

Buying or Selling Technology Licenses: Rewarding... But Beware

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A well-conceived intellectual property (IP) licensing program can advance your company's objectives, maximize profits and provide your company with many advantages. For example, dormant projects can be turned into revenue; new markets can be penetrated; future business partners can be evaluated; future R&D can be funded with royalties; and litigation can be avoided by licensing rather than suing. Before embarking on an IP licensing program, though, consider these issues.

Top Issues for Licensees

1. **Pre-Deal Diligence.** Like inspecting your home before buying, learn about the strength of the IP covering the technology. Consider:
 - To what extent is the technology protected. Get educated on what was done before, and whether the technology is protected in your key geographical or industrial markets. You'll want to know whether competitors can easily design around the IP and grab your profits. Consider also any alternative (and perhaps better) technologies.
 - Learn whether you can actually use the technology. A common misperception: you may think you are free to use the technology for which you have a license. Patents, for example, are negative rights that prevent others from using your technology -- but that doesn't necessarily mean you can use it, if another party has a patent covering some aspect of the technology.
 - Identify the owner of the IP. Sometimes, patents and applications are assigned to holding companies or divisions of the company you are dealing with or may not be assigned. Make the true owner a party to any subsequent deal or require that the IP be assigned to the appropriate party before any deal is closed.

- Find out whether the IP is the subject of any pending or threatened litigation concerning, for example, its validity or whether someone else is claiming to be an inventor, an owner or otherwise to have an interest in the IP. You don't want to be in a position of having negotiated a deal only to learn that the IP's strength or value is in question.
2. **What is the scope of the license?**
 - Now that you have decided to take a license, think about future markets or applications. Licenses can be limited to a certain geographic or technological fields. Draft the license with the flexibility to pursue future areas and get rights to any improvements.
 - Be sure the rights extend throughout your company. You may not want the technology to be limited to a specific division.
 - Get rights to enforce the IP, whether through an express right to sue infringers or a requirement that the owner enforce the IP. In the latter case, be sure to have a say as to whether and against whom the IP can be enforced. You wouldn't want the IP you licensed to be enforced against parties with whom you have a relationship; nor would you want the IP subject to the risks of litigation (e.g., invalidity attacks) where insubstantial amounts of damages are at stake.
 3. **What will the license cost?**
 - Licenses often require an up-front licensing fee and/or an on-going minimum royalty. Be careful, especially when you are not likely to realize any significant profits from commercializing the technology for some time. Negotiate a royalty payment spread out over time, and make sure the payment term ends after a limited period. You don't want to pay for technology that becomes publicly available. Draft the license so

that, if the IP owner licenses others at more favorable terms, you too can enjoy them (referred to as a "Most Favored Licensee" provision).

- Negotiate a variety of royalty rates that depends upon whether IP rights have been secured (e.g., a patent has issued), are still being pursued (e.g., a pending patent application), and have commercially meaningful coverage (e.g., broad claims). Take the time up front to define the scope of the rights you are willing to pay for.
- Obligate the Licensor to obtain non-competes from key employees and/or consultants. If they leave, you don't want them to become competitors in the field for which you've just paid.

Top Issues for Licensors:

1. **Protect Yourself**
 - Be sure your IP is well protected during your initial and follow-up conversations with potential licensees. Steps you should consider include securing rights in your



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IP, (like filing patent applications, and obtaining assignments of IP from your employees and consultants), and maintaining records of your inventions and ideas.

- Use Non-Disclosure Agreements (NDA's) with your potential partners and any other party with whom you do business. Often, before entering into a license, a licensee will want to learn about your technology to evaluate the potential business opportunities. Tread lightly. Enter into an NDA, which obligates the party receiving the confidential information to keep it secret. An NDA will also spell out with whom the recipient may share the information, under what conditions the information can be used, and the time limit for keeping the information confidential. An NDA may also help preserve your rights to file a later patent application.

2. What and Who to License.

- Gather your engineers, marketers and consultants to brainstorm potential commercial applications for your technology. Consider factors that drive particular markets, determine potential sales revenues and think about the impact your technology will have on cost, convenience, performance or reliability. Then, target companies in those fields.

- Package it. Develop a beta test product, perform a small scale production run, and do a market test. Essentially, offer a turn-key opportunity for your licensee.
 - Consider industry leaders. They know the market and have the customer base, manufacturing capability and name recognition to carry your technology to its highest potential.
 - An OEM may not want to deal with a small company. In the automotive industry, for example, the barrier to gaining access to the car company is high. So, work with a supplier that has the relationship with the OEM and they'll carry your technology through a door that would otherwise be closed.
- ## 3. Trust.
- Know your licensee. Licensees that don't perform well may produce inferior products; and poorly managed licensees may cause harm by damaging your reputation. Customers may attribute the poor marketing or manufacturing to poor technology - or worse, poor technology that you developed. Choose a reputable licensee, or the cost of licensing may outweigh its benefits.
 - Even though you've entered into an NDA with your licensee earlier in the negotiations, it is a good practice to include confidentiality obligations in the license

for information you will disclose later. Moreover, limit any disclosure to that which is required to practice the invention – you don't want to unnecessarily create future competitors.

- Include termination provisions that allow you to cut your licensee loose if your expectations (such as production minimums) are not met.
- ## 4. Administrative Drain.
- Is your licensee accountable or do you need to be vigilant in policing their activities and royalty payments? Audits can be costly.
 - Make sure your licensee marks the product and future generations with your patent number. This can enhance the amount of money you can obtain from an infringer.
 - Your licensee may want access to your key personnel to help commercialize the technology. Limit this so your engineers and scientists can work on your future technology.

A well-crafted license agreement helps maximize financial and technological profits and reduce risk. With careful planning and the help of your intellectual property attorney, you can attain your business objectives.