage over competition
- . Indefinite life confidentiality maintained
- . Need for nondisclosure provision

- KNOW-HOW

- . Similar to trade secret
- . Nonconfidential or confidential information
- . Technical or specialized knowledge
- . Helpful for more efficient production

FORMS OF INTELLECTUAL PROPERTY - (CONTINUED)

- TRADEMARK

- . Subject matter composition of matter
 - product / process / method
 - apparatus / machinery
- . Many forms word / name / symbol
 - device / combination
- . Unlimited term if renewed
- . Must be used
- . Exclusivity first to use

- COPYRIGHT

- . Idea incorporated into a perceivable expression
- . Does not protect the idea itself
- . Examples written material / movies
 - audio works / computer software
- . Long life

TECHNOLOGY TRANSFER LICENSE AGREEMENT

- PURPOSE

- . Legal transfer of intellectual property
- . Sharing of rights

- DEFINITION

- . Contract with binding commitments
- . Enforceable by law

- LICENSE DRAFTING

- . Clearly reflect subject matter
 - rights and obligations
- . Understandable to non-lawyers
- . Not be misinterpreted in court of law
 - arbitration

LICENSE AGREEMENT STRUCTURE - MAIN SECTIONS

- PRELIMINARY STATEMENTS

- . Identity of the parties
- . Purpose / background
- . Effective date
- . Definitions

- SUBJECT MATTER

- . Grant of patents / know-how
 - technical assistance
 - improvements
- . License term
- . Payments

- "BOILER PLATE"

- . Detailed obligations licensor
 - licensee
 - those common to both

- PRELIMINARY STATEMENTS

- . Identity of the parties must be exact
 - parent or subsidiary
- . Governing law
- . Purpose / effective date | location
- . Whereas clauses give background
 - owner of technology
 - conflicting patents
 - prior relationships
- . Definitions subject matter / key words
 - licensed patents / know-how
 - improvements / grantback
 - territory
 - net sales
 - subsidiary
 - others as needed

- SUBJECT MATTER

- . Patent rights exclusivity / territory
 - rights conferred / limitations
 - maintenance / prosecution
 - infringement of licensed patents
 - suits against licensee
 - patent marking
- . Know-how trade secrets part of know-how
 - part of patent license or alone
 - disclosure in writing
 - secrecy / confidentiality
 - use of know-how
- . Technical assistance plant visits
 - direct assistance
 - consultation
- . Improvements rights and the use
 - full term or less
 - timing of disclosure
- . Grantback no time limit / exclusivity
 - sublicense rights
 - reciprocal
 - access

- SUBJECT MATTER (CONTINUED)

- . Sublicense rights responsibilities
 - technical assistance
 - draft of sublicense
- . Lump sum payments imperative for know-how
 - important for patents
 - assessing the amount
- . Royalty payments percent to net sales
- . Minimum payments exclusive / nonexclusive
- . Separate payments patents / know-how
- . Other payments tangible items
 - machinery
 - technical assistance
 - foreign exchange
 - interest on late payments
- . Licensee records certification / audits
- . Term life of licensed patents
 - negotiated for know-how

- "BOILER PLATE"
 - . Termination overdue payments
 - bankruptcy
 - expropriation
 - change of control
 - . Effect of termination payments due
 - technical information
 - non-use
 - machinery
 - liquidated damages
 - . Best efforts losing effect
 - show specific steps
 - . Most favored nations more favorable terms
 - notification
 - . Warranty and
 Indemnification intent must be expressed
 - third party suits
 - least to insist upon
 - . Export controls

- "BOILER PLATE" (CONTINUED)
 - Arbitration and Applicable law - faster than law suit
 - less costly
 - exclusions
 - one vs. three arbitrators
 - applicable law / jurisdiction
 - language
 - . Retained rights nonexclusive
 - licensor rights
 - . Rights reserved cannot sell machinery
 - cannot sell out of territory
 - . General provisions assignment
 - severability
 - entire agreement
 - force majeure
 - notices

LICENSING OF TRADEMARKS

- Considerations
 - . Registration
 - . Consistent terms and conditions
 - . Term should not survive a license term
 - . Infringement suit simpler
 - . Quality control standards required

LICENSING OF COPYRIGHTS

- Registration
 - . for filing infringement suit
 - . within 3 months for all damages
- Rights can be transferred separately
- Transfer of ownership right valid only if in writing
- Transfer of ownership in copyrighted work does not convey rights of copyright
- License needed to copy or distribute copyrighted work
- Copyright law
 - , most common for software

CROSS-LICENSES

- Trade of technology
- Avoids blocking patents