Drafting and Negotiating Technology Transaction Agreements

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Type of Technology Transactions

• Licensing Arrangements (inbound and outbound)
• Development Relationships
  • Joint Development - Joint Ventures
• Channel Deals
  • Distributor - Resellers
  • VAR - OEM Relationships
• Customers and Suppliers
  • EULA - Sales / Service Agreements
  • Manufacturing Agreements - Supply Agreements
• Outsourcing
Why Do Companies Partner?

The end game is Monetizing Technology.

Tech Transactions provide:

• Time to Market
• Access to Talent
• Access to Technology or IP
• Access to Markets or Marketing Skill of Partner
Avenues to Money or Reduced Cost

- Patent Licensing
- Tech Licensing
- Patent Pool
- Open Standards
- Standard Bodies
- Business Deals
  - JDA, JV, partnerships
  - Bundle/Sell
  - Spin out
  - VC
- Exclusive go to Market plan
- Defensive operations
- Litigation
Seven Tricks of the Trade for Tech Transaction Lawyers

1. Beware the Half-Baked Agreements
2. Be aware of the Myths Surrounding Open Source Licenses
3. Avoiding the Pitfalls of Joint Development Agreements
4. Key Contract Issues for Cloud / SaaS Deals
5. Hidden Licenses in Professional Services Agreements
6. Avoiding the Unanticipated Franchise
7. Dealing with the subtleties of “Exclusive” licenses
Issue #1: The Half-Baked Agreement

• Defined: An agreement that purports to create a binding obligation, but falls short because of indefinite or open material terms

• Examples:
  • Letters of Intent that are never finalized
  • License Language that only indicate intent “Licensor will grant...” or “Licensor shall grant.”
    – See *Massachusetts Eye and Ear Infirmary v. QLT Phototherapeutics*, 412 F. 3d 215 (1st Cir. 2005)
Issue #1: The Half-Baked License

• Practice Tips:
  • Beware of LOI as a shortcut
  • Draft definite language “Licensor hereby grants…”
  • Beware of other “open” terms such as “a to-be-defined royalty…”
  • Where business terms are not finalized, add a procedure that ensures finalization or spells out what happens if never accomplished
Issue #2: Open Source Licensing Myths

• The Phrase “Open Source License” Is Meaningful
  “The Developers Understand All This So I Don’t Have to”

• Open Source technologies are in the public domain
  “Open Source licensing is not consistent with IP ownership”

• Contributors to open source development projects have
  the necessary right to contribute
  “The SCO lawsuit proves the liability risk is all made up”
Issue #2: Open Source Licensing Myths

• OSS is “viral” and can change proprietary code to “free” code
  “You can inadvertently give away your proprietary software with bad OSS compliance”

• The GPL is a well-written document
  “Millions of adopters can’t be wrong”

• Lawyers can answer the tough questions if they spend enough time on them
  “A $30,000 memo on “linking” or “derivative works” is a good idea”
Issue #3: The Pitfalls of Joint Development Agreements

• Summary: Agreements that do a poor job of clearly delineating “who owns what” in a joint development context pose special problems.

• Business people often default to “joint ownership” when relationships become complex.

• What is often carelessly characterized as “jointly owned”?
  • Improvements
  • New inventions resulting from working together
  • Derivative works
  • Inventions resulting from jointly funded work
Issue #3: The Pitfalls of Joint Development Agreements

• The Problem:
  • Joint Ownership is a messy concept
    – The statute: “In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other owners.”
    – This is often 100% different that the intent of the parties
  • Attempts to contractually define Joint Ownership often fall short
    – Who prosecutes the patent? Who pays? Who makes key decisions?
    – Who enforces the patent? Who collects judgments? Can the joint-owner be involved and to what extent?

• Practice Tip:
  • Any time business person refers to joint ownership, test them. Do they mean it? Be considerate of all issues
Issue #4: Key Contract Issues for Cloud/Saas

- Carefully Define Service Specifications
- Focus on Service Levels
  - Do the numbers make sense?
  - Who is responsible for identifying an SLA shortcoming?
  - What is the appropriate remedy?
    - Credits
    - Termination
    - Sole Remedy?
Issue #4: Key Contract Issues for Cloud/Saas

- Risk Allocation
  - Indemnification
    - Mutual Indemnities Are a Trap
    - Focus on who is really culpable
      - IP Risks related to service – provider
      - Privacy and Data Breach – provider
      - Activities of users / harmful data – customer
      - Consider Insurance to bridge the Gap

