



Counsel Beware: Standard Clauses Can Cause Problems in Technology License Agreements

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The Licensing Opportunity

The universe of "technology," embraced within patents, copyrights, trademarks, unpatented technical information, know-how, and trade secrets (collectively, "intellectual property" or "IP") represents a highly valued and important tradable asset. As such, intellectual property can be used and licensed in a variety of ways in high value propositions which can generate license fees, running royalties, and/or grant-backs to new developments for the licensor and provide the licensee with early (and possibly exclusive) freedom to operate in emerging markets. This article spotlights the licensing opportunity in terms of the challenge and risks that can arise from reliance on "standard" clauses.

A license is permission, in the form of a written contract, granted by an owner of intellectual property (the licensor) to another (the licensee) to use said intellectual property on agreed terms and conditions, for a defined and particular purpose, sometimes in a defined and particular territory, and for an agreed period of time. License agreements are typically structured with certain standard clauses that define the metes and bounds of the relationship and set forth each side's rights and obligations. It should be understood, however, that every license agreement is unique and, as such, there is really no such thing as a "standard" clause. Terms and definitions which are found in almost all license agreements are: Subject matter (the "technology" to be licensed), treatment of confidential information, grant of rights, royalties, territory, parties, rights to improvements, dispute resolution, and term. Each of these clauses must be mindfully considered and vetted in light of the probability that the parties' structure, needs, and desires will change over time. Considerations for negotiating and crafting some of these terms and definitions are explored below.

What is the Technology to be Licensed?

Technology, generally speaking, "is the practical use of scientific information." Merriam-Webster® further defines technology as "the practical application of knowledge, the capability given by the practical application of knowledge, or the manner of accomplishing a task especially using technical process, methods, or knowledge." The challenge for the drafter of the license agreement, therefore, is to define the technical subject matter in clear terms so there is no opportunity for future misunderstandings as to the scope of the license right being granted. In some instances the technical subject matter of the license agreement may be a single patent or a group of patents. In these cases, the patent(s) can speak for themselves, and there may be no need for further technical definitions. In other cases the grant of rights may include use of certain technical information and know how to be provided by the licensor to the licensee (e.g., engineering drawings, computer software, formulae, process information, etc.). In these cases, the license agreement should specify that the licensor's obligation relates only to information that is "in documentary or other tangible form." The objective is to avoid future disputes as to whether the licensor has met its obligation to provide the licensee with the technical information it will need to exercise its full rights under the license.

Something else to keep in mind when defining the technology to be licensed is whether the technology is complete or in a state of development. If the technology falls into the latter category, then it is very important to consider whether to identify who will be responsible and pay for further development of the technology and which party will own the IP rights to the completed technology.

Regardless of whether the technology is complete or in development, it is important to understand where the technology is likely to go and what rights the licensor should retain for ongoing research and development.

Protection of Confidential Information

A license agreement is often accompanied by an exchange of confidential business and technical information that is related to the patent(s) at issue and which may also include valuable trade secrets. Although the parties may have entered into confidentiality agreements prior to negotiations, it is recommended that the license agreement include a

specific clause or clauses for protecting confidential information that supersedes the prior agreements. These clauses should include, among other things, licensee procedures for safeguarding the information; they should provide liability in the case of unauthorized disclosure to third parties; and they should identify whether confidentiality continues and for how long after termination of the license agreement.

Grant of Rights – The Parties

The license agreement should clearly identify the parties. A dilemma can emerge from a lack of understanding regarding who is involved in the agreement, and who might become involved in the agreement going forward. The drafter of the agreement needs to confirm, for example, whether the licensee is a specific entity, whether the entity includes subsidiaries (U.S. and Non-U.S.), and whether the agreement may also extend to affiliates. If affiliates are within the scope of the license, the drafter must pay close attention to affiliate definitions. The agreement should also be written to manage potential changes in control by addressing the possibility of a licensee being acquired where the acquiring entity may desire rights under the original license, including rights to extend the license through sub-licensing, e.g., to a competitor.

Scope of License Grant

The language setting forth the “license grant” can vary widely as illustrated by the examples which follow:

- Irrevocable, perpetual, exclusive, royalty-bearing license to Licensee with right to sub-license affiliates;
- Non-exclusive, royalty-bearing license to Licensee and its subsidiaries with no right to sub-license;
- Exclusive royalty-bearing license to Licensee, with right to sub-license affiliates.

Irrespective of whether the license is exclusive, non-exclusive, etc., a best practice is to avoid language that is ambiguous and terms that might have different meanings or be subject to different interpretations in different regions. Where a license covers a package of patent(s), trade secrets, know how and/or trademarks, the drafter should consider royalty payments over a period of time. Where a technology is fairly defined, a lump-sum royalty may be more appropriate.

The grant of rights refers as well to the scope of restrictions on a licensee’s use of the licensed technology. A typical restriction is via a “field of use.” “Field of use” is a term of art referring to restrictions placed on a license granted for the use of a patent(s). These restrictions may limit the use of the patented technology to certain industries or product markets. Consider, for example, a patented pharmaceutical. The drug may be used to treat cancer, and it may also have application as a treatment for gastrointestinal distress. These are two separate “fields of use” for essentially the same “technology,” and rights to operate within each field may be granted to two unrelated licensees. One purpose of a field of use limitation is to allow a licensor to manage exploitation of a patented discovery, e.g., a new drug, and thereby benefit from new market opportunities and/or alliances that may become available to advance the technology in different areas. The consideration exchanged by the parties will largely be determined by the expanse of the field of use.

A restriction related to field of use is the geographic territory for which the license is granted. A license agreement may restrict the geographic territory in which a licensee is free to operate to certain countries, regions, states, or even cities. License agreements may cover multiple territories and can be drafted to provide exclusive license rights in one territory while at the same time providing non-exclusive rights in another. Territorial restrictions should be carefully considered in light of potential export control and/or tax issues.

Rights to Improvements

Improvements to the licensed technology, in the form of updated versions, enhancements, or new models, may arise from efforts of both the licensor and the licensee. It is critically important when preparing the agreement to be aware of the likelihood for improvements and who will have rights to the improvements. Improvements may require, at the least, flexibility in the license agreement to modify royalties and, at the most, an entirely new license agreement. Issues related to improvements arise primarily in engagements involving early stage technology. If improvements in the licensed technology are expected, the parties will want to define: who will pay for and own the improvement; obligations to seek patent or other protection for the improvement; and scope of rights to use the improvement(s). The expectations of the parties need to be addressed in the original license agreement.

Term

The term, or length of the agreement, largely depends on the subject matter of the agreement and the relationship of the parties. Do the parties contemplate an ongoing engagement and exchange of technical information, or is the license agreement a simple grant of rights? Examples of term limit structures include: fixed term, the life of the licensed

patent(s), or where technical information and patents are licensed, life of the patent(s) + X years, taking into account the useful life of the technical information.

Final Considerations and Recommendations _

Counseling a party in a license agreement negotiation requires forethought as to the present and future state of the technology/patent(s) being licensed, the business objectives, and how the parties and their engagement may evolve over time. Don't let standard clauses and basic contract terms replace sound judgment and careful consideration.

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