

QuickLaunch University Webinar Series

Technology Licensing Considerations for Startups

June 20, 2018

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Speakers



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Agenda

IP and Contract Fundamentals

Key Licensing and Deal Terms

Mergers and Acquisitions Considerations in a Transaction

Cross-Border Transactions

IP Fundamentals: Major Categories

- **Patents** covering inventions



- **Copyrights** covering “works of authorship”



- **Trade secrets** covering your “secret sauce”



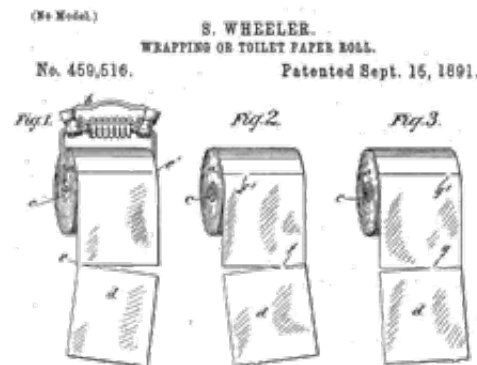
- **Trademarks** covering product/service branding





IP Fundamentals: Patents

- “New, Useful and Non-Obvious” Inventions
- Negative monopoly: the right to exclude others from making, using, selling, importing the invention
- A patent **does not** give the right to practice the invention; other patents may be necessary to practice the invention
- Often key for investment and enterprise value, defensive litigation and licensing revenue





IP Fundamentals: Trade Secrets

- Trade secret advantages over patents
 - Indefinite protection (compared to 20 years for patents)
 - Cost is only that associated with procedures to keep secret
 - Can cover non-patentable subject matter
- Trade secret disadvantages to patents
 - Monetary value to company: patents are easily licensed and/or transferred upon merger or acquisition
 - Trade secrets can be licensed, but it is much more difficult and complex; also more difficult to transfer in a merger or acquisition
 - Disclosure of trade secret defeats the company's rights
 - Competitors can hire away key employees, reverse-engineer products, or independently replicate the trade secret





IP Fundamentals: Copyrights

- Rights automatically vest upon creation – registration not required (although advisable)
- May provide copyright notices on:
 - GUIs/screen displays
 - Manuals, brochures, and other documents that are generally published or going to particular third parties
 - For software-based product/service offerings, consider plain language copyright notices in (1) un-compiled source code and (2) user interface





IP Fundamentals: Trademarks

- A trademark protects your brand
- Common law trademarks are established based on use; federal registration creates a legal presumption of ownership
- Prior to selecting, search for similar trademarks
 - Patent and Trademark Office
 - Google
- The more abstract, the better
 - A meaningless word (Zynga) or a word that is unrelated to the business (Yahoo!, Apple) will get broader protection
 - Words that are descriptive of the business (Pets.com) will get narrower protection





Contract Fundamentals: Formation

- Offer
 - Proposal of terms of the contract
- Acceptance
 - Affirmation that offer is acceptable
- Consideration
 - A contract must have consideration to be enforceable
 - Consideration can be minimal





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Key Terms: Beginning and Ending

- Transition
- Term, renewals
- Termination Rights
 - Convenience
 - Cause
 - Cross-termination
- Effects of termination
- Exit Rights
 - Data
 - Exit Assistance





Key Terms: Knowledge and Support

- Training
- Knowledge Transfer
- Support and Maintenance
 - Support desk
 - Support SLAs





Key Terms: Intellectual Property

- Background IP
 - Existing IP
 - IP created outside of the agreement
 - Improvements?
- Foreground IP
 - Ownership based on inventorship
 - Joint ownership
 - Licenses





Key Terms: Confidentiality

- Definition of “Confidential Information”
 - Marking requirement
 - Exclusions based on availability to public, independent development, disclosure from third party
- Non-disclosure, non-use
- Data security
- Data privacy