- Controlling the Risk
  - Limitation of Liability
    - Carefully Scrutinize Arbitrary “Fees Paid” LOL
    - Mutual LOL doesn’t usually make sense
Issue #5: Hidden Licenses in Professional Services Agreements

• The Problem:
  • Many Professional Services Agreements (development arrangements, outsourcing deals, consulting agreements, etc.) have the service provider retaining “ownership” in work product

• Companies retaining these firms need to:
  • Clarify ownership issues carefully; “work-for-hire”
  • Beware of joint inventorship issues (need full assignments)
  • Don’t be lulled into false sense of security by:
    – Confidentiality provisions that allegedly protect client
    – Industry exclusivity purporting to restrict developer’s use of materials to non-competitors
Issue #6: The Inadvertent Franchise

- Background – US Federal Law and all States govern “franchise” relationships and “business opportunities”

- General requirements for a franchise are:
  - A trademark license
  - An upfront payment to the licensor
  - Licensor’s ability to control or influence licensee’s business

- Practice Tip: Beware of creating a regulatory obligation under franchise laws when licensing trademarks.
  - “Control” is a very broad concept; avoiding “naked” trademark license often creates control
  - Structure royalties as %’s as opposed to up front to avoid rule
Issue #7: Understanding the Subtleties of “Exclusive Licenses”

• The Problem:

• Business people often use the term “exclusive” to mean something different than IP lawyers do

• Not understanding the effect of “exclusive” license can have dire consequences for the licensor
Issue #7: Understanding the Subtleties of “Exclusive Licenses”

• Practice Tips:
  • In practice, most “exclusive licenses” fall on a continuum somewhere between a complete assignment, at one end, and a non-exclusive license (or a mere personal covenant not to sue), at the other end
  • No magic words create or prevent an exclusive license
  • Avoid Half-Baked Licenses!
Issue #7: Understanding the Subtleties of “Exclusive Licenses”

- Questions of Exclusivity
  - Promises of exclusivity may be expressed in the contract or implied by the court as representations, warranties or covenants

- Typical fact patterns involve co-owners, prior or subsequent licensees
  - What if there are conflicting owners or licensees connected to licensor’s interest?
  - What if there are third parties who can sue licensee for infringement or otherwise exercise or assert conflicting rights arising from separate or independent invention, authorship, ownership, use in commerce, etc?
  - Does exclusivity extend even as to licensor such that licensee may preclude use by licensor within the field of exclusivity?

- Failure of definitions to adequately account for future events often requires a court to determine whether subsequent events conflict with exclusive license

- Exclusivity on one right does not necessarily imply exclusivity on other rights
Issue #7: Understanding the Subtleties of “Exclusive Licenses”

- Questions of Performance
  - Standards of “good faith” or “best efforts” often apply
    - May be express or implied
    - May arise in connection with exercise of other contractual rights
      - For example, to what extent is licensor obligated to cooperate with licensee in infringement actions against third parties?
      - For example, what standard governs licensor’s exercise of rights related to quality assurance for goods distributed under a trademark license or franchise agreement?
  - Exclusive licensee may have an implied duty to promote the licensed product in “good faith” or using “best efforts”
  - Similarly, when an exclusive licensee takes actions that detract from the performance of the licensed product, the licensee may breach duty to use “best efforts” or act in “good faith”
Issue #7: Understanding the Subtleties of “Exclusive Licenses”

• Questions of Breach and Remedies
  • What constitutes a material breach?

• When will licensor be entitled to rescission, injunctive relief or enhanced damages?

• What is licensor’s measure of damages?
  • In the event of breach of the exclusive license by licensee, can the licensor recover lost profits related to missed licensing opportunities as part of its expectation damages?

• Do licensee’s remedies include rescission or injunctive relief or are they limited to monetary damages?

• When will licensee be excused from obligation to pay royalties?
Issue #7: Understanding the Subtleties of “Exclusive Licenses”

- Questions of Ownership and Standing
  - Is an exclusive license a de facto transfer of ownership?
    - For example, copyright law generally deems an exclusive license to be a transfer of ownership.
    - Important for both licensors and licensees under an exclusive license to consider background IP law as well as tax and financial accounting treatment related to ownership of licensed assets
  - Are there specific registration or other requirements applicable to the transaction under patent, trademark or copyright statutes?
    - Issues of enforceability
    - Issues of perfection and priority (e.g., security interests)
- Who has standing to sue for infringement?
  - For example, where there is a prior conflicting license, the subsequent licensee may lack standing