CONFIDENTIAL





Key Terms: Allocating Liabilities

- Warranties
 - IP infringement
 - Compliance with specifications
 - Performance standards
- Indemnities
 - IP infringement
 - Performance standards
- Limitation of Liability
 - Liability caps
 - Liability exclusions
 - Exceptions to caps or exclusions





Key Terms: Scope of License

- What is being licensed? (*e.g.*, patents, know-how)
- Non-exclusive vs. exclusive or co-exclusive
- Field limitations; territorial limitations
- Perpetual vs. term limited; revocable vs. irrevocable
- Retained rights (*e.g.*, in certain fields, by the government, or by third party licensors)
- Grant-back of rights
- Restrictions on sublicensing and distribution





Key Terms: Fees, MFN

- Royalty on Net Sales
 - How is it structured? (e.g., tiered)
 - Royalty term? Reductions?
 - Reach-through royalties
 - Sublicense income
 - Potential for patent misuse
- Minimum payment commitments
- Lump-sum fees, milestones and other significant payments
- Most Favored Nation (MFN) clause





Key Terms: Diligence Requirements

- Diligence Standards:
 - General (e.g., “commercially reasonable”)
 - Specific (e.g., first commercial sale by 2020)
 - Consequences of failing to meet diligence standards: financial, termination rights
- Minimum Fees
- Exclusivity from licensee
- Considerations in university-licensing context





Key Terms: Personnel Terms

- Non-Solicit and No-Hires
 - Non-Solicit excludes right to solicit personnel of other party
 - No-Hire excludes right to hire personnel of other party
 - Often limited to current personnel, sometimes with a lookback period
 - Limitations may include permitting general solicitation, such as non-targeted advertisements, job fair, etc.
- Key personnel
- Background checks
- Replacement of personnel





Key Terms: Right of First Refusal

- Right of first refusal (ROFR) permits a party to place a bid before an asset can be shopped to others
- Licensee may want to prevent licensing in adjacent fields
- Licensor should know that ROFR may discourage other bidders
- Important to consider limits:
 - How long ROFR lasts
 - How long ROFR can be exercised
 - Any requirements regarding a better offer
- Right of first negotiation (ROFN) is a variant, permitting the beneficiary to negotiate in good faith instead of making an offer





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M&A Considerations

- Acquirer will conduct “due diligence” that includes review of all license agreements
- Will be searching for issues including:
 - Adequate scope of in-licensed IP
 - Effects on acquirer’s own IP
 - Ability to assign the agreement
 - Restrictions on business operations
 - Clauses triggered by merger or acquisition of your company



M&A Considerations

- Granting rights under “Affiliate” IP
 - Subsidiaries – usually OK
 - Parent/sibling entities – avoid
- Adequate rights to use in-licensed IP
 - Use of commercial IP outside of licensed scope
 - Open source
 - No approval process or records
 - Distribution of copyleft code
 - Expect code scan



M&A Considerations

- Assignment clauses
 - Consent
 - Termination
- Termination for Convenience
 - In-licenses
 - Revenue generating deals
- Long, non-terminable obligations
 - Can be difficult to optimize both for business plan execution and maximizing acquirer flexibility
 - Consider addressing at term sheet stage
- Business restrictions on “Affiliates”
- Escrow release or other things triggered by acquisition



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Cross-Border Transactions

- IP laws can vary significantly country-to-country
 - Local law will ultimately matter with respect to IP ownership regardless of contract's governing law
- In some countries:
 - IP can only be licensed, cannot be assigned at all
 - Strong “moral rights” of author cannot be assigned
 - Employee inventors must be compensated for employer's use of patent rights
 - Licensees not as protected if licensor goes bankrupt
 - License agreements must be registered
 - You may be required to employ personnel of an outsourcing service provider upon the termination of the relationship



Cross-Border Transactions

- Distributor/Reseller relationships
 - Restrictions on ability to terminate relationship
 - Required payments to distributor
 - Exchange rates
- Enforcement
 - Language requirements
 - Arbitration
- Privacy/GDPR
- Important to retain local counsel



Questions

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